



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 2007

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, 2007 together with the comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30th June,	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
TURNOVER	4	276,506	229,660
Cost of sales		(236,699)	(200,905)
Gross profit		39,807	28,755
Other income	5	7,847	59,202
Selling and promotional expenses		(4,853)	(10,481)
Administrative expenses		(35,842)	(37,892)
PROFIT FROM OPERATING ACTIVITIES	6	6,959	39,584
Finance costs	7	(185)	(1,351)
Share of losses of associates		(2)	(19)
Share of profit of a jointly-controlled entity		31	32
PROFIT BEFORE TAX		6,803	38,246
Income tax expense	8	(397)	(774)
PROFIT AFTER TAX		6,406	37,472
Attributable to:			
Equity holders of the Company		3,456	38,528
Minority interests		2,950	(1,056)
		6,406	37,472
EARNINGS PER SHARE			
– Basic	9	0.14 cents	1.60 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
<i>Notes</i>		
NON-CURRENT ASSETS		
Property, plant and equipment	22,546	23,092
Prepaid land lease payments	2,786	2,750
Property under development	3,806	3,806
Investment in a jointly-controlled entity	2,162	2,058
Investments in associates	–	2
Available-for-sale financial assets	75,734	4,845
Other assets	8,385	7,737
Pledged bank balances	4,501	3,198
Deferred tax assets	11,959	11,943
	131,879	59,431
CURRENT ASSETS		
Due from related companies	3,541	5,522
Due from an associate	878	876
Properties held for sale	65,811	82,950
Properties held for sale under development	112,448	88,410
Financial assets at fair value through profit or loss	423	1,541
Inventories	515	440
Trade receivables	53,710	18,441
Other receivables	32,896	31,631
Client trust bank balances	4,362	2,883
Cash and cash equivalents	102,675	163,547
	377,259	396,241
CURRENT LIABILITIES		
Due to related companies	284	2,384
Due to associates	2,892	3,996
Due to a jointly-controlled entity	–	385
Tax payables	5,459	4,843
Trade payables, other payables and accruals	134,694	88,204
Interest-bearing bank borrowings	6,130	8,811
Non-interest-bearing other borrowings	27,165	26,804
	176,624	135,427
NET CURRENT ASSETS	200,635	260,814
TOTAL ASSETS LESS CURRENT LIABILITIES	332,514	320,245
CAPITAL AND RESERVES		
Share capital	482,910	482,910
Reserves	(220,181)	(229,500)
Equity attributable to equity holders of the Company	262,729	253,410
Minority interests	69,785	66,835
TOTAL EQUITY	332,514	320,245

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30th June,

	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	6,633	(157,009)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(65,399)	129,650
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>–</u>	<u>34,908</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(58,766)	7,549
Cash and cash equivalents at the beginning of period	154,736	40,978
Effect of foreign exchange adjustments, net	<u>575</u>	<u>(110)</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u>96,545</u>	<u>48,417</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	102,675	56,186
Bank overdrafts	<u>(6,130)</u>	<u>(7,769)</u>
	<u>96,545</u>	<u>48,417</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Goodwill reserve (Unaudited) HK\$'000	Financial assets reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1st January, 2007	482,910	6,328	(2,494)	(242)	2,569	(235,661)	253,410	66,835	320,245
Translation differences	-	-	1,246	-	-	-	1,246	-	1,246
Gains arising from changes in fair value of available-for-sale financial assets	-	-	-	-	3,559	-	3,559	-	3,559
Net income recognised directly in equity	-	-	1,246	-	3,559	-	4,805	-	4,805
Profit for the period	-	-	-	-	-	3,456	3,456	2,950	6,406
Total recognised income and expense for the period	-	-	1,246	-	3,559	3,456	8,261	2,950	11,211
Goodwill reserve released on disposal of a subsidiary	-	-	-	1,900	-	-	1,900	-	1,900
Disposals of available-for-sale financial assets	-	-	-	-	(842)	-	(842)	-	(842)
At 30th June, 2007	482,910	6,328	(1,248)	1,658	5,286	(232,205)	262,729	69,785	332,514
At 1st January, 2006	482,910	6,328	(11,245)	(242)	(11,477)	(250,541)	215,733	73,565	289,298
Exchange realignments and net gains and losses not recognised in the income statement	-	-	(1,400)	-	-	-	(1,400)	54	(1,346)
Gains arising from changes in fair value of available-for-sale financial assets	-	-	-	-	8,433	-	8,433	-	8,433
Profit for the period	-	-	-	-	-	38,528	38,528	(1,056)	37,472
At 30th June, 2006	482,910	6,328	(12,645)	(242)	(3,044)	(212,013)	261,294	72,563	333,857

