



星晨集團有限公司

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

INTERIM REPORT 2006

UNAUDITED INTERIM RESULTS

The Board of Directors of Morning Star Resources Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 together with the comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30th June,	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	4	229,660	235,965
Cost of sales		(200,905)	(209,059)
Gross profit		28,755	26,906
Other revenue and gains	5	59,202	38,905
Selling and promotional expenses		(10,481)	(10,958)
Administrative expenses		(37,892)	(43,119)
PROFIT FROM OPERATING ACTIVITIES	6	39,584	11,734
Finance costs	7	(1,351)	(3,282)
Share of losses of associates		(19)	(156)
Share of profit of a jointly-controlled entity		32	44
PROFIT BEFORE TAX		38,246	8,340
Tax	8	(774)	(713)
PROFIT AFTER TAX		37,472	7,627
Attributable to:			
Equity holders of the Company		38,528	10,103
Minority interests		(1,056)	(2,476)
		37,472	7,627
EARNINGS PER SHARE			
– Basic	9	1.60 cents	0.42 cent

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		22,849	101,638
Prepaid lease payment on land use right		2,710	2,710
Investment properties		–	10,611
Property under development		3,806	3,806
Interests in a jointly-controlled entity		1,957	1,904
Interests in associates		2	21
Available-for-sale financial assets		29,473	8,363
Other assets		7,165	7,184
Pledged bank balances and time deposits		3,185	3,404
Deferred tax assets		13,027	13,023
		84,174	152,664
CURRENT ASSETS			
Due from related companies		5,901	3,841
Due from associates		739	739
Properties held for sale		89,340	101,161
Properties under development held for sale		81,169	80,948
Financial assets at fair value through profit or loss		2,784	3,031
Inventories		787	529
Trade receivables	<i>11</i>	18,573	17,138
Other receivables		167,268	34,182
Client trust bank balances		3,295	7,201
Cash and cash equivalents		56,186	60,275
		426,042	309,045
CURRENT LIABILITIES			
Due to related companies		252	246
Due to associates		3,055	2,955
Due to a jointly-controlled entity		425	553
Tax payables		5,190	5,577
Trade payables, other payables and accruals	<i>12</i>	78,209	97,337
Interest-bearing bank borrowings		62,677	39,297
Non-interest-bearing other borrowings		26,551	26,446
		176,359	172,411
NET CURRENT ASSETS		249,683	136,634
TOTAL ASSETS LESS CURRENT LIABILITIES		333,857	289,298
CAPITAL AND RESERVES			
Share capital		482,910	482,910
Reserves		(221,616)	(267,177)
Equity attributable to equity holders of the Company		261,294	215,733
Minority interests		72,563	73,565
TOTAL EQUITY		333,857	289,298

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**For the six months
ended 30th June,
2006 2005
(Unaudited) (Unaudited)
HK\$'000 *HK\$'000***

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(157,009)	(12,910)
NET CASH INFLOW FROM INVESTING ACTIVITIES	129,650	161,413
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	34,908	(38)
INCREASE IN CASH AND CASH EQUIVALENTS	7,549	148,465
Cash and cash equivalents at the beginning of period	40,978	36,620
Effect of foreign exchange adjustments, net	(110)	(762)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	48,417	184,323
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	56,186	214,379
Bank overdrafts	(7,769)	(30,056)
	48,417	184,323

