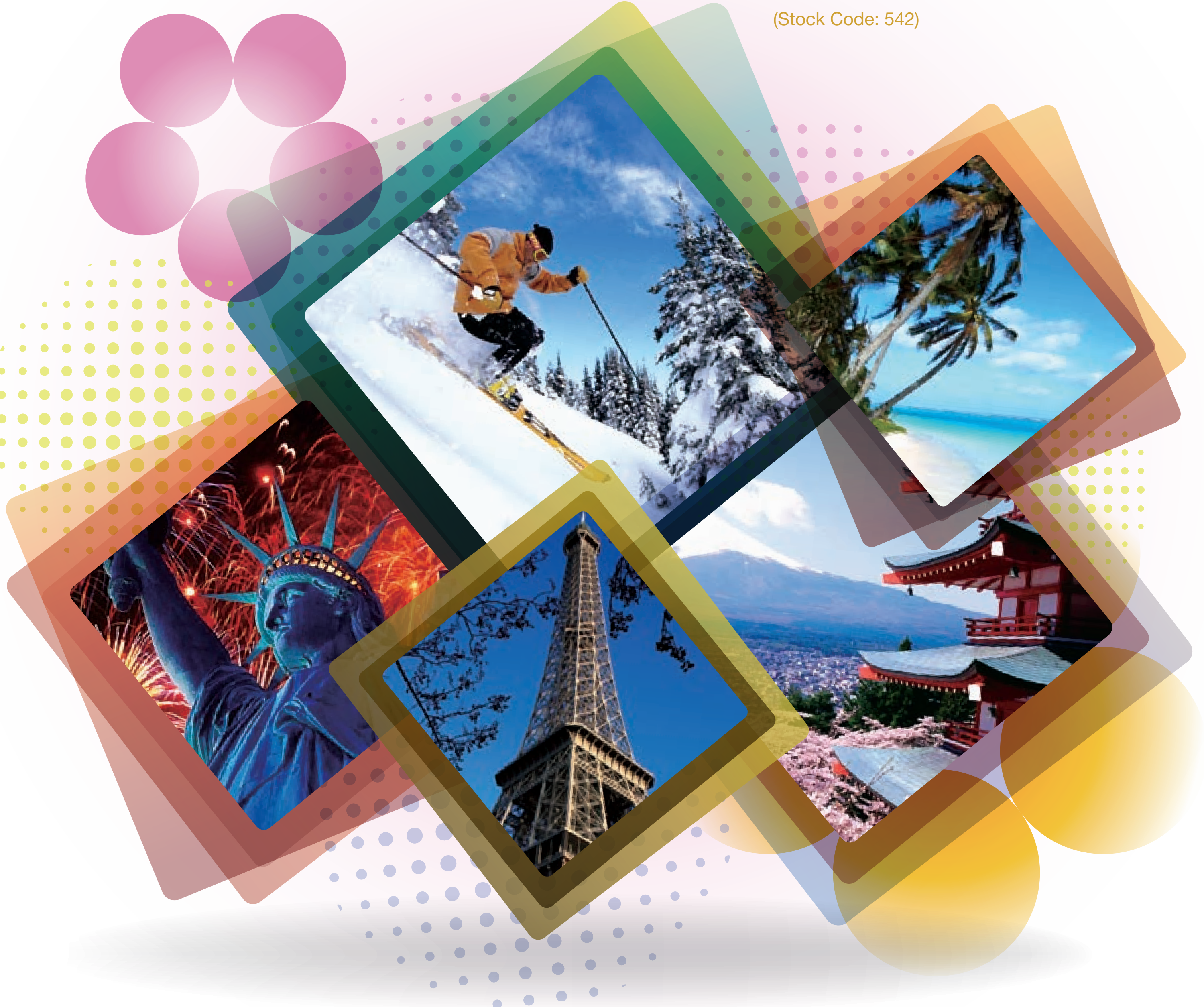
星晨集團有限公司
Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)



Annual Report 2011

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

LEUNG Lai Seung, Candy *F.C.I.S.*

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
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
6th 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

Macau Branch Opening Ceremony in China Plaza

Plaza Hollywood Diamond Hill branch renovation re-opening

On behalf of the Board of Directors, I present the Annual Report of the Company and the Group for the year ended 31 December 2011.

FINANCIAL RESULTS

The Group reported a profit from operation of HK$7.2 million for the year ended 31 December 2011 (2010: loss of HK$8.1 million).

The Group's consolidated profit attributable to the equity holders of the Company for 2011 amounted to HK$6.9 million (2010: loss of HK$11.2 million).

DIVIDEND

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2011 (2010: Nil).

