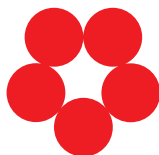

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Morning Star Resources Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.



星晨集團有限公司*

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 542)

- (1) PROPOSED CAPITAL REORGANISATION;
(2) CHANGE OF BOARD LOT SIZE;
(3) PROPOSED OPEN OFFER ON THE BASIS OF FIVE OFFER SHARES
FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE
WITH BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES
FOR EVERY FIVE OFFER SHARES TAKEN UP UNDER THE OPEN OFFER;
(4) AMENDMENTS TO ARTICLES OF ASSOCIATION;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LTD.

Underwriter to the Open Offer



KINGSTON SECURITIES LTD.

Independent financial adviser to the Independent Board Committee
and the Independent Shareholders



信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from Cinda International Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 44 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Meeting Room No. 9, 7/F, Hongkong International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong at 11:00 a.m. on Friday, 7 January 2011 is set out on pages 61 to 64 of this circular. A form of proxy for use by the Shareholders at the extraordinary general meeting is enclosed herein. Whether or not you intend to attend and vote at the extraordinary general meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's registrar in Hong Kong, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

The Open Offer is subject to the satisfaction of certain conditions as described under the section headed "Conditions of the Open Offer (with Bonus Issue)". In particular, it is subject to the Underwriter not terminating the Underwriting Agreement (see the section headed "Termination of the Underwriting Agreement?" herein) on or before the Latest Time for Termination. Accordingly, the Open Offer (with Bonus Issue) may or may not become unconditional and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares or Adjusted Shares up to the date when the conditions of the Open Offer (with Bonus Issue) are fulfilled.

* For identification purpose only

TERMINATION OF UNDERWRITING AGREEMENT

Shareholders should note that the Underwriting Agreement contains provisions entitling the Underwriter, by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if:

1. in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - 1.1. the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - 1.2. the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter are likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
3. there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or

TERMINATION OF UNDERWRITING AGREEMENT

6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Open Offer; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer, the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

1. any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or
2. any Specified Event comes to the knowledge of Kingston Securities.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

CONTENTS

| | <i>Page</i> |
|---|-------------|
| Definitions | 1 |
| Expected timetable | 6 |
| Letter from the Board | 9 |
| Letter from the Independent Board Committee | 28 |
| Letter from Cinda International | 29 |
| Appendix I – Financial information of the Group | 45 |
| Appendix II – Unaudited Pro Forma financial information of the Group | 48 |
| Appendix III – General information | 52 |
| Notice of EGM | 61 |

DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

| | |
|---|---|
| “Adjusted Share(s)” | share(s) of HK\$0.01 each in the share capital of the Company after the Capital Reorganisation becoming effective |
| “Announcement” | the announcement of the Company dated 19 November 2010 relating to, amongst other things, the proposed Capital Reorganisation, the change of board lot size, the Open Offer and the Amendments to Articles of Association |
| “Application Form” | the form of application for use by the Qualifying Shareholders to apply for the Offer Shares (with Bonus Shares) which shall be in the agreed form |
| “Amendments to Articles of Association” | the proposed amendments to be made to the Articles to allow the allotment and issue of the Bonus Shares which is not in proportion to the shareholding of the Shareholders |
| “Articles” | the articles of association of the Company |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors |
| “Bonus Issue” | the issue of the Bonus Shares pursuant to the terms and conditions to be set out in the Prospectus Documents |
| “Bonus Shares” | in respect of the Open Offer, the 482,909,510 bonus Adjusted Shares to be issued (for no additional payment) to the First Registered Holders of Offer Shares on the basis of two (2) bonus Adjusted Shares for every five (5) Offer Shares taken up under the Open Offer subject to the terms and conditions as set out in the Prospectus Documents |
| “Business Day” | a day (other than a Saturday, Sunday or public holidays) on which banks are open for general banking business in Hong Kong |
| “Capital Reduction” | the reduction of the nominal value of the issued share capital of the Company from HK\$2.00 per Consolidated Share to HK\$0.01 per Adjusted Share by way of cancellation of HK\$1.99 of the paid up capital on each Consolidated Share |
| “Capital Reorganisation” | the proposed capital reorganisation of the Company involving the Share Consolidation, Capital Reduction and Subdivision |

DEFINITIONS

| | |
|------------------------------|--|
| “CCASS” | the Central Clearing and Settlement System, established and operated by HKSCC |
| “Cinda International” | Cinda International Capital Limited, a corporation licensed to carry out type 1 regulated activity (dealing in securities) and type 6 regulated activity (advising on corporate finance) under the SFO, who has been appointed as the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect to the Open Offer (with Bonus Issue) |
| “Companies Ordinance” | Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time) |
| “Company” | Morning Star Resources Limited, a company incorporated in the Cayman Islands with limited liability and the issued securities of which are listed on the Stock Exchange |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Consolidated Share(s)” | share(s) of HK\$2.00 each in the share capital of the Company after the Share Consolidation but before the Capital Reduction |
| “controlling shareholder(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “EGM” | the extraordinary general meeting of the Company for approving, inter alia, the Capital Reorganisation, the Open Offer (with Bonus Issue) and the Amendments to Articles of Association |
| “Excluded Shareholder(s)” | the Overseas Shareholders at the Record Date where the Directors, after making enquiries, consider it necessary or expedient on account either of legal restriction under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to such Shareholders |
| “First Registered Holders” | Qualifying Shareholders who have applied for and received the Offer Shares allotted to them by the Company after lodging valid Application Forms or in respect of those Underwritten Shares not taken up and those first registered holders who have received the Underwritten Shares which the Underwriter subscribed or procured subscription pursuant to the Underwriting Agreement |
| “Group” | the Company and its subsidiaries |

DEFINITIONS

| | |
|---|---|
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | a committee of the Board, comprising Ms. So Wai Lam, Ms. Chan Hoi Ling and Mr. Sung Yat Chun, being the independent non-executive Directors, constituted to advise the Independent Shareholders on the Open Offer |
| “Independent Shareholder(s)” | the Shareholder(s), other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates, who are not involved in, nor interested in, the Underwriting Agreement |
| “Independent Third Party(ies)” | independent third party(ies) who is (are) not connected person(s) of the Company and is (are) independent of and not connected with the Company and its connected persons |
| “Kingston Securities” or “Underwriter” | Kingston Securities Limited, a corporation licensed to carry out business in type 1 (dealing in securities) regulated activity under the SFO |
| “Last Trading Day” | 19 November 2010, the last day on which the Shares were traded on the Stock Exchange immediately preceding the publication of this announcement |
| “Latest Practicable Date” | 10 December 2010, being the latest practicable date for ascertaining certain information for inclusion in this circular |
| “Latest Time for Acceptance” | being 4:00 p.m. on 23 May 2011 or such other date and/or time as may be agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Offer Shares (with Bonus Shares) as described in the Prospectus |
| “Latest Time for Termination” | 4:00 p.m. on the third Business Day after the Latest Time for Acceptance or such other time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement |
| “Listing Committee” | has the meaning as defined in the Listing Rules |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

DEFINITIONS

| | |
|---------------------------|--|
| “Offer Shares” | 1,207,273,775 Adjusted Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of five (5) Offer Shares for one (1) Adjusted Share held on the Record Date pursuant to the Open Offer |
| “Open Offer” | the proposed issue of the Offer Shares (with Bonus Shares) by way of open offer to the Qualifying Shareholders for subscription pursuant to the terms and conditions to be set out in the Prospectus Documents |
| “Overseas Shareholders” | the Shareholders whose address on the register of members of the Company are outside Hong Kong |
| “Posting Date” | 5 May 2011 or such other day as may be agreed between the Company and the Underwriter for despatch of the Prospectus Documents |
| “Prospectus” | the prospectus to be issued by the Company in relation to the Open Offer on the Posting Date as may be agreed between the Company and the Underwriter |
| “Prospectus Documents” | the Prospectus and the Application Form |
| “PRC” | the People’s Republic of China |
| “Qualifying Shareholders” | the Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date, other than the Excluded Shareholders |
| “Record Date” | 4 May 2011 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Open Offer |
| “Registrar” | Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, the branch share registrar of the Company in Hong Kong |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | the ordinary share(s) of par value HK\$0.20 each in the share capital of the Company as at the Latest Practicable Date |
| “Share Consolidation” | the proposed consolidation of every 10 issued and unissued Shares of HK\$0.20 each into 1 Consolidated Share of HK\$2.00 each |

DEFINITIONS

| | |
|--------------------------|---|
| “Shareholder(s)” | the holder(s) of the Shares or Adjusted Share(s) (as the case may be) |
| “Specified Event” | an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subdivision” | the subdivision of each authorised but unissued Consolidated Share into 200 Adjusted Shares |
| “Subscription Price” | the subscription price of HK\$0.20 per Offer Share |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Underwriting Agreement” | the underwriting agreement dated 19 November 2010 in relation to the Open Offer and the Bonus Issue entered into between the Company and the Underwriter |
| “Underwritten Shares” | 1,207,273,775 Offer Shares underwritten by the Underwriter |
| “Untaken Shares” | those (if any) of the Shares for which duly completed Application Forms (accompanied by cheques or banker’s cashier order for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before Latest Time for Acceptance which shall be not more than 1,207,273,775 Offer Shares |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “%” | per cent |

EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation and the Open Offer is set out below:

2011

Latest time for lodging proxy forms for the EGM. 11:00 a.m. on Wednesday, 5 January

Expected date and time of EGM 11:00 a.m. on Friday, 7 January

Announcement of results of the EGM. Friday, 7 January

The following events are conditional on the results of the EGM and the relevant Court hearings. The dates are therefore tentative.

Expected effective date of the Capital Reorganisation. Thursday, 7 April

Dealings in Adjusted Shares commence Thursday, 7 April

Original counter for trading in existing Shares
in board lots of 2,000 Shares temporarily closes 9:30 a.m. on Thursday, 7 April

Temporary counter for trading in Adjusted Shares
in board lots of 200 Adjusted Shares
(in the form of existing share certificates) opens. 9:30 a.m. on Thursday, 7 April

First day of free exchange of existing share certificates
for new share certificates for Adjusted Shares. Thursday, 7 April

Original counter for trading in Adjusted Shares
in the board lot of 8,000 Adjusted Shares
(in the form of new share certificates) re-opens. 9:30 a.m. on Thursday, 21 April

Parallel trading in Adjusted Shares
(in the form of new share certificates
and existing share certificates) commences 9:30 a.m. on Thursday, 21 April

Designated agent to stand in the market to provide
matching service to facilitate the odd lots trading
commences 9:30 a.m. on Thursday, 21 April

Last day of dealings in the Adjusted Shares on a cum-entitlement basis. Thursday, 21 April

First day of dealings in the Adjusted Shares on an ex-entitlement basis Tuesday, 26 April

Latest time for lodging transfer of Adjusted Shares
for entitlement to the Open Offer 4:30 p.m. on Wednesday, 27 April

EXPECTED TIMETABLE

| | |
|--|--|
| Book closure period (both dates inclusive) | Thursday, 28 April to Wednesday, 4 May |
| Record Date | Wednesday, 4 May |
| Register of members re-opens | Thursday, 5 May |
| Despatch of Prospectus Documents. | Thursday, 5 May |
| Temporary counter for trading in Adjusted Shares in the board lot of 200 Adjusted Shares (in the form of existing share certificates) closes | 4:00 p.m. on Tuesday, 17 May |
| Designated agent to stand in the market to provide matching services ends. | 4:00 p.m. on Tuesday, 17 May |
| Parallel trading in Adjusted Shares (in the form of new share certificates and existing share certificates) ends | 4:00 p.m. on Tuesday, 17 May |
| Last day for free exchange of existing share certificates for new share certificates for Adjusted Shares | Friday, 20 May |
| Latest time for payment for and acceptance of the Offer Shares (with Bonus Issue) | 4:00 p.m. on Monday, 23 May |
| Open Offer becomes unconditional | 4:00 p.m. on Thursday, 26 May |
| Announcement on results of the Open Offer (with Bonus Issue). | Monday, 30 May |
| Certificates for the Offer Shares and the Bonus Shares expected to be despatched on or before | Tuesday, 31 May |
| Dealings in Offer Shares and the Bonus Shares expected to commence | Thursday, 2 June |

Note: All times in this circular refer to Hong Kong time.