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Subscription rights reserve (Unaudited) HK\$'000	Exchange realignment reserve (Unaudited) HK\$'000	Goodwill reserve (Unaudited) HK\$'000	Investment properties revaluation reserve (Unaudited) HK\$'000	Financial assets reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1st January, 2006	482,910	6,328	-	(11,245)	(242)	-	(11,477)	(250,541)	73,565	289,298
Exchange realignments and net gains and losses not recognised in the profit and loss account	-	-	-	(1,400)	-	-	-	-	54	(1,346)
Gains arising from changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	8,433	-	-	8,433
Profit for the period	-	-	-	-	-	-	-	38,528	(1,056)	37,472
At 30th June, 2006	482,910	6,328	-	(12,645)	(242)	-	(3,044)	(212,013)	72,563	333,857
At 1st January, 2005	482,910	3,423	2,905	21,050	(78)	1,572	-	(251,161)	74,111	334,732
- as previously reported	-	-	-	-	(164)	-	-	6,360	-	6,196
- opening adjustment for the adoption of HKFRS 3	-	-	-	-	-	-	(4,969)	-	-	(4,969)
- opening adjustment for the adoption of HKAS 39	-	-	-	-	-	(1,572)	-	1,572	-	-
- opening adjustment for the adoption of HKAS 40	-	-	-	-	-	-	-	-	-	-
- as restated	482,910	3,423	2,905	21,050	(242)	-	(4,969)	(243,229)	74,111	335,959
Exchange realignments and net gains and losses not recognised in the profit and loss account	-	-	-	(9,443)	-	-	-	-	123	(9,320)
Exchange realignments released on disposal of interests in an associate	-	-	-	(22,518)	-	-	-	-	-	(22,518)
Losses arising from changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	(3,638)	-	-	(3,638)
Profit for the period	-	-	-	-	-	-	-	10,103	(2,476)	7,627
At 30th June, 2005	482,910	3,423	2,905	(10,911)	(242)	-	(8,607)	(233,126)	71,758	308,110

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2006

1. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for accounting periods beginning on or after 1st January, 2006. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the HKICPA.

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of the condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31st December, 2005.

4. SEGMENT INFORMATION

An analysis of the Group's segment revenue and segment results by business segments and geographical segments are summarised as follows:

(i) Business segments

(a) Revenue

	<i>For the six months ended 30th June, 2006</i>			
	<i>Sales to external customers (Unaudited) HK\$'000</i>	<i>Intersegment sales (Unaudited) HK\$'000</i>	<i>Other revenue (Unaudited) HK\$'000</i>	<i>Total (Unaudited) HK\$'000</i>
<i>Travel and travel-related services</i>	209,675	-	3,535	213,210
<i>Property development and agency services</i>	18,477	-	1,289	19,766
<i>Hotel investment and management services</i>	-	-	-	-
<i>Financial services</i>	1,285	-	-	1,285
<i>Corporate and other businesses</i>	223	2,686	53,516	56,425
	<u>229,660</u>	<u>2,686</u>	<u>58,340</u>	<u>290,686</u>
<i>Eliminations</i>	-	(2,686)	-	(2,686)
	<u>229,660</u>	<u>-</u>	<u>58,340</u>	<u>288,000</u>

For the six months ended 30th June, 2005

	Sales to external customers (Unaudited) HK\$'000	Intersegment sales (Unaudited) HK\$'000	Other revenue (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Travel and travel-related services	216,491	-	3,468	219,959
Property development and agency services	16,502	-	1,495	17,997
Hotel investment and management services	1,671	-	30,233	31,904
Financial services	1,141	-	451	1,592
Corporate and other businesses	160	2,416	1,966	4,542
	235,965	2,416	37,613	275,994
Eliminations	-	(2,416)	-	(2,416)
	235,965	-	37,613	273,578

(b) Results

	For the six months ended 30th June,	
	2006	2005
	Total	Total
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Travel and travel-related services	(10,841)	(14,072)
Property development and agency services	(1,830)	(5,120)
Hotel investment and management services	(883)	30,901
Financial services	(67)	(689)
Corporate and other businesses	55,167	3,306
	41,546	14,326
Interest income and dividend income	862	1,292
Unallocated expenses	(2,824)	(3,884)
Profit from operating activities	39,584	11,734

(ii) *Geographical segments*

(a) *Revenue*

For the six months ended 30th June, 2006

	<i>Sales to external customers (Unaudited) HK\$'000</i>	<i>Intersegment sales (Unaudited) HK\$'000</i>	<i>Other revenue (Unaudited) HK\$'000</i>	<i>Total (Unaudited) HK\$'000</i>
<i>The People's Republic of China ("PRC")</i>				
<i>Hong Kong</i>	205,279	-	56,874	262,153
<i>Elsewhere</i>	24,381	-	1,371	25,752
<i>Australia</i>	-	-	-	-
<i>Other countries</i>	-	-	95	95
	229,660	-	58,340	288,000
<i>Eliminations</i>	-	-	-	-
	229,660	-	58,340	288,000