Singapore Summer Parent-children cruise tour

My Favourite-1 Malaysia 2011 Fair held at Plaza Hollywood, Diamond Hill

Chief Executive Officer's Statement

REVIEW OF OPERATIONS

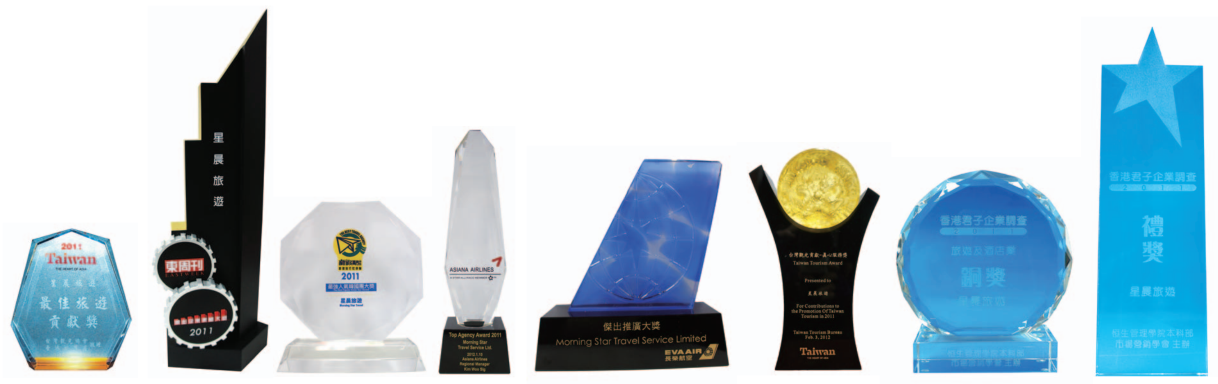
Travel and Tourism Segment

Website: www.morningstar.com.hk

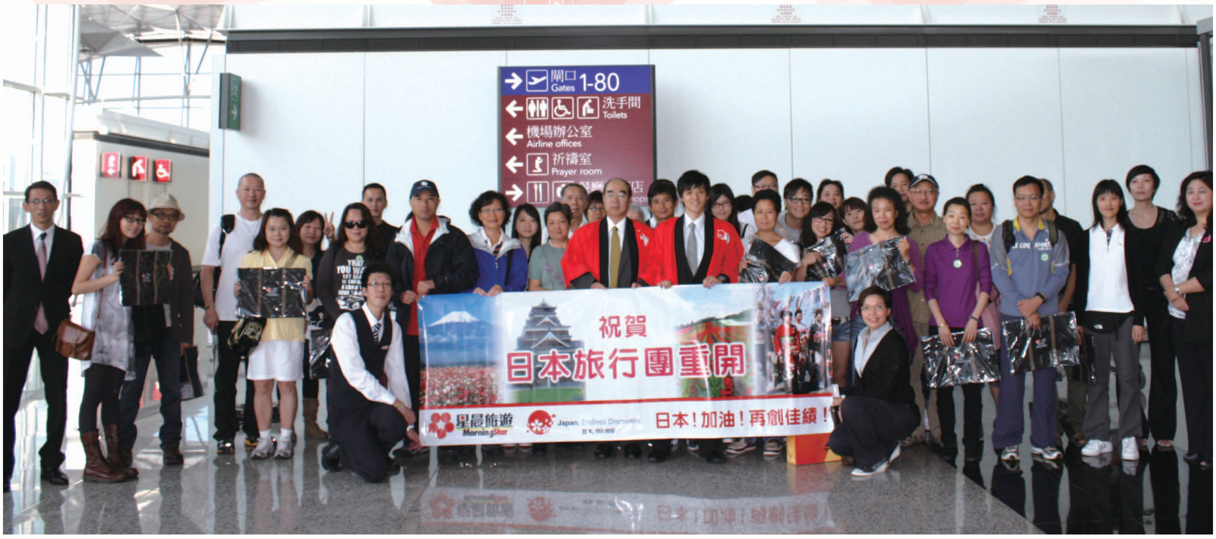
In 2011, the Group's travel and tourism segment recorded revenue for the year ended 31 December 2011 of HK$566.3 million (2010: HK$536.9 million) and operating profit of HK$3.6 million (2010: HK$12.6 million). The increase in revenue was mainly contributed by the increase in the sales of outbound tour products by Morning Star Travel Service Limited ("MST") in Hong Kong.

During the year, the Group received various awards from airlines, tourism boards and independent organisations to recognise the Group's contribution to the travel and tourism trade, amongst which, included the followings:

(a) "Taiwan Tourism Contribution Award 2011" by Taiwan Visitors Association;
(b) "Outstanding Corporate Strategy Award 2011" by East Week Magazine;
(c) "The Best Travel Agency 2011 – Most Popular Korea Tour Award" by Weekend Weekly;
(d) "Top Agency Award 2011" by Asiana Airlines;
(e) "Outstanding Promotion Award 2011" by Eva Air;
(f) "Taiwan Tourism Award 2011" by Taiwan Tourism Bureau;
(g) "Hong Kong Moral Enterprise Research 2011 – Bronze Award in the Tourism and Hotels Category" by Hang Seng Management College; and
(h) "Hong Kong Moral Enterprise Research 2011 – Courtesy Award" by Hang Seng Management College.



Outstanding Corporate Strategy Award Ceremony 2011 by East Week

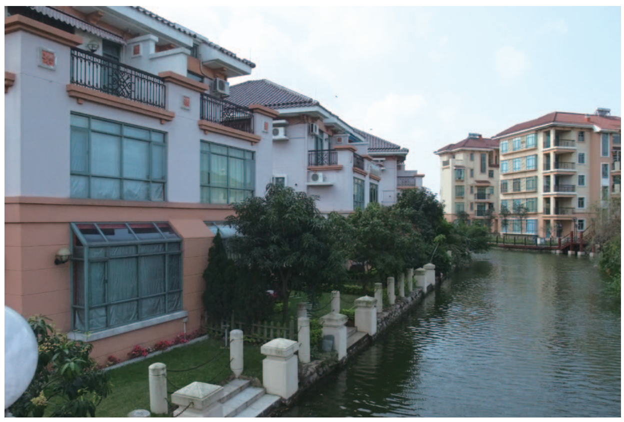


Japan tour resuming in June, Executive Director of Japan Tourism Board (Hong Kong Branch) was at the airport to see off Morning Star Japan tour participants

Property Development Segment

For the year ended 31 December 2011, the Group's property development segment recorded revenue of HK$33.5 million (2010: HK$22.1 million) with a corresponding operating loss of HK$0.1 million (2010: loss of HK$14.2 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 2011, 99.6% of all residential units completed under Phase I to Phase VIII of MSV had been sold, and 95.8% of all residential and commercial units completed under Phase I to Phase IV of MSP had been sold.

Chief Executive Officer's Statement

Capital Reorganisation, Open Offer and Bonus Issue

During the year, an ordinary resolution and a special resolution were passed at an extraordinary general meeting on 7 January 2011 in connection with (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; (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; (e) 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; and (f) 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. All the transactions were completed on or before 27 May 2011.

Disposal of a Subsidiary

During the year, the Group disposed a wholly-owned subsidiary Morning Star Securities Limited (the "MSSL") which carried out almost all of the Group's financial service 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 was completed on 28 February 2011.

OUTLOOK

Looking forward to 2012, global economy has shown minimal signs of recovery. The inflationary pressure in Asia Pacific region still remains. In spite of confronting with such challenges as increase in operating cost, the Group will continuously identify new business opportunity, reduce its operating costs, and develop quality and competitive tour products by making use of the well-established service platforms to remain a preferred travel agency in Hong Kong.

The Group's property development segment will continue focusing on the sale of its unsold completed units in MSV and MSP, and focus on possible opportunities to generate maximum return on its lands and properties in Zhongshan, PRC.

ACKNOWLEDGMENT

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

SUNG WAI MAN, PETER
Chief Executive Officer

Hong Kong, 28 March 2012

Management Discussion and Analysis

GROUP OVERVIEW

For the year under review, the Group recorded a profit from operations of HK$7.2 million as compared to a loss of HK$8.1 million for 2010. Profit attributable to owners of the Company for the year ended 31 December 2011 amounted to HK$6.9 million against a loss of HK$11.2 million for 2010.

For the year ended 31 December 2011, the Group's revenue from continuing operations grew by 7.3% from HK$559.0 million in 2010 to HK$599.9 million in 2011, which was mainly attributable to the increase in revenue from rendering travel and travel-related services.

TRAVEL AND TOURISM SEGMENT

Revenue from sales to external customers of the Group's Travel and Tourism Segment for the year ended 31 December 2011 amounted to HK$566.3 million, an increase of 5.4% compared to HK$536.9 million in 2010. The increase in revenue was mainly contributed by Morning Star Travel Service Limited ("MST") in Hong Kong. During the year, the sales of outbound tour products by MST recorded an increase of 6.5% on the basis of 2010 in spite of series of disasters such as tsunami in Japan and flood in Australia and political instability in Egypt and Korea.

In 2011, in view of a growing trend of inflation around the world and business expansions of the Group, the result of Travel and Tourism Segment was affected by the increase in operating costs. During the year under review, the result of Travel and Tourism Segment recorded a profit of HK$3.6 million compared to HK$12.6 million in 2010. The decrease in profit was mainly due to the increase in advertising and promotion expenses by 57.2% on the basis of 2010, rental and lease payment by 16.5%, staff salaries and related cost by 20.3%, and additional operating costs required for two newly setup departments which are responsible to handle corporate customers.

Looking forward, the Group aims at identifying new business opportunities that generate sustainable growth of the travel and travel-related business, reducing its operating costs, and exploring to develop quality travel products by making use of the well-established service platforms to remain a preferred travel agent in Hong Kong.

PROPERTY DEVELOPMENT SEGMENT

In 2011, revenue from sales to external customers of Property Development Segment was HK$33.5 million compared to HK$22.1 million in 2010. The result of Property Development Segment recorded a loss of HK$0.1 million compared to the loss of HK$14.2 million in 2010.