Dates or deadlines specified in this circular are indicative only and may be varied by agreement between the Company and the Underwriter. Any consequential changes to the expected timetable will be published or notified to Shareholders as and when appropriate.

EXPECTED TIMETABLE

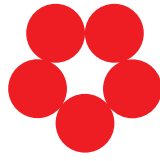
EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES

The latest time for acceptance of and payment for Offer Shares will not take place if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning
 - (i) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on Monday, 23 May 2011. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day; or
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 23 May 2011. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Offer Shares does not take place on Monday, 23 May 2011, the dates mentioned in the section headed “Expected Timetable” may be affected. An announcement will be made by the Company in such event as soon as practicable.

LETTER FROM THE BOARD



星晨集團有限公司*

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

Executive Directors

Mr. SUNG Wai Man, Peter
Mr. CHI Chi Hung, Kenneth
Mr. YEUNG Kwok Leung

Non-executive Director

Mr. TSO Shiu Kei, Vincent

Independent Non-executive Directors

Ms. SO Wai Lam
Ms. CHAN Hoi Ling
Mr. SUNG Yat Chun

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 in Hong Kong*

Unit 1803, 18th Floor
Tower 1, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon, Hong Kong

15 December 2010

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED CAPITAL REORGANISATION;
(2) CHANGE OF BOARD LOT SIZE;
(3) PROPOSED OPEN OFFER ON THE BASIS OF FIVE OFFER SHARES
FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE
WITH BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES
FOR EVERY FIVE OFFER SHARES TAKEN UP UNDER THE OPEN OFFER;
(4) AMENDMENTS TO ARTICLES OF ASSOCIATION;
AND
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING**

* For identification purpose only

LETTER FROM THE BOARD

INTRODUCTION

The Company announced on 19 November 2010 that the Company proposed to:

- (i) implement the Capital Reorganisation which will involve (a) the consolidation of every 10 Shares of HK\$0.20 each into 1 Consolidated Share of HK\$2.00 each; (b) the cancellation of any fractional entitlements remaining following aggregation of all fractional entitlements arising on the Share Consolidation; and a reduction in the nominal value of the then issued Consolidated Shares from HK\$2.00 to HK\$0.01 each; (c) the subdivision of each authorised but unissued Consolidated Share of HK\$2.00 each into 200 Adjusted Shares of HK\$0.01 each; and (d) the total credit arising from the Capital Reduction will be credited to a reserve account of the Company, which will be used, amongst others, to set off against the accumulated losses of the Company;
- (ii) change 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;
- (iii) raise approximately HK\$241.45 million, before expenses, by way of an open offer of 1,207,273,775 Offer Shares at the Subscription Price of HK\$0.20 per Offer Share on the basis of five (5) Offer Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date and payable in full on acceptance. The Bonus Shares will be issued to the First Registered Holders of the Offer Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer; and
- (iv) amend the Article 146A of the Articles to allow the allotment and issue of the Bonus Shares which are not in proportion to the shareholding of the Shareholders by way of capitalisation of the reserve account of the Company.

The purpose of this circular is to provide you with further information regarding, among other things, the Capital Reorganisation, change of board lot size and the Open Offer (with Bonus Issue), the Amendments to Articles of Association, the recommendation of the Independent Board Committee to the Independent Shareholders as regards the Open Offer, the advice from Cinda International to the Independent Board Committee and Independent Shareholders in respect of the Open Offer and to give you the notice of the EGM to be convened for the purpose of considering and, if thought fit, approving the Capital Reorganisation, the Open Offer (with Bonus Issue) and the Amendments to Articles of Association.

LETTER FROM THE BOARD

CAPITAL REORGANISATION

The Capital Reorganisation involves the Share Consolidation, the Capital Reduction and the Subdivision.

Share Consolidation

The Share Consolidation will be implemented to consolidate every ten (10) Shares of HK\$0.20 each into one (1) Consolidated Share of HK\$2.00 each. As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,000,000,000 divided into 5,000,000,000 Shares of HK\$0.20 each. Immediately after the Share Consolidation, the authorised share capital of the Company will be HK\$1,000,000,000 divided into 500,000,000 Consolidated Shares of HK\$2.00 each. As at the Latest Practicable Date, there are 2,414,547,555 Shares in issue and fully paid. On the basis of such issued share capital, there will be 241,454,755.50 Consolidated Shares of HK\$2.00 each in issue once the Share Consolidation becomes effective. The Consolidated Shares will rank pari passu in all respects with each other.

Capital Reduction and Subdivision

The Capital Reduction of approximately HK\$480.49 million will involve (i) the cancellation of any fractional entitlements remaining following aggregation of all fractional entitlements arising on the Share Consolidation; and (ii) a reduction of the nominal value of the then issued Consolidated Shares from HK\$2.00 to HK\$0.01 each by cancelling the paid up capital to the extent of HK\$1.99 on each of the then issued Consolidated Shares.

The Subdivision will involve the sub-division of each authorised but unissued Consolidated Share of HK\$2.00 each into 200 Adjusted Shares of HK\$0.01 each.

The credit arising from the Capital Reduction will be credited to a reserve account of the Company. A credit of an aggregate amount of approximately HK\$480.49 million will arise in the books of the Company as a result of the Capital Reduction based on the unaudited accounts of the Company as at 30 June 2010, which will be transferred to a reserve account of the Company. The Board proposes to apply part of such reserve to set off against the accumulated losses of the Company. As at 30 June 2010, the unaudited balance of the accumulated losses of the Company of approximately HK\$270 million. The remaining balance of the reserve account of the Company may be applied in future in such manner as is permitted by the laws of the Cayman Islands.

Reasons for the Capital Reorganisation

The Share Consolidation will reduce the transaction costs for dealing in the Adjusted Shares, after completion of the Capital Reorganisation. The Directors believe that it would be beneficial to the Company by reducing the par value of the shares of the Company from HK\$2.00 per Consolidated Share to HK\$0.01 per Adjusted Share, which will improve flexibility in future for the Company to raise fund via the issue of Adjusted Shares.

LETTER FROM THE BOARD

The unaudited financial statements of the Company as at 30 June 2010 showed that the Company had accumulated losses of approximately HK\$270 million. The Capital Reorganisation will enable the Company to apply part of the amount standing to the credit of its reserve account to eliminate the accumulated losses of the Company. This will facilitate the payment of dividends as and when the Directors consider it appropriate in future.

On this basis, the Board is of the view that the Capital Reorganisation is in the interests of the Company and Shareholders as a whole.

Effect of the Capital Reorganisation

Upon completion of the Capital Reorganisation (assuming no further Shares will be issued or repurchased between the Latest Practicable Date and the effective date of the Capital Reorganisation), the effect on the share capital of the Company is summarised as follows:

| | Prior to the Capital Reorganisation | Immediately following the Capital Reorganisation becoming effective |
|---|--|--|
| Nominal value of each Share/Adjusted Share | HK\$0.20 | HK\$0.01 |
| Number of authorised Shares/Adjusted Shares | 5,000,000,000 | 100,000,000,000 |
| Authorised share capital | HK\$1,000,000,000 | HK\$1,000,000,000 |
| Number of Shares/Adjusted Shares in issue | 2,414,547,555 | 241,454,755 |
| Issued and fully paid-up share capital | HK\$482,909,511 | HK\$2,414,547.55 |

Based on 2,414,547,555 Shares in issue as at the Latest Practicable Date, a credit of approximately HK\$480.49 million will arise as a result of the Capital Reorganisation and will be transferred to the reserve account of the Company.

The Adjusted Shares will rank *pari passu* in all respects with each other. Other than the expenses incurred in relation to the Capital Reorganisation, the implementation thereof will not alter the underlying assets, investments, management or financial position of the Company or the relative interests or rights of the Shareholders, save that any fractional Adjusted Shares (if any) will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company. The Board believes that the Capital Reorganisation will not have any material effect on the financial position of the Company.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and the permission to deal in, the Adjusted Shares to be in issue upon the Capital Reorganisation becoming effective.

LETTER FROM THE BOARD

Conditions of the Capital Reorganisation

The Capital Reorganisation will be conditional upon:-

- a) the passing of the necessary resolution(s) by the Shareholders to approve the Capital Reorganisation at the EGM;
- b) compliance with the relevant legal procedures and requirements under Cayman Islands laws to effect the Capital Reorganisation;
- c) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Adjusted Shares in issue; and
- d) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

FREE EXCHANGE OF NEW SHARE CERTIFICATE

Subject to the Capital Reorganisation becoming effective, Shareholders may from Thursday, 7 April 2011 to Friday, 20 May 2011 (both days inclusive) submit their existing share certificates for the Shares to the Registrar at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in exchange, at the expense of the Company, for new certificates for the Adjusted Shares. After the expiry of such period, existing light grey share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each light grey share certificate for the Shares cancelled or each new pink share certificate to be issued for the Adjusted Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, existing light grey share certificates for the Shares will continue to be good evidence of legal title and may be exchanged for new pink share certificates for Adjusted Shares at any time.

It is expected that new pink share certificates for Adjusted Shares will be available for collection on or after the 10th Business Day after the submission of the existing light grey share certificates for the Shares to the Registrar.

LETTER FROM THE BOARD

TRADING ARRANGEMENTS FOR ADJUSTED SHARES

In order to facilitate the trading of odd lots of the Adjusted Shares as a result of the Capital Reorganisation and change of board lot size, the Company has appointed Kingston Securities as an agent to match, on a “best effort” basis, the sale and purchase of odd lots of the Adjusted Shares (if any) arising from the Capital Reorganisation and change of board lot size from Thursday, 21 April 2011 up to and including Tuesday, 17 May 2011. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of Adjusted Shares. Shareholders who wish to take advantage of this facility should contact Ms. Rosita Kiu at telephone number (852) 2298-6215 or by fax at (852) 2298-0682 during the period. Shareholders should note that the matching of the sale and purchase of odd lots of Adjusted Shares is not guaranteed.

Shareholders are recommended to consult their licensed securities dealers, bank managers, solicitors, professional accountants or other professional advisers if they are in any doubt about the facilities described above.

LISTING AND DEALINGS

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Adjusted Shares.

Subject to the granting of the listing of, and permission to deal in the Adjusted Shares, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Adjusted Shares may be settled through CCASS. You should seek advice of your stock broker or other professional adviser for details of those settlement arrangements and how such arrangements will affect your rights and interests.

LETTER FROM THE BOARD

CHANGE OF BOARD LOT SIZE

Upon the Capital Reorganisation becoming effective, the Board proposes to change the board lot size for trading of shares from 2,000 Shares to 8,000 Adjusted Shares. Based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the prevailing board lot value is HK\$228 in the board lot size of 2,000 Shares and, based on the theoretical adjusted closing price of the Adjusted Shares with reference to the closing price of HK\$1.14 per Share on the Latest Practicable Date, the new estimated board lot value would be HK\$9,120 in the new board lot size of 8,000 Adjusted Shares.

