

On behalf of the Board of Directors, I present the Annual Report of the Company and the Group for the year ended 31 December 2006.

## FINANCIAL RESULTS

The Group recorded a pre-tax profit of HK\$15.7 million (2005: HK\$6.4 million loss) for the year ended 31 December 2006. The consolidated net profit attributable to shareholders amounted to HK\$14.9 million (2005: HK\$7.3 million loss).

The Group's profit for the year was mainly due to the gain of HK\$53.4 million from the disposal of its properties located on the 4th, 13th and 14th Floors of AXA Centre, Wanchai, Hong Kong.

## DIVIDEND

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2006 (2005: Nil).

## REVIEW OF OPERATIONS

### Travel and Tourism Division

Website: [www.morningstar.com.hk](http://www.morningstar.com.hk)

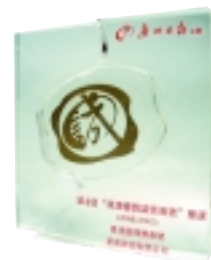
The Hong Kong economy recorded a real Gross Domestic Product growth of 6.8% in 2006. Although this was lower than the 7.5% recorded in 2005, it was the third consecutive year of robust growth for Hong Kong. Consumer spending and business equipment investment set the trend while exports of goods and services registered strong performances. Although consumer price inflation rose with the higher domestic demand and higher housing rents, inflationary pressures were contained. Unemployment fell to its lowest point in six years.

Against this backdrop, Morning Star Travel Service Limited ("MST"), the main travel arm of the Group's Travel and Tourism Division, registered a higher turnover of HK\$444 million for 2006 (2005: HK\$432 million). Profit margins continued to come under pressure due to stiff competition and higher operating costs but this was mitigated by improvements in cost efficiencies and strict control over spending. As a result, the Travel and Tourism Division reduced its operating loss to HK\$19.8 million (2005: HK\$20.8 million).

The Group's renowned "Morning Star Travel" brand continued to gain industry recognition for its role and contribution to the travel and tourism trade. During the year, MST received the prestigious "Superbrands Hong Kong 2006/2007" award. In addition, MST also received numerous awards from various airlines, tourism boards and independent organisations including the following:



Superbrands Hong Kong  
2006/2007



Hong Kong and Macau  
Merchants of Integrity  
Awards 2006-2007



ISO 9001:2000 quality  
management system  
certification



*Mother's Day Tour to Shenzhen*



*Sowers Action Charity Tour to Yunnan*



*Marathon Tour to Netherlands*

- (a) "2005 Top Agent Award" by Cathay Pacific Airways;
- (b) "2005 Top Agent Award" by Asiana Airlines;
- (c) "Gold Award 2005" by Malaysia Airlines;
- (d) "2005 Million Dollar Sales Award" by China Airlines;
- (e) "Star Pisces Best Performing Agent Award 2005" by Star Cruises; and
- (f) "Hong Kong & Macau Merchants of Integrity Awards 2006-2007".

As part of its continuous improvement efforts in Total Quality Management, MST successfully obtained the ISO 9001: 2000 quality management system certification in October 2006. This internationally recognised certification reiterates MST's commitment to high standards of quality in line with best practices.



*Roadshow at Lok Fu Centre, Hong Kong  
– 2006 Taiwan Fun Festival*



*Roadshow at Hollywood Plaza, Hong Kong  
– 2006 Travel Expo*



*Roadshow at Olympian City II, Hong Kong  
– 2006 Korea Fun Ski & Snow Festival*



Phase VII Canale DiVenezia of MSV



Phase VIII Firenze of MSV

## Property Division

Website: [www.morningstarvilla.com](http://www.morningstarvilla.com)

For the year ended 31 December 2006, the Group's Property Division achieved a lower turnover of HK\$33 million (2005: HK\$49 million) with a corresponding operating loss of HK\$1.3 million (2005: 0.8 million profit). During the year, the Property Division focused on marketing the unsold completed units and re-purchased units in its two existing projects namely, Morning Star Villa and Morning Star Plaza in Zhongshan, Guangdong Province, the People's Republic of China.

As at 31 December 2006, 98% of all residential units completed under Phase I to Phase VIII, Part 1 of Morning Star Villa, and 84% of all residential and commercial units completed under Phase 1 to Phase 3A of Morning Star Plaza had been sold.



Community Activities at MSP

## 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\$2.5 million (2005: HK\$2.4 million), it recorded an operating loss of HK\$3.3 million (2005: HK\$1.3 million loss) for the year under review.

**OUTLOOK**

The outlook for 2007 remains favourable, as the Hong Kong economy will continue to benefit from China's strong economic performance given their close economic and financial ties. Although real GDP growth is expected to decline in 2007, partly due to a moderation in growth in the economies of Hong Kong's main trading partners, domestic demand is expected to grow strongly. Favourable labour market conditions and a steady rise in household income will continue to support consumer spending, while supportive monetary conditions will boost business investment.

The immediate focus of the Group is to turn around the Travel and Tourism Division. The Group is taking a fresh and more innovative approach in reviewing the operations of this Division to further enhance its competitive position and brand value.

As for its property business, the Group expects to launch the sale of its four blocks of high-rise apartments in Part 4, Morning Star Plaza in Zhongshan during 2007.

Overall, the Group remains optimistic of the general macro-economic performance and outlook of Hong Kong as well as the Mainland China market for the year 2007, and it will endeavour to realise the business and investment opportunities arising to enhance the shareholders' value of the Company.

**DIRECTORATE**

The Board welcomes Mr Wong Nyen Faat who was appointed as Executive Director of the Company on 1 November 2006. The Board also welcomes Mr Chan Choung Yau who was first appointed as an alternate director to Mr Khet Kok Yin and then as a non-executive Director on 26 September 2006.

Ms Tan Lian Tee resigned as a non-executive Director of the Company on 26 September 2006. The Board wishes to thank her for her contributions to the Company during her tenure as Director of the Company.

Mr Cheang Yoon Hoong relinquished his position as Managing Director of the Company on 7 February 2007 and consequently has been re-designated as a non-executive Director from that date. The Board would like to thank him for his services as Managing Director.

**ACKNOWLEDGMENT**

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

**TAN SRI DR. KHOO KAY PENG***Chairman*

Hong Kong, 30 May 2007