During the year, the management continued focusing on the sale of unsold completed properties in Morning Star Villa ("MSV") and Morning Star Plaza ("MSP") resulting in HK$24.5 million worth of stocks on hand being sold during the year. The profit margin for the completed properties in MSV and MSP sold in 2011 was approximately the same as comparing to the properties sold in 2010. In line with the normal approach adopted in the recognition of revenues, the revenue from sales to external customers and profits arising from 14 properties sold with an accumulated sales value of HK$6.3 million and loss of HK$0.8 million have not been recognised in the Group's income statement.

To date, approximately 99.6% of all residential units completed under Phase I to Phase VIII of MSV had been sold, and approximately 95.8% 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 result, the Board announced on 3 December 2010 to dispose entire issued share capital in MSSL. The disposal was completed on 28 February 2011.

Management Discussion and Analysis

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 2011, 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$48.5 million, a decrease of HK$22.9 million, compared to HK$71.4 million as at 31 December 2010. Current assets as at 31 December 2011 amounted to HK$593.3 million against HK$322.6 million as at 31 December 2010. Current liabilities as at 31 December 2011 amounted to HK$123.1 million, compared to HK$117.2 million as at 31 December 2010.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2011, the Group's total borrowings was HK$16.7 million (2010: HK$16.7 million) comprising non-interest-bearing other borrowings. As at 31 December 2011, the Group's available banking facilities not utilised is Nil (2010: Nil).

The Group's total equity as at 31 December 2011 was HK$518.8 million (2010: HK$276.8 million).

The Group's gearing ratio as at 31 December 2011 was 3.2% compared to 6.0% for 2010. 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 Chinese Renminbi, which is derived from its sales of property units in Zhongshan, PRC.

Capital Commitments

The Group had capital commitments amounting to HK$0.3 million as at 31 December 2011 (2010: HK$3.4 million).

Contingent Liabilities

As at 31 December 2011, the Group had contingent liabilities amounting to HK$3.0 million (2010: HK$27.1 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 MSV and MSP. The Directors considered that the fair value of such guarantee on initial recognition was insignificant.

Charges on Group Assets

As at 31 December 2011, non-current bank balances amounting to HK$2.3 million (2010: HK$2.4 million) were pledged to certain banks to secure mortgage loan facilities to purchasers of properties developed by MSV and MSP in Zhongshan, PRC.

STAFF ANALYSIS

The total number of staff employed by the Group as at 31 December 2011 was 361 compared to 370 as at 31 December 2010. 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 has 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 board of directors of the Company (the "Board") presents its annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011.

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 and property development.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements from pages 22 to 74.

No dividends have been declared in respect of the year.

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 76.

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 2011, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (2009 Revision) of the Cayman Islands.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 45 to the consolidated financial statements.

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 ("the Directors") during the year and up to the date of this report were:

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

In accordance with Articles 106 and 107 of the Company's Articles of Association, Mr. CHI Chi Hung, Kenneth, Mr. YEUNG Kwok Leung and Ms. CHAN Hoi Ling shall 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

For a period from 1 January 2011 to 28 February 2011, 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 was previously 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 his common directorship during the said period, he has fulfilled his 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 2011, 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

SUNG Wai Man, Peter

Mr. SUNG, aged 58, was appointed the Chief Executive Officer and an Executive Director of the Company in October 2010. He has over 27 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 was previously the managing director of a private equity fund. He has extensive connections with airlines, hotels and tourism bureaus and business connections.

CHI Chi Hung, Kenneth

Mr. CHI, aged 43, was appointed an Executive Director of the Company in October 2010. He has over 20 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, China Grand Forestry Green Resources Group Limited and M Dream Inworld Limited. Mr. CHI is also an independent non-executive director of ZMAY Holdings Limited, Aurum Pacific (China) Group Limited and Sam Woo Holdings Limited. He was also appointed an independent non-executive director of Interchina Holdings Company Limited, China Natural Investment Company Limited and Perfect Shape (PRC) Holdings Limited respectively in October 2011, December 2011 and February 2012.

YEUNG Kwok Leung

Mr. YEUNG, aged 38, was appointed an Executive Director of the Company in October 2010. He holds a bachelor's degree in accountancy and has over 16 years of experience in auditing, financial controlling, accounting, corporate developments as well as business strategies. 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. Mr. YEUNG resigned as the executive director of China Fortune Financial Group Limited in February 2012. He was appointed an executive director of The Hong Kong Building and Loan Agency Limited in March 2012.

TSO Shiu Kei, Vincent

Mr. TSO, aged 45, was appointed a Non-Executive Director of the Company in October 2010. He 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. He resigned as an independent non-executive director of Sunlink International Holdings Limited in February 2012.

CHAN Hoi Ling

Ms. CHAN, aged 38, was appointed an Independent Non-Executive Director of the Company in October 2010. She 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. Ms. CHAN was an independent non-executive director of China E-Learning Group Limited. Ms. CHAN was also previously an executive director of Climax International Company Limited.

SO Wai Lam

Ms. SO, aged 31, was appointed an Independent Non-Executive Director of the Company in October 2010. She holds a bachelor degree in science with double majors in mathematics and statistics from the University of British Columbia in Canada. Ms. SO has over 8 years of experience in the corporate finance Industry. She was previously an executive director of China Oriental Culture Group Limited.

SUNG Yat Chun

Mr. SUNG, aged 33, was appointed an Independent Non-Executive Director of the Company in October 2010. He 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at 31 December 2011, the following Shareholders had interests in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholders	*Notes*	**Number of shares and underlying shares held (Long Position)**	**Percentage of issued share capital**
Star Advance International Limited ("Star Advance")	*1*	560,000,000	28.99%
Fong Shing Kwong ("Mr. Fong")	*2*	560,000,000	28.99%

Notes:

(1) This represents 560,000,000 shares held by Star Advance.

(2) Mr. Fong is deemed to have interests in the shares through his 100% interest in Star Advance.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF 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 from pages 14 to 19.

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 2011. The Audit Committee constituted three Independent Non-Executive Directors of the Company.

AUDITOR

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.

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

Hong Kong, 28 March 2012

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") considers that good corporate governance is central to safeguarding the interests of the shareholders of the Company and enhancing the performance of the Group. The Company is committed to maintaining and ensuring high standards of corporate governance with an emphasis on the principles of transparency, accountability and independence. 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 2011, except for code provisions A.2.1, A.4.1 and E.1.2. 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. The Board will review the current practices at least annually, and make appropriate changes if considered necessary.

THE BOARD

The Board currently comprises seven directors (the "Directors") in total, with three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors ("INEDs"). The composition of the Board during the year is set out as follows:

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

During the year, the Non-Executive Directors (a majority of whom are independent) provided the Company with a wide range of expertise and a balance of skills and brought independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and Committee meetings.

Throughout the year and up to the date of this report, the Company has three INEDs representing not less than one-third of the Board. 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.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, four Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed "Board Committees" of this report.

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management. The respective functions of the Board and management of the Company have been formalised and set out in writing and will be reviewed by the Board from time to time to ensure that they are consistent with the existing rules and regulations.

Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to the current Board practice, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board meeting. The articles of association of the Company ("Articles of Association") also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings for approving any contract or arrangement in which such Director or any of his/her associates have a material interest.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The functions of Chief Executive Officer are performed by Mr. SUNG Wai Man, Peter. 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.

APPOINTMENT AND 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.

In March 2012, the Board has approved to establish the Nomination Committee effective on 1 April 2012. The Nomination Committee is 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 Nomination Committee shall formulate 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.

Corporate Governance Report

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee and Audit Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned in the section headed "The Board" of this report, have been adopted for the committee meetings so far as practicable.

