

1. CORPORATE INFORMATION

The registered office of the Company is located at the office of Caledonian Bank & Trust Limited, P.O. Box 1043, George Town, Grand Cayman, the Cayman Islands, British West Indies.

During the year, the Group was involved in the following principal activities:

- Provision of travel and travel-related services
- Property development and agency services
- Hotel investment and management
- Provision of financial services and securities broking

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAPs”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties as further explained below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company/the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company/the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company/the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company;
or
- (d) a long term investment, if the Company/the Group holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill/negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st January, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1st January, 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1st January, 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the goodwill reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the goodwill reserve. Negative goodwill on acquisitions subsequent to 1st January, 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of any impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Land held under long term leases	Over the remaining lease terms
Buildings	2% to 5%
Office furniture, fixtures and equipment	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%

The gain or loss on disposal or retirement of a property, plant and equipment recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market value on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Property under development

Property under development is stated at cost, which comprises land cost and development expenditure, less any impairment losses.

Leased assets

Leases that transfer substantially all the risks and rewards of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed and unlisted equity securities and other unlisted securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories, principally comprising foodstuffs, liquor and other consumables, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the profit and loss account of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss account of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange realignment reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits***Paid leave carried forward***

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective on 1st December, 2000, the Group operated a defined contribution retirement benefits scheme (the "ORSO Scheme") for those employees who were eligible to participate in this scheme. The ORSO Scheme operated in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. With effect from 1st December, 2000, the Group has operated both schemes and those employees who were eligible to participate in the ORSO Scheme are also eligible to participate in the MPF Scheme.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Tax

The charge for tax is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly-controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) income from tour services is recognised upon the departure date of each tour;
- (b) income from sales of air tickets and hotel bookings is recognised when the related tickets are issued and hotel bookings confirmed, respectively;
- (c) income from hotel operations is recognised as the related services are performed;
- (d) income from the sale of properties and in the case of pre-sales of properties, proceeds from pre-sales as adjusted to reflect the stage of completion, are recognised on completion of binding sale agreements;
- (e) commission and visa income are recognised in the period in which the services are rendered;
- (f) rental income is recognised on the straight-line basis over the lease terms;
- (g) interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (h) dividends are recognised when the shareholders' right to receive payment has been established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) The travel and travel-related services segment provides outbound tour services, booking of air tickets and hotel services and other travel-related services;
- (b) The property development and agency services segment comprises the development and sales of properties and the provision of property agency services;
- (c) The hotel investment and management segment comprises the operation of hotels and the provision of hotel management services;
- (d) The financial services segment comprises the provision of financial services and securities broking; and
- (e) The corporate and other businesses segment includes rental income and general corporate expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers/businesses, and assets are attributed to the segments based on the location of the assets.

Intersegment sales are transacted with reference to the prevailing market rates.

(i) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments:

	Travel and		Property		Hotel investment		Financial services		Corporate and		Eliminations		Consolidated	
	travel-related services		development and		and management				other businesses					
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	418,135	364,488	70,851	40,104	3,327	33,566	1,923	4,136	423	423	-	-	494,659	442,717
Intersegment sales	-	-	-	-	-	-	1,107	989	2,882	3,063	(3,989)	(4,052)	-	-
Other revenue and gains	5,887	5,722	2,569	2,581	-	-	6,105	169	157	746	-	-	14,718	9,218
Total revenue	424,022	370,210	73,420	42,685	3,327	33,566	9,135	5,294	3,462	4,232	(3,989)	(4,052)	509,377	451,935
Segment results	(16,280)	(7,630)	(5,745)	(10,204)	916	3,445	4,862	471	1,370	3,262	-	-	(14,877)	(10,656)
Interest and dividend income													2,182	3,641
Unallocated expenses													(28,470)	(11,369)
Loss from operating activities													(41,165)	(18,384)
Finance costs													(3,972)	(6,653)
Share of profits and losses of associates	(413)	(684)	(5)	(7)	2,994	2,966	-	-	-	-	-	-	2,576	2,275
Share of profits and losses of jointly-controlled entities	83	17	(650)	(293)	-	-	-	-	-	-	-	-	(567)	(276)
Loss before tax													(43,128)	(23,038)
Tax													1,785	(6,655)
Loss after tax													(41,343)	(29,693)
Minority interests													2,388	5,765
Loss from ordinary activities attributable to shareholders													(38,955)	(23,928)

