

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, 2005.

FINANCIAL RESULTS

The Group recorded a pre-tax loss of HK\$6.4 million for the financial year ended 31st December, 2005 from its operating activities after accounting for a gain of HK\$30.2 million from the disposal of the Group's 49% interest in Plaza on Hyde Park Limited (2004 : HK\$43.4 million loss). The consolidated net loss attributable to shareholders for 2005 amounted to HK\$7.3 million (2004 : HK\$39.0 million loss).

DIVIDEND

The Directors do not recommend the payment of a dividend for the financial year ended 31st December, 2005 (2004 : Nil).

REVIEW OF OPERATIONS

Travel and Tourism Division

Website : www.morningstar.com.hk



Hong Kong and Macau
Merchants of Integrity Awards

Following the strong economic rebound in 2004, Hong Kong's economy continued to expand rapidly in 2005. Supported by a commendable growth in exports of goods and services, expansion in consumer spending in tandem with the recovery in the property market and improvement in employment situation, Hong Kong's Gross Domestic Product recorded a growth of 7.3% in 2005. However, the increase in oil

prices and successive interest rate hikes in 2005 also dampened local private consumption. Certain industries, like construction and some small and medium enterprises which had been affected by increase in rents and other costs, had yet to benefit from the economic recovery in 2005.

Despite the improvement in the economic conditions in Hong Kong last year, the performance of the travel and tourism industry was affected by threats of various nature such as the tsunami in the Indian Ocean in December 2004, terrorist activities and the outbreak of H5N1 avian influenza.

On an overall basis, Morning Star Travel Service Limited registered a moderate increase in total turnover to about HK\$432 million for the year 2005. On a departmental basis, its Outbound Department recorded a decrease in both the turnover and the number of passengers who joined its packaged tours



Caring Company
2005/2006



Hong Kong Superbrands
2005/2006



Marathon Tour to Thailand



Golf Tournament at Shenzhen



Educational Tour to Taiwan

in 2005 compared with 2004, particularly to Thailand and other regions affected by the tsunami. However, this was mitigated by an increase in both the turnover and the number of tour groups to Korea in 2005 compared with a year earlier. The Ticketing Department of Morning Star Travel Service Limited achieved a creditable increase in turnover in 2005 compared with the previous year.



Xiamen International Marathon 2005



Roadshow at Tsuen Wan, Hong Kong

Beijing Morning Star-New Ark International Travel Service Co., Ltd., the Group's 49% owned joint-venture travel agency company in the PRC, focused on inbound tour operations in Beijing in 2005 and achieved a satisfactory growth in turnover as well as profit compared with 2004.

Overall, the Travel and Tourism Division of the Group recorded an operating loss of HK\$20.8 million for the year 2005 due to a decrease in profit margin and an increase in operating expenses.



Roadshow at Victoria Park, Hong Kong

During 2005, the awards received by Morning Star Travel Service Limited in recognition of its contributions to the travel and tourism trade included: "Gold Award 2004/2005" by Malaysia Airlines, "2004 Top Agent Award" by Cathay Pacific Airways, "Excellent Sales Performance 2004" by Japan Airlines, "2004 Million Dollar Sales Award" by China Airlines, "SIA Top Agent Award Hong Kong 2003/2004" by Singapore Airlines, "2004 Citation of Excellence" by Korean Air, "Hong Kong Superbrands 2005/2006" in the Holidays & Travel Category by the Hong Kong Superbrands Council, "Star Pisces Best Performing Agent Award 2004" by Star Cruises, the "Hong Kong and Macau Merchants of Integrity Awards (2004-2005)", "2004 Top Growth Agent" by Dragonair, "Top Growth Agent Gold Award 2004" by Gulf Air, "Yahoo! Emotive Brand Awards 2004-2005" (Travel Agent Category) by Yahoo! Hong Kong and "Caring Company 2005/2006" by The Hong Kong Council of Social Service.



Phase VII Canale Di Venezia of MSV



Phase VIII Firenze of MSV



Phase II Colourful City of MSP

Property Division

Website : www.morningstarvilla.com

During 2005, Morning Star Villa ("MSV") in Zhongshan, PRC focused on the sale of unsold completed units in Phases I to VIII and re-purchased units under the existing bank mortgage scheme. A total of 72 units with an aggregate sales value of HK\$21.6 million were sold in 2005 (2004 : 141 units, HK\$39.3 million). The profit margin for the units sold in 2005 was marginally better than that for the units sold in 2004. To-date, approximately 98% of the units completed under Phases I to VII of MSV and approximately 60% of the units completed under Part I, Phase VIII Firenze have been sold.

As for Morning Star Plaza ("MSP") in Zhongshan, PRC, the construction of Part 3 of the Western site which is marketed as "Colourful City" was completed in December 2005 and delivery of the residential units sold is scheduled to take place in April 2006. To-date, the percentage sales of residential units completed under Parts 1, 2 and 3 of "Colourful City" were 92%, 100% and 55% respectively.

For the year 2005, the Property Division of the Group recorded a modest profit of HK\$0.8 million compared to a loss of HK\$5.7 million for 2004 due to an improved profit margin and a reduction of operating expenses.

Hotel Division

A large part of the Hotel Division's revenue of A\$142,000 (approximately HK\$0.84 million) for the year 2005 relates to interest from the short-term bank deposits of Morning Star Holdings (Australia) Limited ("MSA"). MSA's unaudited net profit after tax for the year was A\$6,000 (approximately HK\$0.04 million) [2004 : A\$344,000 (approximately HK\$2.0 million)].

During the year under review, the Group sold its entire 49% interest in Plaza on Hyde Park Limited which owns the Corus hotel Hyde Park in London. The gain on disposal amounted to HK\$30.2 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\$4.6 million and a revenue from non-operating activities of HK\$0.06 million, it recorded an audited net loss after tax of HK\$43,000 for the year.

OUTLOOK

The Government of the Hong Kong Special Administrative Region is cautiously optimistic that the economy of Hong Kong will grow by 4% to 5% in 2006. With sustained growth, the unemployment rate in Hong Kong is expected to edge down further to 5% or below in 2006. Inflation is forecast to rise by a moderate 2.3% for 2006 as a whole.

However, Hong Kong, being an open economy, will continue to be affected from time to time by external economic and political factors such as rising oil prices, interest rate hikes, outbreak of epidemics and terrorist activities.

Last year, total tourist arrivals in Hong Kong reached a new high of more than 23 million, with traditional long-haul markets such as North America, Europe, Australia and New Zealand all recording double-digit growth. Mainland China remains Hong Kong's biggest market. Effective 1st May 2006, residents from five more mainland cities will be added to the Individual Visit Scheme in Hong Kong, bringing the number of mainland cities under this scheme to 43. As Hong Kong's travel and tourism industry expands, it will stimulate growth in related sectors and improve employment situation and income level.

Despite the optimistic outlook for 2006, trading conditions remain very challenging for the Group's businesses in travel, property development, hotel management and financial services. The Group will, however, continue to reinforce our brand values of trustworthiness and integrity in all our dealings with customers, suppliers and business partners. Our priority for 2006 is to ensure product and service quality through ISO certification and implementation of Total Quality Management programme for a healthy and sustained growth. At the same time, the Group will remain vigilant on costs while maintaining our high standards of service.

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, 6th April, 2006