The individual attendance records of each Director at the meetings of the Board, Remuneration Committee and Audit Committee during the year ended 31st December, 2011 are set out below:

	Number of meetings attended/held		
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors:			
SUNG Wai Man, Peter *(Chief Executive Officer)*	4/4	1/1	
CHI Chi Hung, Kenneth	4/4		
YEUNG Kwok Leung	4/4		
Non-Executive Director:			
TSO Shiu Kei, Vincent	3/4		
INEDs:			
CHAN Hoi Ling	4/4	1/1	2/2
SO Wai Lam	4/4	1/1	1/2
SUNG Yat Chun	4/4	1/1	2/2

REMUNERATION COMMITTEE

The Remuneration Committee was established in August 2005. This Committee currently consists of four members, including Ms. CHAN Hoi Ling (Chairman of the Committee), Ms. SO Wai Lam, Mr. SUNG Yat Chun, all being the INEDs and Mr. SUNG Wai Man, Peter, being the Executive Director.

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.

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. One Committee meeting was held in 2011 and the attendance of each member is set out in the section headed "Board Committees" of this report.

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2011. In 2011 and up to the date of this report, the Remuneration Committee performed the works as summarised below:

(i) reviewed the existing policy and structure for the remuneration of Directors;

(ii) reviewed the existing remuneration packages of the Executive Directors;

(iii) reviewed the existing remuneration of the Non-Executive Directors (including the INEDs);

(iv) reviewed and recommended the renewal of the term of appointment of the INEDs for a period commencing from 7 October 2011 to 31 December 2012 for the Board's approval; and

(v) reviewed and recommended the updated terms of reference of Remuneration Committee for the Board's approval.

The remuneration payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements.

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

AUDIT COMMITTEE

The Audit Committee was established in March 1999. This Committee currently consists of three members, including Ms. CHAN Hoi Ling (Chairman of the Committee), Ms. SO Wai Lam and Mr. SUNG Yat Chun, all being the INEDs.

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 Audit Committee shall meet at least twice a year in accordance with its terms of reference. Two Committee meetings were held in 2011 and the attendance of each member is set out in the section headed "Board Committees" of this report.

In addition to the Committee meeting, the Audit Committee also dealt with matters by way of circulation during 2011. In 2011 and up to the date of this report, the Audit Committee performed the works as summarized below:

(i) reviewed and recommended 2010 final results, audit findings and draft final results announcement for the Board's approval;

(ii) reviewed and considered various accounting issues and new accounting standards and their financial impacts;

(iii) considered the audit fee for the Year 2011;

(iv) reviewed and recommended 2011 interim results, audit findings, draft management discussion and analysis section of the interim report for the Board's approval;

(v) reviewed and recommended two Internal Audit Reports for the Board's approval;

(vi) reviewed and recommended Internal Audit Charter for the Board's approval;

(vii) reviewed and recommended 2011 final results, audit findings and draft final results announcements for the Board's approval;

(viii) reviewed and recommended the updated terms of reference of the Audit Committee for the Board's approval;

(ix) reviewed and recommended the Whistle Blower Policy for the Board's approval;

(x) reviewed and recommended Shareholders' Communication Policy for the Board's approval; and

(xi) reviewed and recommended the Report on Internal Control for the Board's approval.

The Company formulated and updated written term of reference for Audit Committee in accordance with requirement of the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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.

Internal Control

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets at all times. In 2011, the Board, through the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

External 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 2011 is set out below:

	HK$'000
Types of services	
Audit fee for the Group	572
Taxation services and others	152
Total	724

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together the latest corporate information and news are also made available on the website of the Company.

The Company's AGM is a valuable forum for the Board to communicate directly with the Shareholders. Under code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting of the Company. Since the Chairman of the Board has not been appointed, no Chairman of the Board was able to attend the annual general meeting of the Company held on 8 June 2011. However, the Board has delegated this Chairman's duty to Mr. CHI Chi Hung, Kenneth, an executive director of the Company. The Board considers that executive director a suitable person for taking up such duty as the executive director has been serving for similar duties for many years and he has good understanding of each operating segment of the Group.

The Chairmen of the Audit Committee and Remuneration Committee or in their absence, another member of the respective committees or failing this his duly appointed delegate, are also available to answer questions at the AGM. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) will also be available to answer questions at any general meeting of the Shareholders to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

Separate resolutions are proposed at the general meetings for each substantial issue, including the re-election of retiring Directors.

The notice to Shareholders is to be sent in the case of AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in case of all other general meetings. An explanation of the detailed procedures of conducting a poll is provided to the Shareholders at the commencement of the meeting. The Chairman answers questions from Shareholders regarding voting by way of a poll. The poll results are published in the manner prescribed under the requirements of the Listing Rules.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but also about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

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 from pages 22 to 74, which comprise the consolidated statement of financial position as at 31 December 2011, 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 2011, and of the Group's profit 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 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
CONTINUING OPERATIONS			
REVENUE	8	**599,865**	558,981
Cost of sales		**(528,982)**	(495,691)
Gross profit		**70,883**	63,290
Other income	9	**20,321**	8,639
Selling expenses		**(9,548)**	(6,229)
Administrative expenses		**(74,480)**	(73,815)
PROFIT/(LOSS) FROM OPERATIONS		**7,176**	(8,115)
Non-recurring expenses	10	**—**	(12,517)
PROFIT/(LOSS) BEFORE TAX	11	**7,176**	(20,632)
Income tax expense	14	**(62)**	(1,957)
Profit/(loss) for the year from continuing operations		**7,114**	(22,589)
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	15	**(207)**	(517)
PROFIT/(LOSS) FOR THE YEAR		**6,907**	(23,106)
Attributable to:			
Owners of the Company	16	**6,891**	(11,157)
Non-controlling interests		**16**	(11,949)
		6,907	(23,106)
EARNINGS/(LOSS) PER SHARE	17		
Basic			
— For profit/(loss) for the year		**0.55 cent**	(4.62 cent)
— For profit/(loss) from continuing operations		**0.57 cent**	(4.41 cent)
Diluted			
— For profit/(loss) for the year		**—**	—
— For profit/(loss) from continuing operations		**—**	—

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	**2011** **HK$'000**	2010 HK$'000
Profit/(loss) for the year		**6,907**	(23,106)
Other comprehensive income:			
Reclassification adjustments for gain on available-for-sale financial assets		**(3,059)**	—
Changes in fair value of available-for-sale financial assets		**—**	(199)
Exchange differences on translation of foreign operations		**4,354**	4,659
Other comprehensive income for the year		**1,295**	4,460
Total comprehensive income/(expense) for the year		**8,202**	(18,646)
Attributable to:			
Owners of the Company	*16*	**8,186**	(6,697)
Non-controlling interests		**16**	(11,949)
		8,202	(18,646)