Notes to the Financial Statements

31st December, 2004

	Travel and travel-related services		Property development and agency services		Hotel investment and management		Financial services		Corporate and other businesses		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	113,277	157,127	285,442	310,871	45,007	38,487	64,336	43,295	215,638	275,845	(277,103)	(350,614)	446,597	475,011
Interests in associates	(2,149)	(1,718)	350	407	152,898	117,558	-	-	-	-	-	-	151,099	116,247
Interests in jointly- controlled entities	1,050	1,207	-	4,773	-	-	-	-	-	-	-	-	1,050	5,980
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	19,011	36,842
Total assets													617,757	634,080
Segment liabilities	217,198	254,177	35,881	54,110	12,211	13,873	10,993	11,533	98,096	132,208	(277,094)	(350,610)	97,285	115,291
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	176,182	154,453
Total liabilities													273,467	269,744
Other segment information:														
Capital expenditure	519	364	115	-	-	4,338	23	-	15	-	-	-	672	4,702
Depreciation	460	671	932	1,002	43	2,616	26	33	1,144	1,321	-	-	2,605	5,643
Provision for impairment of properties held for sale	-	400	-	-	-	-	-	-	-	-	-	-	-	400

(ii) Geographical segments

The following tables present revenue, certain assets and expenditure information for the Group's geographical segments:

	Hong Kong SAR		Elsewhere in the PRC		Australia		Other countries		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	412,175	362,533	79,072	46,740	2,249	32,377	1,163	1,067	-	-	494,659	442,717
Other segment information:												
Segment assets	145,016	167,130	293,590	319,962	26,788	25,802	198,592	162,813	(46,229)	(41,627)	617,757	634,080
Expenditure information:												
Capital expenditure	489	359	183	5	-	4,338	-	-	-	-	672	4,702

4. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of services rendered, hotel income, agency fee income, proceeds from the sale of properties (in the case of pre-sale of properties, proceeds from pre-sale are adjusted to reflect the stage of construction) and income from financial services and securities broking, after eliminating intra-group transactions.

An analysis of the Group's turnover, other revenue and gains, is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Travel and travel-related services	418,135	364,488
Property development and agency services	70,851	40,104
Hotel investment and management	3,327	33,566
Financial services	1,923	4,136
Others	423	423
	<u>494,659</u>	<u>442,717</u>
Other revenue		
Interest income	1,324	2,276
Income arising from deposits on properties forfeited by purchasers	182	118
Visa income	805	1,037
Commission income	4,435	3,557
Dividend from unlisted long term investments	858	1,365
Unclaimed dividend and money	–	169
Others	2,921	3,387
	<u>10,525</u>	<u>11,909</u>
Gains		
Gain on capital distribution from unlisted long term investment	6,040	–
Negative goodwill recognised as income for the year	335	950
	<u>6,375</u>	<u>950</u>
	<u>16,900</u>	<u>12,859</u>

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold	3,865	3,330
Cost of services provided	374,983	338,383
Cost of properties sold	52,799	19,129
Depreciation	2,605	5,643
Minimum lease payments under operating leases in respect of land and buildings	11,104	11,193
Auditors' remuneration	525	682
Staff costs (including directors' remuneration, note 7):		
Wages and salaries	37,728	34,732
Pension contributions	1,607	1,699
Less: forfeited contributions	(228)	(316)
Net pension contributions	1,379	1,383
Total staff costs	39,107	36,115
Provision for impairment of properties held for sale*	–	400
Gain on disposal of property, plant and equipment	(79)	(533)
Loss on short term investments*	501	295
Loss on disposal of a jointly-controlled entity*	7,351	–
Loss on disposal of long term investments*	10,482	–
Foreign exchange gains, net	(179)	(120)

* Provision for impairment of properties held for sale, loss on short term investments, loss on disposal of a jointly-controlled entity and loss on disposal of long term investments are included in "Administrative expenses" on the face of the consolidated profit and loss account.