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2007

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, 2007. 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, 2006.

3. CRITICAL JUDGEMENTS AND KEY ESTIMATES

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, 2006.

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, 2007</i>			
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Travel and travel-related services</i>	<i>243,914</i>	<i>-</i>	<i>3,011</i>	<i>246,925</i>
<i>Property development and agency services</i>	<i>30,799</i>	<i>-</i>	<i>1,489</i>	<i>32,288</i>
<i>Hotel investment and management services</i>	<i>-</i>	<i>-</i>	<i>46</i>	<i>46</i>
<i>Financial services</i>	<i>1,793</i>	<i>1,068</i>	<i>548</i>	<i>3,409</i>
<i>Corporate and other businesses</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
	<i>276,506</i>	<i>1,068</i>	<i>5,094</i>	<i>282,668</i>
<i>Eliminations</i>	<i>-</i>	<i>(1,068)</i>	<i>-</i>	<i>(1,068)</i>
	<i>276,506</i>	<i>-</i>	<i>5,094</i>	<i>281,600</i>

For the six months ended 30th June, 2006

	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	209,675	-	3,535	213,210
Property development and agency services	18,477	-	1,289	19,766
Hotel investment and management services	-	-	-	-
Financial services	1,285	-	-	1,285
Corporate and other businesses	223	2,686	53,516	56,425
	229,660	2,686	58,340	290,686
Eliminations	-	(2,686)	-	(2,686)
	229,660	-	58,340	288,000

(b) Results

	For the six months ended 30th June,	
	2007	2006
	Total	Total
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Travel and travel-related services	(1,191)	(10,841)
Property development and agency services	6,207	(1,830)
Hotel investment and management services	120	(883)
Financial services	1,447	(67)
Corporate and other businesses	(12)	55,167
	6,571	41,546
Interest income and dividend income	2,753	862
Unallocated expenses	(2,365)	(2,824)
Profit from operating activities	6,959	39,584

(ii) *Geographical segments*

(a) *Revenue*

For the six months ended 30th June, 2007

	<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>	240,416	-	3,453	243,869
<i>Elsewhere</i>	35,986	-	1,574	37,560
<i>Australia</i>	-	-	46	46
<i>Other countries</i>	104	-	21	125
	276,506	-	5,094	281,600
<i>Eliminations</i>	-	-	-	-
	276,506	-	5,094	281,600

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>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

(b) Results

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2007</i>	<i>2006</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>PRC</i>		
<i>Hong Kong</i>	<i>314</i>	<i>44,253</i>
<i>Elsewhere</i>	<i>6,063</i>	<i>(1,833)</i>
<i>Australia</i>	<i>(136)</i>	<i>(678)</i>
<i>Other countries</i>	<i>330</i>	<i>(196)</i>
	<hr/>	<hr/>
	<i>6,571</i>	<i>41,546</i>
	<hr/>	<hr/>