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**21,078**	17,038
Property under development	19	**3,806**	3,806
Prepaid land lease payments	20	**3,035**	2,983
Investment in an associate	21	**—**	—
Available-for-sale financial assets	22	**—**	26,826
Other assets	23	**8,225**	8,217
Pledged bank balances	24	**2,343**	2,417
Deferred tax assets	25	**10,043**	10,086
		48,530	71,373
CURRENT ASSETS			
Properties held for sale under development	26	**66,233**	65,908
Properties held for sale	27	**35,225**	59,719
Inventories	28	**754**	380
Trade receivables	29	**5,896**	8,435
Prepayments, deposits and other receivables	30	**45,861**	27,063
Financial assets at fair value through profit or loss	31	**—**	—
Due from related companies	32	**8,788**	8,093
Due from associates	33	**921**	920
Cash and cash equivalents	34	**429,647**	134,791
		593,325	305,309
Assets of a disposal group classified as held for sale	15	**—**	17,323
TOTAL CURRENT ASSETS		**593,325**	322,632
CURRENT LIABILITIES			
Due to related companies	32	**2,279**	2,279
Due to associates	33	**129**	129
Tax payables		**4,256**	4,382
Trade payables, other payables and accruals	35	**99,695**	87,121
Non-interest-bearing other borrowings	36	**16,710**	16,710
		123,069	110,621
Liabilities directly associated with the assets classified as held for sale	15	**—**	6,589
TOTAL CURRENT LIABILITIES		**123,069**	117,210
NET CURRENT ASSETS		**470,256**	205,422
NET ASSETS		**518,786**	276,795
CAPITAL AND RESERVES			
Share capital	37	**19,316**	482,910
Reserves	39	**440,586**	(264,983)
Equity attributable to owners of the Company		**459,902**	217,927
Non-controlling interests		**58,884**	58,868
TOTAL EQUITY		**518,786**	276,795

SUNG Wai Man, Peter	**CHI Chi Hung, Kenneth**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital HK$'000 *(Note 37)*	Share premium account HK$'000 *(Note 39)*	Foreign currency translation reserve HK$'000	Capital reduction reserve HK$'000 *(Note 39)*	Other reserve HK$'000	Available-for-sales financial assets valuation reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	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
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**6,891**	**6,891**	**16**	**6,907**
Other comprehensive income/(expense) for the year	**—**	**—**	**4,354**	**—**	**—**	**(3,059)**	**—**	**1,295**	**—**	**1,295**
Total comprehensive income/(expense) for the year	**—**	**—**	**4,354**	**—**	**—**	**(3,059)**	**6,891**	**8,186**	**16**	**8,202**
Capital reduction *(note 37)*	**(480,495)**	**—**	**—**	**191,925**	**—**	**—**	**288,570**	**—**	**—**	**—**
Open offer *(note 37)*	**12,072**	**221,717**	**—**	**—**	**—**	**—**	**—**	**233,789**	**—**	**233,789**
Bonus share issued *(note 37)*	**4,829**	**(4,829)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2011	**19,316**	**223,216**	**17,586**	**191,925**	**(1,522)**	**—**	**9,381**	**459,902**	**58,884**	**518,786**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before tax:		
From continuing operations	**7,176**	(20,632)
From a discontinued operation	**(207)**	(517)
	6,969	(21,149)
Adjustments for:		
Interest income	**(4,554)**	(353)
Depreciation	**2,271**	1,356
Amortisation on prepaid land lease payments	**73**	70
Loss on disposal of property, plant and equipment	**1**	74
Gain on disposal of a subsidiary	**(3,000)**	—
Gain on disposal of available-for-sale financial assets	**(3,326)**	—
Gain on deregistration of subsidiaries	**—**	(1,870)
	(1,566)	(21,872)
Decrease in properties held for sale	**26,115**	15,351
(Increase)/decrease in other assets	**(153)**	212
Increase in inventories	**(374)**	(51)
Decrease in trade receivables	**1,957**	13,750
Increase in prepayments, deposits and other receivables	**(18,868)**	(4,794)
Increase in due from related companies	**(695)**	(205)
Increase in client trust bank balances	**184**	(22)
Increase in trade payables, other payables and accruals	**13,756**	6,337
Increase in due to related companies	**—**	358
Net cash generated from operations	**20,356**	9,064
Overseas taxes paid	**(1,266)**	(1,804)
Net cash from operating activities	**19,090**	7,260

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
Net cash from operating activities		**19,090**	7,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,554**	353
Proceeds from disposal of property, plant and equipment		**877**	364
Proceeds from disposal of available-for-sale financial assets		**27,093**	—
Net inflow from disposal of a subsidiary		**3,831**	—
Purchases of property, plant and equipment		**(7,157)**	(675)
Increase in due from associates		**(1)**	(5)
Decrease in pledged bank balances		**74**	980
Net cash from investing activities		**29,271**	1,017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**233,789**	—
Net cash from financing activities		**233,789**	—
NET INCREASE IN CASH AND CASH EQUIVALENTS		**282,150**	8,277
Effect of foreign exchange rate changes, net		**2,531**	2,079
		284,681	10,356
CASH AND CASH EQUIVALENTS, AT 1 JANUARY		**144,966**	134,610
CASH AND CASH EQUIVALENTS, AT 31 DECEMBER		**429,647**	144,966
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*34*	**429,647**	134,791
Cash and bank balances attributable to a discontinued operation	*15*	**—**	10,175
		429,647	144,966

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

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 2011. 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.

3. ADOPTION OF NEW AND REVISED HKFRSs

The HKICPA has issued a number of new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2011. The Group has adopted the following new and revised HKFRSs issued up to 31 December 2011 which are pertinent to its operations and relevant to these financial statements.

• HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
• HKAS 24 (Revised)	*Related Party Disclosures*
• HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
• HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
• HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
• Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The principal effects of adopting these new and revised HKFRSs are as follows:

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures in HKFRS 7 Amendments. As the Group is not a first-time adopter of HKFRSs, the amendment has no financial impact on the Group.

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The revised standard has no financial impact on the Group.

HKAS 32 Amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment contained in this update requires that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment has no financial impact on the Group.

HK(IFRIC)-Int 14 Amendments require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments have no financial impact on the Group.

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are re-negotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. As the Group has not re-negotiated the terms of any financial liability which resulted in the issue of equity instruments to settle such financial liability, the interpretation has no financial impact on the Group.

Improvements to HKFRSs 2010 issued in May 2010 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 financial position or performance of the Group. Details of the key amendments applicable to the Group are as follows:

(a) HKFRS 1 Amendment addresses the presentation and disclosure requirements for an entity which changes its accounting policies or its uses of the exemptions contained in this HKFRS. It also introduces the use of the revaluation basis as deemed cost and extends the use of the deemed cost exemption to entities with operations subject to rate regulation.

(b) HKFRS 3 Amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another HKFRS.

The amendment also adds explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(c) HKFRS 7 Amendment is intended to simplify the disclosures by reducing the volume of disclosures on collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

(d) HKAS 1 Amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

(e) HKAS 27 Amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

(f) HKAS 34 Amendment requires the update of relevant information related to significant events and transactions in the most recent annual financial report. HKAS 34 now specifies events and transactions for which disclosures are required, and guidance has been added covering the application of the requirements for financial instruments.

(g) HK(IFRIC)-Int 13 clarifies that fair value of award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

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 financial statements:

• HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
• HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
• HKFRS 9	*Financial Instruments*[6]
• HKFRS 10	*Consolidated Financial Statements*[4]
• HKFRS 11	*Joint Arrangements*[4]
• HKFRS 12	*Disclosure of Interests in Other Entities*[4]
• HKFRS 13	*Fair Value Measurement*[4]
• HKAS 1 Amendments	*Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
• HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
• HKAS 19 (2011)	*Employee Benefits*[4]
• HKAS 27 (2011)	*Separate Financial Statements*[4]
• HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
• HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
• HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 *effective for annual periods beginning on or after 1 July 2011*
2 *effective for annual periods beginning on or after 1 January 2012*
3 *effective for annual periods beginning on or after 1 July 2012*
4 *effective for annual periods beginning on or after 1 January 2013*
5 *effective for annual periods beginning on or after 1 January 2014*
6 *effective for annual periods beginning on or after 1 January 2015*

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 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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.

