星晨集團有限公司

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

Annual Report 2010

Contents

Corporate Information

DIRECTORS
SUNG Wai Man, Peter, Chief Executive Officer
CHI Chi Hung, Kenneth, Executive Director
YEUNG Kwok Leung, Executive Director
TSO Shiu Kei, Vincent, Non-Executive Director
CHAN Hoi Ling*
SO Wai Lam*
SUNG Yat Chun*

* *Independent Non-Executive Director*

COMPANY SECRETARY
CHI Chi Hung, Kenneth, *A.C.I.S.*

PRINCIPAL BANKERS
CITIC Bank International Limited
Citibank, N.A.
Hang Seng Bank Limited
Malayan Banking Berhad
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

AUDITOR
Parker Randall CF (H.K.) CPA Limited
Room 201, 2nd Floor
Two Grand Tower
625 Nathan Road
Kowloon, Hong Kong

HONG KONG SHARE REGISTRAR
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE
The Offices of Caledonian Bank & Trust Limited
P.O. Box 1043
George Town
Grand Cayman KY1-1102
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Unit 1803, 18th Floor
Tower 1, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon, Hong Kong

Chief Executive Officer's Statement

Photo of Mr. Peter SUNG, Chief Executive Officer obtained the Taiwan Tourism Award 2010 from Mr. WU Den-yih, Premier of Taiwan Executive Yuan

Photo of Mr. Peter SUNG, Chief Executive Officer with LAI Seh-Jen, Director General of Tourism Bureau of the Ministry of Transportation & Communications in 2010 Taiwam Tourism Festival Awards Ceremony

On behalf of the Board of Directors, I present the Annual Report of the Company and the Group for the year ended 31 December 2010.

FINANCIAL RESULTS

The Group reported a loss from its continuing operations of HK$8.1 million for the year ended 31 December 2010 (2009: profit of HK$5.7 million).

The Group's consolidated loss attributable to the owners of the Company for 2010 amounted to HK$11.2 million (2009: profit of HK$2.6 million).

DIVIDEND

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2010 (2009: Nil).

Photo of Ms. CHEUNG Shuk Man, general manager signed the cooperation agreement for Visit Korea Year with Korea Tourism Organisation

Wedding Expo

Chief Executive Officer's Statement

Taiwan Trip with special flight organised by Morning Star

REVIEW OF OPERATIONS

Travel and Tourism Division

Website: www.morningstar.com.hk

Accompanying the gradual economic recovery in 2010, Travel and Tourism Division, the main business division of the Group, recorded a substantial growth in turnover and profit. During the year, the Group's Travel and Tourism Division recorded turnover of HK$536.9 million (2009: HK$465.3 million) and operating profit of HK$12.7 million (2009: HK$4.2 million).

During the year, the Group's established "Morning Star Travel" brand continued to garner industry recognition for its contribution to the travel and tourism trade, receiving numerous awards from various airlines, tourism boards and independent organisations, amongst which, included the following:

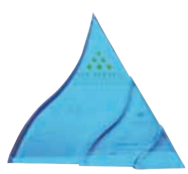
(a) "Taiwan Tourism Award 2010" by Taiwan Tourism Bureau;
(b) "Top Promotion Award 2010" by Eva Air;
(c) "Top Agent Award 2010" by Asiana Airlines;
(d) "Most Popular Korea Tour Award 2010" by Weekend Weekly;
(e) "Six Senses Spa & Resort Top Sales Agency 2009–2010" by Six Senses Spa & Resort; and
(f) "Caring Company" (for 5 consecutive years 2005–2010) by The Hong Kong Council of Social Service.

Taiwan Tourism Award 2010

Top Promotion Award 2010

Top Agent Award 2010

Most Popular Korea Tour Award 2010



Six Senses Spa & Resort Top Sales Agency 2009–2010

Caring Company (2005–2010)

Chief Executive Officer's Statement

Brand new Morning Star uniform

One Malaysia Fair 2010

Property Division

Website: www.morningstar.net.cn

For the year ended 31 December 2010, the Group's Property Division achieved a revenue of HK$22.1 million (2009: HK$40.3 million) with a corresponding operating loss of HK$14.2 million (2009: profit of HK$3.2 million).

During the year, the Group still focused on the sale of unsold completed units in its two existing projects namely Morning Star Villa ("MSV") and Morning Star Plaza ("MSP") in Zhongshan, Guangdong Province, PRC.

Phase VIII Firenze of Morning Star Villa

As at 31 December 2010, 99.4% of all residential units completed under Phase I to Phase VIII of MSV had been sold, and 95.2% of all residential and commercial units completed under Phase I to Phase IV of MSP had been sold.

Chief Executive Officer's Statement

OUTLOOK

Despite the improving economic condition in the US and Asia since 2010, the road ahead to an assured recovery could be full of uncertainties, a testament to the sheer nature of the business of travel and tourism. Threats of socio-political, economical, and environmental nature can change the travel and tourism business overnight, and flow off certain goals set by the management. Nevertheless, the Group will continue focusing on reducing its operating costs, enhancing the productivity and improving gross profit margin.

Looking forward to 2011, the Group has identified business priorities that capitalize on its competitive strengths to support sustainable growth, and has been taking actions to infuse income generators to the Travel and Tourism Division, which include Corporate Ticketing, Events & Management, On-line Web-based Call Center and Cruise Centre. The Group will continue to explore and develop quality and competitive travel products, and make use of the well-established service platforms to remain a preferred travel agent in Hong Kong. The Group's Property Division will continue focusing on the sale of its unsold completed units in MSV and MSP and will focus on possible opportunities to generate maximum return on its lands and properties in Zhongshan, PRC.

To combat the ever-changing market conditions in the 21st century, we will be vigilant and proactive in attempting to achieve set of performance goals and to safeguard the shareholders' interest and profitability of the Group for the years ahead.

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 would also like to thank the management and the staff for their valuable contribution during the year.

SUNG WAI MAN, PETER
Chief Executive Officer
Hong Kong, 28 March 2011

Management Discussion and Analysis

GROUP OVERVIEW

For the year under review, the Group recorded a loss from operations of HK$8.1 million as compared to a profit of HK$5.7 million for 2009. The loss was due to, amongst others, the finalisation of Land Value Added Tax in respect of properties sold by Property Division of the Group in Zhongshan, PRC. Loss attributable to owners of the Company for the year ended 31 December 2010 amounted to HK$11.2 million against a profit of HK$2.6 million for 2009.

For the year ended 31 December 2010, the Group's revenue from continuing operations grew by 10.6% from HK$505.6 million in 2009 to HK$559.0 million in 2010. Accompanying the gradual economic recovery in 2010, Travel and Tourism Division, the main business division of the Group, recorded a substantial growth in revenue and profit.

TRAVEL AND TOURISM DIVISION

Total revenue of the Group's Travel and Tourism Division for the year ended 31 December 2010 amounted to HK$536.9 million, an increase of 15.4% compared to HK$465.3 million in 2009. The growth in revenue was mainly attributable to the increase in revenue contributed by Morning Star Travel Service Limited ("MST") in Hong Kong.

During the year, The Group aimed at reducing its operating costs, enhancing the productivity and improving gross profit margin. As a result, the Travel and Tourism Division achieved an increase in its operating profit from HK$4.2 million in 2009 to HK$12.7 million in 2010.

The year of 2010 had been very encouraging for Travel and Tourism Division. In spite of the fact that the road ahead to an assured economic recovery in the US and Asia could be full of uncertainties, a testament to the sheer nature of the business of travel and tourism. Threats of socio-political, economical, and environmental nature can change the travel and tourism business overnight and flow off certain goals set by the management. To combat the ever-changing market conditions in the 21st century, the management will be vigilant and proactive in attempting to achieve set of performance goals of the year. This is intended to safeguard the shareholders' interest and profitability of the Group for the years ahead.

Looking forward to 2011, the Group has identified business priorities that capitalize on its competitive strengths to support sustainable growth, and has been taking actions to infuse income generators to the Travel and Tourism Division, which include Corporate Ticketing, Events & Management, On-line Web-based Call Center and Cruise Centre. The Group will continue to explore and develop quality and competitive travel products, and make use of the well-established service platforms to remain a preferred travel agent in Hong Kong.

PROPERTY DIVISION

For the year ended 31 December 2010, total revenue of the Property Division amounted to HK$22.1 million compared to HK$40.3 million for 2009 with a corresponding loss of HK$14.2 million for 2010 against a profit of HK$3.2 million for 2009. The loss was mainly attributable to the finalisation of Land Value Added Tax in respect of properties sold by the Property Division from the years of 2004 to May 2010 amounting to HK$10.3 million, and the payment to the PRC government in respect of an idle land held by the Group in Zhongshan, PRC amounting to HK$0.6 million.

During the year, the management continued focusing on the sale of unsold completed residential units in Morning Star Villa ("MSV") and Morning Star Plaza ("MSP") resulting in HK$17.0 million worth of stocks on hand being sold during the year. The profit margin for the residential units in MSV and MSP sold in 2010 dropped as comparing to the units sold in 2009. In line with the normal approach adopted in the recognition of sales, the revenue and profits arising from 52 units sold with an accumulated sales value of HK$21.9 million and profits of HK$2.9 million have not been recognised in the Group's income statement.

Management Discussion and Analysis

To-date, approximately 99.4% of all residential units completed under Phase I to Phase VIII of MSV had been sold, and approximately 95.2% of all residential and commercial units completed under Phase I to Phase IV of MSP had been sold.

DISCONTINUED OPERATION

In view of the contribution from Morning Star Securities Limited ("MSSL") is meager in terms of the Group's total revenue and operating results, the Board announced on 3 December 2010 to dispose entire issued share capital in MSSL. The disposal had been completed on 28 February 2011.

GEOGRAPHICAL SEGMENTS

The revenue for Hong Kong SAR mainly relates to travel and travel-related services, and the revenue for elsewhere in the PRC relates principally to (i) property development and (ii) travel and travel-related services.