For the six months ended 30th June, 2005

	<i>Sales to external customers (Unaudited) HK\$'000</i>	<i>Intersegment sales (Unaudited) HK\$'000</i>	<i>Other revenue (Unaudited) HK\$'000</i>	<i>Total (Unaudited) HK\$'000</i>
<i>The People's Republic of China ("PRC")</i>				
<i>Hong Kong</i>	213,497	39	5,050	218,586
<i>Elsewhere</i>	16,502	-	1,563	18,065
<i>Australia</i>	1,200	-	626	1,826
<i>Other countries</i>	4,766	32	30,374	35,172
	235,965	71	37,613	273,649
<i>Eliminations</i>	-	(71)	-	(71)
	235,965	-	37,613	273,578

(b) Results

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2006</i>	<i>2005</i>
	<i>Segment</i>	<i>Segment</i>
	<i>results</i>	<i>results</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>The People's Republic of China ("PRC")</i>		
<i>Hong Kong</i>	<i>44,253</i>	<i>(11,340)</i>
<i>Elsewhere</i>	<i>(1,833)</i>	<i>(5,121)</i>
<i>Australia</i>	<i>(678)</i>	<i>429</i>
<i>Other countries</i>	<i>(196)</i>	<i>30,358</i>
	<hr/>	<hr/>
	<i>41,546</i>	<i>14,326</i>
	<hr/>	<hr/>

5. OTHER REVENUE AND GAINS

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2006</i>	<i>2005</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Income arising from deposits on properties forfeited by purchasers</i>	<i>–</i>	<i>13</i>
<i>Visa income</i>	<i>382</i>	<i>306</i>
<i>Commission income</i>	<i>2,352</i>	<i>2,366</i>
<i>Profit on disposal of land and building</i>	<i>52,846</i>	<i>–</i>
<i>Profit on disposal of investment properties</i>	<i>570</i>	<i>–</i>
<i>Profit on disposal of an associate</i>	<i>–</i>	<i>30,233</i>
<i>Gains arising from changes in fair value of investment properties</i>	<i>–</i>	<i>1,965</i>
<i>Gains arising from changes in fair value of financial assets through profit or loss</i>	<i>247</i>	<i>451</i>
<i>Others</i>	<i>1,943</i>	<i>2,279</i>
	<hr/>	<hr/>
	<i>58,340</i>	<i>37,613</i>
<i>Interest income</i>	<i>862</i>	<i>1,292</i>
	<hr/>	<hr/>
	<i>59,202</i>	<i>38,905</i>
	<hr/>	<hr/>

6. *PROFIT FROM OPERATING ACTIVITIES*

Profit from operating activities is arrived at after charging:

*For the six months ended
30th June,
2006 2005
(Unaudited) (Unaudited)
HK\$'000 HK\$'000*

Depreciation:

*Owned property, plant and
equipment*

1,613 1,278

Amortisation:

*Prepaid lease payment on
land use right*

29 28

7. *FINANCE COSTS*

*For the six months ended
30th June,
2006 2005
(Unaudited) (Unaudited)
HK\$'000 HK\$'000*

*Interest on bank loans and
overdrafts*

1,351 3,282

8. *TAX*

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30th June, 2005: Nil).

Taxes on profits assessable elsewhere have been calculated based on existing legislation and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the period arose as follows:

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2006</i>	<i>2005</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Overseas tax</i>		
– <i>current period</i>	<i>774</i>	<i>707</i>
<i>Deferred tax</i>		
– <i>current period</i>	<i>–</i>	<i>6</i>
	<hr/>	<hr/>
	<i>774</i>	<i>713</i>
	<hr/>	<hr/>

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2006 is based on the profit for the period attributable to equity holders of the Company of HK\$38,528,000 (six months ended 30th June, 2005: HK\$10,103,000) and on the 2,414,547,555 shares (2005: 2,414,547,555 shares) in issue during the period.