At 31st December, 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

6. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	3,972	6,634
Interest on finance leases	–	19
	<hr/>	<hr/>
Total finance costs	<u>3,972</u>	<u>6,653</u>

7. DIRECTORS' REMUNERATION

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive Director	5	5
Non-Executive Directors	42	35
Other emoluments:		
Executive Director:		
Basic salaries, housing, other allowances and benefits in kind	653	1,060
Pension contributions	6	43
Non-Executive Directors:		
Other allowances	–	110
	<hr/>	<hr/>
	<u>706</u>	<u>1,253</u>

The number of Directors whose emoluments fell within the following bands is as follows:

	Group	
	2004	2003
	Number of Directors	Number of Directors
Nil – HK\$1,000,000	10	5
HK\$1,000,001 – HK\$1,500,000	–	1
	<hr/>	<hr/>
	<u>10</u>	<u>6</u>

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: one) Directors, details of whose remuneration are set out in note 7 to the financial statements above. The remuneration of each of the remaining three (2003: four) non-directors, highest paid employees fell within the band of Nil – HK\$1,000,000 is analysed below:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing, other allowances and benefits in kind	1,690	2,136
Pension contributions	40	58
	<u>1,730</u>	<u>2,194</u>

During the year, no bonuses were paid or payable by the Group to the three non-directors, highest paid employees (2003: Nil).

9. TAX

(a) The amount of tax in the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Tax		
Overseas		
– current year	1,984	9,513
– overprovision in prior years	(2,976)	–
Deferred tax		
– current year	(1,110)	(4,660)
– effect of change in tax rate on deferred tax balances at 1st January	<u>–</u>	<u>(624)</u>
	(2,102)	4,229
Share of taxation attributable to an associate	<u>317</u>	<u>2,426</u>
Tax (credit)/charge	<u>(1,785)</u>	<u>6,655</u>

No provision for Hong Kong profits tax has been made as the Company and the Group has no assessable profits arising in Hong Kong for the year (2003: Nil).

(b) Reconciliation between tax (credit)/charge and accounting loss at applicable tax rates:

	Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Loss before tax	(43,128)	(23,038)
Notional tax on profit/loss before tax, calculated at the rates applicable to profits/losses in the countries concerned	(6,625)	(5,042)
Tax effect of income that are not taxable in determining taxable profit	(1,406)	(462)
Tax effect of expenses that are not deductible in determining taxable profit	2,600	6,445
Tax effect of unused tax losses not recognised	7,670	5,687
Tax effect of utilisation of tax losses not previously recognised	(410)	(786)
Increase in opening deferred tax asset resulting from an increase in tax rate	–	(624)
(Over)/under-provision in prior years	(3,614)	1,437
Tax (credit)/charge	(1,785)	6,655

10. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$55,159,000 (2003: HK\$85,864,000).

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders for the year of HK\$38,955,000 (2003: HK\$23,928,000) and on the 2,414,547,555 shares (2003: 2,414,547,555 shares) in issue during the year.

A diluted loss per share for the years ended 31st December, 2004 and 2003 has not been shown as the warrants outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings <i>HK\$'000</i>	Office furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st January, 2004	224,150	31,226	3,745	259,121
Additions	–	602	70	672
Disposals	–	(4)	–	(4)
Exchange realignment	67	35	–	102
	<u>224,217</u>	<u>31,859</u>	<u>3,815</u>	<u>259,891</u>
At 31st December, 2004				
Accumulated depreciation and impairment:				
At 1st January, 2004	119,615	30,060	3,297	152,972
Charge for the year	1,703	778	124	2,605
Disposals	–	(4)	–	(4)
Exchange realignment	25	36	–	61
	<u>121,343</u>	<u>30,870</u>	<u>3,421</u>	<u>155,634</u>
At 31st December, 2004				
Net book value:				
At 31st December, 2004	<u>102,874</u>	<u>989</u>	<u>394</u>	<u>104,257</u>
At 31st December, 2003	<u>104,535</u>	<u>1,166</u>	<u>448</u>	<u>106,149</u>

The land and buildings, at cost, included above, are held on the following terms:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Freehold, overseas	3,198	3,131
Long term leases, Hong Kong SAR	190,998	190,998
Long term leases, Mainland China	30,021	30,021
	<u>224,217</u>	<u>224,150</u>

At 31st December 2004, certain property, plant and equipment with an aggregate net book value of HK\$79,780,000 (2003: HK\$80,819,000) have been pledged to secure banking facilities granted to the Group (note 26).