5. OTHER INCOME

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Visa income</i>	<i>206</i>	<i>382</i>
<i>Commission income</i>	<i>2,193</i>	<i>2,352</i>
<i>Gains on disposals of investment</i> <i>properties and land and buildings</i>	<i>–</i>	<i>53,416</i>
<i>Gains arising from changes in fair</i> <i>value of financial assets at fair</i> <i>value through profit or loss</i>	<i>507</i>	<i>247</i>
<i>Gains on disposals of financial assets</i> <i>at fair value through profit or loss</i>	<i>40</i>	<i>–</i>
<i>Others</i>	<i>2,148</i>	<i>1,943</i>
	<hr/>	<hr/>
	<i>5,094</i>	<i>58,340</i>
<i>Interest income</i>	<i>2,753</i>	<i>862</i>
	<hr/>	<hr/>
	<i>7,847</i>	<i>59,202</i>
	<hr/>	<hr/>

6. *PROFIT FROM OPERATING ACTIVITIES*

Profit from operating activities is arrived at after charging:

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Depreciation:</i>		
<i>Owned property, plant and equipment</i>	1,492	1,613
<i>Amortisation:</i>		
<i>Prepaid lease payment on land use right</i>	62	29

7. *FINANCE COSTS*

	<i>For the six months ended</i>	
	<i>30th June,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Interest on bank loans and overdrafts</i>	185	1,351

8. INCOME TAX EXPENSE

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, 2006: 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:

	For the six months ended	
	30th June,	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – overseas		
Provision for the period	397	774
Deferred tax	–	–
	<hr/>	<hr/>
	397	774
	<hr/>	<hr/>

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30th June, 2007 is based on the profit for the period attributable to equity holders of the Company of HK\$3,456,000 (six months ended 30th June, 2006: HK\$38,528,000) and on the 2,414,547,555 shares (2006: 2,414,547,555 shares) in issue during the period.

No diluted earnings per share for the six months ended 30th June, 2007 (six months ended 30th June, 2006: Nil) was presented as there was no diluting event existed for both the current and prior periods.

10. DIVIDENDS

At a meeting of the Board of Directors held on 27th September, 2007, the Directors resolved not to declare an interim dividend in respect of the year ending 31st December, 2007.

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, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
Current	38,877	11,132
1 – 3 months	10,684	3,648
Over 3 months	4,149	3,661
	<hr/> 53,710	<hr/> 18,441

12. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$75,286,000 (31st December, 2006: HK\$46,548,000). Details of the aging analysis of trade payables are as follows:

	30th June, 2007 (Unaudited) HK\$'000	31st December, 2006 (Audited) HK\$'000
Current	69,268	36,391
1 – 3 months	5,133	9,399
Over 3 months	885	758
	<hr/> 75,286	<hr/> 46,548

13. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Purchase of available-for-sale financial assets

		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
	<i>Note</i>		
Acquire shares from a related company	(i)	27,834	–

Note:

(i) A wholly-owned subsidiary of the Company acquired shares from a related company of which Tan Sri Dr. KHOO Kay Peng, a Non-Executive Director of the Company, is also the chairman of the related company.

(b) 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:

	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short-term employee benefits	1,230	1,310
Post-employment benefits	47	26
	1,277	1,336

14. CONTINGENT LIABILITIES

	30th June, 2007	31st December, 2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Bank guarantees	197,863	220,411

Included in bank guarantees is an amount of HK\$197,863,000 (2006: HK\$220,411,000) 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 Zhongshan Morning Star Villa Housing and Real Estate Development Limited and Zhongshan Morning Star Plaza Housing and Real Estate Development Limited.

15. CAPITAL COMMITMENTS

	30th June, 2007	31st December, 2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
<i>Contracted, but not provided for:</i>		
<i>Land and construction costs</i>	1,857	35,361
<i>Authorised, but not contracted for:</i>		
<i>Land and construction costs</i>	4,100	483,753
	5,957	519,114

The above amount of HK\$5,957,000 (2006: HK\$519,114,000) relates to the Group's residential and commercial development projects in Zhongshan, PRC.

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

16. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27th September, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL RESULTS

Group Overview

For the six months ended 30th June, 2007, the Group's profit from ordinary activities attributable to shareholders amounted to HK\$3.5 million compared to HK\$38.5 million for the corresponding period in 2006. However, there was a one-off gain of HK\$53.4 million from the disposal of the Group's office property included in the profit for the six months ended 30th June, 2006. Excluding the gain from such disposal for comparison purposes, the Group's profit before tax derived from its business activities for the six months ended 30th June, 2007 amounted to HK\$6.8 million, compared to a loss of HK\$15.2 million for the six months ended 30th June, 2006.