No diluted earnings per share for the six months ended 30th June, 2006 was presented as there was no diluting event existed during this period.

The diluted earnings per share for the six months ended 30th June, 2005 has not been shown as the warrants outstanding during this period had an anti-dilutive effect on the basic earnings per share for this period.

10. DIVIDENDS

At a meeting of the Board of Directors held on 26th September, 2006, the Directors resolved not to declare an interim dividend in respect of the year ending 31st December, 2006.

11. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Current	6,855	6,134
1 – 3 months	5,759	3,040
Over 3 months	5,959	7,964
	<u>18,573</u>	<u>17,138</u>

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$29,690,000 (31st December, 2005: HK\$32,361,000). Details of the aging analysis of trade payables are as follows:

	30th June, 2006 (Unaudited) HK\$'000	31st December, 2005 (Audited) HK\$'000
Current	25,813	26,964
1 – 3 months	3,187	4,694
Over 3 months	690	703
	<u>29,690</u>	<u>32,361</u>

13. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

Remuneration for five key management personnel, including amounts paid to the Company's Directors and certain of the highest paid employees for the six months ended 30th June is as follows:

	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short-term employee benefits	1,310	1,570
Post-employment benefits	26	18
	<u>1,336</u>	<u>1,588</u>

14. CONTINGENT LIABILITIES

	30th June, 2006	31st December, 2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Bank guarantees	227,707	245,041

Included in bank guarantees is an amount of HK\$227,707,000 (2005: HK\$239,973,000) in respect of buy-back guarantees in favour of banks to secure certain mortgage loans outstanding at the balance sheet date granted to the purchasers of properties developed by Morning Star Villa and Morning Star Plaza.

15. CAPITAL COMMITMENTS

	30th June, 2006	31st December, 2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
<i>Contracted for:</i>		
<i>Land and construction costs</i>	796	1,287
<i>Authorised, but not contracted for:</i>		
<i>Land and construction costs</i>	105	–
	901	1,287

The above amount of HK\$901,000 (2005: HK\$1,287,000) relates to the Group's residential and commercial development projects in Zhongshan, The People's Republic of China.

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

16. POST BALANCE SHEET EVENT

The Board of Directors announced on 3rd August, 2006 that Morning Star Hotel Investments Limited, a wholly-owned subsidiary of the Company had disposed of 46,588,503 shares representing its entire 69.52% interest in Morning Star Holdings (Australia) Limited ("MSA"), an indirect 69.52% owned subsidiary of the Company, through on-market transactions conducted on 1st August, 2006 for a consideration, net of expenses, amounting to approximately HK\$12,796,000 at approximately HK\$0.28 per share.

After the disposal of the 69.52% interest in MSA, Stowford Pty. Limited, Barilla Pty. Limited and MSA ceased to be indirect subsidiaries of the Company. For further details of the above disposal, please refer to the announcement dated 3rd August, 2006.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 26th September, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL RESULTS

Group Overview

For the six months ended 30th June, 2006, the Group's consolidated turnover of HK\$229.7 million decreased marginally by 2.7% compared to HK\$236.0 million for the corresponding period in 2005. However, the overall gross profit margin of the Group improved by about one percentage point to 12.5% compared with the first half year of 2005 as the Group focused on higher yield products and re-positioned itself as a provider of high quality products and excellent service during the period under review. The total operating expenses of the Group also decreased by about 10.5% compared with the first six months of 2005 as a result of the austerity measures being implemented.

For the first half year of 2006, the Group recorded a profit from ordinary activities attributable to shareholders of HK\$38.5 million compared to a profit of HK\$10.1 million for the corresponding period last year. Included in this year's profit is a gain on disposal of the Group's investment properties and office premises at 13th and 14th Floors together with four car-parking spaces on 4th Floor, AXA Centre, Wanchai, Hong Kong, which amounted to HK\$53.4 million. Included in the first six months of last year's profit of HK\$10.1 million was a gain on disposal of the Group's 49% interest in Plaza on Hyde Park Limited which amounted to HK\$30.2 million.