Company

	Office furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:			
At 1st January, 2004	6,765	2,067	8,832
Additions	15	–	15
	<u>6,780</u>	<u>2,067</u>	<u>8,847</u>
At 31st December, 2004			
Accumulated depreciation:			
At 1st January, 2004	6,663	2,067	8,730
Charge for the year	79	–	79
	<u>6,742</u>	<u>2,067</u>	<u>8,809</u>
At 31st December, 2004			
Net book value:			
At 31st December, 2004	<u>38</u>	<u>–</u>	<u>38</u>
At 31st December, 2003	<u>102</u>	<u>–</u>	<u>102</u>

13. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	7,074	7,074
Surplus on revaluation	1,572	–
	<u>8,646</u>	<u>7,074</u>
At end of year		

The investment properties are situated in Hong Kong SAR and are held under long term leases. At 31st December, 2004, the investment properties were revalued on an open market existing use basis by RHL Appraisal Limited, an independent property valuer, at HK\$8,646,000. The investment properties are leased to Laura Ashley Limited, a related company of the Group, further details of which are included in notes 33 and 36.

The investment properties have been pledged to a bank to secure banking facilities granted to the Group (*note 26*).

Further particulars of the Group's investment properties are included on page 76.

14. PROPERTY UNDER DEVELOPMENT

	Group	
	2004	2003
	HK\$'000	HK\$'000
At cost	32,910	32,910
Provision for impairment	(29,104)	(29,104)
	<u>3,806</u>	<u>3,806</u>

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	1,801	23,133
Due to jointly-controlled entities	(751)	(17,153)
	<u>1,050</u>	<u>5,980</u>

The amounts due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Details of the jointly-controlled entity as at 31st December, 2004 are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Owner- ship interest %	Voting power %	Profit sharing %	Principal activities
Beijing Morning Star – New Ark International Travel Service Co.,Ltd*	Corporate	People's Republic of China	49	49	49	Provision of travel services

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

16. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–	139,871	118,757
Share of net assets	160,163	119,046	–	–
Carrying value of negative goodwill on acquisition	(6,196)	(203)	–	–
Due from associates	1,186	1,237	1,126	1,152
Due to associates	(4,054)	(3,833)	–	–
	151,099	116,247	140,997	119,909
Provision for impairment	–	–	(24,186)	(24,186)
	151,099	116,247	116,811	95,723

Negative goodwill amounting to HK\$6,328,000 arising on the acquisition of additional 9% interest in an associate (*note 36*), which is recognised in the consolidated profit and loss account on a straight-line basis over 20 years.

The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal associates at 31st December, 2004 are as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2004	2003	
Plaza on Hyde Park Limited*	Corporate	United Kingdom	49	40	Hotel investment
Way Bright Investment Limited	Corporate	Hong Kong SAR	50	50	Provision of property agency services
Pearl's Tours and Travel Service Company Limited*	Corporate	Thailand	49	49	Provision of travel services

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all associates would, in the opinion of the Directors, result in particulars of excessive length.

Extracts from the unaudited financial statements of Plaza on Hyde Park Limited are as follows:

	2004	2003
	HK\$'000	HK\$'000
Non-current assets	789,929	701,978
Current assets	44,047	25,080
Current liabilities	42,326	20,168
Non-current liabilities	356,652	315,589
Turnover	101,523	83,749
Profit for the year	10,394	1,295

17. INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term investments:				
Listed equity investments, at cost:				
Hong Kong SAR	1,882	1,882	–	–
Overseas	15,063	18,760	–	–
	16,945	20,642	–	–
Provision for impairment	(1,142)	(1,784)	–	–
	15,803	18,858	–	–
Unlisted equity investments, at cost	396	2,914	–	–
Unlisted investment in convertible cumulative preference stock, at cost	–	14,649	–	14,649
	396	17,563	–	14,649
	16,199	36,421	–	14,649
Market value of listed investments	11,664	19,073	–	–
Short term investments:				
Listed equity investments in				
Hong Kong SAR, at market value	2,811	421	–	–