PROPOSED OPEN OFFER WITH BONUS ISSUE

Issue statistics

| | | |
|---|---|---|
| Basis of the Open Offer | : | five (5) Offer Shares for every one (1) Adjusted Share held on the Record Date and payable in full on acceptance, together with two (2) Bonus Shares for every five (5) Offer Shares taken up |
| Subscription Price | : | HK\$0.20 per Offer Share |
| Number of Shares in issue as at the Latest Practicable Date | : | 2,414,547,555 Shares |
| Number of Adjusted Shares expected to be in issue upon completion of the Capital Reorganisation | : | 241,454,755 Adjusted Shares |
| Number of Adjusted Shares expected to be in issue as at the Record Date | : | 241,454,755 Adjusted Shares (assuming no issue or repurchase of any Shares on or before the Record Date) |
| Number of Offer Shares | : | 1,207,273,775 Offer Shares |
| Number of Bonus Shares | : | 482,909,510 Bonus Shares to be issued to the First Registered Holders of the Offer Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer |
| Total number of Shares in issue upon completion of the Open Offer and the Bonus Issue | : | 1,931,638,040 Shares |

As at the Latest Practicable Date, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

LETTER FROM THE BOARD

Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer, the Bonus Shares will be issued to the First Registered Holders of the Offer Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer.

On the basis of 1,207,273,775 Offer Shares to be issued under the Open Offer, 482,909,510 Bonus Shares will be issued.

The total number of Offer Shares and Bonus Shares of 1,690,183,285 Shares represents:

- (i) approximately 700.00% of the Company's adjusted issued share capital immediately upon completion of the Capital Reorganisation; and
- (ii) approximately 87.50% of the Company's issued share capital as enlarged by the issue of the Offer Shares and Bonus Shares.

Subscription Price

The Subscription Price of HK\$0.20 per Offer Share is payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 89.53% to the closing price of HK\$1.91 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 89.58% to the average closing price of approximately HK\$1.92 per Adjusted Share, based on the average closing prices of Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of HK\$0.192 per Share and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 45.05% to the theoretical ex-entitlement price of HK\$0.364 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and
- (iv) a discount of approximately 82.46% to the closing price of HK\$1.14 per Adjusted Share, based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

Since two (2) Bonus Shares will be issued upon subscription of five (5) Offer Shares, for illustration purpose, the average price for each Adjusted Share to be allotted and issued under the Open Offer (together with the Bonus Issue) is approximately HK\$0.143 which represents:

LETTER FROM THE BOARD

- (i) a discount of approximately 92.51% to the closing price of HK\$1.91 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 92.55% to the average closing price of approximately HK\$1.92 per Adjusted Share, based on the average closing prices of Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of HK\$0.192 per Share and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 60.71% to the theoretical ex-entitlement price of HK\$0.364 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and
- (iv) a discount of approximately 87.46% to the closing price of HK\$1.14 per Adjusted Share, based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the recent market conditions and the financial requirements of the Group.

The Directors consider that the Subscription Price would encourage Shareholders to participate in the Open Offer and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Open Offer and the Bonus Issue, the Directors, except the independent non-executive Directors who will form their views after consulting the independent financial adviser to be appointed by the independent board committee of the Company, consider that the terms of the Open Offer and the Bonus Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Directors have not received any information from any substantial Shareholders of their intention to take up the Offer Shares (with the Bonus Shares) to be offered to them.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders and will send the Prospectus (without the Application Form), for information only, to the Excluded Shareholders on the Posting Date.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not being an Excluded Shareholder. In order to be registered members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (together with the relevant share certificate(s)) with the Company's Registrar by 4:30 p.m. (Hong Kong time) on Wednesday, 27 April 2011.

LETTER FROM THE BOARD

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

Excluded Shareholders

The Company will ascertain whether there are any Overseas Shareholders on the Record Date. In determining whether there will be Excluded Shareholders, the Company will make enquiry regarding the legal restrictions (if any) under the laws of the relevant places and the requirements of the relevant regulatory bodies or stock exchanges in relation to the Company's offering of the Offer Shares and the Bonus Shares to the Overseas Shareholders in compliance with the Listing Rules. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient not to offer the Offer Shares and the Bonus Shares to such Overseas Shareholders, the Open Offer will not be available to such Overseas Shareholders. Accordingly, the Open Offer (with Bonus Issue) will not be extended to the Excluded Shareholders. The results of the enquiries and the basis of exclusion of the Overseas Shareholders will be included in the Prospectus.

The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send any Application Form for Offer Shares to Excluded Shareholders. The Excluded Shareholders, if any, will be entitled to vote at the EGM to consider, among others, the Open Offer (with Bonus Issue).

Closure of register of members

The register of members of the Company is expected to be closed from Thursday, 28 April 2011 to Wednesday, 4 May 2011, both dates inclusive, to determine entitlements to participate in the Open Offer. No transfer of shares will be registered during this period.

Fractions of Offer Shares

The Company will not allot and issue any fractional Offer Shares to the Qualifying Shareholders.

No application for excess Offer Shares

There will be no arrangement for application of Offer Shares by the Qualifying Shareholders in excess of their entitlements. Having considered that each Qualifying Shareholder will be given equal and fair opportunities to participate in the Company's future development by subscribing for his/her/its assured entitlements under the Open Offer, the Company decided not to put in additional effort and costs to administer the excess application procedures. Any Untaken Shares will be underwritten by the Underwriter. In the view that the related administration costs would be lower, the Directors consider that the absence of application for excess Offer Shares is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Status of the Offer Shares and the Bonus Shares

The Offer Shares and the Bonus Shares (when allotted and issued fully paid or credited as fully paid) will rank pari passu in all respects with the Adjusted Shares in issue on the date of allotment and issue of the Offer Shares and the Bonus Shares. Holders of the Offer Shares and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares and the Bonus Shares.

Share certificates of the Offer Shares and the Bonus Shares

Subject to fulfillment of the conditions of the Open Offer as set out in the section headed “Conditions of the Open Offer (with Bonus Issue)” below, share certificates for all fully paid Offer Shares and the Bonus Shares are expected to be posted on or before 31 May 2011 to those Qualifying Shareholders who have accepted and paid for the Offer Shares by ordinary post at their own risk.

Application for listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares and the Bonus Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Offer Shares and Bonus Shares on the Stock Exchange as well as compliance with the stock admission requirements of the HKSCC, the Offer Shares and Bonus Shares will be accepted as eligible securities by the HKSCC for deposit, clearance and settlement in the CCASS with effect from the commencement date of dealings in the Offer Shares and Bonus Shares on the Stock Exchange or such other date as determined by the HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in the CCASS on the second trading day thereafter. All activities under the CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

Dealings in the Offer Shares will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

The Underwriting Agreement

| | | |
|--|---|--|
| Date | : | 19 November 2010 (after trading hours) |
| Underwriter | : | Kingston Securities |
| Maximum number of Offer Shares to be underwritten by the Underwriter | : | The Underwriter has agreed to fully underwrite 1,207,273,775 Underwritten Shares |
| Commission | : | 2.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares |

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Kingston Securities and its ultimate beneficial owners are Independent Third Parties. As at the Latest Practicable Date, the Underwriter and its associates do not hold any Share.

Termination of the Underwriting Agreement and force majeure

The Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement if:

1. in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - 1.1. the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - 1.2. the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

LETTER FROM THE BOARD

2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter are likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
3. there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Open Offer; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer, the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

1. any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or
2. any Specified Event comes to the knowledge of Kingston Securities.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

LETTER FROM THE BOARD

Conditions of the Open Offer (with Bonus Issue)

The Open Offer (with Bonus Issue) are conditional upon the following:

- a. the Capital Reorganisation having become effective;
- b. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively of one copy of each of the Prospectus Documents duly signed by the Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the Posting Date;
- c. the posting of the Prospectus Documents to the Qualifying Shareholders on or before the Posting Date;
- d. the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares and the Bonus Shares by no later than the first day of their dealings;
- e. the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- f. the passing of the necessary resolution(s) by the Shareholders (where applicable, the Independent Shareholders) at the EGM to approve each of the (i) the Capital Reorganisation; (ii) the Open Offer with the Bonus Issue; (iii) the Amendments to Articles of Association, and the transactions contemplated thereunder; and
- g. compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement.

If any of the above conditions is not satisfied at or prior to the respective time stipulated therein, the Underwriting Agreement shall be terminated accordingly and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses (excluding sub-underwriting fees and related expenses) as have been properly incurred by the Underwriter in connection with the Open Offer shall to the extent agreed by the Company be borne by the Company, and the Open Offer and Bonus Issue will not proceed.

LETTER FROM THE BOARD

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The existing shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company immediately upon completion of the Capital Reorganisation and the Open Offer (with Bonus Issue) are set out below for illustration purpose only:

| Shareholders | As at the Latest Practicable Date | | Immediately after the Capital Reorganisation but before completion of the Open Offer | | Immediately after the completion of the Open Offer (with Bonus Shares) (assuming all Offer Shares are subscribed for by the Qualifying Shareholders) | | Immediately after the completion of the Open Offer (with Bonus Shares) (assuming no Offer Shares are subscribed for by the Qualifying Shareholders) (Note2) | |
|---|-----------------------------------|---------------|--|---------------|--|---------------|---|---------------|
| | Number of Shares | Approximate | Number of Adjusted Shares | Approximate | Number of Adjusted Shares | Approximate | Number of Adjusted Shares | Approximate |
| | | % | | % | | % | | % |
| <i>Substantial Shareholder</i> | | | | | | | | |
| Star Advance International Limited (Note 1) | 700,000,000 | 28.99 | 70,000,000 | 28.99 | 560,000,000 | 28.99 | 70,000,000 | 3.62 |
| <i>Public</i> | | | | | | | | |
| Underwriter | — | — | — | — | — | — | 1,690,183,285 | 87.50 |
| Other public Shareholders | 1,714,547,555 | 71.01 | 171,454,755 | 71.01 | 1,371,638,040 | 71.01 | 171,454,755 | 8.88 |
| Total | 2,414,547,555 | 100.00 | 241,454,755 | 100.00 | 1,931,638,040 | 100.00 | 1,931,638,040 | 100.00 |

Notes:

1. Star Advance International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Fong Shing Kwong.
2. This scenario is for illustrative purpose only and will never occur. Pursuant to the Underwriting Agreement, in the event the Underwriter being called upon to subscribe for or procure subscribers to subscribe for any of the Untaken Shares:
 - (i) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.90% of the voting rights of the Company upon completion of the Open Offer; and
 - (ii) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers for the Untaken Shares (i) shall be third party independent of, not acting in concert (within the meanings of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholders (as defined in the Listing Rules) or any of their respective associates; and (ii) shall not, together with any party acting in concert (within the meaning of the Takeover Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Open Offer.

LETTER FROM THE BOARD

Use of Proceeds

It is expected that the gross proceeds from the Open Offer will be approximately HK\$241.45 million and the estimated net proceeds from the Open Offer will be approximately HK\$233.74 million. The Directors intends that the net proceeds from the Open Offer will be used towards its plan to penetrate and strengthen its position in the travel industry and provide funding for any future investments and acquisitions by the Group and for general working capital of the Group. It is intended that the net proceeds from the Open Offer will be used: (i) as to 5% for marketing and advertising campaigns of the travel and tourism division of the Group; (ii) as to 2.5% for renovation of office and branch outlets; (iii) as to 2.5% for upgrading system and purchase of new computer equipments; (iv) as to 70% for possible development of property on the Group's piece of land in Zhongshan, the PRC and for any future investments and acquisitions by the Group when such opportunities present itself in future; and (v) as to 20% for general working capital of the Group.

REASONS FOR AND BENEFIT OF THE OPEN OFFER (WITH BONUS ISSUE)

The Group is principally engaged in the provision of travel and travel related services, property development, financial services, and securities broking.