Travel and Tourism Division

The total turnover of the Group's travel and travel-related services business for the six months ended 30th June, 2006 amounted to HK\$209.7 million compared to HK\$216.5 million for the corresponding period in 2005. Morning Star Travel Service Limited's Outbound Department showed an overall decrease in turnover and the number of customers who joined its package tours to various destinations around the world during the first six months of 2006 except Malaysia, compared with a year earlier. However, this was mitigated by an increase of about 15% in the turnover of its Corporate and Leisure Ticketing Department during the period under review as more experienced travellers tended to opt for various airfare plus hotel packages for greater flexibility instead of joining package tour groups. Despite an improvement in general economic conditions in Hong Kong in 2006, customers remained cautious and selective and were generally inclined to choose lower-priced tour packages instead of higher-priced long-haul tour products.

For the period under review, the Group's Travel and Tourism Division incurred a loss of HK\$10.8 million (2005: loss of HK\$14.1 million).

Property Division

The turnover of the Property Division for the six months ended 30th June, 2006 amounted to HK\$18.5 million, compared with HK\$16.5 million for the corresponding period in 2005. The Property Division incurred a loss of HK\$1.8 million for the six months ended 30th June, 2006 (2005: loss of HK\$5.1 million).

During the period under review, the Property Division focused on the clearance of unsold completed residential units in Morning Star Villa and Morning Star Plaza. As at 30th June, 2006, over 63% of the completed units under Part I, Phase VIII Firenze of Morning Star Villa with an accumulated sales value of HK\$35.5 million were sold. For Morning Star Plaza, up to 30th June, 2006, over 84 % of the available residential units under Parts I, II and III of "Colourful City" on the Western Site with a sales value of HK\$51.3 million had been sold.

Hotel Division

The results of the Hotel Division were a loss of HK\$883,000 for the period under review (2005: profit of HK\$30.9 million, of which HK\$30.2 million represented a gain on disposal of the Group's 49% interest in Plaza on Hyde Park Limited). A large part of the Hotel Division's results related to Morning Star Holdings (Australia) Limited which remained a holder of cash deposits during the first six months of 2006.

Financial Services Division

The revenue of the Group's financial services business for the six months ended 30th June, 2006 amounted to HK\$1.3 million (2005: HK\$1.1 million). The revenue of the Financial Services Division mainly derived from securities broking. The Financial Services Division recorded a loss of HK\$67,000 for the six months ended 30th June, 2006 compared to a loss of HK\$689,000 for the corresponding period in 2005.

Corporate and Other Businesses

The rental income received by the Group in respect of an investment property in AXA Centre for the six months ended 30th June, 2006 amounted to HK\$172,000 compared to HK\$160,000 for the corresponding period in 2005. The investment property, with a carrying value of approximately HK\$10.6 million, was disposed of in June 2006 for approximately HK\$11.2 million.

Geographical Segments

In terms of revenue and results contribution from geographical segments, the revenue and results from Hong Kong SAR were derived mainly from travel and travel-related services, financial services and other businesses. The revenue and results from The PRC were principally from property development and agency services. The revenue and results from other countries related to certain travel and travel-related services conducted outside of Hong Kong SAR.

REVIEW OF BALANCE SHEET

Overview

Non-current assets of the Group as at 30th June, 2006 amounted to HK\$84.2 million, a decrease of HK\$68.5 million compared to HK\$152.7 million as at 31st December, 2005. Non-current assets consist mainly of property, plant and equipment, available-for-sale financial assets, pledged bank balances and time deposits and deferred tax assets. Current assets of the Group as at 30th June, 2006 totalled HK\$426.0 million, against HK\$309.0 million as at 31st December, 2005. Current liabilities of the Group as at 30th June, 2006 amounted to HK\$176.4 million, compared with HK\$172.4 million as at 31st December, 2005. The decrease in non-current assets and the increase in current assets are due to the disposal of the Group's 13th and 14th Floors together with four car-parking spaces on 4th Floor in AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong for an aggregate consideration of HK\$142.3 million which was included in "other receivables" under current assets.