18. OTHER ASSETS

	Note	2004 HK\$'000	2003 HK\$'000
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders")	(i)	6,314	6,295
Deposit with The Stock Exchange of Hong Kong Limited		305	305
Admission fees paid to Hong Kong Securities Clearing Company Limited		150	150
Contributions to Hong Kong Securities Clearing Company Limited Guarantee Fund		150	150
		<u>6,919</u>	<u>6,900</u>

Note:

- (i) The loans were used by Land Traders to acquire a piece of land on which the Enrico Hotel, a hotel owned by Mansara Holding Company, Inc. ("Mansara"), a 61%-owned subsidiary of the Group, is built. These loans are secured by promissory notes.

19. PLEDGED BANK BALANCES AND TIME DEPOSITS

The non-current pledged bank balances and time deposits are mainly pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties of Morning Star Villa ("MSV") and Morning Star Plaza ("MSP").

20. DEFERRED TAX ASSETS

The movement for the year in the net deferred tax position of the Group is as follows:

	2004 HK\$'000	2003 HK\$'000
At beginning of year	11,944	6,660
Exchange realignment	19	–
Credit to the consolidated profit and loss account	1,110	5,284
At end of year	<u>13,073</u>	<u>11,944</u>

The major deferred tax assets recognised by the Group are as follows:

	2004	2003
	HK\$'000	HK\$'000
Depreciation in excess of depreciation allowances	445	454
Tax losses	12,494	11,288
Others	134	202
	<u>13,073</u>	<u>11,944</u>

At the balance sheet date, the Group had unused tax losses of HK\$360,886,000 (2003: HK\$339,402,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$54,600,000 (2003:HK\$52,186,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$306,286,000 (2003: HK\$287,216,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK\$16,428,000 (2003:HK\$13,013,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

21. BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment, except for a balance due from Morning Star Villa Management Limited ("MVM") which bears interest at 2% above the Hong Kong dollar prime rate per annum. Further details of the transactions with related companies are included in note 36 to the financial statements.

22. PROPERTIES HELD FOR SALE

The carrying amount of properties held for and stated at realisable value amounted to HK\$600,000 (2003: HK\$600,000).

23. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. An aging analysis of trade receivables as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current	11,869	13,956
1 – 3 months	922	10,144
Over 3 months	6,137	1,563
	18,928	25,663

24. OTHER RECEIVABLES

	<i>Note</i>	Group		Company	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest-bearing					
loan receivable	<i>(i)</i>	8,000	8,000	–	–
Deposits		16,526	20,201	17	20
Sundry debtors and prepayments		5,131	7,460	358	397
		29,657	35,661	375	417

Note:

- (i) The loan receivable is due from a shareholder of the Company. This loan is secured by listed securities, bears interest at the Hong Kong dollar prime rate plus 1% per annum and is repayable within one year.*

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$26,684,000 (2003: HK\$18,371,000). An aging analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	24,965	16,774
1 – 3 months	1,349	1,245
Over 3 months	370	352
	<u>26,684</u>	<u>18,371</u>

26. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts, secured	29,471	12,743	9,802	5,849
Bank loans, secured	130,000	125,000	130,000	125,000
	<u>159,471</u>	<u>137,743</u>	<u>139,802</u>	<u>130,849</u>
Bank loans and overdrafts repayable:				
Within one year	<u>159,471</u>	<u>137,743</u>	<u>139,802</u>	<u>130,849</u>

The bank loans and overdrafts are secured by certain property, plant and equipment and the investment properties of the Group (notes 12 and 13).

27. NON-INTEREST-BEARING OTHER BORROWINGS

The non-interest-bearing other borrowings represent short term loans of HK\$16,710,000 (2003: HK\$16,710,000) granted by the minority shareholders of subsidiaries which are unsecured, interest-free and have no fixed terms of repayment.

28. MINORITY INTERESTS

Included in the minority interests is a loan payable balance to a minority shareholder of HK\$9,558,000 (2003: HK\$9,503,000) which is unsecured, interest-free and has no fixed terms of repayment.