For the same period under review, the Group's consolidated turnover increased by 20.4% to HK\$276.5 million, compared to HK\$229.7 million for the six months ended 30th June, 2006.

Travel and Tourism Division

For the six months ended 30th June, 2007, the Travel and Tourism Division's turnover amounted to HK\$243.9 million, an increase of 16.3% compared to HK\$209.7 million for the corresponding period in 2006. The Travel and Tourism Division's loss was significantly reduced from HK\$10.8 million for the six months ended 30th June, 2006 to a loss of HK\$1.2 million for the six months ended 30th June, 2007. The significant reduction in loss was a result of a relentless pursuit of various initiatives, including customer-oriented product enhancement, synchronised advertising and promotion, professional customer service training, and overall cost management. The Travel and Tourism Division will continue to implement various effective measures leading to the business turnaround and subsequently to achieve sustainable profitability in the future.

During the period under review, the Travel and Tourism Division received various awards, including “Top Performance Awards 2006” by Malaysia Airlines, “New Year Sales Awards 2007” by Tokyo Disneyland, “Best Performing Agent Awards (Hong Kong)” by Star Cruises, “Taiwan Tourism Contribution Awards” by Taiwan Tourism Board, “My Most Preferred Hong Kong Brand Awards 2007” by Chinese (Overseas) Enterprise Reputation Association, and “Caring Company” by the Hong Kong Council of Social Services.

The Company fully recognises the good reputation of the “Morning Star” brand and will continue its endeavours to further enhance the “Morning Star” brand value.

Property Division

For the six months ended 30th June, 2007, the Property Division’s turnover amounted to HK\$30.8 million, an increase of 66.5% compared to HK\$18.5 million for the corresponding period in 2006. The Property Division’s profit before tax for the six months ended 30th June, 2007 was HK\$6.2 million, against a loss of HK\$1.8 million for the corresponding period in 2006. During the six months ended 30th June, 2007, the Property Division continued to focus on the clearance of unsold units completed in earlier phases of Morning Star Plaza and Morning Star Villa in Zhongshan, PRC, but from the second half of 2007, emphasis would be placed on promoting the sale of new units of the high-rise apartments under construction in Part IV, Morning Star Plaza.

Financial Services Division

For the six months ended 30th June, 2007, the Financial Services Division’s turnover amounted to HK\$1.8 million, compared to HK\$1.3 million for the corresponding period in 2006 while its profit before tax increased to HK\$1.4 million, compared to a loss of HK\$67,000 for the corresponding period in 2006.

Geographical Segments

The revenue for Hong Kong mainly relates to travel and travel-related services and financial services while the revenue for elsewhere in the PRC relates principally to property development and agency services. The revenue for other countries relates to travel and travel-related services conducted outside Hong Kong.

REVIEW OF BALANCE SHEET

Overview

The Group's non-current assets as at 30th June, 2007 amounted to HK\$131.9 million, an increase of HK\$72.5 million compared to HK\$59.4 million as at 31st December, 2006. Non-current assets mainly consisted of available-for-sale financial assets, property, plant and equipment, and deferred tax assets. The Group's current assets as at 30th June, 2007 amounted to HK\$377.3 million, against HK\$396.2 million as at 31st December, 2006. Current assets mainly comprised properties held for sale and properties under development held for sale, trade receivables, and cash and cash equivalents.

Current liabilities as at 30th June, 2007 amounted to HK\$176.6 million, compared to HK\$135.4 million as at 31st December, 2006. Current liabilities mainly comprised trade payables, other payables and accruals.