Disposal of Property

The disposal of the aforesaid properties resulted in a gain of HK\$53.4 million, which has been recognised in the consolidated profit and loss account for the period under review.

Capital Structure, Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings amounted to HK\$89.2 million, comprising mainly short-term bank borrowings, at interest rates ranging from 4.99% to 5.81% per annum fixed at each drawdown date. The Group's banking facilities are denominated in Hong Kong dollars. The total available banking facilities not utilised as at 30th June, 2006 amounted to HK\$32.2 million.

The Group's current debts as at 30th June, 2006 totalled HK\$89.2 million, compared to HK\$65.7 million as at 31st December, 2005. The Group's total equity as at the balance sheet date was HK\$333.9 million compared to HK\$289.3 million as at 31st December, 2005. The Group's gearing ratio as at 30th June, 2006 was 0.27 compared to 0.23 as at 31st December, 2005. This ratio was computed on the basis of total current debts over the total equity of the Group.

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise the cost of funds, the Group's treasury activities are centralised.

Currency Risk

Certain subsidiaries of the Group have foreign currency transactions, which expose the Group to foreign currency risk. Certain bank balances, pledged deposits and trade receivables of the Group are denominated in foreign currencies.

The Group currently has a foreign currency hedging policy. The Group does not use any derivative instruments to reduce its economic exposure to changes in exchange rates. However, the management monitors foreign exchange exposure and requirements of various currencies, and would consider hedging significant foreign currency exposure should the need arise.

Capital Commitments

The Group had capital commitments totalling HK\$901,000 as at the balance sheet date. These capital commitments were made mainly for the Group's property projects in Zhongshan, The PRC and will be satisfied by funds generated from the sale of properties and from the Group's available cash and banking facilities.

Charges on Group assets

As at the balance sheet date, certain assets of the Group with an aggregate carrying value of HK\$88.8 million were pledged to a bank to secure banking facilities granted to the Group. In view of the disposal of such assets, the pledge on such assets will be formally discharged in due course. In addition, non-current bank balances and time deposits amounting to HK\$3.2 million have been pledged to certain banks to secure mortgage loans granted to purchasers of properties developed by Morning Star Villa ("MSV") and Morning Star Plaza ("MSP") in Zhongshan, The PRC.

Contingent Liabilities

As at the balance sheet date, the Group had contingent liabilities amounting to HK\$227.7 million. These contingent liabilities were mainly in respect of buy-back guarantees in favour of banks to secure the mortgage loans outstanding at the balance sheet date which were granted to the purchasers of properties developed by MSV and MSP in Zhongshan, The PRC.

STAFF ANALYSIS

The number of staff employed by the Group as at 30th June, 2006 totalled 410, compared to 448 as at 31st December, 2005. The Group ensures that the remuneration levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Currently, the Group does not have any share option scheme for its employees. The Group continues to implement a Total Quality Management programme as part of its overall human resource training and development programme to equip its employees with the necessary skills to deal with the challenges and competition ahead.

NEW BUSINESS AND MATERIAL ACQUISITION

There was no material acquisition and new business for the six months ended 30th June, 2006.

DIRECTORS' INTERESTS IN THE SECURITIES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June, 2006, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors or the chief executive were deemed or taken to have under such provisions of the SFO, which are required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (“Model Code”) contained in the Listing Rules, were as follows:

(i) The Company

Shares

Name of Director	Notes	Nature of interest	Number of shares (Long position)	Percentage of issued share capital
Tan Sri Dr. KHOO Kay Peng	(a) & (b)	Corporate	1,784,183,657	73.89
CHEANG Yoon Hoong		Personal	19,918,500	0.82
KHET Kok Yin		Personal	6,807,500	0.28

(ii) Associated Corporation

Shares

Name of associated corporation	Name of Director	Notes	Nature of interest	Number of shares	Percentage of issued share capital
Morning Star Financial Services Limited (“MSFS”)	Tan Sri Dr. KHOO Kay Peng	(a)	Corporate	192,500 ordinary shares of HK\$1 each	0.45