29. SHARE CAPITAL

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shares		
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,414,547,555 ordinary shares of HK\$0.20 each	<u>482,910</u>	<u>482,910</u>

Warrants

As a result of the rights issue completed in 2001, the exercise price of the Company's warrants, which were issued on 20th June, 2000 was adjusted from HK\$0.20 per share to HK\$0.19 per share with effect from 6th October, 2001. As at the balance sheet date, the Company had an outstanding amount of HK\$55,189,658 of warrants entitling the registered holders to subscribe in cash at any time on or before 19th June, 2005 for fully paid ordinary shares of HK\$0.20 each of the Company at an exercise price of HK\$0.19 per share. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 290,471,886 additional ordinary shares and proceeds, before share issue expenses, of HK\$55,189,658. The adjusted exercise price of HK\$0.19 is below the nominal value of the Company's ordinary shares of HK\$0.20 each. Pursuant to an ordinary resolution passed by the shareholders of the Company at the extraordinary general meeting held on 5th October, 2001, a new reserve, namely the subscription rights reserve, was set up and an amount of HK\$2,905,000 was transferred from the share premium account to the subscription rights reserve. Upon any exercise of the Company's warrants at the adjusted exercise price, the difference between the adjusted exercise price of the Company's warrants and the nominal value of the Company's new ordinary shares issuable upon the exercise of such warrants will be treated as paid out of the subscription rights reserve. No warrants were exercised during the year.

30. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries/associates, are as follows:

	Goodwill included in goodwill reserve HK\$'000	Negative goodwill included in goodwill reserve HK\$'000
Cost at beginning and end of the year	17,238	(164)
Accumulated impairment at beginning and end of year	<u>(16,996)</u>	<u>–</u>
Net amount: At 31st December, 2004	<u>242</u>	<u>(164)</u>

(b) Company

	Share premium account HK\$'000	Subscription rights reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2003	3,423	2,905	(243,415)	(237,087)
Loss for the year	<u>–</u>	<u>–</u>	<u>(85,864)</u>	<u>(85,864)</u>
At 31st December, 2003 and at 1st January, 2004	3,423	2,905	(329,279)	(322,951)
Loss for the year	<u>–</u>	<u>–</u>	<u>(55,159)</u>	<u>(55,159)</u>
At 31st December, 2004	<u>3,423</u>	<u>2,905</u>	<u>(384,438)</u>	<u>(378,110)</u>

31. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	43,254	43,254
Loans to subsidiaries	260,000	260,000
	303,254	303,254
Provisions for impairment	(233,000)	(233,000)
	70,254	70,254

The loans to subsidiaries are unsecured, bear interest at the Hong Kong dollar prime rate plus 2% per annum and are not repayable within one year.

Except for balances due from and due to subsidiaries, included in the Company's current assets and liabilities, amounting to HK\$43,033,000 (2003: HK\$53,610,000) and HK\$73,454,000 (2003: HK\$106,060,000) respectively which are interest bearing at the Hong Kong dollar prime rate plus 2% per annum, all other balances with subsidiaries included in the Company's current assets and liabilities are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal subsidiaries as at 31st December, 2004 are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Barilla Pty. Limited*	Australia	A\$2	–	69.5	Ordinary	Property holding
Bright Profit Investments Limited	British Virgin Islands/ People's Republic of China	US\$50,000	–	55	Ordinary	Property development
Consing Investment Limited	Hong Kong SAR	HK\$2	–	100	Ordinary	Investment holding
Genuine Gains Limited	British Virgin Islands/ Hong Kong SAR	US\$1	–	100	Ordinary	Property investment

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Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Jubilation Properties Limited	British Virgin Islands/ People's Republic of China	US\$50,000	–	55	Ordinary	Property development
Kingpin Assets Limited	British Virgin Islands	US\$2	–	100	Ordinary	Investment holding
Mansara Holding Company, Inc.*	Philippines	Peso30,000,000	–	61	Ordinary	Hotel investment
Mansara International Limited	British Virgin Islands/ Philippines	US\$100	–	61	Ordinary	Investment holding
Morning Star Finance Limited	Cayman Islands	HK\$200	100	–	Ordinary	Investment holding
Morning Star Financial Services Limited	Hong Kong SAR	HK\$42,924,000	97	–	Ordinary	Investment holding
Morning Star Foreign Exchange Limited	Hong Kong SAR	HK\$300,000	–	100	Ordinary	Money lending
Morning Star Holdings (Australia) Limited*	Australia	A\$13,402,501	–	69.5	Ordinary	Investment holding
Morning Star Holdings (Thailand) Limited*	Thailand	Baht25,000	100	–	Ordinary	Investment holding
Morning Star Hotel International Limited	Cayman Islands	HK\$200	100	–	Ordinary	Investment holding
Morning Star Hotel Investments Limited	Cayman Islands	HK\$200	100	–	Ordinary	Investment holding

Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Investment Management Limited	Hong Kong SAR	HK\$5,000,000	–	97	Ordinary	Provision of investment advisory services
Morning Star Properties Limited	British Virgin Islands	US\$2	100	–	Ordinary	Investment holding
Morning Star Property Consultants Limited	Hong Kong SAR	HK\$2	–	100	Ordinary	Provision of property consultancy services
Morning Star Travel International Limited	Cayman Islands	HK\$200	100	–	Ordinary	Investment holding
Morning Star Securities Limited	Hong Kong SAR	HK\$150,000,000	–	97	Ordinary	Securities broking
Morning Star Travel Service Limited	Hong Kong SAR	HK\$90,000,000 HK\$10,000,000	– –	100 100	Ordinary Non-voting deferred	Provision of travel services
Morning Star Travel Service Ltd.*	British Columbia, Canada	C\$81,000	–	100	Ordinary	Provision of travel services
Morning Star Travel Service (Macau) Limited *	Macau	MOP1,000,000	–	100	Ordinary	Provision of travel services
Morning Star Traveller Plus Limited	Hong Kong SAR	HK\$2	–	100	Ordinary	Provision of travel-related services
Remarkable Investments Limited	British Virgin Islands/ Hong Kong SAR	US\$1	–	100	Ordinary	Property holding

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Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Star Building (Holdings) Limited*	Thailand	Baht1,000,000	–	50.8	Ordinary	Property holding
Star Travel Service Limited	Hong Kong SAR	HK\$1,050,000	–	100	Ordinary	Provision of travel services
Stowford Pty. Ltd.*	Australia	A\$20	–	69.5	Ordinary	Hoteliers and caterers
Vista International Hotels Limited	Hong Kong SAR	HK\$10 HK\$300,000	– –	100 100	Ordinary Non-voting deferred	Hotel management
Vista Hotel Management Sdn Bhd*	Malaysia	MYR2 MYR500,000	– –	100 100	Ordinary Non-cumulative irredeemable 10% preference	Hotel management
Vista International Hotels Pty. Limited*	Australia	A\$2	–	100	Ordinary	Hotel management
Zhongshan Morning Star Villa Housing and Real Estate Development Limited	People's Republic of China	US\$4,600,000	–	55	Registered capital	Property development
Zhongshan Morning Star Villa Club Co., Ltd.	People's Republic of China	US\$1,400,000	–	49.5	Registered capital	Operation of the clubhouse in Morning Star Villa
Zhongshan Morning Star Plaza Housing and Real Estate Development Limited	People's Republic of China	US\$2,100,000	–	55	Registered capital	Property development

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

The above table lists the subsidiaries of the Company as at 31st December, 2004 which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Major-non-cash transactions*****Dividend from unlisted long term investments***

During the year, a dividend receivable from one of the Group's unlisted long term investments, amounting to HK\$858,000 (2003: HK\$1,358,000), was satisfied by the issue of 10% convertible cumulative preferred stocks of the investee company.

(b) Restricted cash and cash equivalent balances

Cash and cash equivalents at end of the year include deposits with banks of HK\$20,105,000 (2003: HK\$15,813,000) held by subsidiaries which are not freely remissible to the Company because of currency exchange restrictions.

33. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties under operating lease arrangements, with leases negotiated for a term of two years.

At 31st December, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	319	107
In the second to fifth years, inclusive	107	–
	426	107

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31st December, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	7,392	6,637
In the second to fifth years, inclusive	<u>3,687</u>	<u>1,965</u>
	<u>11,079</u>	<u>8,602</u>

34. CAPITAL COMMITMENTS

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Contracted for:		
Land and construction costs	18,402	13,766
Authorised, but not contracted for:		
Land and construction costs	<u>163,448</u>	<u>167,534</u>
	<u>181,850</u>	<u>181,300</u>

The above amount of HK\$181,850,000 (2003: HK\$181,300,000) relates to the development of the Group's property projects in Zhongshan, the People's Republic of China, into a residential and commercial complex.