REVIEW OF FINANCIAL POSITION

Overview

Non-current assets as at 31 December 2010, consisting mainly of property, plant and equipment, property under development, available-for-sale financial assets, pledged bank balances and deferred tax assets, amounted to HK$71.4 million, a decrease of HK$4.1 million, compared to HK$75.5 million as at 31 December 2009. Current assets as at 31 December 2010 totalled HK$322.6 million against HK$333.3 million as at 31 December 2009. Current liabilities as at 31 December 2010 amounted to HK$117.2 million, compared to HK$112.8 million as at 31 December 2009.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2010, the Group's total borrowings was HK$16.7 million (2009: HK$16.7 million) comprising non-interest-bearing other borrowings. As at 31 December 2010, the Group's available banking facilities not utilised is Nil (2009: Nil).

The Group's total equity as at 31 December 2010 was HK$276.8 million (2009: HK$296.0 million).

The Group's gearing ratio as at 31 December 2010 was 6.0% compared to 5.6% for 2009. The gearing ratio was based on total borrowings over the 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 currency exposure relates mainly to Renminbi, which is derived from its sales of property units in Zhongshan, PRC.

Capital Commitments

The Group had capital commitments amounting to HK$3.4 million as at 31 December 2010 (2009: Nil).

Contingent Liabilities

As at 31 December 2010, the Group had contingent liabilities amounting to HK$27.1 million (2009: HK$50.6 million). The contingent liabilities were mainly in respect of buy-back guarantee 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 guarantee on initial recognition was insignificant.

Charges on Group Assets

As at 31 December 2010, non-current bank balances amounting to HK$2.4 million (2009: HK$3.4 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.

Proposed Capital Reorganisation and Open Offer with Bonus Issue

On 19 November 2010, the Board announced to (i) implement a proposed capital reorganisation which will involve (a) the consolidation of every 10 Shares of HK$0.20 each into 1 Consolidated Share of HK$2.00 each; (b) the cancellation of any fractional entitlements remaining following aggregation of all fractional entitlements arising on the Share Consolidation; and a reduction in the nominal value of the then issued Consolidated Shares from HK$2.00 to HK$0.01 each; (c) the subdivision of each authorised but unissued Consolidated Share of HK$2.00 each into 200 Adjusted Shares of HK$0.01 each; and (d) the total credit arising from the Capital Reduction will be credited to a reserve account of the Company, which will be used, amongst others, to set off against the accumulated losses of the Company; (ii) change of board lot size for trading in the shares of Morning Star Resources Limited ("the Company") from 2,000 Shares to 8,000 Adjusted Shares upon the Capital Reorganisation becoming effective; and (iii) propose the open offer on the basis of five offer shares for every one adjusted share held with bonus issue on the basis of two bonus adjusted shares for every five offer shares taken up under the open offer. The Board expects that the Share Consolidation will reduce the transaction costs for dealing after completion of the Capital Reorganisation, and believes that it would provide flexibility for the Company to raise fund via the issue of Adjusted Shares in the future. The Capital Reorganisation will enable the Company to apply part of the amount standing to the credit of its reserve account to eliminate the accumulated losses of the Company. This will facilitate the payment of dividends as and when the Directors consider it appropriate in future. The Board considers that the Open Offer with the Bonus Issue is in the interests of the Company and the Shareholders as a whole as the Open Offer allows the Group to significantly strengthen its financial position.

STAFF ANALYSIS

The total number of staff employed by the Group as at 31 December 2010 was 370 compared to 374 as at 31 December 2009. As part of the Group's human resources 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.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company consisted of investment holding and the provision of management services. The subsidiaries are mainly engaged in the provision of travel and travel related services, property development, financial services and securities broking. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 85.

No dividends have been declared in respect of the year.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out on page 87.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

At 31 December 2010, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (2007 Revision) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% in the year under review.

Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

SUNG Wai Man, Peter	(appointed on 8 October 2010)
CHI Chi Hung, Kenneth	(appointed on 7 October 2010)
YEUNG Kwok Leung	(appointed on 7 October 2010)
HO Kuan Lai	(resigned on 7 October 2010)
WONG Nyen Faat	(resigned on 7 October 2010)

Non-Executive Directors:

TSO Shiu Kei, Vincent	(appointed on 7 October 2010)
Tan Sri Dr. KHOO Kay Peng	(resigned on 7 October 2010)
KHET Kok Yin	(resigned on 7 October 2010)
CHAN Choung Yau	(resigned on 7 October 2010)
WONG Nyen Faat	(resigned on 7 October 2010)

Independent Non-Executive Directors:

CHAN Hoi Ling	(appointed on 7 October 2010)
SO Wai Lam	(appointed on 7 October 2010)
SUNG Yat Chun	(appointed on 7 October 2010)
WONG Kim Ling	(resigned on 7 October 2010)
OOI Boon Leong @ LAW Weng Leun	(resigned on 7 October 2010)
OH Hong Choon	(resigned on 7 October 2010)

In accordance with the Company's Articles of Association, Mr. CHI Chi Hung, Kenneth, Mr. YEUNG Kwok Leung and Mr. TSO Shiu Kei, Vincent will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, Mr. YEUNG Kwok Leung (not being an Independent Non-executive Director) is considered to have interests in the business which compete or is likely to compete with the business of the Group pursuant to the Listing Rules. Mr. YEUNG is a director of Fortune (HK) Securities Limited, which is engaged in the business of securities brokerage.

Although the above mentioned Director has competing interest in other company by virtue of the common directorship, he will fulfill their fiduciary duties in order to ensure that he will act in the best interest of the Shareholders and the Company as a whole at all times. Hence, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of such company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in the securities and debentures of the Company and its associated corporations" below, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2010, none of the Directors and chief executives of the Company had interest 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Name	Age	Position held	Number of years of service	Business experience
SUNG Wai Man, Peter	57	Executive Director and Chief Executive Officer	1/2	Mr. SUNG has over 26 years of experience in the hospitality and travel industry. He has invested and built an online worldwide hotel booking system and developed the hotel business in China. He has also been the managing director of a private equity fund. He has extensive connections with airlines, hotels and tourism bureaus and business connections. Currently, he is the member of Travel Industry Council as well as Pacific Area Tourism Association.

Name	Age	Position held	Number of years of service	Business experience
CHI Chi Hung, Kenneth	42	Executive Director and Company Secretary	1/2	Mr. CHI has over 18 years of experience in accounting and financial control. He holds a bachelor's degree in accountancy from the Hong Kong Polytechnic University, and was admitted as a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. CHI is currently an executive director of Hua Yi Copper Holdings Limited (Stock Code: 559), China Grand Forestry Green Resources Group Limited (Stock Code: 910) and M Dream Inworld Limited (Stock Code: 8100). Mr. CHI is also an independent non-executive director of ZMAY Holdings Limited (Stock Code: 8085) and Aurum Pacific (China) Group Limited (Stock Code: 8148).
YEUNG Kwok Leung	37	Executive Director	1/2	Mr. YEUNG holds a bachelor's degree in accountancy and has over 15 years of experience in auditing, financial controlling, accounting, corporate developments as well as business strategies. Mr. YEUNG is the executive director of China Fortune Group Limited (Stock Code: 290). He was admitted as a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Name	Age	Position held	Number of years of service	Business experience
TSO Shiu Kei, Vincent	44	Non-Executive Director	1/2	Mr. TSO is a solicitor practising in Hong Kong and a partner of K&L Gates, a solicitors' firm. He has extensive experience in corporate finance, corporate supervision and China practice in Hong Kong. Mr. TSO obtained a bachelor's degree in laws and a bachelor's degree in commerce from the University of Queensland, Australia. He was qualified as a solicitor in Australia in 1992 and he is an independent non-executive director of Sunlink International Holdings Limited (Stock Code: 2336).
CHAN Hoi Ling	37	Independent Non-Executive Director	1/2	Ms. CHAN graduated from the University of South Australia with a bachelor's degree in accountancy. She has extensive experience in auditing and accounting. Ms. CHAN was admitted as an associate member of the Hong Kong Institute of Certified Public Accountants and the Australian Society of Certified Practising Accountants. Ms. CHAN is currently an independent non-executive director of M Dream Inworld Limited (Stock Code: 8100). Ms. CHAN was an independent non-executive director of China E-Learning Group Limited (formerly known as ProSticks International Holdings Limited) (Stock Code: 8055). Ms. CHAN was also a former independent non-executive director of Climax International Company Limited (Stock Code: 439).
SO Wai Lam	29	Independent Non-Executive Director	1/2	Ms. SO holds a bachelor's degree in science with double majors in mathematics and statistics from the University of British Columbia in Canada. Ms. SO has over 7 years of experience in the corporate finance industry and is currently an executive director of China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited) (Stock Code: 2371).

Name	Age	Position held	Number of years of service	Business experience
SUNG Yat Chun	32	Independent Non-Executive Director	1/2	Mr. SUNG is holder of a bachelor of science degree from the University of Western Sydney, Australia. Mr. SUNG specialises in product research and in-house operations, and is responsible for trading procedures for investment adviser. Mr. SUNG has been a compliance manager for United Overseas Bank, and been an operations officer for Success Securities Limited. He is also a member of the US National Futures Association and chief operation officer of STI Wealth Management Ltd. His product knowledge and long association with innovative strategies has allowed him to provide uniquely diversified solutions to clients' investments.