(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 use.

(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 net 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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, or it 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 statement 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 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 are 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, on 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 subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are 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, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 described 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 2011 was HK$131,138,000 (2010: HK$199,973,000). 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 identifies reportable segments, on the basis of the products and services, for internal reports about components of the Group that are regularly reviewed by the chief operation decision maker for the purpose of allocating resources to segments and assessing their performance. There are three reportable operating segments identified 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 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 result represents the profit or loss earned before tax from continuing operations without allocation of interest income from bank deposits, unallocated expenses (including central administration costs and directors' remuneration) and finance costs. This is the measure reported to the chief operation decision makers and the board of directors for the purposes of resources allocation and performance assessment.

Segment assets exclude financial instruments 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.

The following is an analysis of the Group's revenue and result by reportable segments:

	Travel and travel-related services		Property development		Corporate and other businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**566,343**	536,891	**33,522**	22,090	**—**	—	**599,865**	558,981
Other revenue	**7,425**	5,304	**1,318**	834	**698**	177	**9,441**	6,315
Total revenue	**573,768**	542,195	**34,840**	22,924	**698**	177	**609,306**	565,296
Reconciliation:								
Interest income							**4,554**	353
Gain on deregistration of subsidiaries							**—**	1,870
Gain on disposal of a subsidiary							**3,000**	—
Gain on disposal of available-for-sale financial assets							**3,326**	—
Foreign exchange gains, net							**—**	101
Revenue from continuing operations							**620,186**	567,620
Segment result	**3,645**	12,639	**(105)**	(14,221)	**5,799**	(46)	**9,339**	(1,628)
Reconciliation:								
Interest income							**4,554**	353
Unallocated expenses							**(6,717)**	(6,840)
Profit/(loss) from operations							**7,176**	(8,115)
Non-recurring expenses							**—**	(12,517)
Profit/(loss) before tax from continuing operations							**7,176**	(20,632)

Revenue reported above represents revenue generated from external customers.

	Travel and travel-related services		Property development		Corporate and other businesses		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**91,119**	67,726	**250,124**	250,906	**539,412**	244,067	**880,655**	562,699
Reconciliation:								
Elimination of intersegment receivables							**(238,800)**	(212,843)
Assets related to a discontinued operation							**—**	17,323
Available-for-sale financial assets							**—**	26,826
Financial assets at fair value through profit or loss							**—**	—
Total assets							**641,855**	394,005
Segment liabilities	**204,469**	185,097	**26,725**	32,283	**113,965**	89,374	**345,159**	306,754
Reconciliation:								
Elimination of intersegment payables							**(238,800)**	(212,843)
Liabilities related to a discontinued operation							**—**	6,589
Non-interest-bearing other borrowings							**16,710**	16,710
Total liabilities							**123,069**	117,210

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 two main geographical areas — Hong Kong and elsewhere in the People's Republic of China (the "PRC").

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 2011	Year ended 31 December 2010	**As at 31 December 2011**	As at 31 December 2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**460,439**	412,043	**11,715**	34,097
PRC	**139,426**	146,938	**25,030**	25,337
Australia	**—**	—	**—**	11
Other countries	**—**	—	**11,785**	11,928
	599,865	558,981	**48,530**	71,373

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 (2010: Nil).

8. REVENUE

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

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Rendering of travel and travel-related services	**566,343**	536,891
Sales of properties held for sale	**33,522**	22,090
	599,865	558,981

9. OTHER INCOME

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Interest income		
Bank interest income	**4,521**	323
Other interest income	**33**	30
	4,554	353
Visa income	**347**	318
Commission income	**5,598**	4,584
Others	**3,496**	1,413
	13,995	6,668
Gains		
Gain on disposal of a subsidiary	**3,000**	—
Gain on deregistration of subsidiaries	**—**	1,870
Gain on disposal of available-for-sale financial assets	**3,326**	—
Foreign exchange gains, net	**—**	101
	6,326	1,971
	20,321	8,639

10. NON-RECURRING EXPENSES

	2011 HK$'000	2010 HK$'000
Written-off irrecoverable balances of trade and other receivables	—	12,517

11. PROFIT/(LOSS) BEFORE TAX

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

	2011 HK$'000	2010 HK$'000
Cost of inventories sold	**400**	290
Cost of services provided	**503,342**	478,413
Cost of properties sold	**25,240**	16,988
Depreciation	**2,271**	1,338
Amortisation of prepaid land lease payments	**73**	70
Minimum lease payments under operating leases in respect of land and buildings	**15,049**	13,248
Auditor's remuneration		
— Current year	**572**	562
— Under provisions	**—**	1
	572	563
Employee benefit expenses (including directors' remuneration *(note 12)*)		
Wages and salaries	**34,437**	31,368
Retirement benefits scheme contributions	**1,892**	1,407
	36,329	32,775
Gain on deregistration of subsidiaries	**—**	(1,870)
Gain on disposal of a subsidiary	**(3,000)**	—
Gain on disposal of available-for-sale financial assets	**(3,326)**	—
Loss on disposal of property, plant and equipment	**1**	74

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:

	2011 HK$'000	2010 HK$'000
Fees:		
Executive Directors	—	—
Non-Executive Directors	—	—
	—	—
Other emoluments:		
Executive Directors:		
Basic salaries, housing, other allowances and benefits in kind	2,657	1,973
Retirement benefits scheme contributions	12	—
Non-Executive Directors:		
Basic salaries, housing, other allowances and benefits in kind	300	70
	2,969	2,043
	2,969	2,043

The emoluments paid or payable to directors are as follows:

2011

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	—	2,417	12	2,429
CHI Chi Hung, Kenneth	—	120	—	120
YEUNG Kwok Leung	—	120	—	120
Non-executive Director				
TSO Shiu Kei, Vincent	—	120	—	120
Independent Non-executive Directors				
SO Wai Lam	—	60	—	60
SUNG Yat Chun	—	60	—	60
CHAN Hoi Ling	—	60	—	60
	—	2,957	12	2,969

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

There was no arrangement under which a Director waived or agreed to waive any remuneration for the years ended 31 December 2011 and 2010.

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 one (2010: two) director, details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining four (2010: three) non-director, highest paid employees for the year are as follows:

	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,063**	1,623
Performance related bonuses	**—**	—
Retirement benefits scheme contributions	**92**	76
	2,155	1,699

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**4**	3

14. INCOME TAX EXPENSE

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at the rate of 25% (2010: 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.

	2011	2010
	HK$'000	HK$'000
Continuing operations		
Current — Hong Kong	**—**	—
Current — PRC		
Charge for the year	**—**	14
Current — Other countries		
Charge for the year	**17**	—
Deferred *(note 25)*	**45**	1,943
Total tax charge for the year	**62**	1,957

In 2011, 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 (2010: Nil).

(b) A reconciliation of the tax expense applicable to profit/(loss) 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, is as follows:

	2011	2010
	HK$'000	HK$'000
Profit/(loss) before tax from continuing operations	**7,176**	(20,632)
Tax at statutory tax rates applicable to profit/(loss) in the respective countries (or jurisdictions)	**1,236**	(4,915)
Income not subject to tax	**(1,863)**	(12,664)
Expenses not deductible for tax	**1,046**	11,783
Tax losses utilised from previous periods	**(924)**	(17)
Tax losses not recognised	**964**	7,770
Unrecognised temporary differences	**(397)**	—
Tax charge at the Group's effective rate	**62**	1,957

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 was completed on 28 February 2011.

