

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company and the Group for the year ended 31st December, 2004.

FINANCIAL RESULTS

The Group recorded a pre-tax loss of HK\$43.1 million for the financial year ended 31st December, 2004 from its operating activities and losses from disposal of investments (2003: HK\$23.0 million loss). The consolidated net loss attributable to shareholders for 2004 amounted to HK\$39.0 million (2003: HK\$23.9 million loss).

DIVIDEND

The Directors do not recommend the payment of a dividend for the financial year ended 31st December, 2004 (2003: Nil).

REVIEW OF OPERATIONS

Travel and Tourism Division

website: www.morningstar.com.hk



2003 Top Agent Award
Cathay Pacific Airways

The economic rebound in Hong Kong during the year under review has been quicker and stronger than expected. External trade in 2004 surged by 15%. As expected, the Mainland China and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and Individual Visit Scheme contributed significantly to the number of visitor arrivals for the year, reaching a record high of 21.8 million. Property values rebounded strongly, resulting in the number of homeowners with negative equity falling drastically from an all-time high of about 106,000 in the middle of 2003 to about 19,000 at year-end 2004. The number of bankruptcy petitions decreased by nearly half to about 12,000 in 2004. Unemployment rate fell from a peak of 8.6% in the middle of 2003 to 6.5% in December 2004. Deflation, which lasted for nearly 6 years, was over in July 2004 with the composite Consumer Price Index reverting to a 0.9% increase over a year earlier. The year 2004 also saw an acceleration in consumption over 2003. On an overall basis, Hong Kong's Gross Domestic Product ("GDP") grew by 8.1% in 2004.



*Gold Award 2003/2004
Malaysia Airlines*

However, most of the economic indicators are in comparison with the very low base caused by SARS in 2003. There is still a long way from getting back to the boom times of 1997. Large sections of the community have yet to feel the benefits of Hong Kong's economic recovery as it is still facing a difficult period of economic restructuring.

Morning Star Travel Service Limited ("MST") started 2004 on a cautious note due to uncertainties over the outbreak of H5N1 avian influenza in South-East Asia and China. The number of tour groups to traditional popular destinations like Thailand, Malaysia and the affected regions in China was inevitably affected, including during the Chinese New Year peak travel period. In a bid to reactivate the outbound travel business to such regions, MST, in collaboration with the relevant airlines, tourism boards and local tour operators, offered a series of outbound tour packages at very competitive prices to maintain its market share. At the same time, MST also launched a range of higher-end tour packages such as gourmet tours to Japan, Malaysia and Thailand; golf tours to China, Taiwan, Thailand and Malaysia; overseas study tours to Thailand and Japan; health check packages to Malaysia and celebrity tours involving local artistes and singers as honorary tour leaders. The volume of business of MST's outbound department, in terms of number of passengers, increased by nearly 10% compared with 2003, with growth coming mainly from tours to China short haul destinations, Taiwan and the Middle-East.

The "Call Centre" of MST continues to meet the Group's expectations since its launch in mid-April 2004 to capture additional ticketing sales as well as package tours during and after office hours. The encouraging results of the "Call Centre" in 2004 prompted management to enlarge its facilities in early 2005 to position MST for even bigger growth in the years ahead.



*SuperStar Leo Best Performing
Agent Award 2003
Star Cruises*



*2003 Million Dollar Sales Award
China Airlines*



MST Customer Service Representatives



Golf Tour to Thailand



Morning Star Travel Expo-Winter 2004

The business volume of MST, in terms of turnover, increased by about 15% in 2004 compared with the year before. However, profit margins for the year came under intense downward pressure due to the changing spending patterns of consumers and very competitive business environment for tour operators. Overall, the Travel and Tourism Division of the Group recorded an operating loss of HK\$16.3 million for 2004 (2003: HK\$7.6 million loss).

As for Beijing Morning Star New-Ark International Travel Service Co., Ltd., the Group's 49% owned joint-venture company in the PRC, it recorded an improved modest profit for 2004, while continuing to focus on inbound tour operations in Beijing.

During 2004, the awards received by MST in recognition of its contributions to the travel and tourism trade include: "Malaysia Tourism Awards 2003 – Best Foreign Tour Operator (East Asia)" by the Ministry of Culture, Arts and Tourism of Malaysia for a third consecutive year, "Gold Award 2003/2004" by Malaysia Airlines, "2003 Top Agent Award" by Cathay Pacific Airways, "Excellent Sales Performance 2003" by Japan Airlines, "2003 Million Dollar Sales Award" by China Airlines, "SIA Top Agent Award Hong Kong 2002/2003" by Singapore Airlines, "2003 Citation of Excellence" by Korean Air, "Superbrands Hong Kong 2004" by the Hong Kong Superbrands Council, "SuperStar Leo Best Performing Agent Award 2003" by Star Cruises and "Best Travel Agent Hong Kong District " by Tourism Bureau Ministry of Transportation and Communications, R.O.C..



Superbrands Hong Kong 2004
The Hong Kong Superbrands Council



Excellent Sales Performance 2003
Japan Airlines



Best Travel Agent Hong Kong District
Tourism Bureau Ministry of Transportation
and Communications, R.O.C.