OTHER SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 31 December 2010, 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:

Interests of substantial shareholders

Name of Shareholders	*Notes*	Number of shares and underlying shares held (Long Position)	Percentage of issued share capital
Kingston Securities Limited ("Kingston Securities")	*1*	1,690,183,285	87.50%
Galaxy Sky Investments Limited ("Galaxy Sky")	*2*	1,690,183,285	87.50%
Kingston Capital Asia Limited ("Kingston Capital")	*3*	1,690,183,285	87.50%
Active Dynamic Limited ("Active Dynamic")	*4*	1,690,183,285	87.50%
Chu Yuet Wah ("Ms. Chu")	*5*	1,690,183,285	87.50%
Star Advance International Limited ("Star Advance")	*6*	700,000,000	28.99%
Fong Shing Kwong ("Mr. Fong")	*7*	700,000,000	28.99%

Notes:

1. *These include an interest (i) 1,207,273,775 offer shares and (ii) 482,909,510 bonus shares to be underwritten by Kingston Securities, if required, subsequent to the execution of the underwriting agreement in November 2010 between the Company and Kingston Securities as underwriter in relation to the open offer and the bonus issue of the Company, giving rise to an interest in 1,690,183,285 underlying shares.*

2. *Kingston Securities is a wholly-owned subsidiary of Galaxy Sky. Galaxy Sky is therefore deemed to have an interest in the underlying shares in which Kingston Securities was interested.*

3. *Galaxy Sky is a wholly-owned subsidiary of Kingston Capital. Kingston Capital is therefore deemed to have an interest in the underlying shares in which Galaxy Sky was interested.*

4. *Active Dynamic owned approximately 80% interest in the issued share capital of Kingston Capital. Active Dynamic is therefore deemed to have an interest in the underlying shares in which Kingston Capital was interested.*

5. *Ms. Chu is deemed to have interests in the underlying shares through her 100% interest in Active Dynamic.*

6. *This represents 700,000,000 shares held by Star Advance.*

7. *Mr. Fong is deemed to have interests in the shares through his 100% interest in Star Advance.*

Save as disclosed above, as at 31 December 2010, 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 OWN LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report save for the deviation as disclosed in the Corporate Governance Report on pages 17 to 22.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

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 audited financial statements for the year ended 31 December 2010. The Audit Committee constituted three Independent Non-Executive Directors of the Company.

AUDITOR

Parker Randall CF (H.K.) CPA Limited was auditor of the Company for the years ended 31 December 2008, 2009 and 2010. The financial statements for the year were audited by Parker Randall CF (H.K.) CPA Limited who will retire and being eligible, offer themselves for re-appointment as the auditor of the Company at the forthcoming annual general meeting.

Save as disclosed above, there was no change in the auditor of the Company during the past three years.

On behalf of the Board
SUNG Wai Man, Peter
Executive Director

Hong Kong, 28 March 2011

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code of provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2010, except for code provisions A.2.1 and A.4.1. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

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 year.

BOARD OF DIRECTORS

The existing Board of Directors of the Company comprises:

Executive Directors	SUNG Wai Man, Peter CHI Chi Hung, Kenneth YEUNG Kwok Leung
Non-Executive Director	TSO Shiu Kei, Vincent
Independent Non-Executive Directors	CHAN Hoi Ling SO Wai Lam SUNG Yat Chun

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations.

With a wide range of expertise and a balance of skills, the Non-Executive Director bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and Committee meetings.

The Independent Non-Executive Directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The Board considers that each Independent Non-Executive Director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each Independent Non-Executive Director an annual confirmation or confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-Executive Directors are explicitly identified in all corporate communications. The day-to-day running of the Company is delegated to the management.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and the Chief Executive Officer (i.e the Executive Director).

Corporate Governance Report

During the year, seven Board Meetings were held and the individual attendance of each Director is set out below:

Name of Directors	*Notes*	Number of Board Meetings Attended	Attendance Rate
SUNG Wai Man, Peter	*(a)*	1/1	100%
CHI Chi Hung, Kenneth	*(b)*	1/1	100%
YEUNG Kwok Leung	*(b)*	1/1	100%
TSO Shiu Kei, Vincent	*(c)*	1/1	100%
CHAN Hoi Ling	*(d)*	1/1	100%
SO Wai Lam	*(d)*	1/1	100%
SUNG Yat Chun	*(d)*	1/1	100%
Tan Sri Dr. KHOO Kay Peng	*(e)*	5/6	$83^{1}/_{3}$%
HO Kuan Lai	*(f)*	6/6	100%
KHET Kok Yin	*(g)*	4/6	$66^{2}/_{3}$%
CHAN Choung Yau (also alternate director to KHET Kok Yin)	*(h)*	6/6	100%
WONG Nyen Faat	*(g)*	6/6	100%
WONG Kim Ling	*(i)*	4/6	$66^{2}/_{3}$%
OOI Boon Leong @ LAW Weng Leun	*(i)*	6/6	100%
OH Hong Choon	*(i)*	6/6	100%

Notes:

(a) Mr. SUNG Wai Man, Peter was appointed as Executive Director and Chief Executive Officer with effect from 8 October 2010.

(b) Messrs. CHI Chi Hung, Kenneth and YEUNG Kwok Leung were appointed as Executive Directors with effect from 7 October 2010.

(c) Mr. TSO Shiu Kei, Vincent was appointed as Non-Executive Director with effect from 7 October 2010.

(d) Ms. CHAN Hoi Ling, Ms. SO Wai Lam and Mr. SUNG Yat Chun were appointed as Independent Non-Executive Directors with effect from 7 October 2010.

(e) Tan Sri Dr. KHOO Kay Peng resigned as Non-Executive Director and Chairman with effect from 7 October 2010.

(f) Ms. HO Kuan Lai resigned as Executive Director and Chief Executive Officer with effect from 7 October 2010.

(g) Messrs. KHET Kok Yin and WONG Nyen Faat resigned as Non-Executive Directors with effect from 7 October 2010.

(h) Mr. CHAN Choung Yau (also alternate director to Mr. KHET Kok Yin) resigned as Non-Executive Director with effect from 7 October 2010.

(i) Messrs. WONG Kim Ling, OOI Boon Leong @ LAW Weng Leun and OH Hong Choon resigned as Independent Non-Executive Directors with effect from 7 October 2010.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

With effect from 8 October 2010, Mr. SUNG Wai Man, Peter was appointed as the Chief Executive Officer of the Company. Tan Sri Dr. KHOO Kay Peng resigned as Chairman and Ms. HO Kuan Lai resigned as Chief Executive Officer of the Company both with effect from 7 October 2010. The Chairman of the Company has not been appointed. It is the Board's intention to appoint a new Chairman as soon as the suitable person is selected. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate Individuals who have no relationship with each other to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively.

RE-ELECTION OF DIRECTORS

Under code of provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing Non-Executive Directors of the Company is appointed for a specific term but all directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was established in August 2005. Mr. OOI Boon Leong @ LAW Weng Leun, Mr. OH Hong Choon and Mr. CHAN Choung Yau resigned as Remuneration Committee Members of the Company with effect from 7 October 2010. Ms. CHAN Hoi Ling, Ms. SO Wai Lam, Mr. SUNG Yat Chun and Mr. SUNG Wai Man, Peter were appointed as Remuneration Committee Members of the Company with effect from 8 October 2010. The Remuneration Committee comprises the following members:

CHAN Hoi Ling — Committee Chairman
SO Wai Lam
SUNG Yat Chun
SUNG Wai Man, Peter

The Company formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Stock Exchange.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive directors and senior management. It takes into consideration of factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. It also reviews and approves performance-based remuneration. The Remuneration Committee constituted three Independent Non-Executive Directors and one Executive Director of the Company.

During the year, one Remuneration Committee meeting was held and the attendance of each member is set out below:

Name of Committee Members	Number of Remuneration Committee Meeting attended	Attendance Rate
OOI Boon Leong @ LAW Weng Leun	1/1	100%
OH Hong Choon	1/1	100%
CHAN Choung Yau	1/1	100%
CHAN Hoi Ling — Committee Chairman	0/0	0%
SO Wai Lam	0/0	0%
SUNG Yat Chun	0/0	0%
SUNG Wai Man, Peter	0/0	0%

Directors' remuneration for the year are disclosed in note 12 to the financial statements.

NOMINATION OF DIRECTORS

Directors of the Company are responsible for making recommendations to the Board for consideration and approval on nominations, appointment of Directors and Board succession, with a view to appoint to the Board, individuals with the relevant experience and capabilities to maintain and improve competitiveness of the Company. The Board formulates the policy, reviews the size, structure and composition of the Board, and assesses the independence of its Independent Non-Executive Directors in accordance with the criteria prescribed under the Listing Rules and the Code.

AUDITOR'S REMUNERATION

The fee in respect of audit and non-audit services provided by the external auditors to the Group for the year ended 31 December 2010 is set out below:

	HK$'000
Types of services	
Audit fee for the Group	562
Taxation services and others	100
Total	662

AUDIT COMMITTEE

The Audit Committee was established in March 1999. Mr. OOI Boon Leong @ LAW Weng Leun, Mr. WONG Kim Ling, Mr. OH Hong Choon and Mr. CHAN Choung Yau resigned as Audit Committee Members of the Company with effect from 7 October 2010. Ms. CHAN Hoi Ling, Ms. SO Wai Lam and Mr. SUNG Yat Chun were appointed as Audit Committee Members of the Company with effect from 7 October 2010. The Audit Committee comprises the following members:

CHAN Hoi Ling — Committee Chairman
SO Wai Lam
SUNG Yat Chun

The main responsibilities of the Audit Committee are to review the financial statements and the auditors' reports and monitor the integrity of the financial statements. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also charged with the overseeing the financial reporting system and internal control procedures and their effectiveness.

The work of the Audit Committee in 2010 included the following:

- review of 2009 annual results, review and discussion of the audit findings with the auditor and review the draft annual results announcement;

- review and consideration of various accounting issues and new accounting standards and their financial impacts;

- consideration of the audit fee for the Year 2010; and

- review of 2010 interim results, review and discussion of the audit findings with the auditor, review of the draft management discussion and analysis section of the interim report.

During the year, two Audit Committee meetings were held and the attendance of each member is set out below:

Name of Committee Members	Number of Audit Committee Meetings attended	Attendance Rate
OOI Boon Leong @ LAW Weng Leun	2/2	100%
WONG Kim Ling	1/2	50%
OH Hong Choon	2/2	100%
CHAN Choung Yau	2/2	100%
CHAN Hoi Ling — Committee Chairman	0/0	0%
SO Wai Lam	0/0	0%
SUNG Yat Chun	0/0	0%

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledge their responsibilities of the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensure the timely publication of the financial statements of the Group.

The statement of external auditor of the Company, Parker Randall CF (H.K.) CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report.

The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern. The Board has conducted a review of the effectiveness of the system of internal control of the issuer and its subsidiaries.