As at 30th June, 2006, certain Directors also held qualifying shares in certain subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

Notes:

- (a) 879,382,985 shares issued by the Company and 192,500 shares issued by MSFS were held by Firstway International Investment Limited (“Firstway”), of which each of Norcross Limited (“Norcross”) and Cherubim Investment (HK) Limited (“Cherubim”) had a 35% interest in the voting share capital. A 50% of the issued share capital of each of Norcross and Cherubim was held by KKP Holdings Sdn Bhd (“KKP Holdings”), and the remaining 50% of the issued share capital of each of those companies was held by Soo Lay Holdings Sdn Bhd (“SL Holdings”). Both of KKP Holdings and SL Holdings were 99.9% beneficially owned by Tan Sri Dr. KHOO Kay Peng. Pursuant to Section 344 of Part XV of the SFO, Tan Sri Dr. KHOO Kay Peng was deemed to be interested in 99.9% of the shares held by Firstway.
- (b) 904,800,672 shares were held by Bonham Industries Limited (“Bonham”) which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. By virtue of the interests of Tan Sri Dr. KHOO Kay Peng in KKP Holdings and SL Holdings as mentioned in Note (a) above, he was deemed to be interested in 99.9% of the shares held by Bonham.

Save as disclosed above, there are no interests and short positions of each Director and chief executive of the Company in any shares and underlying shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which he has taken or deemed to have under such provisions of SFO, or which were required, to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

OTHER SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2006, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of the Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities together with particulars of any options in respect of such capital:

(i) Interests of substantial shareholders

Shares

Name	Notes	Number of shares (Long position)	Percentage of issued share capital
KKP Holdings	(a) & (b)	1,784,183,657	73.89
SL Holdings	(a) & (b)	1,784,183,657	73.89
Cherubim	(a)	879,382,985	36.42
Norcross	(a)	879,382,985	36.42
Firstway	(a)	879,382,985	36.42
Bonham	(b)	904,800,672	37.47

Notes:

(a) *These shares were held by Firstway, of which each of Norcross and Cherubim had a 35% interest in the voting share capital. Norcross and Cherubim were owned as to 50% by KKP Holdings and 50% by SL Holdings. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings, SL Holdings, Norcross and Cherubim was deemed to be interested in the shares held by Firstway.*

(b) *These shares were held by Bonham, which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings and SL Holdings was deemed to be interested in the shares held by Bonham.*

(ii) Interests of other persons

Shares

Name	Notes	Number of shares (Long position)	Percentage of issued share capital
Hope Foundation (“HF”)	(a) & (b)	238,388,500	9.87
Hope International Limited (“HIL”)	(b)	175,388,500	7.26
Prime View International Limited (“PVI”)	(b)	175,388,500	7.26

Notes:

- (a) 63,000,000 shares were held by Hope Investment Limited, which is 100% owned by HF. Pursuant to Section 316 of Part XV of the SFO, HF was deemed to be interested in all the shares held by Hope Investment Limited.
- (b) These shares were held by PVI. PVI is 100% owned by HIL which in turn is 100% owned by HF. Pursuant to Section 316 of Part XV of the SFO, each of HIL and HF was deemed to be interested in all the shares held by PVI.

Save as disclosed above, as at 30th June, 2006, none of the Directors or chief executive knows of any person (not being a Director or chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of the Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person’s interest in such securities together with particulars of any options in respect of such capital.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules on the Stock Exchange throughout the accounting period covered by the interim report.

REMUNERATION COMMITTEE

A Remuneration Committee has been established in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises one Non-Executive Director, Mr KHET Kok Yin and two Independent Non-Executive Directors, Mr OOI Boon Leong @ LAW Weng Leun (Chairman) and Mr OH Hong Choon.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Code during the period.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements of the period. The audit committee constituted three Independent Non-Executive Directors and one Non-Executive Director of the Company.

By Order of the Board
CHEANG Yoon Hoong
Managing Director

Hong Kong, 26th September, 2006