Property Division

website: www.morningstarvilla.com

During 2004, Morning Star Villa ("MSV") in Zhongshan, PRC focused on the marketing and sale of unsold completed units and re-purchased units under the existing bank mortgage scheme in respect of Phases I to VII, as the market for retirement and holiday homes in the PRC was considerably subdued. As such units were disposed at lower prices, the profit margin for the units sold in 2004 was considerably lower than that sold in earlier years.

During the year, the construction of 168 units of Part 1, Phase VIII Firenze was completed and the units sold were delivered to the purchasers during the third quarter of 2004. To-date, approximately 46% of the units completed under Part 1, Phase VIII Firenze have been sold.



Phase VIII Firenze of MSV, Zhongshan

As for Morning Star Plaza ("MSP") in Zhongshan, PRC, the construction of Parts 1 and 2 of the Western site which is marketed as "Colourful City" was completed in 2004 and delivery of the residential units sold took place in July and November 2004 respectively. As at year-end 2004, the percentage sales of residential units under Parts 1 and 2 of "Colourful City" were 75% and 81% respectively. The completion rate of Part 3 of the Western site, comprising of 126 residential units, 98 shoplots and 102 car park spaces was 8% at the end of 2004. It is scheduled to be completed during the second half year in 2005.



Phase II Colourful City of MSP, Zhongshan



Phase VIII Firenze of MSV, Zhongshan



Phase VIII Firenze of MSV, Zhongshan

Hotel Division

Following the sale of Corus Grosvenor hotel Adelaide in October 2003, Morning Star Holdings (Australia) Limited ("MSA"), in which the Group has a 69.5% interest, has not been able to identify suitable investment opportunities in 2004 for its cash assets. A large part of its revenue for the year of A\$155,000 (approximately HK\$0.9 million) relates to interest from its short-term deposits. MSA's unaudited net profit after tax for the year was A\$344,000 (approximately HK\$2.0 million) [2003: A\$142,000 loss (approximately HK\$0.7 million loss)] after adjusting for an income tax benefit of A\$470,000 (approximately HK\$2.7 million) in 2004.



Corus hotel Hyde Park, London

The Group's portfolio of hotels under its management during the year comprises the Corus hotel Kuala Lumpur in Malaysia, Corus hotel Sydney, Corus hotel Hobart and Pacific Vista Hotel, Hobart in Australia. The audited net profit after tax for the year arising from the Group's hotel management operation amounted to HK\$2.3 million (2003: HK\$2.5 million).

During the year under review, the Group exercised an option to acquire a further 9% interest in Plaza on Hyde Park Limited ("POHP") which owns the Corus hotel Hyde Park in London. After this acquisition, the Group holds an aggregate of 49% interest in POHP. The Group has equity accounted for POHP's unaudited profit before tax for the year of GBP455,000 (approximately HK\$6.8 million) [2003: GBP579,000 (approximately HK\$7.5 million)].

Financial Services Division

The Group's 96.99% owned Morning Star Financial Services Limited is principally engaged in retail securities broking. On a turnover of HK\$3.0 million and a revenue from non-operating activities of HK\$6.0 million relating to an investment recovery, it posted an audited net profit after tax of HK\$5.6 million for the year (2003: HK\$1.3 million).

OUTLOOK

The Government of the Hong Kong Special Administrative Region has forecast that Hong Kong's GDP will grow by 4.5% to 5.5% in 2005. However, being an open economy, Hong Kong will continue to be affected invariably by external political and economic factors such as rising crude oil prices, declining US dollar exchange rate, interest rates, geopolitical situations, natural disasters, terrorist activities and outbreak of epidemics. The latest economic indicators suggest that the US and European Union economies will continue to expand. The outlook for the East Asian economies in the near-term also appears promising. The economy of Mainland China is expected to maintain a solid growth in 2005 while continuing its macro economic adjustment measures to ensure a sustained and healthy long-term economic growth.

The Individual Visit Scheme for Mainlanders to visit Hong Kong and Macau has been extended to cover Tianjin and Chongqing effective March 2005, thereby increasing the number of eligible Mainland cities to 34. This is expected to give Hong Kong's tourism and economy a further boost. The Tourism Authorities have predicted an increase in visitor arrivals by 16% to 23.4 million in 2005. With the opening of Hong Kong Disneyland in about September this year and the recently announced redevelopment of Ocean Park, inbound tourism will continue to thrive. Private consumption is expected to accelerate further, buoyed by improved employment income and consumption sentiment.

Despite the optimistic outlook for 2005, the trading conditions remain challenging for the Group's businesses in travel, property development, hotel investment, hotel management and financial services. The Group will, however, continue to adopt a prudent approach in all its undertakings while consolidating and positioning itself for a healthy and sustained growth.

ACKNOWLEDGMENT

On behalf of the Board, I would like to thank the management and staff for their dedication and commitment. To our valued customers and shareholders, I would like to express our sincere appreciation for the continued support.

TAN SRI DR. KHOO KAY PENG

Chairman

Hong Kong, 8th April, 2005