Independent Auditor's Report

暉誼(香港)會計師事務所有限公司
PARKER RANDALL CF (H.K.) CPA LIMITED

To the shareholders of
Morning Star Resources Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Morning Star Resources Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 25 to 85, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor’s Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group’s loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Parker Randall CF (H.K.) CPA Limited
Certified Public Accountants
Seto Man Fai
Practising Certificate No.: P05229
Hong Kong

28 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
CONTINUING OPERATIONS			
REVENUE	*8*	**558,981**	505,586
Cost of sales		**(495,691)**	(447,225)
Gross profit		**63,290**	58,361
Other income	*9*	**8,639**	13,875
Selling expenses		**(6,229)**	(4,828)
Administrative expenses		**(73,815)**	(61,693)
(LOSS)/PROFIT FROM OPERATIONS		**(8,115)**	5,715
Finance costs		**—**	(3)
Non-recurring expenses	*10*	**(12,517)**	—
Share of loss of a jointly-controlled entity		**—**	(14)
(LOSS)/PROFIT BEFORE TAX	*11*	**(20,632)**	5,698
Income tax expense	*14*	**(1,957)**	(4,113)
(Loss)/profit for the year from continuing operations		**(22,589)**	1,585
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	*15*	**(517)**	(282)
(LOSS)/PROFIT FOR THE YEAR		**(23,106)**	1,303
Attributable to:			
Owners of the Company	*16*	**(11,157)**	2,596
Non-controlling interests		**(11,949)**	(1,293)
		(23,106)	1,303
(LOSS)/EARNINGS PER SHARE	*17*		
Basic			
— For (loss)/profit for the year		**(0.46 cent)**	0.11 cent
— For (loss)/profit from continuing operations		**(0.44 cent)**	0.12 cent
Diluted			
— For (loss)/profit for the year		**—**	—
— For (loss)/profit from continuing operations		**—**	—

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
(Loss)/profit for the year		**(23,106)**	1,303
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		**(199)**	6,567
Exchange differences on translation of foreign operations		**4,659**	(2,859)
Other comprehensive income for the year		**4,460**	3,708
Total comprehensive (expense)/income for the year		**(18,646)**	5,011
Attributable to:			
Owners of the Company	*16*	**(6,697)**	6,304
Non-controlling interests		**(11,949)**	(1,293)
		(18,646)	5,011

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*18*	**17,038**	18,084
Property under development	*19*	**3,806**	3,806
Prepaid land lease payments	*20*	**2,983**	2,931
Investment in an associate	*21*	**—**	—
Available-for-sale financial assets	*22*	**26,826**	27,012
Other assets	*23*	**8,217**	8,255
Pledged bank balances	*24*	**2,417**	3,397
Deferred tax assets	*25*	**10,086**	12,023
		71,373	75,508
CURRENT ASSETS			
Properties held for sale under development	*26*	**65,908**	65,599
Properties held for sale	*27*	**59,719**	73,012
Inventories	*28*	**380**	329
Trade receivables	*29*	**8,435**	22,387
Prepayments, deposits and other receivables	*30*	**27,063**	22,300
Financial assets at fair value through profit or loss	*31*	**—**	—
Due from related companies	*32*	**8,093**	7,888
Due from associates	*33*	**920**	915
Client trust bank balances		**—**	6,291
Cash and cash equivalents	*34*	**134,791**	134,610
		305,309	333,331
Assets of a disposal group classified as held for sale	*15*	**17,323**	—
TOTAL CURRENT ASSETS		**322,632**	333,331
CURRENT LIABILITIES			
Due to related companies	*32*	**2,279**	1,921
Due to associates	*33*	**129**	129
Tax payables		**4,382**	5,148
Trade payables, other payables and accruals	*35*	**87,121**	88,905
Non-interest-bearing other borrowings	*36*	**16,710**	16,710
		110,621	112,813
Liabilities directly associated with the assets classified as held for sale	*15*	**6,589**	—
TOTAL CURRENT LIABILITIES		**117,210**	112,813
NET CURRENT ASSETS		**205,422**	220,518
NET ASSETS		**276,795**	296,026
CAPITAL AND RESERVES			
Share capital	*37*	**482,910**	482,910
Reserves	*39*	**(264,983)**	(255,226)
Equity attributable to owners of the Company		**217,927**	227,684
Non-controlling interests		**58,868**	68,342
TOTAL EQUITY		**276,795**	296,026

SUNG Wai Man, Peter
Director

CHI Chi Hung, Kenneth
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company								
	Share capital HK$'000 *(Note 37)*	Share premium account HK$'000 *(Note 39)*	Foreign currency translation reserve HK$'000	Other reserve HK$'000	Available-for- sales financial assets valuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009	482,910	6,328	11,432	1,658	(3,309)	(277,519)	221,500	70,177	291,677
Profit/(loss) for the year	—	—	—	—	—	2,596	2,596	(1,293)	1,303
Other comprehensive income/(expense) for the year	—	—	(2,859)	—	6,567	—	3,708	—	3,708
Total comprehensive income/(expense) for the year	—	—	(2,859)	—	6,567	2,596	6,304	(1,293)	5,011
Acquisition of a subsidiary	—	—	—	(120)	—	—	(120)	—	(120)
Acquisition of additional equity interests in jointly-controlled entity	—	—	—	—	—	—	—	(542)	(542)
At 31 December 2009	482,910	6,328	8,573	1,538	3,258	(274,923)	227,684	68,342	296,026
Loss for the year	—	—	—	—	—	(11,157)	(11,157)	(11,949)	(23,106)
Other comprehensive income/(expense) for the year	—	—	4,659	—	(199)	—	4,460	—	4,460
Total comprehensive income/(expense) for the year	—	—	4,659	—	(199)	(11,157)	(6,697)	(11,949)	(18,646)
Deregistration of subsidiaries	—	—	—	(3,060)	—	—	(3,060)	2,475	(585)
At 31 December 2010	482,910	6,328	13,232	(1,522)	3,059	(286,080)	217,927	58,868	276,795

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax:		
From continuing operations	**(20,632)**	5,698
From a discontinued operation	**(517)**	(282)
	(21,149)	5,416
Adjustments for:		
Foreign exchange gains	**—**	(339)
Finance costs	**—**	3
Share of loss of a jointly-controlled entity	**—**	14
Interest income	**(353)**	(716)
Depreciation	**1,356**	1,696
Amortisation on prepaid land lease payments	**70**	69
Loss/(gain) on disposal of property, plant and equipment	**74**	(102)
Gain on disposal of available-for-sale financial assets	**—**	(153)
Gain on deregistration of subsidiaries	**(1,870)**	—
Loss on disposal of financial assets at fair value through profit or loss	**—**	184
	(21,872)	6,072
Increase in properties held for sale under development	**—**	(910)
Decrease in properties held for sale	**15,351**	23,700
Decrease in other assets	**212**	135
(Increase)/decrease in inventories	**(51)**	150
Decrease/(increase) in trade receivables	**13,750**	(6,662)
Increase in prepayments, deposits and other receivables	**(4,794)**	(4,705)
Increase in due from related companies	**(205)**	(3,410)
(Increase)/decrease in client trust bank balances	**(22)**	2,153
Increase in trade payables, other payables and accruals	**6,337**	5,345
Increase in advanced proceeds from sales of properties	**—**	2,258
Increase in due to related companies	**358**	212
Net cash generated from operations	**9,064**	24,338
Interest paid	**—**	(3)
Overseas taxes paid	**(1,804)**	(5,833)
Net cash from operating activities	**7,260**	18,502

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Net cash from operating activities		**7,260**	18,502
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary		**—**	2,065
Interest received		**353**	716
Proceeds from disposal of property, plant and equipment		**364**	—
Proceeds from disposal of available-for-sale financial assets		**—**	361
Proceeds from disposal of financial assets at fair value through profit or loss		**—**	263
Purchases of additional interest in a subsidiary		**—**	(1,551)
Purchases of available-for-sale financial assets		**—**	(11,181)
Purchases of property, plant and equipment		**(675)**	(219)
(Increase)/decrease in due from associates)		**(5)**	654
Decrease in due to associates		**—**	(2,829)
Decrease in pledged bank balances		**980**	651
Net cash from/(used in) investing activities		**1,017**	(11,070)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,277**	7,432
Effect of foreign exchange rate changes, net		**2,079**	(1,669)
		10,356	5,763
CASH AND CASH EQUIVALENTS, AT 1 JANUARY		**134,610**	128,847
CASH AND CASH EQUIVALENTS, AT 31 DECEMBER		**144,966**	134,610
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*34*	**134,791**	134,610
Cash and bank balances attributable to a discontinued operation	*15*	**10,175**	—
		144,966	134,610

1. CORPORATE INFORMATION

Morning Star Resources Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office and principal place of business of the Company are disclosed in "Corporate Information" Section of this Annual Report. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

— Provisions of travel and travel-related services

— Provisions of financial services and securities broking

— Properties development

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange. They have been prepared under the historical cost convention except for certain financial assets which have been measured at fair value. Disposal group held for sale is stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 15. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all of the new and revised HKFRSs which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2010.

The adoption of the new and revised HKFRSs has had no significant financial effect on these consolidated financial statements unless otherwise stated below:

HKFRS 3 (Revised) *Business Combinations* introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) *Consolidated and Separate Financial Statements* requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group.

Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16 *Property, Plant and Equipment*, HKAS 17 *Leases* and HKAS 40 *Investment Property*.

  The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

4. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in these consolidated financial statements.

		Effective for annual periods beginning on or after
HKFRS 1 (Amendment)	*Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*	1 July 2010
HKFRS 1 (Amendments)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 July 2011
HKFRS 7 (Amendments)	*Transfers of Financial Assets*	1 July 2011
HKFRS 9	*Financial Instruments*	1 January 2013
HKAS 12 (Amendments)	*Deferred Tax: Recovery of Underlying Assets*	1 January 2012
HKAS 24 (Revised)	*Related Party Disclosures*	1 January 2011
HKAS 32 (Amendment)	*Classification of Rights Issues*	1 February 2010
HK(IFRIC) Int-14 (Amendments)	*Prepayments of a Minimum Funding Requirement*	1 January 2011
HK(IFRIC) Int-19	*Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
HKFRS (Amendments)	*Improvements to HKFRSs 2010*	
	— amendments to HKFRS 3 and 7	1 July 2010
	— amendments to other HKFRSs	1 January 2011

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is to be expected in the period of initial application. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(b) Jointly-controlled entities

A jointly-controlled entity is a joint venture that 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 investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

(c) Associates

An associate is an entity, not being a subsidiary or a 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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

(d) Business combination and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005
In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

(e) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, properties held for sales, properties held for sale under development, inventories, financial assets and assets of a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 such an impairment loss is credited to the income statement in the period in which it arises.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 5%
Furniture, fixtures and equipment	20% to $33^1/_3$%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) Property under development

Property under development represents a building under construction which is stated at cost less any impairment losses, and is not depreciated. Costs comprises the direct costs of construction and capitalised borrowing costs, if any, on related borrowed funds during the period of construction. Property under development is reclassified to the appropriate category of non-current assets when completed and ready for us.