Having considered other possibilities or alternatives for fund raising options for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of the viable options, the Board considers that the Open Offer is in the best interest of the Company in view of the prevailing market conditions and in particular the financial situation and fund requirement of the Group.

The Company has considered the possibility of rights issue instead of Open Offer which allows Shareholders to trade the nil-paid rights. However, given the additional administrative costs and expenses to be borne by the Company in arranging trading arrangement of the nil-paid rights and additional time for trading of nil paid rights shares, the Company considers that the Open Offer is more time and cost effective and a better option.

The Open Offer allows the Group to significantly strengthen its financial position. The Board considers that the Open Offer (together with the Bonus Issue) are in the interests of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enable the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. The Bonus Issue will give the Shareholders an incentive to take part in the Open Offer.

However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted to one-eighth in comparison with their shareholdings before the Open Offer and the Bonus Issue. Qualifying Shareholders should also note that based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day, the theoretical ex-entitlement price per Adjusted Share (assuming the Capital Reorganisation becoming effective) after the Open Offer and the Bonus Issue is approximately HK\$0.364, representing a discount of approximately 80.94% to the adjusted closing price of HK\$1.91 per Adjusted Share (assuming the Capital Reorganisation becoming effective).

LETTER FROM THE BOARD

Odd lots may be created as a result of the Open Offer, Bonus Issue, Capital Reorganisation and the change of board lot size. In order to relieve the difficulty of the Shareholders in trading with odd lots, the Company has appointed a designated broker to match the purchase and sale of odd lots of the Adjusted Shares at the relevant market price on a best effort basis. Please refer to the section headed “Trading Arrangements for Adjusted Shares” above for reference. However, the matching of odd lots of Adjusted Shares is not guaranteed and after the matching service expires, trading of odd-lot Shares on the market may not be desirable in terms of trading cost per Share to Shareholders.

As at the Latest Practicable Date, the Board has decided to consolidate its resources and focus on its core businesses in travel and travel-related businesses and property related business in Zhongshan, the PRC; and to dispose of its peripheral businesses. On 3 December 2010, the Group entered into a sale and purchase agreement with VMS Investment Group Limited, the purchaser, relating the disposal of the entire issued share capital of Morning Star Securities Limited, an indirect wholly-owned subsidiary of the Company, which is principally engaged in securities broking. The Group is also reviewing its Malaysian share investments which are listed on the Bursa Malaysia Securities Berhad and may consider disposal of such investments when opportunities arise. Apart from the foregoing, as at the Latest Practicable Date, the Group does not have any target of acquisition or disposal but would be interested in attractive business opportunities present itself in future. As at the Latest Practicable Date, the Group has no current intention to conduct further fund raising exercise following the proposed Open Offer.

The Directors (including the Independent Non-executive Directors) consider that the Open Offer and the Bonus Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Open Offer and the Bonus Issue.

PREVIOUS FUND RAISING EXERCISE IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activities in the past 12 months prior to the Latest Practicable Date.

WARNING OF THE RISKS OF DEALING IN SHARES

Shareholders and potential investors should note that the Open Offer (with Bonus Issue) is subject to the fulfillment of certain conditions, which included but not limited to the passing of the necessary resolution(s) by the Independent Shareholders at the EGM, the Capital Reorganisation becoming effective and the Underwriting Agreement not being terminated in accordance with the terms thereof. Accordingly, the Open Offer (with Bonus Issue) may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

Shareholders should note that trading of Adjusted Shares on ex-entitlement basis is expected to commence on Tuesday, 26 April 2011. Any person contemplating buying or selling of the Shares from now up to the date on which all conditions of the Open Offer are fulfilled will bear the risk that the Open Offer (with the Bonus Issue) may not become unconditional and may not proceed.

Furthermore, trading of the Shares will need to be suspended if minimum public float cannot be maintained or a false market exists under Rule 8.08 of the Listing Rules.

LETTER FROM THE BOARD

AMENDMENTS TO ARTICLES OF ASSOCIATION

The Board proposes to put forward a special resolution to the Shareholders for approval at the EGM in respect of the amendments to Article 146A of the Articles, to allow the allotment and issue of the Bonus Shares not in proportion to the shareholding of the Shareholders by way of capitalisation of the reserve account of the Company. Such amendment shall be by deleting Article 146A in its entirety and substituting the following new Article 146A therefor:

“146A. In addition to the power contained in Article 146, the Company may, upon the recommendation of the Directors, capitalise any part of the amounts for the time being standing to the credit of any of the Company’s reserve accounts in the paying up of unissued shares, where such shares are to be issued by way of bonus only to members who subscribe for share in the Company pursuant to an offer to members (other than members whose addresses on the register of members of the Company on the relevant record date are outside Hong Kong and the Directors, having made such enquiry regarding the legal restrictions, if any, under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place of the address of such members, consider it necessary or expedient not to offer shares of the Company) made by the Company on a pre-emptive basis (disregarding fractional entitlements), provided that the terms of such offer and bonus issue shall have been approved by a resolution of the members in general meeting. For the avoidance of doubt, the provisions of Article 146 shall not be applicable to any capitalisation and issue pursuant to this Article.”

The Directors consider the Amendments to Articles of Association would facilitate the issue of the Bonus Shares and provide the Company with flexibility in raising capital from its Shareholders.

The Amendments to Articles of Association is subject to and conditional upon the passing of the necessary special resolution by the Shareholders at the EGM.

EGM

Set out in this circular is a notice convening the EGM which will be held at 11:00 a.m. on Friday, 7 January 2011 at Meeting Room No. 9, 7/F, Hongkong International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong at which resolutions will be proposed to approve, among other things, the Capital Reorganisation, the Open Offer (with Bonus Issue) and the Amendments to Articles of Association.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the of the Company’s registrar in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

LETTER FROM THE BOARD

There had been no voting trust or other agreement or arrangement or understanding entered into by or binding upon any such Shareholders, and no obligation or entitlement of any such Shareholders whereby any one of them has or may temporarily or permanently passed control over the exercise of the voting right in respect of their respective interest in the Company to a third parties either especially or on a case-by-case basis.

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer (with Bonus Issue). As at the Latest Practicable Date, there is no controlling Shareholder. Accordingly, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer (with Bonus Issue) at the EGM. As at the Latest Practicable Date, to the best knowledge of the Directors, the Company does not have any controlling shareholder and none of the Directors and their respective associates hold any Shares. On the aforesaid basis, no Shareholders will abstain from voting on the resolution(s) to approve the Open Offer at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Capital Reorganisation and the Amendments to Articles of Association and accordingly no Shareholder will be required to abstain from voting on the relevant resolution(s) approving the Capital Reorganisation and the Amendments to Articles of Association.

RECOMMENDATIONS

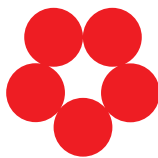
The Directors are of the opinion that the Capital Reorganisation, the Open Offer (with Bonus Issue) and the Amendments to Articles of Association are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolutions to be proposed in the EGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 28 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM regarding the Open Offer (with Bonus Issue) and the letter received from Cinda International which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer (with Bonus Issue) and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Cinda International is set out on pages 29 to 44 of this circular.

GENERAL

Your attention is drawn to the information contained in the Appendices to this circular.

By order of the Board
Morning Star Resources Limited
CHI Chi Hung, Kenneth
Executive Director



星晨集團有限公司*

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

15 December 2010

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 15 December 2010 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the terms of the Open Offer (with Bonus Issue). Cinda International has been appointed as the independent financial adviser to advise you and us in this respect.

Having considered the terms of the Open Offer and the advice of Cinda International in relation thereto as set out on pages 29 to 44 of the Circular, we are of the opinion that the Open Offer (with Bonus Issue) is in the interest of the Company and the Shareholders as a whole and the terms of the Open Offer (with Bonus Issue), are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommended that you vote in favour of the ordinary resolution in relation to the Open Offer (with Bonus Issue) to be proposed at the EGM.

Yours faithfully,

Independent Board Committee

Ms. So Wai Lam

Independent

Non-executive Director

Ms. Chan Hoi Ling

Independent

Non-executive Director

Mr. Sung Yat Chun

Independent

Non-executive Director

* For identification purpose only

LETTER FROM CINDA INTERNATIONAL

The following is the full text of the letter from Cinda International Capital Limited which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

45/F COSCO Tower
183 Queen's Road Central
Hong Kong

15 December 2010

To: The Independent Board Committee and
the Independent Shareholders of Morning Star Resources Limited

Dear Sir/Madam,

**PROPOSED OPEN OFFER ON THE BASIS OF FIVE OFFER SHARES
FOR EVERY ONE ADJUSTED SHARE HELD ON THE RECORD DATE
WITH BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES
FOR EVERY FIVE OFFER SHARES TAKEN UP UNDER THE OPEN OFFER**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company in connection with the Open Offer with Bonus Issue and details of which are contained in the letter from the Board (the "Letter from the Board") set out in the circular (the "Circular") of the Company to the Shareholders dated 15 December 2010, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Board published by way of the Announcement on 19 November 2010 amongst other things, the proposed open offer of 1,207,273,775 Offer Shares at the Subscription Price of HK\$0.20 per Offer Share on the basis of five (5) Offer Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date and payable in full on acceptance, and subject to the satisfaction of the conditions of the Open Offer, the issue of Bonus Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer. On the basis of 1,207,273,775 Offer Shares to be issued under the Open Offer, 482,909,510 Bonus Shares will be issued.

LETTER FROM CINDA INTERNATIONAL

As the Open Offer will increase the issued share capital of the Company by more than 50%, pursuant to rule 7.24(5) of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer with Bonus Issue. Given that there is no controlling Shareholder, accordingly, Mr. Sung Wai Man, Peter, Mr. Chi Chi Hung, Kenneth and Mr. Yeung Kwok Leung, being the executive Directors and Mr. Tso Shiu Kei, Vincent, being the non-executive Director, and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer with Bonus Issue at the EGM.

An Independent Board Committee comprising Ms. So Wai Lam, Ms. Chan Hoi Ling and Mr. Sung Yat Chun, being independent non-executive Directors, has been established to advise the Independent Shareholders on whether the terms of the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. All the members of the Independent Board Committee have confirmed to the Company that they are independent with respect to the Open Offer with Bonus Issue and thus are suitable to advise the Independent Shareholders. Our role as the independent financial adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole; and (ii) advise the Independent Shareholders on how to vote on the resolutions at the EGM in relation to the Open Offer with the Bonus Issue.

BASIS OF OUR OPINION

We have relied on the statements, information and representations contained or referred to in the Circular and the information provided and representations made to us by the Directors and the management of the Company. We have assumed that all the statements, information and representations contained or referred to in the Circular and all information provided and representations made by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were provided and made and will continue to be so at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Directors and the management of the Company.

We consider that the information provided and representations made to us are sufficient for us to form a reasonable basis for our opinion. We are not aware of any reason to suspect any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps as required under rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided and representations made to us so as to form a reasonable basis for our opinion. The Directors have further confirmed that, having made all reasonable enquiries, and to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, incorrect or misleading. We have not, however, carried out any independent verification of the information provided and representations made to us by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

LETTER FROM CINDA INTERNATIONAL

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

We have taken into our consideration the following principal factors and reasons in arriving at our recommendation:

1) Background and reasons for the Open Offer with Bonus Issue

a) Business and financial performance of the Group

The Group is principally engaged in the provision of travel and travel related services, property development, financial services and securities broking.