The results of MSSL for the year are presented below:

	2011	2010
	HK$'000	HK$'000
Revenue	**127**	1,530
Expenses	**(334)**	(2,047)
Loss before tax from the discontinued operation	**(207)**	(517)
Attributable income tax expense	**—**	—
Loss for the year from the discontinued operation	**(207)**	(517)

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

	2010
	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 MSSL are as follows:

	2011 HK$'000	2010 HK$'000
Operating activities	**(478)**	(527)
Investing activities	**—**	(13,291)
Net cash outflow	**(478)**	(13,818)
Loss per share *(note 17)*:		
From the discontinued operation		
Basic	**(0.02 cent)**	(0.21 cent)
Diluted	**—**	—

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

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 December 2011 includes a profit of HK$5,310,000 (2010: HK$11,830,000) which has been dealt with in the financial statements of the Company (note 39).

17. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,241,672,808 (2010: 241,545,755 as restated; 2,414,547,555 as previously reported) in issue during the year.

No diluted earnings/(loss) per share are presented as the Company had no potentially dilutive ordinary shares in issue during 2011 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 2010	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
Additions	—	7,157	—	7,157
Disposals	(970)	(78)	—	(1,048)
Exchange realignment	22	32	35	89
At 31 December 2011	**27,498**	**28,496**	**1,142**	**57,136**
Accumulated depreciation and impairment:				
At 1 January 2010	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
Charge for the year	555	1,612	104	2,271
Disposals	(93)	(77)	—	(170)
Exchange realignment	3	29	25	57
At 31 December 2011	**12,859**	**22,470**	**729**	**36,058**
Net carrying amount:				
At 31 December 2011	**14,639**	**6,026**	**413**	**21,078**
At 31 December 2010	16,052	479	507	17,038

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

19. PROPERTY UNDER DEVELOPMENT

	2011 HK$'000	2010 HK$'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

	2011 HK$'000	2010 HK$'000
Cost:		
At 1 January	**3,964**	3,804
Exchange realignment	**168**	160
At 31 December	**4,132**	3,964
Accumulated amortisation:		
At 1 January	**981**	873
Charge for the year	**73**	70
Exchange realignment	**43**	38
At 31 December	**1,097**	981
Net carrying amount		
At 31 December	**3,035**	2,983

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

	2011 HK$'000	2010 HK$'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 2011	2010	Principal activity
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:

	2011 HK$'000	2010 HK$'000
Total assets	**609**	609
Total liabilities	**(1,868)**	(1,860)
Total revenue	—	—
Loss for the year	**(8)**	(5)

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$4,000 (2010:HK$3,000) and HK$635,000 (2010: HK$631,000) respectively.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 HK$'000	2010 HK$'000
Listed equity securities, at fair value		
Overseas	—	26,826
Unlisted equity investments, at cost	**39,100**	39,100
Less: impairment	**(39,100)**	(39,100)
	—	—
	—	26,826

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$Nil (2010: HK$199,000).

23. OTHER ASSETS

	2011	2010
	HK$'000	HK$'000
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders") *(Note)*	**7,978**	8,123
Guarantee deposits	**247**	94
	8,225	8,217

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 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	**Losses available for offsetting against future taxable profits**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	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
Charged to the income statement	—	—	(45)	(45)
Exchange realignment	—	—	2	2
At 31 December 2011	**440**	**9,576**	**27**	**10,043**

As at 31 December 2011, the Group has tax losses arising in Hong Kong of HK$137,996,000 (2010: HK$207,127,000) 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$31,200,000 (2010: HK$33,690,000) 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$38,058,000 (2010: HK$40,844,000) of such losses. No deferred tax asset has been recognised in respect of the remaining of HK$131,138,000 (2010: HK$199,973,000) due to the unpredictability of future profit streams.

As at 31 December 2011, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised HK$348,000 (2010: HK$891,000). 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

	2011	2010
	HK$'000	HK$'000
Located in the PRC		
Properties held for sale under development, at cost	**66,233**	65,908

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

	2011	2010
	HK$'000	HK$'000
Located in the PRC		
Properties held for sale, at cost	**35,225**	59,719

28. INVENTORIES

	2011	2010
	HK$'000	HK$'000
Goods held for resale, at cost	**754**	380

29. TRADE RECEIVABLES

	2011	2010
	HK$'000	HK$'000
Trade receivables, gross	**6,010**	8,676
Provision for impairment	**(114)**	(241)
	5,896	8,435

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:

	2011 HK$'000	2010 HK$'000
Within 1 month	**1,875**	363
1–3 months	**3,879**	5,698
4–12 months	**6**	2,198
Over 1 year	**136**	176
	5,896	8,435

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$Nil (2010: HK$202,000) are aged within 1 month as neither past due nor impaired.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'000
Deposits	**21,585**	18,310
Prepayments and other receivables	**24,276**	8,753
	45,861	27,063

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 HK$'000	2010 HK$'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 2011 HK$'000**	Maximum amount outstanding during the year HK$'000	At 1 January 2011 HK$'000
Zhongshan Morning Star Plaza Properties Management Limited	**1,589**	1,589	1,516
Morning Star Villa Management Limited ("MVM")	**7,199**	7,199	6,577
	8,788	8,788	8,093

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 per annum, the balances with related companies are interest-free.

The Group and the above related companies have common directors.

33. BALANCES WITH ASSOCIATES

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

34. CASH AND CASH EQUIVALENTS

	2011 HK$'000	2010 HK$'000
Time deposits	**329,374**	29,060
Cash and bank balances	**100,273**	105,731
	429,647	134,791

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$57,873,000 (2010: HK$64,019,000). 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

	2011 HK$'000	2010 HK$'000
Trade payables	**35,493**	31,106
Received in advance for sales of properties held for sale	**6,263**	8,222
Other payables and accruals	**57,939**	47,793
	99,695	87,121

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

	2011 HK$'000	2010 HK$'000
Within 1 month	**32,174**	26,954
1–3 months	**1,220**	2,389
4–12 months	**591**	767
Over 1 year	**1,508**	996
	35,493	31,106

The trade payables included in a disposal group (note 15) of HK$Nil (2010: 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

	2011 HK$'000	2010 HK$'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

	2011 HK$'000	2010 HK$'000
Authorised:		
100,000,000,000 (2010: 5,000,000,000) ordinary shares of HK$0.01 (2010: HK$0.20) each	**1,000,000**	1,000,000
Issued and fully paid:		
1,931,638,040 (2010: 2,414,547,555) ordinary shares of HK$0.01 (2010: HK$0.20) each	**19,316**	482,910

On 7 January 2011, an ordinary resolution and a special resolution were passed at an extraordinary general meeting in connection with (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; (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; (e) 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; and (f) 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. All the transactions were completed on or before 27 May 2011.

38. FINANCIAL POSITION OF THE COMPANY

	2011 HK$'000	2010 HK$'000
Investments in subsidiaries	**44,801**	44,801
Due from subsidiaries	**131,421**	148,577
Due from an associate	**106**	105
Cash and cash equivalents	**331,176**	49,900
Other assets	**1,357**	819
Due to subsidiaries	**(68,102)**	(42,521)
Other current liabilities	**(923)**	(944)
NET ASSETS	**439,836**	200,737
Share capital	**19,316**	482,910
Reserves	**420,520**	(282,173)
TOTAL EQUITY	**439,836**	200,737

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 25 of the consolidated financial statements.