(h) Other assets

Other assets mainly represent the loan to third party for acquisition of land and deposits and funds for its business in the Stock Exchange, are stated at cost less any impairment losses.

(i) Properties held for sale and properties held for sale under development

Properties held for sale and properties held for sale under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sale proceeds received after the year end date less selling expenses, or by management estimates based on prevailing market condition.

Costs of properties include acquisition costs, development expenditure, interest and other direct costs attributable to such properties. The carrying values of properties held by subsidiaries are adjusted in the consolidated financial statements to reflect the Group's actual acquisition costs where appropriate.

(j) Inventories

Inventories included 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 comprises costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(k) Financial assets

Initial recognition and measurement

Financial assets of the Group within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale financial assets, trade receivables, prepayments, deposits and other receivables, financial assets at fair value through profit or loss, amounts due from related companies and associates, client trust bank balances and cash and cash equivalents.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39 *Financial Instruments: Recognition and Measurement*. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets valuation reserve until the asset is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the asset is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale financial assets valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

(l) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when (i) the rights to receive cash flows from the asset have expired; or (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(m) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(n) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(o) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

(p) Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at amortised costs. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and accruals, amounts due to related companies and associates and non-interest bearing other borrowings.

Subsequent measurement

Financial liabilities at amortised cost

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

(q) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(r) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(s) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(t) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

(u) 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:

(i) income from tour services is recognised upon the departure date of each tour;

(ii) income from sales of air tickets and hotel bookings is recognised when the related tickets are issued and hotel bookings confirmed, respectively;

(iii) revenue from sales of properties is recognised when the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position as advanced proceeds from sales of properties under current liabilities; When properties under development are sold, income is recognised when the property development is completed with the relevant occupation permit issued by the Authorities and the significant risks and rewards of the properties are passed to the purchasers. Payments received from purchasers prior to this stage are recorded as customers' deposits received;

(iv) commission and visa income is recognised in the period in which the services are rendered;

(v) rental income, a time proportion basis over the lease terms; and

(vi) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(v) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentages of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(w) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(x) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(y) Foreign currency translation

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

(z) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Discontinued operation

The classification of assets of a disposal group as "held for sale" requires judgment in determining whether the planned disposal is highly probable and able to be realised within 12 months. The measurement of held for sale assets at their fair value less costs to sell can also require significant judgment if there is no active market.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2010 was HK$199,973,000 (2009: HK$172,938,000). Further details are contained in note 25 to the financial statements.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of trade and other receivables

The Group estimates the provision for impairment of trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

7. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments 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 segment comprises the development and sales of properties; and

(c) The corporate and other businesses segment includes interest income and general corporate expense items.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/profit, which is a measure of adjusted (loss)/profit before tax from continuing operations. The adjusted (loss)/profit before tax from continuing operations is measured consistently with the Group's (loss)/profit before tax from continuing operations except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude financial instrument and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude non-interest-bearing other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following is an analysis of the Group's revenue and results by reportable segment:

	Travel and travel-related services		Property development		Corporate and other businesses		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**536,891**	465,250	**22,090**	40,336	**—**	—	**558,981**	505,586
Other revenue	**5,304**	5,743	**834**	953	**177**	297	**6,315**	6,993
Total revenue	**542,195**	470,993	**22,924**	41,289	**177**	297	**565,296**	512,579
Reconciliation:								
Interest income							**353**	643
Gain on deregistration of subsidiaries							**1,870**	—
Gain on amount due from an associate waived							**—**	2,948
Gain on disposal of property, plant and equipment							**—**	101
Foreign exchange gains, net							**101**	3,190
Revenue from continuing operations							**567,620**	519,461
Segment results	**12,639**	4,230	**(14,221)**	3,239	**(46)**	2,623	**(1,628)**	10,092
Reconciliation:								
Interest income							**353**	643
Unallocated expenses							**(6,840)**	(5,020)
(Loss)/profit from operations							**(8,115)**	5,715
Finance costs							**—**	(3)
Non-recurring expenses							**(12,517)**	—
Share of loss of a jointly-controlled entity							**—**	(14)
(Loss)/profit before tax from continuing operations							**(20,632)**	5,698

Revenue reported above represents revenue generated from external customers.

Segment results represent the profit earned by each segment without allocation of central administration costs, interest income, finance costs, and income tax expense. This is measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Travel and travel-related services		Property development		Corporate and other businesses		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**67,726**	61,406	**250,906**	255,509	**244,067**	291,878	**562,699**	608,793
Reconciliation:								
Elimination of intersegment receivables							**(212,843)**	(226,966)
Assets related to a discontinued operation							**17,323**	—
Available-for-sale financial assets							**26,826**	27,012
Financial assets at fair value through profit or loss							**—**	—
Total assets							**394,005**	408,839
Segment liabilities	**185,097**	191,983	**32,283**	15,834	**89,374**	115,251	**306,754**	323,068
Reconciliation:								
Elimination of intersegment payables							**(212,843)**	(226,965)
Liabilities related to a discontinued operation							**6,589**	—
Non-interest-bearing other borrowings							**16,710**	16,710
Total liabilities							**117,210**	112,813

For the purposes of monitoring segment performance and allocating resources between segments:

(a) all assets are allocated to reportable segments other than available-for-sale financial assets and financial assets at fair value through profit or loss.

(b) all liabilities are allocated to reportable segments other than non-interest-bearing other borrowings.

Geographical information

The Group operates in three main geographical areas — the People's Republic of China (excluding Hong Kong) (the "PRC"), Hong Kong and Australia.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	Year ended 31 December 2010 HK$'000	Year ended 31 December 2009 HK$'000	**As at 31 December 2010 HK$'000**	As at 31 December 2009 HK$'000
PRC	**146,938**	164,058	**25,337**	27,163
Hong Kong	**412,043**	341,528	**34,097**	36,961
Australia	**—**	—	**11**	9
Other countries	**—**	—	**11,928**	11,375
	558,981	505,586	**71,373**	75,508

Information about a major customer

No revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue from continuing operations for the year (2009: Nil).

8. REVENUE

Revenue, which also is the Group's turnover, represents the value of services rendered, and proceeds from sales of properties held for sale during the year.

	2010 HK$'000	2009 HK$'000
Continuing operations		
Rendering of travel and travel-related services	**536,891**	465,250
Sales of properties held for sale	**22,090**	40,336
	558,981	505,586

9. OTHER INCOME

	2010 HK$'000	2009 HK$'000
Continuing operations		
Other income		
Bank interest income	**323**	611
Other interest income	**30**	32
	353	643
Visa income	**318**	361
Commission income	**4,584**	4,254
Others	**1,413**	2,378
	6,668	7,636
Gains		
Gain on disposal of property, plant and equipment	**—**	101
Gain on deregistration of subsidiaries	**1,870**	—
Waiver of amount due to an associate	**—**	2,948
Foreign exchange gains, net	**101**	3,190
	1,971	6,239
	8,639	13,875

10. NON-RECURRING EXPENSES

	2010 HK$'000	2009 HK$'000
Written-off irrecoverable balances of trade and other receivables	**12,517**	—

11. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax from continuing operations is arrived at after charging/(crediting):

	2010 HK$'000	2009 HK$'000
Cost of inventories sold	290	300
Cost of services provided	478,413	446,925
Cost of properties sold	16,988	29,919
Depreciation	1,338	1,900
Amortisation of prepaid land lease payments	70	68
Minimum lease payments under operating leases in respect of land and buildings	13,248	12,922
Auditor's remuneration		
— Current year	562	549
— Under/(over) provisions	1	(15)
	563	534
Employee benefit expenses (including directors' remuneration *(note 12)*)		
Wages and salaries	31,368	29,631
Retirement benefits scheme contributions	1,407	1,430
	32,775	31,061
Gain on disposal of available-for-sale financial assets	—	(153)
Loss/(gain) on disposal of property, plant and equipment	74	(101)
Interest on bank overdrafts	—	3

12. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 **HK$'000**	2009 HK$'000
Fees:		
Executive Directors	—	5
Non-Executive Directors	—	45
	—	50
Other emoluments:		
Executive Directors:		
Basic salaries, housing, other allowances and benefits in kind	**1,973**	983
Retirement benefits scheme contributions	—	12
Non-Executive Directors:		
Basic salaries, housing, other allowances and benefits in kind	**70**	—
	2,043	995
	2,043	1,045

The emoluments paid or payable to directors are as follows:

2010

Name of Director	Directors' fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors				
SUNG Wai Man, Peter (appointed on 8 October 2010)	–	564	–	564
CHI Chi Hung, Kenneth (appointed on 7 October 2010)	–	28	–	28
YEUNG Kwok Leung (appointed on 7 October 2010)	–	28	–	28
WONG Nyen Faat (redesignated as Non-Executive Director on 1 February 2010)	–	259	–	259
HO Kuan Lai (resigned on 7 October 2010)	–	1,094	–	1,094
Non-executive Directors				
TSO Shiu Kei, Vincent (appointed on 7 October 2010)	–	28	–	28
Tan Sri Dr. KHOO Kay Peng (resigned on 7 October 2010)	–	–	–	–
KHET Kok Yin (resigned on 7 October 2010)	–	–	–	–
CHAN Choung Yau (resigned on 7 October 2010)	–	–	–	–
WONG Nyen Faat (redesignated on 1 February 2010 and resigned on 7 October 2010)	–	–	–	–
Independent Non-executive Directors				
SO Wai Lam (appointed on 7 October 2010)	–	14	–	14
SUNG Yat Chun (appointed on 7 October 2010)	–	14	–	14
CHAN Hoi Ling (appointed on 7 October 2010)	–	14	–	14
WONG Kim Ling (resigned on 7 October 2010)	–	–	–	–
OOI Boon Leong @ LAW Weng Leun (resigned on 7 October 2010)	–	–	–	–
OH Hong Choon (resigned on 7 October 2010)	–	–	–	–
	–	2,043	–	2,043

2009

Name of Director	Directors' fees HK$'000	Basic salaries, housing, other allowances and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Director				
WONG Nyen Faat	5	983	12	1,000
Non-executive Directors				
Tan Sri Dr. KHOO Kay Peng	5	—	—	5
KHET Kok Yin	5	—	—	5
CHAN Choung Yau	5	—	—	5
Independent Non-executive Directors				
WONG Kim Ling	10	—	—	10
OOI Boon Leong @ LAW Weng Leun	10	—	—	10
OH Hong Choon	10	—	—	10
	50	983	12	1,045

There was no arrangement under which a Director waived or agreed to waive any remuneration for the years ended 31 December 2010 and 2009.