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date.

35. CONTINGENT LIABILITIES

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank guarantees	274,453	296,588	37,881	60,337
Guarantee of banking facilities granted to a subsidiary	<u>–</u>	<u>–</u>	<u>20,000</u>	<u>20,000</u>
	<u>274,453</u>	<u>296,588</u>	<u>57,881</u>	<u>80,337</u>

Included in bank guarantees is an amount of HK\$268,628,000 (2003: HK\$290,412,000) (Company – 2004: HK\$37,881,000; 2003: HK\$60,337,000) in respect of buy-back guarantees in favour of banks given to the purchasers of the MSV and MSP properties on certain mortgage loans outstanding at the balance sheet date.

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	Notes	2004 HK\$'000	2003 HK\$'000
Rental income from a related company:			
Laura Ashley Limited (“LAL”)	(i)	423	423
Architectural consultancy fees paid to:			
Shen & Partners Limited (“Shen & P”)	(ii)	440	1,304
SRT Design (China) Limited (“SRT (China)”)	(ii)	100	220
SRT Architect Limited (“SRT”)	(ii)	16	62
Interest income from MVM	(iii)	18	73
Property management fees paid to MVM	(iv)	198	379
Acquisition of additional shares of Plaza on Hyde Park Limited (“POHP”)	(v)	21,114	–
Acquisition of additional shares of Morning Star Financial Services Limited (“MSFS”)	(vi)	–	8,000

- (i) LAL is a wholly-owned subsidiary of Laura Ashley Holdings plc (“LAH”). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of LAH. Pursuant to a tenancy agreement entered into between the Group and LAL in 2004, the Group leased an office area to LAL for a period of two years, commencing from 1st May, 2004. The rental charged to LAL was determined by reference to open market rentals.
- (ii) Mr. Edward SHEN, an Independent Non-Executive Director of the Company, who resigned on 1st April 2004, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of each of SRT (China) and SRT. The fees were charged by reference to the then prevailing market rates.
- (iii) MVM is engaged in the property management of MSV. Certain Directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2% above the Hong Kong dollar prime rate per annum is charged on balances with MVM.
- (iv) Property management fees paid to MVM represent the property management fees of the vacant units of MSV owned by Jubilation Properties Limited, which is engaged in the development of MSV. The property management fees on unsold units are determined based on half the rate per square foot charged to the other owners of MSV.

- (v) On 17th August, 2001, the Company entered into a sale and purchase agreement (the "Agreement") with London Vista Hotel Limited ("London Vista") to acquire a 40% equity interest in POHP at a consideration of HK\$95,352,000. Pursuant to the Agreement, the Company was granted an option (the "Option"), which is exercisable within two years commencing from the date of the Agreement, to purchase an additional 11% equity interest in POHP at an exercise price of HK\$25,806,000 which is subject to adjustment as provided in the Agreement.

On 4th August, 2004, as mutually agreed between the Company and London Vista, the Company had withdrawn the Option notice served on 6th July, 2004 and served another Option notice to Vista London exercising the Option to acquire a further 9% interest in POHP at the consideration of HK\$21,114,000. The exercise period of the Option to acquire the remaining 2% interest in POHP was agreed to be extended for a further period of 12 months up to 16th August, 2005.

Further details of this transaction are set out in the Company's circular dated 2nd September, 2004 and note 16 to the financial statements above.

- (vi) In December 2003, the Company acquired a further 8,000,000 ordinary shares of MSFS, a previously 78.35%-owned subsidiary of the Company, representing a 18.64% interest, from Firstway International Investment Limited, a substantial shareholder of the Company, at a consideration of HK\$8,000,000. The purchase consideration was determined by reference to the adjusted unaudited consolidated net asset value of MSFS as at 31st October, 2003.

Details of the Group's balances with jointly-controlled entities, associates, related companies and loan receivable from a shareholder at the balance sheet date are set out in notes 15, 16, 21 and 24 to the financial statements, respectively.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 8th April, 2005.