(b) Company

	Share premium account HK$'000	Capital reduction reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2010	6,328	—	(300,331)	(294,003)
Profit for the year	—	—	11,830	11,830
At 31 December 2010	6,328	—	(288,501)	(282,173)
Capital reduction	—	191,925	288,570	480,495
Open offer	221,717	—	—	221,717
Bonus share issued	(4,829)	—	—	(4,829)
Profit for the year	—	—	5,310	5,310
At 31 December 2011	**223,216**	**191,925**	**5,379**	**420,520**

40. DISPOSAL OF A SUBSIDIARY

On 28 February 2011, the Group disposed of its entire equity interests in MSSL which carried out almost all of its financial services operations. The net assets of MSSL at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	2
Other assets	600
Trade receivables	784
Prepayments, deposits and other receivables	101
Client trust bank balances	6,129
Cash and cash equivalents	9,697
Trade payables	(266)
Other payables and accruals	(6,519)
	10,528
Gain on disposal	3,000
Satisfied by:	
Cash	13,528

41. CONTINGENT LIABILITIES

As at 31 December 2011, the Group had contingent liabilities amounting to HK$2,958,000 (2010: HK$27,059,000) 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 the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 **HK$'000**	2010 HK$'000
Within one year	**13,588**	11,672
In the second to fifth years, inclusive	**7,449**	11,926
	21,037	23,598

43. CAPITAL COMMITMENTS

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

	2011 **HK$'000**	2010 HK$'000
Contracted, but not provided for:		
Leasehold improvement	**186**	97
Furniture, fixtures and equipment	**88**	3,332
	274	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 a related party during the year:

	Notes	**2011** **HK$'000**	2010 HK$'000
Interest income from MVM	*(i)*	**33**	30
Property management fees to MVM	*(ii)*	**107**	99

Notes:

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

(ii) Property management fees paid to MVM represent 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.

(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 respectively.

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

45. ADOPTION OF NEW SHARE OPTION SCHEME

The Company operates a new share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company›s subsidiaries. The Scheme became effective on 8 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any options to be granted under any other scheme must not in aggregate exceed 10% of the aggregate of the shares in issue as at the adoption date. Options lapsed in accordance with the terms of the Scheme and any other scheme will not be counted for the purpose of calculating the 10% limit.

Each grant of options to a participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective associates, under the Scheme must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director who is the proposed grantee of the options). Where any grant of options to substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (A) representing in aggregate over 0.1% of the shares in issue; and (B) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options by the board must be approved by the shareholders in general meeting (the vote on such approval to be taken on a poll). Any shareholder who is connected person of the Company must abstain from voting in favour of the resolution to approve such further grant of options. A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing the recommendation from the independent non-executive directors (excluding any independent non-executive director who is the grantee of the option) as to voting and any other information as required under the Listing Rules. Any change in the terms of options granted to substantial shareholders or independent non-executive directors or any of their respective associates must be approved by the shareholders in general meeting.

A participant shall pay the Company HK$1.00 for the grant of an option on acceptance of an option offer within 21 days after the offer date. The option price will be determined by the board at its absolute discretion and notified to an option-holder. The minimum option price shall not be less than the highest of: (A) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (B) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (C) the nominal value of the shares.

No dividends will be payable and no voting rights will be exercisable in relation to an option that has not been exercised (including those arising on a liquidation of the Company). Shares issued on the exercise of an option will rank equally in all respects with the shares in issue on the date of allotment. They will not rank for any rights (which include, among other things, voting rights and dividend rights) attaching to shares by reference to a date preceding the date of allotment. The shares subject to the Scheme are not required to be separately designated.

No options were granted during the year ended 31 December 2011.

46. 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

2011

	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	—	—	—	—
Trade receivables	—	**5,896**	—	**5,896**
Prepayments, deposits and other receivables	—	**45,861**	—	**45,861**
Financial assets at fair value through profit or loss	—	—	—	—
Due from related companies	—	**8,788**	—	**8,788**
Due from associates	—	**921**	—	**921**
Cash and cash equivalents	—	**429,647**	—	**429,647**
Other assets	—	**8,225**	—	**8,225**
Pledged bank balances	—	**2,343**	—	**2,343**
	—	**501,681**	—	**501,681**

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

Financial liabilities

Financial liabilities at amortised costs	2011 HK$'000	2010 HK$'000
Trade payables, other payables and accruals	**99,695**	87,121
Due to related companies	**2,279**	2,279
Due to associates	**129**	129
Non-interest bearing other borrowings	**16,710**	16,710
	118,813	106,239

47. 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.

48. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2011 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 2011	2010	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 Travel Service Limited	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

Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company 2011	2010	Class of shares held	Principal activities
Morning Star Financial Services Limited	Hong Kong	HK$42,924,000	***100**	*100	Ordinary	Investment holding
Morning Star Foreign Exchange Limited	Hong Kong	HK$300,000	**100**	100	Ordinary	Money lending
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 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
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 HK$300,000	**100** **100**	100 100	Ordinary Non-voting deferred	Investment holding
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 2011 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.

49. 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 2011, 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 profit before tax and equity by approximately HK$4,319,000 (2010: HK$1,375,000).

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 2010.

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 2011, the sensitivity analysis of a 1% and 5% decrease in HKD against USD and other foreign currencies would have a decrease of HK$161,000 and an increase of HK$3,091,000 in equity (2010: a decrease of HK$167,000 and an increase of HK$4,544,000) 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 different 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 2011 in relation to each class of recognised 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 (2010: 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 2011 and 31 December 2010.

50. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

51. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2012.

Schedule of Major Properties

For the year ended 31 December 2011

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	1,334	55
Morning Star Plaza Qing Miao Di Hou Shan Guan Li Qu Xi Qu Zhongshan Guangdong PRC	Residential/Commercial	6,980	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				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
TURNOVER	**599,865**	558,981	505,586	481,741	534,163
PROFIT/(LOSS) BEFORE TAX	**7,176**	(20,632)	5,698	(26,867)	(9,530)
INCOME TAX EXPENSE	**(62)**	(1,957)	(4,113)	(3,830)	(1,029)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**7,114**	(22,589)	1,585	(30,697)	(10,559)
DISCONTINUED OPERATION					
(Loss)/profit for the year from a discontinued operation	**(207)**	(517)	(282)	(243)	2,983
PROFIT/(LOSS) FOR THE YEAR	**6,907**	(23,106)	1,303	(30,940)	(7,576)
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**6,891**	(11,157)	2,596	(31,034)	(10,824)
NON-CONTROLLING INTERESTS	**16**	(11,949)	(1,293)	94	3,248
	6,907	(23,106)	1,303	(30,940)	(7,576)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
NON-CURRENT ASSETS	**48,530**	71,373	75,508	61,538	92,137
CURRENT ASSETS	**593,325**	322,632	333,331	336,564	401,763
CURRENT LIABILITIES	**(123,069)**	(117,210)	(112,813)	(106,425)	(166,951)
NET ASSETS	**518,786**	276,795	296,026	291,677	326,949
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE COMPANY	**459,902**	217,927	227,684	221,500	256,866
NON-CONTROLLING INTERESTS	**58,884**	58,868	68,342	70,177	70,083
TOTAL EQUITY	**518,786**	276,795	296,026	291,677	326,949