During the year, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: one) directors, details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining three (2009: four) non-director, highest paid employees for the year are as follows:

	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,623**	2,135
Performance related bonuses	**—**	—
Retirement benefits scheme contributions	**76**	67
	1,699	2,202

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	4

14. INCOME TAX EXPENSE

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2009: 25%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

	2010 **HK$'000**	2009 HK$'000
Continuing operations		
Current — Hong Kong	**—**	—
Current — PRC		
Charge for the year	**14**	3,863
Underprovision in prior years	**—**	73
	14	3,936
Current — Other countries		
Charge for the year	**—**	—
Underprovision in prior years	**—**	197
	—	197
Deferred *(note 25)*	**1,943**	(20)
Total tax charge for the year	**1,957**	4,113

In 2010, no provision for Hong Kong profits tax has been made as the Group did not have sufficient assessable profits from continuing operations in Hong Kong to set off tax losses available (2009: Nil).

(b) A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates to the effective tax rates, are as follows:

	2010 HK$'000	2009 HK$'000
(Loss)/profit before tax from continuing operations	**(20,632)**	5,698
Tax at statutory tax rates applicable to (loss)/profit in the respective countries (or jurisdictions)	**(4,915)**	577
Adjustments in respect of current tax of previous periods	**—**	270
Income not subject to tax	**(12,664)**	(601)
Expenses not deductible for tax	**11,783**	3,586
Tax losses utilised from previous periods	**(17)**	(1,079)
Tax losses not recognised	**7,770**	1,249
Tax losses recognised	**—**	—
Unrecognised temporary differences	**—**	111
Tax charge at the Group's effective rate	**1,957**	4,113

15. DISCONTINUED OPERATION

On 3 December 2010, the board of directors announced a plan to dispose of a wholly-owned subsidiary, Morning Star Securities Limited ("MSSL"), which carried out almost all of the Group's financial services operations. The disposal is consistent with the Group's long-term policy to focus its activities on the travel and travel-related services and properties development. The disposal had been completed on 28 February 2011. As at 31 December 2010, final negotiations for the sale were in progress and the MSSL was classified as a disposal group held for sale.

The results of the MSSL for the year are presented below:

	2010 HK$'000	2009 HK$'000
Revenue	**1,530**	2,032
Expenses	**(2,047)**	(2,314)
Loss before tax from the discontinued operation	**(517)**	(282)
Attributable income tax expense	**—**	—
Loss for the year from the discontinued operation	**(517)**	(282)

The major classes of assets and liabilities of the MSSL classified as held for sale as at 31 December 2010 are as follows:

	2010 **HK$'000**	2009 HK$'000
Assets		
Property, plant and equipment	**2**	—
Other assets	**600**	—
Trade receivables	**202**	—
Prepayments, deposits and other receivables	**31**	—
Client trust bank balances	**6,313**	—
Cash and cash equivalents	**10,175**	—
Assets classified as held for sale	**17,323**	—
Liabilities		
Trade payables	**124**	—
Other payables and accruals	**6,465**	—
Liabilities directly associated with the assets classified as held for sale	**6,589**	—
Net assets directly associated with the disposal group	**10,734**	—

The net cash flows incurred by the MSSL are as follows:

	2010 **HK$'000**	2009 HK$'000
Operating activities	**(527)**	(54)
Investing activities	**(13,291)**	260
Net cash (outflow)/inflow	**(13,818)**	206
Loss per share *(note 17)*:		
From the discontinued operation		
Basic	**(0.02 cent)**	(0.01 cent)
Diluted	**—**	—

16. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated (loss)/profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of HK$11,830,000 (2009: HK$871,000) which has been dealt with in the financial statements of the Company (note 39).

17. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 2,414,547,555 (2009: 2,414,547,555) in issue during the year.

No diluted (loss)/earnings per share are presented as the Company had no potentially dilutive ordinary shares in issue during 2009 and 2010.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 January 2009	28,744	21,735	1,281	51,760
Additions	—	219	—	219
Disposals	—	(52)	—	(52)
Acquisition of a subsidiary	—	206	311	517
Exchange realignment	3	11	1	15
At 31 December 2009	28,747	22,119	1,593	52,459
Additions	—	375	300	675
Disposals	(370)	(609)	(835)	(1,814)
Deregistration of subsidiaries	—	(24)	—	(24)
Reclassification as assets included in a discontinued operation *(note 15)*	—	(535)	—	(535)
Exchange realignment	69	59	49	177
At 31 December 2010	**28,446**	**21,385**	**1,107**	**50,938**
Accumulated depreciation and impairment:				
At 1 January 2009	11,338	20,168	984	32,490
Charge for the year	536	1,196	192	1,924
Disposals	—	(52)	—	(52)
Exchange realignment	—	12	1	13
At 31 December 2009	11,874	21,324	1,177	34,375
Charge for the year	545	689	122	1,356
Disposals	(31)	(607)	(738)	(1,376)
Deregistration of subsidiaries	—	(24)	—	(24)
Reclassification as assets included in a discontinued operation *(note 15)*	—	(533)	—	(533)
Exchange realignment	6	57	39	102
At 31 December 2010	**12,394**	**20,906**	**600**	**33,900**
Net carrying amount:				
At 31 December 2010	**16,052**	**479**	**507**	**17,038**
At 31 December 2009	16,873	795	416	18,084

The buildings of the Group included in property, plant and equipment are all situated in the PRC.

19. PROPERTY UNDER DEVELOPMENT

	2010 HK$'000	2009 HK$'000
Cost:		
At 1 January and 31 December	**32,910**	32,910
Accumulated impairment:		
At 1 January and 31 December	**(29,104)**	(29,104)
Net carrying amount:		
At 31 December	**3,806**	3,806

The Group's land included in property under development is situated in the PRC and is held under a long-term lease.

20. PREPAID LAND LEASE PAYMENTS

	2010 HK$'000	2009 HK$'000
Cost:		
At 1 January	**3,804**	3,799
Exchange realignment	**160**	5
At 31 December	**3,964**	3,804
Accumulated amortisation:		
At 1 January	**873**	804
Charge for the year	**70**	68
Exchange realignment	**38**	1
At 31 December	**981**	873
Net carrying amount		
At 31 December	**2,983**	2,931

The Group's prepaid land lease payments represent the payments for land use rights in the PRC under medium term leases.

21. INVESTMENT IN AN ASSOCIATE

	2010 **HK$'000**	2009 HK$'000
Unlisted investments		
Share of net assets	**—**	—

Particulars of the associate of the Group are as follows:

Name of company	**Place of incorporation and operations**	**Particulars of issued shares held**	**Percentage of ownership interest attributable to the Group**		**Principal activity**
			2010	2009	
Way Bright Investment Limited	Hong Kong	Ordinary shares of HK$1 each	**50**	50	Provision of real estate agency services

Summarised financial information in respect of the Group's associate is set out below:

	2010 **HK$'000**	2009 HK$'000
Total assets	**609**	609
Total liabilities	**(1,860)**	(1,855)
Total revenue	**—**	—
Loss for the year	**(5)**	(4)

The Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interest in the associate. The amounts of the Group's unrecognised share of losses of the associate for the current year and cumulatively were approximately of HK$3,000 (2009: HK$2,000) and HK$631,000 (2009: HK$628,000) respectively.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010 **HK$'000**	2009 HK$'000
Listed equity securities, at fair value		
Overseas	**26,826**	27,012
Unlisted equity investments, at cost	**39,100**	39,100
Less: impairment	**(39,100)**	(39,100)
	—	—
	26,826	27,012

During the year, the changes in fair value of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to HK$199,000 (2009: HK$6,567,000).

23. OTHER ASSETS

	2010 **HK$'000**	2009 HK$'000
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders") *(Note)*	**8,123**	7,564
Deposit with the Stock Exchange *(note 15)*	**—**	300
Admission fees to Hong Kong Securities Clearing Company Limited ("HKSCCL") *(note 15)*	**—**	150
Guarantee funds to HKSCCL *(note 15)*	**—**	150
Guarantee deposits	**94**	91
	8,217	8,255

Note: The loans were made to Land Traders for the acquisition of the land on which the Enrico Hotel owned by Mansara Holding Company, Inc., a 61%-owned subsidiary of the Group, is built. The loans are interest free, secured by promissory notes issued by the Land Traders and have no fixed terms of repayment.

24. PLEDGED BANK BALANCES

The pledged bank balances are pledged to certain banks of the Group to secure mortgage loans facilities granted to purchasers for the acquisition of the Group's properties held for sale.

25. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year are as follows:

	Decelerated tax depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Others HK$'000	Total HK$'000
At 1 January 2009	440	11,494	12	11,946
Acquisition of additional equity interest in jointly-controlled entity	—	—	61	61
Credited to the income statement	—	—	20	20
Exchange realignment	—	—	(4)	(4)
At 31 December 2009	440	11,494	89	12,023
Charged to the income statement	—	(1,918)	(25)	(1,943)
Exchange realignment	—	—	6	6
At 31 December 2010	**440**	**9,576**	**70**	**10,086**

As at 31 December 2010, the Group has tax losses arising in Hong Kong of HK$240,817,000 (2009: HK$225,405,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in the PRC of HK$33,689,871 (2009: HK$8,513,408) that will expire in one to five years for offsetting against future taxable profits.