Below is summary of the financial information of the Group for the financial years ended 31 December 2008 and 2009 and the six months periods ended 30 June 2009 and 2010 as extracted from the Company's audited annual report for the year ended 31 December 2009 and unaudited interim reports for the six months ended 30 June 2009 and 2010:

| | Financial year ended | | Six months ended | |
|--|-----------------------------|-----------------|-------------------------|-----------------|
| | 31 December | | 30 June | |
| | 2008 | 2009 | 2009 | 2010 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 484,901 | 507,040 | 206,646 | 258,931 |
| Major business divisions | | | | |
| <i>Travel and tourism division</i> | 416,803 | 465,250 | 190,444 | 247,146 |
| <i>Property development division</i> | 66,456 | 40,336 | 15,474 | 11,036 |
| <i>Financial services division</i> | 1,642 | 1,454 | 728 | 749 |
| Profit/(loss) attributable to equity shareholders | (31,034) | 2,596 | (390) | 4,923 |
| Assets | 398,102 | 408,839 | 401,977 | 408,117 |
| Liabilities | 106,425 | 112,813 | 101,696 | 113,873 |
| Equity attributable to equity holders of the Company | 221,500 | 227,684 | 229,960 | 224,574 |

Source: the Company

Note: The figures above are approximate and for illustrative purpose only

LETTER FROM CINDA INTERNATIONAL

The financial years ended 31 December 2008 and 2009

The Company recorded turnover of approximately HK\$507.0 million for the financial year 2009, representing an increase of approximately 4.56% when compared to the turnover of approximately HK\$484.9 million for the financial year 2008. As advised by the Company, the increase in turnover was mainly due to the increase in revenue derived from travel and tourism division, which recorded an increase of approximately 11.6% in sales to approximately HK\$465.3 million when compared to sales of approximately HK\$416.8 million for financial year 2008. The growth in turnover was mainly attributable to the inclusion of turnover from a newly acquired subsidiary in PRC, which was formerly a jointly-controlled entity of the Group. For the financial year 2009, total turnover of the Group's property development division amounted to approximately HK\$40.3 million compared to approximately HK\$66.5 million for the financial year 2008. Turnover for the Group's financial services division, mainly derived from its retail securities broking, for the financial year 2009 were approximately HK\$1.5 million when compared to a turnover of approximately HK\$1.6 million for the financial year 2008. The profit attributable to equity holders of the Company for the financial year 2009 was approximately HK\$2.6 million against a loss of approximately HK\$31.0 million for the financial year 2008.

The six months ended 30 June 2009 and 2010

Turnover reported by the Company for the interim 2010 increased to approximately HK\$258.9 million from approximately HK\$206.6 million for the interim 2009, representing an increase of approximately 25.3%. Whilst profit attributable to equity holders was approximately HK\$4.9 million for the interim 2010 compared to a loss of approximately HK\$0.4 million for the interim 2009. We noted that the Group attributed that the increase in turnover to the general economic recovery in Hong Kong and positive consumers' sentiments for the period under review. Turnover derived from the travel and tourism division increased by approximately 29.8% to approximately HK\$247.1 million for the interim 2010 compared to approximately HK\$190.4 million for the interim 2009. For the interim 2010, the turnover derived from the property development division decreased to approximately HK\$11.0 million from approximately HK\$15.5 million for the interim 2009. We noted that the Group attributed the decrease in turnover derived from the property development division mainly to the weaker demand for the remaining units in the Morning Star Plaza project in Zhongshan, PRC. We also noted that an indirect subsidiary of the Company has received two notification letters from the relevant land authorities in Zhongshan, PRC advising it to deal with the piece of land of 151,773.02 sq.m. in respect of the idle land policy of the PRC government and the Group has already paid approximately RMB550,000 to the PRC Government for the idle land held. For the interim 2010, the turnover derived from the financial services division was approximately HK\$0.7 million which was approximately the same level of turnover recorded for the interim 2009. Profit attributable to equity holders of the Company was approximately HK\$4.9 million for the interim 2010 compared to a loss of approximately HK\$0.4 million for the interim 2009.

LETTER FROM CINDA INTERNATIONAL

As at 30 June 2010, the Company recorded total assets of approximately HK\$408.1 million, of which approximately HK\$339.5 million was current assets and approximately HK\$148.6 million was cash and cash equivalents. Net current assets were approximately HK\$225.6 as at 30 June 2010.

We noted the Company reported profit attributable to equity holders of the Company for financial year 2009 after sustaining loss attributable to equity holders of the Company for the financial years 2007 and 2008.

b) Reasons for the Open Offer with the Bonus Issue

According to the Letter from the Board, the Company intends to apply the net proceeds from the Open Offer towards its plan to penetrate and strengthen its position in the travel industry, property development and provide funding for any future investments and acquisitions by the Group and for general working capital of the Group. The Open Offer allows the Group to significantly strengthen its financial position. The Board considers that the Open Offer with the Bonus Issue is in the interests of the Company and the Shareholders as a whole as they offer all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enable the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. The Bonus Issue will give the Shareholders an incentive to take part in the Open Offer. The Company has not carried out any equity fund raising activities during the 12 months immediately preceding the date of the Announcement or the Latest Practicable Date.

Based on the above and taking into account of sustaining loss attributable to equity holders of the Company for the financial years 2007 and 2008, we are of the view that the Open Offer would enable the Group to strengthen its capital base and financial position for future investments and acquisitions. We noted that there is no detailed plan or terms in respect of the future investments and acquisitions to be made by the Group at this stage; and there will be a significant dilution of the shareholding of the Independent Shareholders who do not take up the Offer Shares. The net proceeds from the Open Offer would provide additional funding to the Company and further improve the financial position of the Group, which would be better positioned and be able to react promptly should such an investment opportunity present itself in the future. The Group, with adequate funding or access to financial resources, could afford much flexibility and bargaining power in negotiating better terms for an investment or acquisition. In addition, the Open Offer offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. In this regard, we concur with the Directors' view that the Open Offer would strengthen the financial position of the Group for its business development in the travel industry business, property development business and provide funding for appropriate future investments and acquisitions as well as the Qualifying Shareholders are fairly treated under the Open Offer.

LETTER FROM CINDA INTERNATIONAL

2) Terms of the Open Offer with the Bonus Issue

a) Basis of the offer

Qualifying Shareholders will be offered to subscribe for the Offer Share(s) on the basis of five (5) Offer Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date and payable in full on acceptance and subject to the satisfaction of the conditions of the Open Offer, the Bonus Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer. The Offer Shares and the Bonus Shares (when allotted and issued fully paid or credited as fully paid) will rank pari passu in all respects with the Adjusted Shares in issue on the date of allotment and issue of the Offer Shares and the Bonus Shares. Holders of the Offer Shares and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares and the Bonus Shares.

The Open Offer is fully underwritten and is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

b) Subscription Price

The Subscription Price for the Offer Shares is HK\$0.20 per Offer Share and is payable in full when a Qualifying Shareholder accepts the relevant allotment of Offer Shares. After taking into account of the Bonus Share, the subscription price for the Offer Shares is approximately HK\$0.143 (the "Effective Price").

The Subscription Price and the Effective Price per Offer Share represent:

- (i) a discount of approximately 89.53% and 92.51% respectively to the closing price of HK\$1.91 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 89.58% and 92.55% respectively to the average closing price of approximately HK\$1.92 per Adjusted Share, based on the average closing prices of Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of HK\$0.192 per Share and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 45.05% and 60.71% respectively to the theoretical entitlement price of HK\$0.364 per Adjusted Share, based on the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and
- (iv) a discount of approximately 82.46% and 87.46% respectively to the closing price of HK\$1.14 per Adjusted Share, based on the closing price of HK\$0.114 per Share as quoted on the Stock Exchange on 10 December 2010 and adjusted for the effect of the Capital Reorganisation.

LETTER FROM CINDA INTERNATIONAL

According to the Letter from the Board, the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriters with reference to among other things, the prevailing market price of the Shares and the recent market conditions and the financial requirements of the Group. The Directors consider that the Subscription Price and the discount of which to the market price is appropriate so as to encourage Shareholders to participate in the Open Offer, maintain their shareholdings in the Company and participate in the future growth of the Group. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Open Offer with the Bonus Issue, the Directors consider that the terms of the Open Offer with the Bonus Issue including the discount of the Subscription Price to market price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Analyses of the Subscription Price and the Effective Price

In order to assess the fairness and reasonableness of the Subscription Price and the Effective Price, we set out the following information for illustrative purpose:

Review of Adjusted Share price

The highest and lowest closing prices and the average daily closing price of the Adjusted Shares as quoted on the Stock Exchange in each of the 12 months during the period commencing from 1 December 2009 up to and including 10 December 2010 (the "Review Period") are shown as follows:

| Month | Approximate highest closing price per Adjusted Share HK\$ | Approximate lowest closing price per Adjusted Share HK\$ | Approximate average daily closing price per Adjusted Share HK\$ |
|---|--|---|--|
| 2009 | | | |
| December | 0.87 | 0.7 | 0.78 |
| 2010 | | | |
| January | 0.78 | 0.68 | 0.74 |
| February | 0.75 | 0.66 | 0.70 |
| March | 1.32 | 0.72 | 0.91 |
| April | 1.59 | 1.18 | 1.39 |
| May | 1.56 | 1.30 | 1.41 |
| June | 3.00 | 1.97 | 2.69 |
| July | suspended | suspended | suspended |
| August | 2.49 | 1.67 | 2.05 |
| September | 2.55 | 1.57 | 2.16 |
| October | 2.33 | 1.99 | 2.08 |
| November | 2.06 | 1.03 | 1.77 |
| December (1 December to 10 December) | 1.25 | 1.14 | 1.19 |

Source: the website of the Stock Exchange

LETTER FROM CINDA INTERNATIONAL

During the Review Period, the average daily closing price of the Adjusted Shares ranged from HK\$0.70 to HK\$2.69 per Share in each month and followed a downward trend in early 2010 and increased to an extent in later months of 2010. The highest and lowest closing prices of the Adjusted Shares as quoted on the Stock Exchange were HK\$3.00 per Share recorded on 7 June 2010 and HK\$0.66 per Share recorded on both 5 February and 8 February 2010 during the Review Period. We noted that the highest closing price of the Adjusted Shares of HK\$3.00 represented a premium of more than 354% over the lowest closing price of the Adjusted Shares of HK\$0.66.

We also noted that the Subscription Price and the Effective Price do not fall within this price range and the Subscription Price represents a discount of approximately 70.0% over the lowest closing price of HK\$ 0.66 per Adjusted Share and a discount of approximately 93.3% below the highest closing price of HK\$3.00 per Adjusted Share.

We noted that it is a common market practice that the subscription price to offer shares under an open offer usually represents a discount to the prevailing market prices of the shares in order to enhance the attractiveness of the open offer and to encourage shareholders to participate in it. In our case, the Subscription Price and the Effective Price are lower than the prevailing market prices of the Adjusted Shares is in line with general market practice and is acceptable.

Review on trading liquidity of the Shares

| Month | Average daily trading volume <i>Number of Shares</i> | % of the Average Volume to total number of issued Shares on the Last Trading Day |
|--------------------------------------|---|--|
| 2009 | | |
| December | 1,364,091 | 0.056% |
| 2010 | | |
| January | 858,500 | 0.036% |
| February | 257,639 | 0.011% |
| March | 16,055,261 | 0.665% |
| April | 19,600,526 | 0.812% |
| May | 16,296,000 | 0.675% |
| June | 81,536,925 | 3.377% |
| July | suspended | suspended |
| August | 83,358,484 | 3.452% |
| September | 52,765,024 | 2.185% |
| October | 18,140,400 | 0.751% |
| November | 19,840,455 | 0.822% |
| December (1 December to 10 December) | 19,191,250 | 0.795% |

Source: the website of the Stock Exchange

Note 1: Based on 2,414,547,555 Shares in issue on the Last Trading Day and the Latest Practicable Date

LETTER FROM CINDA INTERNATIONAL

The above table demonstrates that the average daily trading volume of the Shares per month was thin during the Review Period, with a range of approximately 0.011% to 3.452% of the total number of issued Shares. We noted that trading in the Shares during the Review Period were inactive with average daily trading volume less than 4% of the Shares in issue.