Capital Structure, Liquidity and Financial Resources

As at 30th June, 2007, the Group's total borrowings amounted to HK\$33.3 million, compared to HK\$35.6 million as at 31st December, 2006. The borrowings comprised mainly short-term bank borrowings and non-interest-bearing other borrowings. The Group's available banking facilities not utilised as at 30th June, 2007 amounted to HK\$8.8 million. The Group's total equity as at 30th June, 2007 was HK\$332.5 million compared to HK\$320.2 million as at 31st December, 2006.

The Group's gearing ratio as at 30th June, 2007 was 10.0% compared to 11.1% as at 31st December, 2006. This ratio was computed on the basis of total borrowings over total equity of the Group.

As part of treasury management, the Group centralises funding for all of its operations at the Group level. The Group's foreign exposure relates mainly to Japanese Yen, which is required by Morning Star Travel Service Limited for settlement of tour costs incurred in Japan.

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, mostly authorised but not contracted for, totalling HK\$4.1 million as at 30th June, 2007. Such commitments were in respect of the Group's property projects in Zhongshan, PRC, and will be satisfied by funds generated from the sales of such properties and from the Group's available cash and banking facilities.

Contingent Liabilities

The Group had contingent liabilities amounting to HK\$197.9 million as at 30th June, 2007. The contingent liabilities were in respect of buy-back guarantees in favour of banks to secure mortgage loans granted to the purchasers of the properties developed by Morning Star Villa and Morning Star Plaza. The Directors considered that the fair value of such guarantees on initial recognition was insignificant.

Charges on Group Assets

As at 30th June, 2007, certain assets of the Group were pledged to banks to secure banking facilities to an associate. In addition, non-current bank balances amounting to HK\$4.5 million were pledged to certain banks to secure mortgage loan facilities to purchasers of properties developed by Morning Star Villa and Morning Star Plaza in Zhongshan, PRC.

STAFF ANALYSIS

The total number of staff employed by the Group as at 30th June, 2007 was 337, compared to 372 as at 31st December, 2006. As part of the Group's human resource policy, 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 a share option scheme for its employees. The Group continues to implement its overall human resource training and development programme to equip its employees with the necessary knowledge, skills and experience to deal with the existing and future requirements and challenges.

NEW BUSINESS AND MATERIAL ACQUISITION

There was no material acquisition and new business for the six months ended 30th June, 2007.

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

As at 30th June, 2007, 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

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	1,642,951,657	68.04
CHEANG Yoon Hoong		Personal	3,852,500	0.16

(ii) Associated corporation

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, 2007, 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 these 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) 763,568,672 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 the 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.

OTHER SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2007, 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 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

Name	Notes	Number of shares (Long position)	Percentage of issued share capital
KKP Holdings Sdn Bhd ("KKP Holdings")	(a) & (b)	1,642,951,657	68.04
Soo Lay Holdings Sdn Bhd ("SL Holdings")	(a) & (b)	1,642,951,657	68.04
Cherubim Investment (HK) Limited ("Cherubim")	(a)	879,382,985	36.42
Norcross Limited ("Norcross")	(a)	879,382,985	36.42
Firstway International Investment Limited ("Firstway")	(a)	879,382,985	36.42
Bonham Industries Limited ("Bonham")	(b)	763,568,672	31.62

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

Name	Notes	Number of shares (Long position)	Percentage of issued share capital
Hope Foundation (“HF”)	(a) & (b)	225,788,500	9.35
Hope International Limited (“HIL”)	(b)	162,788,500	6.74
Prime View International Limited (“PVI”)	(b)	162,788,500	6.74

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, 2007, 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 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 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company; and that the Chairman of the Board and the Chairman of the Audit and Remuneration Committees did not attend the annual general meeting of the Company held in June, 2007 due to other business engagements and commitments.

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 to the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model 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 currently comprises a Non-Executive Director, Mr CHAN Choung Yau, and three Independent Non-Executive Directors, Mr OOI Boon Leong @ LAW Weng Leun (Chairman), Mr WONG Kim Ling and Mr OH Hong Choon.

REMUNERATION COMMITTEE

A Remuneration Committee has been established in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises a 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.

By Order of the Board
WONG Nyen Faat
Executive Director

Hong Kong, 27th September, 2007