A deferred tax asset has been recognised in respect of HK$40,844,000 (2009: HK$52,467,000) of such losses. No deferred tax asset has been recognised in respect of the remaining of HK$199,973,000 (2009: HK$172,938,000) due to the unpredictability of future profit streams.

As at 31 December 2010, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised HK$891,000 (2009: HK$876,000). 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 difference and it is probable that such differences will not reverse in the foreseeable future.

26. PROPERTIES HELD FOR SALE UNDER DEVELOPMENT

	2010 **HK$'000**	2009 HK$'000
Located in the PRC		
Properties held for sale under development, at cost	**65,908**	65,599

At the end of the reporting period, properties held for sale under development were not scheduled for completion within twelve months.

27. PROPERTIES HELD FOR SALE

	2010 **HK$'000**	2009 HK$'000
Located in the PRC		
Properties held for sale, at cost	**59,719**	73,012

28. INVENTORIES

	2010 **HK$'000**	2009 HK$'000
Goods held for resale, at cost	**380**	329

29. TRADE RECEIVABLES

	2010 **HK$'000**	2009 HK$'000
Trade receivables, gross	**8,676**	22,712
Provision for impairment	**(241)**	(325)
	8,435	22,387

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2010	2009
	HK$'000	HK$'000
Within 1 month	**363**	10,606
1–3 months	**5,698**	10,087
4–12 months	**2,198**	1,485
Over 1 year	**176**	209
	8,435	22,387

Trade receivables that were past due but not impaired relate to a number of independent customers with good track records with the Group. Based on past experience, the directors of the Group are of the opinion that there has not been a significant change in credit quality of the customers, no provision for impairment is necessary. The balances owed by the customers concerned are still considered fully recoverable.

The Group does not hold any collateral or other credit enhancements over these balances.

The trade receivables included in a disposal group (note 15) of HK$202,000 are aged within 1 month as neither past due nor impaired.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2010	2009
	HK$'000	HK$'000
Interest-bearing loan receivable *(Note)*	**—**	2,500
Deposits	**18,310**	10,962
Prepayments and other receivables	**8,753**	8,838
	27,063	22,300

Note: The interest-bearing loan receivable was due from a shareholder of the Company. This loan was secured by equity securities listed in overseas, bearing interest at the Hong Kong dollar prime rate of HSBC plus 1% per annum and was fully repaid during the year.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 **HK$'000**	2009 HK$'000
Listed equity securities, at market value		
Hong Kong	**—**	—
Overseas	**—**	—
	—	—

32. BALANCES WITH RELATED COMPANIES

Particulars of the amounts due from related companies, disclosed pursuant to Section 161B of the Companies Ordinance, are as follows:

Name of company	**At 31 December 2010** **HK$'000**	Maximum amount outstanding during the year HK$'000	At 1 January 2010 HK$'000
Zhongshan Morning Star Plaza Properties Management Limited	**1,516**	1,516	1,439
Morning Star Villa Management Limited ("MVM")	**6,577**	6,577	6,090
Others	**—**	359	359
	8,093	8,452	7,888

The balances with related companies are unsecured and have no fixed terms of repayment. Except for the balance due from MVM which is interest bearing at 2% above the Hong Kong dollar prime rate of The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") per annum, the balances with related companies are interest-free.

33. BALANCES WITH ASSOCIATES

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

34. CASH AND CASH EQUIVALENTS

	2010 **HK$'000**	2009 HK$'000
Time deposits	**29,060**	53,349
Cash and bank balances	**105,731**	81,261
	134,791	134,610

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$64,019,000 (2009: HK$54,293,000). The RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is subject to approval for the conversion of RMB into other currencies.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank balances are deposited with creditworthy banks with no recent history of default.

35. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2010 **HK$'000**	2009 HK$'000
Trade payables	**31,106**	48,852
Received in advance for sales of properties held for sale	**8,222**	2,751
Other payables and accruals	**47,793**	37,302
	87,121	88,905

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2010 **HK$'000**	2009 HK$'000
Within 1 month	**26,954**	43,514
1–3 months	**2,389**	2,598
4–12 months	**767**	1,411
Over 1 year	**996**	1,329
	31,106	48,852

The trade payables included in a disposal group (note 15) of HK$124,000 are aged within one month.

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

36. NON-INTEREST-BEARING OTHER BORROWINGS

	2010 **HK$'000**	2009 HK$'000
Advancement from the non-controlling interests of subsidiaries	**16,710**	16,710

The other borrowings are unsecured, interest-free and have no fixed terms of repayment.

37. SHARE CAPITAL

	2010 HK$'000	2009 HK$'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.20 each	**1,000,000**	1,000,000
Issued and fully paid:		
2,414,547,555 ordinary shares of HK$0.20 each	**482,910**	482,910

38. FINANCIAL POSITION OF THE COMPANY

	2010 HK$'000	2009 HK$'000
Investments in subsidiaries	**44,801**	44,805
Due from subsidiaries	**148,577**	146,686
Due from an associate	**105**	101
Cash and cash equivalents	**49,900**	30,938
Other assets	**819**	638
Due to subsidiaries	**(42,521)**	(33,398)
Other current liabilities	**(944)**	(863)
NET ASSETS	**200,737**	188,907
Share capital	**482,910**	482,910
Reserves	**(282,173)**	(294,003)
TOTAL EQUITY	**200,737**	188,907

39. 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 28 of the consolidated financial statements.

(b) Company

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	6,328	(301,202)	(294,874)
Profit for the year	—	871	871
At 31 December 2009	6,328	(300,331)	(294,003)
Profit for the year	—	11,830	11,830
At 31 December 2010	**6,328**	**(288,501)**	**(282,173)**

40. BUSINESS COMBINATION

On 27 March 2009, the Group acquired additional 21% equity interests in Beijing Morning Star-New Ark International Travel Service Co., Ltd. (the "JV Company"), formerly as a sino-foreign joint venture company incorporated in the PRC of which the Group held 49% equity interests, in a consideration of RMB1,050,000 (equivalent to HK$1,188,000). Upon the completion of the acquisition, the Group increases its equity interests in JV Company to 70% and JV Company became a subsidiary of the Company accordingly.

The fair values of the identifiable assets and liabilities of JV Company as at the date of acquisition were as follows:

	2009 HK$'000
Property, plant and equipment	288
Other assets	227
Deferred tax assets	59
Trade and other receivables	13,032
Cash and cash equivalents	2,065
Trade and other payables	(11,600)
	4,071
Investment in an associate	(1,398)
Foreign currency translation reserve	(597)
Non-controlling interests	(1,222)
Total identifiable net assets at fair value	854
Goodwill on acquisition	334
Satisfied by cash	1,188

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition is as follows:

	2009 HK$'000
Cash consideration	(1,188)
Cash and bank balances acquired	2,065
Net inflow of cash and cash equivalents included in cash flows from investing activities	877

41. CONTINGENT LIABILITIES

As at 31 December 2010, the Group had contingent liabilities amounting to HK$27,059,000 (2009: HK$50,577,000) in respect of the buy-back guarantee in favor of banks to secure mortgage loans facilities granted to the purchasers of the Group's properties held for sales.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the accounts for the guarantees.

42. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease commitments. Leases for properties are negotiated for terms ranging from one to three years. None of the leases includes contingent rentals.

At 31 December, 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 HK$'000	2009 HK$'000
Within one year	**11,672**	9,843
In the second to fifth years, inclusive	**11,926**	3,445
	23,598	13,288

43. CAPITAL COMMITMENTS

The Group and the Company had the following capital commitments at the end of the reporting period:

	2010 HK$'000	2009 HK$'000
Contracted, but not provided for:		
Leasehold improvement	**97**	—
Furniture, fixtures and equipment	**3,332**	—
	3,429	—

Saved as disclosed above, neither the Group nor the Company had any significant commitments at the end of the reporting period.

44. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2010** **HK$'000**	2009 HK$'000
Interest income from MVM	*(i)*	**30**	32
Property management fees to MVM	*(ii)*	**99**	138
Acquisition of available-for-sale financial assets	*(iii)*	**—**	11,181

Notes:

(i) Details of terms of the transaction are set out in note 32.

(ii) Property management fees paid to MVM represents the property management fees of the vacant units of Morning Star Villa ("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 the rate per square foot charged to the other owners of MSV.

(iii) During 2009, the Company through its wholly-owned subsidiary, Swift Progress Investments Limited, acquired 27,240,000 ordinary shares of Malayan United Industries Berhad ("MUI"), the former ultimate holding company, on the Bursa Malaysia Securities Berhad at a total consideration of approximately HK$11,181,000 which was satisfied by the Company in cash from its internal resources, representing approximately 1.4% of the entire issued share capital of MUI. The Company was of the view that the acquisition of equity interests in MUI was in line with the Group's treasury management and future strategic development goals.

(b) Details of the Group's balances with related companies, associates and advancement from the non-controlling interests of subsidiaries at the end of the reporting period are set out in notes 32, 33 and 36 to the consolidated financial statements.

(c) Details of remuneration of key management personnel, representing emolument of directors of the Company, are set out in note 12 to the consolidation financial statements.

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

Financial assets

2010

	Financial assets at fair value though profit or loss (held for trading) HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	—	—	26,826	26,826
Trade receivables	—	8,435	—	8,435
Prepayments, deposits and other receivables	—	27,063	—	27,063
Financial assets at fair value through profit or loss	—	—	—	—
Due from related companies	—	8,093	—	8,093
Due from associates	—	920	—	920
Cash and cash equivalents	—	134,791	—	134,791
Other assets	—	8,217	—	8,217
Pledged bank balances	—	2,417	—	2,417
	—	189,936	26,826	216,762

2009

	Financial assets at fair value though profit or loss (held for trading) HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale financial assets	—	—	27,012	27,012
Trade receivables	—	22,387	—	22,387
Prepayments, deposits and other receivables	—	22,300	—	22,300
Financial assets at fair value through profit or loss	—	—	—	—
Due from related companies	—	7,888	—	7,888
Due from associates	—	915	—	915
Cash and cash equivalents	—	134,610	—	134,610
Client trust bank balances	—	6,291	—	6,291
Other assets	—	8,255	—	8,255
Pledged bank balances	—	3,397	—	3,397
	—	206,043	27,012	233,055

Financial liabilities

Financial liabilities at amortised costs	**2010 HK$'000**	2009 HK$'000
Trade payables, other payables and accruals	**87,121**	88,905
Due to related companies	**2,279**	1,921
Due to associates	**129**	129
Non-interest bearing other borrowings	**16,710**	16,710
	106,239	107,665

46. FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at the end of the reporting period, all the assets measured at fair value including available-for-sale financial assets and financial assets at fair value through profit or loss are based on Level 1 to determine their fair values.

47. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2010 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 2010	2009	Class of shares held	Principal activities
Bright Profit Investments Limited	British Virgin Islands/ The People's Republic of China	US$50,000	**55**	55	Ordinary	Property development
Beijing Morning Star — New Ark International Travel Service Co., Ltd.	The People's Republic of China	RMB5,000,000	**70**	70	Registered capital	Provision of travel services
Consing Investment Limited	Hong Kong	HK$2	**100**	100	Ordinary	Investment holding
Jubilation Properties Limited	British Virgin Islands/ The People's Republic of China	US$50,000	**55**	55	Ordinary	Property development
Mansara Holding Company, Inc.	Philippines	Peso30,000,000	**61**	61	Ordinary	Hotel investment
Mansara International Limited	British Virgin Islands/ Philippines	US$100	**61**	61	Ordinary	Investment holding
Morning Star Finance Limited	Cayman Islands	HK$200	***100**	*100	Ordinary	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2010

Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company 2010	2009	Class of shares held	Principal activities
Morning Star Financial Services Limited	Hong Kong	HK$42,924,000	***100**	*100	Ordinary	Investment holding
Morning Star Hotel International Limited	Cayman Islands	HK$200	***100**	*100	Ordinary	Investment holding
Morning Star Hotel Investments Limited	Cayman Islands	HK$200	***100**	*100	Ordinary	Investment holding
Morning Star Investment Management Limited	Hong Kong	HK$5,000,000	**100**	100	Ordinary	Provision of investment advisory services
Morning Star Properties Limited	British Virgin Islands	US$2	***100**	*100	Ordinary	Investment holding
Morning Star Securities Limited	Hong Kong	HK$150,000,000	**100**	100	Ordinary	Securities broking
Morning Star Travel International Limited	Cayman Islands	HK$200	***100**	*100	Ordinary	Investment holding
Morning Star Travel Service Limited	Hong Kong	HK$90,000,000 HK$10,000,000	**100** **100**	100 100	Ordinary Non-voting deferred	Provision of travel services
Morning Star Travel Service Ltd.	British Columbia, Canada	C$81,000	**100**	100	Ordinary	Provision of travel services
Morning Star Travel Service (Macau) Limited	Macau	MOP1,300,000	**100**	100	Ordinary	Provision of travel services
Morning Star Traveller Plus Limited	Hong Kong	HK$2	**100**	100	Ordinary	Provision of travel-related services
Speed Gainer Limited	Hong Kong	HK$1	**100**	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 2010	2009	Class of shares held	Principal activities
Star Travel Service Limited	Hong Kong	HK$1,050,000	**100**	100	Ordinary	Provision of travel services
Swift Progress Investments Limited	British Virgin Islands	US$1	**100**	100	Ordinary	Investment holding
Vista International Hotels Limited	Hong Kong	HK$10	**100**	100	Ordinary	Investment holding
		HK$300,000	**100**	100	Non-voting deferred	
Zhongshan Morning Star Plaza Housing and Real Estate Development Limited	The People's Republic of China	US$2,100,000	**55**	55	Registered capital	Property development
Zhongshan Morning Star Villa Club Co., Ltd.	The People's Republic of China	US$1,400,000	**55**	55	Registered capital	Operation of clubhouses in Morning Star Villa
Zhongshan Morning Star Villa Housing and Real Estate Development Limited	The People's Republic of China	US$4,600,000	**55**	55	Registered capital	Property development

* *Direct*

The above table lists the subsidiaries of the Company as at 31 December 2010 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.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank balances and cash, equity investments, borrowings, amounts due from/to related companies and associates. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest rate risk arises primarily from the Group's bank deposits and amount due from a related company. All the borrowings and deposits are on a floating rate basis.

The Group does not use financial derivatives to hedge against the interest rate risk. However, the interest rate profile of the Group's net deposits (being bank deposits and amount due from a related company less interest-bearing financial liabilities) is closely monitored by management.

At 31 December 2010, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would increase/decrease the Group's (loss)/profit before tax and accumulated losses by approximately HK$1,375,000 (2009: HK$1,447,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for the non-derivative financial liabilities in existence at that date. The 1% increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2009.

Foreign currency risk

The Group has certain foreign currency monetary assets and liabilities and was exposed to foreign exchange risk rising from various kinds of currency exposures, mainly comprising United States Dollars ("USD"), Malaysian Ringgit ("MYR"), Philippine Peso ("PHP"), Australian Dollars ("AUD") and Renminbi ("RMB"). The Group monitors foreign exchange exposure and would consider hedging significant foreign currency exposure should the need arise.

The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year end for a 1% fluctuation in USD and a 5% fluctuation in other foreign currency exchange rates. As at 31 December 2010, the sensitivity analysis of a 1% and 5% decrease in HKD against USD and other foreign currencies would have an increase of HK$167,000 and a decrease of HK$4,544,000 in loss for the year and retained earnings (2009: a decrease of HK$153,000 and increase of HK$4,804,000) respectively.

Price risk

The Group's financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value at each reporting date. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2010 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables and loan receivables. In order to minimise credit risk, management has certain monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables regularly at each reporting date to ensure that adequate impairment losses are adequately made for irrecoverable amounts. The credit risk on liquid funds is limited because the counterparties are commercial banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The maturity profile of the Group's financial liabilities as at the end of the reporting period is within one year (2009: within one year).

Capital risk management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

49. EVENTS AFTER THE REPORTING PERIOD

(a) On 19 November 2010, the Company proposed to:

(i) implement the Capital Reorganisation which will involve (a) the consolidation of every 10 Shares of HK$0.20 each into 1 Consolidated Share of HK$2.00 each; (b) the cancellation of any fractional entitlements remaining following aggregation of all fractional entitlements arising on the Share Consolidation; and a reduction in the nominal value of the then issued Consolidated Shares from HK$2.00 to HK$0.01 each; (c) the subdivision of each authorized but unissued Consolidated Share of HK$2.00 each into 200 Adjusted Shares of HK$0.01 each; and (d) the total credit arising from the Capital Reduction will be credited to a reserve account of the Company, which will be used, amongst others, to set off against the accumulated losses of the Company; and change the board lot size for trading in the shares of the Company from 2,000 Shares to 8,000 Adjusted Shares upon the Capital Reorganisation becoming effective;

(ii) raise approximately HK$241.45 million, before expenses, by way of an open offer of 1,207,273,775 Offer Shares at the Subscription Price of HK$0.20 per Offer Share on the basis of five (5) Offer Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date and payable in full on acceptance. The Bonus Shares will be issued to the First Registered Holders of the Offer Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer.

On 7 January 2011, an ordinary resolution and a special resolution were at an extraordinary general meeting in connection with the Capital Reorganisation and Open Offer (with Bonus Issue), and all the resolutions proposed were duly passed by the Shareholders or the Independent Shareholders (as the case may be) by way of poll.

(b) On 3 December 2010, the Group entered into a sale and purchase agreement to dispose of its entire issued share capital of the MSSL, a wholly-owned subsidiary as at 31 December 2010, to an independent third party. The disposal had been completed on 28 February 2011.

50. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. In addition, the comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (Note 15).

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2011.

Schedule of Major Properties

For the year ended 31 December 2010

COMPLETED PROPERTIES HELD FOR SALE

Name/location	Use	Gross floor area (sq.m.)	Percentage of Group's interest
Morning Star Villa, Mu He Path, Gangkouzhen Zhongshan, Guangdong PRC	Residential	2,649	55
Morning Star Plaza Qing Miao Di Hou Shan Guan Li Qu Xi Qu Zhongshan Guangdong PRC	Residential/Commercial	10,771	55

PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

Name/location	Use	Site area (sq.m.)	Percentage of Group's interest
Morning Star Villa Mu He Path Gangkouzhen Zhongshan Guangdong PRC	Residential/Commercial	151,675	55
Morning Star Plaza Qing Miao Di Hou Shan Guan Li Qu Xi Qu Zhongshan Guangdong PRC	Residential/Commercial	7,344	55

Five Year Financial Summary

The following summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out below:

RESULTS

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
TURNOVER	**558,981**	505,586	481,741	534,163	476,155
(LOSS)/PROFIT BEFORE TAX	**(20,632)**	5,698	(26,867)	(9,530)	16,121
INCOME TAX EXPENSE	**(1,957)**	(4,113)	(3,830)	(1,029)	(2,038)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**(22,589)**	1,585	(30,697)	(10,559)	14,083
DISCONTINUED OPERATION					
(Loss)/Profit for the year from a discontinued operation	**(517)**	(282)	(243)	2,983	(401)
(LOSS)/PROFIT FOR THE YEAR	**(23,106)**	1,303	(30,940)	(7,576)	13,682
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**(11,157)**	2,596	(31,034)	(10,824)	14,880
NON-CONTROLLING INTERESTS	**(11,949)**	(1,293)	94	3,248	(1,198)
	(23,106)	1,303	(30,940)	(7,576)	13,682

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
NON-CURRENT ASSETS	**71,373**	75,508	61,538	92,137	59,431
CURRENT ASSETS	**322,632**	333,331	336,564	401,763	396,241
CURRENT LIABILITIES	**(117,210)**	(112,813)	(106,425)	(166,951)	(135,427)
NET ASSETS	**276,795**	296,026	291,677	326,949	320,245
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**217,927**	227,684	221,500	256,866	253,410
NON-CONTROLLING INTERESTS	**58,868**	68,342	70,177	70,083	66,835
TOTAL EQUITY	**276,795**	296,026	291,677	326,949	320,245