Comparison with other open offer transactions

We have identified and reviewed, on a best effort basis, the open offer transactions of the companies listed on the main board of the Stock Exchange (the “Comparables”) from 1 January 2010 to the end of November 2010. It should be noted that the business nature, scale of operations and future prospects of the Company is not the same as that of the Comparables and as such, the Comparables may only be used to provide a general reference for open offer transactions of companies listed on the Stock Exchange. The terms of the respective transactions are summarised in the table below:

| Announcement date | Company name (Stock code) | Entitlement basis | Underwriting commission (%) | Discount/ (Premium) of subscription price to closing price on last trading date (%) | Discount/ (Premium) of subscription price to theoretical ex-entitlement price | Excess application |
|-------------------|---|-------------------|-----------------------------|---|---|--------------------|
| 14-Jan-10 | Yue Da Mining Holdings Limited (629) | 1 for 1 | 2.00 | 46.90 | 30.64 | Yes |
| 4-Feb-10 | Dore Holdings Limited (628) | 1 for 2 | N/A | 16.67 | 13.04 | Yes |
| 4-Mar-10 | Asia Resources Holdings Limited (899) | 1 for 2 | 2.50 | 44.44 | 34.67 | Yes |
| 24-Mar-10 | The Hong Kong Building and Loan Agency Limited (145) | 1 for 4 | 2.50 | 64.28 | 59.02 | No |
| 12-Apr-10 | China Financial Leasing Group Limited (2312) | 1 for 2 | 2.50 | 52.10 | 42.03 | No |
| 10-May-10 | Starlight International Holdings Ltd (485) | 4 for 5 | 1.50 | 60.00 | 45.45 | No |
| 12-May-10 | Yunnan Enterprises Holdings Limited (455) | 1 for 1 | 0.00 | 72.00 | 56.30 | No |
| 17-May-10 | Karce International Holdings Company Limited (1159) <i>Note 2</i> | 1 for 2 | 2.50 | 37.50 | 28.57 | No |
| 15-Jun-10 | China Ocean Shipbuilding Industry Group Limited (651) | 1 for 2 | 1.50 | 12.28 | (52.44) | Yes |
| 9-Jul-10 | China Mandarin Holdings Limited (9) | 7 for 1 | 2.50 | 94.55 | 68.41 | No |

LETTER FROM CINDA INTERNATIONAL

| Announcement date | Company name (Stock code) | Entitlement basis | Underwriting commission (%) | Discount/ (Premium) of subscription price to closing price on last trading date (%) | Discount/ (Premium) of subscription price to theoretical ex-entitlement price | Excess application |
|-------------------|--|-------------------|-----------------------------|---|---|--------------------|
| 8-Sep-10 | Kong Sun Holdings Limited (295) | 1 for 2 | 2.50 | 46.81 | 36.97 | No |
| 9-Sep-10 | Chigo Holding Limited (449) | 1 for 2 | 2.50 | 82.27 | N/A | No |
| 14-Sep-10 | Yuexiu Property Company Limited (123) | 3 for 10 | 0.00 | 15.26 | 12.02 | No |
| 5-Nov-10 | Qunxing Paper Holdings Company Limited (3868) <i>Note 2</i> | 1 for 2 | 2.50 | 80.30 | N/A | No |
| 23-Nov-10 | China Grand Pharmaceutical and Healthcare Holdings Limited (512) <i>Note 2</i> | 1 for 3 | 3.50 | 21.62 | 17.14 | Yes |
| | | Max | 3.50 | 94.55 | 68.41 | |
| | | Mean | 2.04 | 49.80 | 30.14 | |
| | | Min | 0.00 | 12.28 | (52.44) | |
| 19-Nov-10 | The Company | 5 for 1 | 2.50 | 89.53 | 45.05 | No |

Source: the website of the Stock Exchange

Notes:

1. *“N/A” denotes the information is not available or not stated explicitly in the respective announcements issued by the companies.*
2. *The open offers announced by Karce International Holdings Company Limited, Qunxing Paper Holdings Company Limited and China Grand Pharmaceutical and Healthcare Holdings Limited have not proceeded to completion as at the latest practicable date before the date of this letter.*

The table of shows that the subscription price of the Comparables ranged between discounts of approximately 12.28% and 94.55% to the respective closing price of their shares on the last trading day (the “LTD range”) prior to the release of their respective announcements. We noted that, in our case, the discounts of approximately 89.53% and 92.51% as represented by Subscription Price and Effective Price respectively to the closing price of HK\$1.91 per Adjusted Share on the Last Trading Day falls within the LTD range and are higher than the mean discount of 49.80% of the LTD range.

The subscription price of the Comparables ranged between a discount of approximately 68.41% to a premium of 52.44% to the respective theoretical ex-entitlement price of their shares on the last trading day (“TEP range”) prior to the release of their respective announcements. We noted that, in our case, the discounts of approximately 45.05% and 60.71% as represented by Subscription Price and Effective Price respectively to the theoretical ex-entitlement price of HK\$0.364 per Adjusted Share falls within the TEP range and are higher than the mean discount of 30.14% of the TEP range.

LETTER FROM CINDA INTERNATIONAL

We are aware the discounts as represented by the Subscription Price and the Effective Price respectively to the closing price of the Adjusted Shares on the Last Trading Day depict a deeper discount as compared to the mean of the LTD range and TEP range. Nonetheless, having considered (i) it is common for the listed companies on the main board of the Stock Exchange to issue offer shares at a discount to the market price in order to enhance the attractiveness of an open offer transaction; (ii) the discount represented by the Subscription Price and the Effective Price to the closing price and theoretical ex-entitlement price per Adjusted Shares on the Last Trading Day falls within the LTD range and TEP Range respectively; (iii) the Group's operations turned profitable in the financial year 2009 recently after sustaining losses in the past financial years; (iv) all Qualifying Shareholders are offered an equal opportunity to subscribe for the Offer Shares at the Subscription Price which represents discount to market price; and (v) and the possibility of participating in the future benefits which may be brought about by business expansion of the Group, we consider the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

We noted that there will be no arrangement for application of Offer Shares by the Qualifying Shareholders in excess of their entitlements. The Qualifying Shareholders therefore will not be entitled to subscribe for any Offer Shares in excess of their entitlements. Given the number of companies in the Comparables which made no arrangement for application of Offer Shares for excess application, the absence of arrangement for excess application for open offer is not considered an uncommon market practice. The absence of such arrangement will save costs which will otherwise be incurred by the administrative procedures for implementing the arrangement for excess application for the Open Offer. In view of the above, we consider that the absence of excess application under the Open Offer is fair and reasonable.

The Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer as set out in the Letter from the Board, the Bonus Shares will be issued to the First Registered Holders of the Offer Shares on the basis of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer.

The Bonus Shares have a nominal value of HK\$4,829,095.1 and a value of approximately HK\$922.4 million at the closing price of the Shares of HK\$1.91 per Adjusted Share based on the closing price of HK\$0.191 per Share on the Last Trading Day.

The Bonus Shares will only be issued to Qualifying Shareholders who take up their Offer Shares and can be considered as a sweetener. The issue of Bonus Shares will have the effect of reducing the Subscription Price to the Effective Price, representing a discount of approximately 28.5% to the Subscription Price.

LETTER FROM CINDA INTERNATIONAL

Underwriting arrangement

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Underwriter and its ultimate beneficial owners are Independent Third Parties. Pursuant to the Underwriting Agreement, the Underwriter will fully underwrite the Underwritten Shares subject to the terms and conditions set out in the said Underwriting Agreement. The Underwriter is entitled by notice in writing to the Company at any time prior to the Latest Time for Termination to terminate the Underwriting Agreement on the occurrence of certain events including force majeure. These events are set out under the section "Termination of Underwriting Agreement" in the Circular. If the Underwriter terminates the Underwriting Agreement in accordance with the terms thereof, the Open Offer with the Bonus Issue will not proceed. We consider that such provisions are on normal commercial terms and in line with market practice.

Underwriting commission

The Underwriter will charge an underwriting commission of 2.5% of the aggregate Subscription Price for the Underwritten Shares. As advised by the Company, the underwriting commission is determined at after arm's length negotiation between the Company and the Underwriter with reference to the prevailing market rates. The Directors consider that the underwriting commission is fair and reasonable to the Company and the Shareholders as a whole. In view that the underwriting commission of 2.5% falls within the range of commission of the Comparables, we consider the underwriting commission of 2.5% is in line with the market and is fair and reasonable as far as the Independent Shareholders are concerned.

Odd lots of the Adjusted Shares

We are of the view that the creation of odd lots is unavoidable under the Capital Reorganisation and Open Offer with the Bonus Issue. The appointment of a designated broker to match, on a best effort basis, the purchase and sale of odd lots can facilitate the Shareholders in trading with odd lots. Despite the values of the odd lots are not of substantial amounts, trading of odd lots on the market may not be desirable in terms of the trading cost per Share.

3) Alternative financing methods

We noted that the Directors having considered other alternatives and options available to the Group decided that the Open Offer is a good fund-raising method and in the best interests of the Company. We noted the Company reported profit attributable to equity holders of the Company for financial year 2009 after sustaining loss attributable to equity holders of the Company for the financial years 2007 and 2008. As at 30 June 2010, the Company sustained accumulated losses of approximately HK\$270 million. Given the financial track record, the Company may have to dispense reasonable time and resources to obtain financial facilities from financial institutions at favourable rates and conditions, which may or may not be available.

LETTER FROM CINDA INTERNATIONAL

In addition, we noted that the Open Offer is similar to a rights issue in the way that shareholders are entitled to acquire newly issued shares in proportion to their existing shareholdings. Moreover, given the additional administrative costs and expenses to be borne by the Company in arranging trading arrangement of the nil-paid rights, we were advised by the Directors that the Open Offer is a better option. Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that the Open Offer does not allow them to sell the right to subscribe for the Offer Shares. Nonetheless, we noted that Qualifying Shareholders are given the opportunity to participate in the future prospects of the Company by subscribing for the Offer Shares at notable discounts to the closing prices of the Adjusted Shares as represented by the Subscription Price and the Effective Price and on this basis, the pricing of the Offer Shares is considered to be attractive to Qualifying Shareholders to subscribe for the Offer Shares rather than to dispose of the nil-paid rights in the market. In this regard, we concur with the Directors that trading arrangement of nil-paid rights will incur additional and unnecessary administrative costs and expenses for the Company and the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so.

Taking into account that (i) debt financing and bank borrowing will incur interest burden to the Company; (ii) any placing of new Shares without first offering the existing Shareholders the opportunity to participate in the Company's equity raising exercise would result in dilution of shareholding of the existing Shareholders; (iii) the Open Offer together with the Bonus Issue will enable the Shareholders to maintain their proportionate interests in the Company; and (iv) the Open Offer avoids the additional administrative costs in arranging for disposal of their rights to subscriber for Offer Shares, we concur with the view of the Directors that fund raising by way of the Open Offer is fair and reasonable.

LETTER FROM CINDA INTERNATIONAL

4) Dilution effect on the shareholding interests of the Independent Shareholders

| Shareholders | Immediately before completion of the Open Offer with the Bonus Issue | | Immediately after the Capital Reorganisation but before completion of the Open Offer | | Immediately after the completion of the Open Offer (with Bonus Shares) (assuming all Offer Shares are subscribed for by the Qualifying Shareholders) | | Immediately after the completion of the Open Offer (with Bonus Shares) (assuming no Offer Shares are subscribed for by the Qualifying Shareholders) | |
|---|--|----------------------|--|----------------------|--|----------------------|---|----------------------|
| | <i>Number of</i> | | <i>Number of</i> | | <i>Number of</i> | | <i>Number of</i> | |
| | <i>Shares</i> | <i>Approximate %</i> | <i>Shares</i> | <i>Approximate %</i> | <i>Shares</i> | <i>Approximate %</i> | <i>Shares</i> | <i>Approximate %</i> |
| <i>Substantial Shareholder</i> | | | | | | | | |
| Star Advance International Limited (Note 1) | 700,000,000 | 28.99 | 70,000,000 | 28.99 | 560,000,000 | 28.99 | 70,000,000 | 3.62 |
| <i>Public</i> | | | | | | | | |
| Underwriter | - | - | - | - | - | - | 1,690,183,285 | 87.50 |
| Other public Shareholders | 1,714,547,555 | 71.01 | 171,454,755 | 71.01 | 1,371,638,040 | 71.01 | 171,454,755 | 8.88 |
| | <u>2,414,547,555</u> | <u>100.00</u> | <u>241,454,755</u> | <u>100.00</u> | <u>1,931,638,040</u> | <u>100.00</u> | <u>1,931,638,040</u> | <u>100.00</u> |

Note:

- Star Advance International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Fong Shing Kwong.

This scenario is for illustrative purpose only. Pursuant to the Underwriting Agreement, in the event the Underwriter being called upon to subscribe for or procure subscribers to subscribe for any of the Untaken Shares: (i) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.90% of the voting rights of the Company upon completion of the Open Offer, and (ii) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers for the Untaken Shares (i) shall be independent third party independent of, not acting in concert (within the meanings of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholders (as defined in the Listing Rules) or any of their respective associates; and (ii) shall not, together with any party acting in concert (within the meaning of the Takeovers Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Open Offer.

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer. In the event that all Qualifying Shareholders do not accept the Open Offer and thus the Underwriter is obliged to take up the unsubscribed Offer Shares, the Qualifying Shareholders' shareholding interest in the Company, as indicated in the table above, will be diluted to approximately 8.88%.

LETTER FROM CINDA INTERNATIONAL

Having considered that (i) the discount of the Subscription Price to the prevailing market prices; and (ii) the Bonus Issue as additional incentive, we are of the view that it is in the interest of the Qualifying Shareholders to take up the Open Offer. However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be materially diluted in comparison with their shareholdings immediately before the Open Offer with the Bonus Issue.

5) Financial effects of the Open Offer with the Bonus Issue

a) Effect on NTAV

According to the statement of unaudited pro forma financial information as set out in Appendix II to this Circular, the audited pro forma adjusted consolidated net tangible asset value (“NTAV”) and the unaudited pro forma adjusted consolidated NTAV per Adjusted Share of the Group were approximately HK\$224.6 million and HK\$0.930 respectively.

Upon completion of the Open Offer with the Bonus Issue, the unaudited pro forma adjusted consolidated NTAV and the unaudited pro forma adjusted consolidated NTAV per Adjusted Share of the Group would increase by approximately 104% to approximately HK\$458.3 million and decrease by approximately 74.5% to HK\$0.237 respectively.

It is noted that any new issue of shares at a discount to the relevant net tangible asset per share value, as in the case of the Open Offer, will inevitably result in a dilution in the net tangible asset per share value.

Having considered all Qualifying Shareholders are offered the same opportunity to enjoy the benefit of subscribing for the Offer Shares at the Subscription Price which is at a discount to the market price of the Shares, we consider that increase in the unaudited pro forma adjusted consolidated NTAV to be in the interests of the Group and the Shareholders as a whole and the decrease in the unaudited pro forma adjusted consolidated NTAV per Adjusted Share is acceptable.

b) Effect on gearing position

With reference to the 2010 interim report of the Company, the gearing ratio of the Group was approximately 5.7% as at 30 June 2010. As the total capital base of the Group would be enlarged upon completion of the Open Offer with the Bonus Issue but total borrowings of the Group is not expected to change, the gearing position of the Group would be improved. On this basis we consider that the Open Offer with the Bonus Issue to be in the interests of the Group and the Shareholders as a whole.

LETTER FROM CINDA INTERNATIONAL

c) *Effect on liquidity*

The cash and bank balance of the Group and the general working capital of the Group will be increased upon the completion of the Open Offer. We consider that the improvement to general working capital and cash position to be in the interests of the Group and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Open Offer with the Bonus Issue are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) at the EGM to approve the Open Offer with the Bonus Issue.

Yours faithfully,
For and on behalf of
Cinda International Capital Limited
Thomas Lai
Executive Director

1. FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2007, 2008 and 2009 are disclosed in the annual reports of the Company for the years ended 31 December 2007 (pages 29 to 72), 2008 (pages 29 to 71) and 2009 (pages 27 to 73) respectively. These annual reports are published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.msr.com.hk).

2. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 October 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding other borrowings from the non-controlling shareholders of subsidiaries approximately HK\$16.7 million and amounts due to related parties of approximately HK\$2.6 million. The other borrowings and amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Contingent liabilities

The Group had the following material contingent liabilities as at the close of business on 31 October 2010.

- Buy-back guarantees approximately of HK\$28.0 million are given by the Group in favour of banks for mortgage loans granted to the purchasers of the properties which were developed by the subsidiaries of the Group if the purchasers are incapable to repay the loans in full. In the opinion of the Directors, in case of any default payment, it is expected the net realisable value of the related property is sufficient to cover the repayment of the outstanding mortgage principals together with the interests and penalty payables, if any. As at 31 October 2010, no default payment is noted and hence, no provision for the buy-back guarantee is required.

Save as disclosed above and apart from intra-group liabilities and normal trade and other payables, as at the close of business on 31 October 2010, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Group

The Directors, after due and careful consideration, are in the opinion that in the absence of unforeseen circumstances and taking into account the present available financial resources, including the internally generated funds and the expected cash flows, the Group has sufficient working capital for its present requirements and for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. BUSINESS TREND AND PROSPECTS

For the six months ended 30 June 2010, the Group's turnover was HK\$258.9 million compared to HK\$206.6 million for the corresponding period in 2009 whilst its profit before tax was approximately HK\$3.8 million compared to approximately HK\$1.2 million for the corresponding period in 2009, and the Group's profit attributable to equity holders was HK\$4.9 million compared to a loss of approximately HK\$0.4 million for the corresponding period in 2009.

With the continuing economic recovery in Hong Kong together with positive consumers' sentiments, the Board noted increase in the turnover of the Group's travel and travel-related businesses. All destinations recorded an improved performance as compared to the corresponding period last year. Predominantly, focus is still on major destinations in the South-East Asia such as Japan, Taiwan, etc and continuous efforts are being made to escalate growth rate for these destinations in particular during festive season as well as expanding into the business of events and management for corporate clients covering its conference or union events and revamping the travel online website and call centre of the Company with the aim to increase sales. The Board has also planned to seize the business opportunities arising from the robust economy of the PRC and expand its presence and business in the mainland market.

For the Group's Property Division, the Board noted decrease in the turnover of the division to HK\$11.0 million for the six months ended 30 June 2010, compared to HK\$15.5 million for the corresponding period in 2009. The decrease in turnover was mainly attributable to weaker demand for the remaining units in the Morning Star Plaza project in Zhongshan, the PRC. The division recorded an operating loss of HK\$2.4 million for the six months ended 30 June 2010 against an operating profit of HK\$2.7 million for the corresponding period in 2009. The Board notes that the property market in the PRC will remain under pressure in view of the series of policies implemented by the PRC Central Government to curb speculation in real estate and rising property prices. The Board therefore expects no change of the current trend in the performance in the Property Division for the remainder of the year. The Board has conducted an overall review of the Property Division, and is in the course of formulating its business strategy towards the property market in the PRC including the piece of land of 151,773.02 sq.m. in Zhongshan held by Zhongshan Morning Star Villa Housing and Real Estate Development Limited, an indirect subsidiary of the Company.

The Board will continue to explore other business opportunities and consider any asset acquisitions, asset disposals, business rationalization, business divestment and/or business diversification which would be appropriate in order to enhance the long-term growth potential of the Group.



TO THE DIRECTORS OF MORNING STAR RESOURCES LIMITED

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of Morning Star Resources Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed Open Offer on the basis of five Offer Shares for every one Adjusted Share together with two Bonus Shares for every five Offer Shares taken up of the Company (the “Open Offer with Bonus Issue”) might have affected the Financial Information presented if the Open Offer with Bonus Issue had taken place at 30 June 2010, for inclusion as Appendix II to the circular of the Company dated 15 December 2010 (the “Circular”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 50 to 51 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the consolidated net tangible assets per share of the Group as at 30 June 2010 or any future date.

Opinion

In our opinion:

- a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of the Chapter 4 of the Listing Rules.

Parker Randall CF (H.K.) CPA Limited

Certified Public Accountants

Hong Kong,

15 December 2010

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

INTRODUCTION

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared by the directors of the Company in accordance with paragraph 29 of Chapter 4 of the Listing Rules to illustrate the effect of the Open Offer with Bonus Issue on the unaudited consolidated net tangible assets of the Group as if the Open Offer with Bonus Issue had taken place on 30 June 2010.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the unaudited equity attributable to the owners of the Company as at 30 June 2010, as extracted from the published interim report of the Company for the six months ended 30 June 2010 which are published on both the websites of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.msr.com.hk), after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Open Offer with Bonus Issue.

| | Unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2010 <i>HK\$'000</i> <i>(Note 1)</i> | Estimated net proceeds from the Open Offer with Bonus Issue <i>HK\$'000</i> <i>(Note 2)</i> | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company after Completion of the Open Offer with Bonus Issue <i>HK\$'000</i> |
|--|---|--|--|
| Based on the number of Offer Shares and Bonus Shares to be issued | <u>224,574</u> | <u>233,740</u> | <u>458,314</u> |
| Unaudited consolidated net tangible assets per Adjusted Share attributable to the owners of the Company as at 30 June 2010 after the completion of the Capital Reorganisation but prior to the completion of the Open Offer with Bonus Issue <i>(Note 3)</i> | | | <u>HK\$0.930</u> |
| Unaudited pro forma adjusted consolidated net tangible assets per Adjusted Share attributable to the owners of the Company upon the completion of the Open Offer with Bonus Issue <i>(Note 4)</i> | | | <u>HK\$0.237</u> |

Notes:

1. The unaudited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2010 is derived from the published interim report of the Company for the six months ended 30 June 2010.
2. The estimated net proceeds from the Open Offer with Bonus Issue approximately HK\$233.74 million are based on 1,207,273,775 offer shares to be issued at the subscription price of HK\$0.20 per Offer Share after deduction of estimated related expenses of approximately HK\$7.71 million.
3. The number of shares used for the calculation of unaudited consolidated net tangible assets per Adjusted Share is based on 241,454,755 Adjusted Shares in issue as at 30 June 2010. This amount is derived by dividing the number of shares in issue as at 30 June 2010 of 2,414,547,555 shares by 10.
4. The number of shares used for the calculation of unaudited pro forma adjusted consolidated net tangible assets per Adjusted Share after Completion of the Open Offer with Bonus Issue is calculated based on 1,931,638,040. Adjusted Shares in issue upon completion of the Open Offer with Bonus Issue, which comprise the 241,454,755 Adjusted Shares in issue as at 30 June 2010, 1,207,273,775 Offer Shares to be issued pursuant to the Open Offer and 482,909,510 Bonus Shares to be issued upon the Bonus Issue.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Capital Reorganisation and the Open Offer are as follows:

As at the Latest Practicable Date

| | | |
|----------------------|--|-------------------------|
| <i>Authorised:</i> | | <i>HK\$</i> |
| <u>5,000,000,000</u> | Shares as at the Latest Practicable Date | <u>1,000,000,000.00</u> |

Issued and fully paid:

| | | |
|----------------------|--------|-----------------------|
| <u>2,414,547,555</u> | Shares | <u>482,909,511.00</u> |
|----------------------|--------|-----------------------|

Upon completion of the Capital Reorganisation and the Open Offer (with Bonus Issue)

| | | |
|------------------------|-----------------|-------------------------|
| <i>Authorised:</i> | | <i>HK\$</i> |
| <u>100,000,000,000</u> | Adjusted Shares | <u>1,000,000,000.00</u> |

Issued and fully paid:

| | | |
|----------------------|-----------------|----------------------|
| 241,454,755 | Adjusted Shares | 2,414,547.55 |
| 1,207,273,775 | Offer Shares | 12,072,737.75 |
| <u>482,909,510</u> | Bonus Shares | <u>4,829,095.10</u> |
| <u>1,931,638,040</u> | | <u>19,316,380.40</u> |

All the Shares in issue, Adjusted Shares and Offer Shares to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

As at the Latest Practicable Date, the Company has no options, warrants and conversion rights convertible into Shares.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

3. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, none of Directors and chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by any Directors or chief executive of the Company, the following persons had an interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company and the amount of each of such persons' interests in such securities, together with particulars of any options in respect of such capital were as follows:

Position in the Shares and underlying Shares of the Company

| Name of Shareholder | Capacity or Nature of Interests | Number of Shares | | Approximate percentage of issued share capital of the Company |
|--|---------------------------------|------------------|----------------|---|
| | | Long position | Short position | |
| Star Advance International Limited (<i>Note</i>) | Beneficial owner | 700,000,000 | – | 28.99% |

Note: Star Advance International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Fong Shing Kwong.

Positions in the Offer Shares

| Name of Shareholder | Capacity or Nature of Interests | Number of Shares | Approximate percentage of issued share capital of the Company (as enlarged by the issue of the Offer Shares) |
|------------------------------|--|-------------------------|---|
| The Underwriter | Beneficial owner | 1,690,183,285 | 87.50% |
| Chu Yuet Wah (<i>Note</i>) | Interest of a controlled corporation | 1,690,183,285 | 87.50% |

Note:

The 1,690,183,285 Shares are the Offer Shares (with Bonus Share) which the Underwriter has underwritten in respect of the Open Offer. The issued share capital of the Underwriter is wholly owned by Galaxy Sky Investments Limited, which is in turn wholly owned by Kingston Capital Asia Limited, which is in turn owned as to 80% by Active Dynamic Limited, which is in turn wholly owned by Chu Yuet Wah. Chu Yuet Wah is therefore deemed to be interested in the 1,690,183,285 Shares held by the Underwriter under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

4. EXPERT AND CONSENT

The following are the qualifications of the experts who have given their advice or opinion which is contained in this circular:

| Name | Qualification |
|--------------------------------------|---|
| Cinda International Capital Limited | licensed corporation to carry out type 1 regulated activity (dealing in securities) and type 6 regulated activity (advising on corporate finance) under the SFO |
| Parker Randall CF (H.K.) CPA Limited | Certified Public Accountants |

Each of Cinda International and Parker Randall CF (H.K.) CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and reference to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, neither Cinda International nor Parker Randall CF (H.K.) CPA Limited was beneficially interested in the share capital of any member of the Company, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to the Company.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there is no litigation, arbitration or claim of material importance in which the Company is engaged or pending or threatened against the Company.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

7. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered by the Company and are or may be material:—

- the Underwriting Agreement;
- an agreement for the sale and purchase of shares pursuant to which the Company acquired 0.45% interest in the capital of Morning Star Financial Services Limited from Firstway International Investment Limited at a consideration of HK\$231,000 dated 3 November 2009; and
- an agreement for the sale and purchase of shares pursuant to which the Company acquired 2.56% interest in the capital of Morning Star Financial Services Limited from Knight Partners Limited at a consideration of HK\$1,320,000 dated 15 October 2009.

8. EXPENSES

The estimated expenses in connection with the Capital Reorganisation, the Open Offer (with Bonus Issue) (including but not limited to the underwriting commission, printing, registration, financial advisory, legal, professional and accounting charges) and the Amendments to Articles of Association are approximately HK\$7.71 million and are payable by the Company.

9. PARTIES

PARTICULARS OF DIRECTORS

| (i) Name | Address |
|---|--|
| <i>Executive Directors:</i> | |
| Mr. Sung Wai Man, Peter | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| Mr. Chi Chi Hung, Kenneth | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| Mr. Yeung Kwok Leung | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| <i>Non-executive Director:</i> | |
| Mr. Tso Shiu Kei, Vincent | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| <i>Independent non-executive Directors:</i> | |
| Ms. So Wai Lam | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| Ms. Chan Hoi Ling | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| Mr. Sung Yat Chun | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |

(ii) Biographical Details of Directors*Executive Directors*

Mr. SUNG Wai Man, Peter

Mr. Peter SUNG, aged 57, has extensive experience in the travel industry through working as senior management in a number of travel companies. Apart from his exposure in the travel industry, Mr. Peter SUNG has also gained experience in the hotel industry from his directorship at New World Hotel Management Limited.

Mr. CHI Chi Hung, Kenneth

Mr. CHI, aged 42, has over 18 years of experience in accounting and financial control. He holds a bachelor's degree in accountancy from the Hong Kong Polytechnic University, and was admitted as a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. YEUNG Kwok Leung

Mr. YEUNG, aged 37, holds a bachelor's degree in accountancy and has over 15 years of experience in auditing, financial controlling, accounting, corporate development 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.

Non-executive Director

Mr. TSO Shiu Kei, Vincent

Mr. TSO, aged 44, 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.

Independent non-executive Directors

Ms. SO Wai Lam

Ms. SO, aged 29, holds a bachelor's degree in science with double majors in mathematics and statistics from the University of British Columbia in Canada. Ms. SO has over 7 years of experience in the corporate finance industry.

Ms. CHAN Hoi Ling

Ms. CHAN, aged 37, graduated from the University of South Australia with a bachelor's degree in accountancy. Ms. CHAN 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.

Mr. SUNG Yat Chun

Mr. SUNG, aged 32, 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.

10. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

| | |
|---|--|
| Registered office | The Offices of Caledonian Bank & Trust Limited P.O. Box 1043, George Town, Grand Cayman KY1-1102, Cayman Islands |
| Principal place of business in Hong Kong | Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong |
| Authorised representatives | Chi Chi Hung, Kenneth Lau Kam Yi, Rosary |
| Company secretary | Lau Kam Yi, Rosary, certified public accountant |
| Auditors | Parker Randall CF (H.K.) CPA Limited Suite 201, Two Grand Tower, 625 Nathan Road, Kowloon, Hong Kong |
| Underwriter | Kingston Securities Limited Suite 2801, 28th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong |

| | |
|-------------------------------|--|
| Legal Advisers | <i>On Hong Kong Law:</i> D.S. Cheung & Co. 29th Floor, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong |
| | <i>On Cayman Islands law:</i> Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place, Central Hong Kong |
| Principal Bankers | CITIC Bank International Limited Citibank, N.A. Hang Seng Bank Limited Malayan Banking Berhad The Bank of East Asia, Limited The Hongkong and Shanghai Banking Corporation Limited |
| Branch Registrar in Hong Kong | Tricor Tengis Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong |

11. MISCELLANEOUS

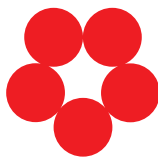
- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up.
- (b) As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Company.
- (c) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours (Saturdays and public holidays excepted) at Unit 1803, 18th Floor, Tower 1, Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee, the text of which is set out on page 28 of this circular; and
- (c) the letter of advice from Cinda International, the text of which is set out on pages 29 to 44 of this circular;
- (d) the letter from Parker Randall CF (H.K.) CPA Limited on the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages 48 to 49 of this circular;
- (e) the annual reports of the Company for the years ended 31 December 2008 and 31 December 2009;
- (f) the unaudited interim report of the Company for the six months ended 30 June 2010;
- (g) the material contracts as referred to in the section headed “material contracts” in this appendix; and.
- (h) the written consent referred to in the paragraph headed “Expert and Consent” in this appendix.

NOTICE OF EGM



星晨集團有限公司*

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Morning Star Resources Limited (the “**Company**”) will be held at Meeting Room No. 9, 7/F, Hongkong International Trade & Exhibition Centre, 1 Trademart Drive, Kowloon Bay, Kowloon, Hong Kong at 11:00 a.m. on Friday, 7 January 2011 for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as special resolutions and an ordinary resolution respectively:

SPECIAL RESOLUTION

1. **THAT** the articles of association of the Company be and are hereby amended by deleting in its entirety current article 146A, and replacing it with the following new article 146A:

“146A. In addition to the power contained in Article 146, the Company may, upon the recommendation of the Directors, capitalise any part of the amounts for the time being standing to the credit of any of the Company’s reserve accounts in the paying up of unissued shares, where such shares are to be issued by way of bonus only to members who subscribe for share in the Company pursuant to an offer to members (other than members whose addresses on the register of members of the Company on the relevant record date are outside Hong Kong and the Directors, having made such enquiry regarding the legal restrictions, if any, under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place of the address of such members, consider it necessary or expedient not to offer shares of the Company) made by the Company on a pre-emptive basis (disregarding fractional entitlements), provided that the terms of such offer and bonus issue shall have been approved by a resolution of the members in general meeting. For the avoidance of doubt, the provisions of Article 146 shall not be applicable to any capitalisation and issue pursuant to this Article.”

2. **THAT** conditional upon (i) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant the listing of, and permission to deal in, the Adjusted Shares (as defined below); and (ii) approval by the Grand Court of Cayman Islands (the “Court”) of the Capital Reduction (as defined below) and registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minute approved by the Court containing the particulars required under the Companies Law of the Cayman Islands in respect of the Capital Reduction, with effect from the date on which those conditions are fulfilled:

* For identification purpose only

NOTICE OF EGM

- (i) every ten issued shares (“Shares”) of HK\$0.20 each be consolidated into one consolidated share (“Consolidated Share”) of HK\$2.00 each (“Share Consolidation”) and any fraction of a Consolidated Share arising from the Share Consolidation shall not be allocated to the holders of Shares otherwise entitled thereto but such fractions shall be aggregated and be sold for the benefit of the Company;
- (ii) immediately following the Share Consolidation, (a) all fractional entitlements remaining following aggregation of fractional entitlements following the Share Consolidation be cancelled; and (b) the paid-up capital of each Consolidated Share of the Company be reduced from HK\$2.00 each to HK\$0.01 each by cancelling capital paid-up or credited as paid up to the extent of HK\$1.99 on each Consolidated Share by way of a reduction of capital (“Capital Reduction”) so that each issued Consolidated Share of HK\$2.00 each in the capital of the Company shall be treated as one fully paid-up share (“Adjusted Share”) of HK\$0.01 each in the share capital of the Company and any liability of the holders of such shares to make any further contribution to the capital of the Company on each such share shall be treated as satisfied and that the amount of issued capital thereby cancelled be made available for issue of new shares of the Company;
- (iii) the credit arising from the Capital Reduction shall be applied towards cancelling the accumulated deficit of the Company (if any) with the balance (if any) to be transferred to the distributable capital reduction reserve account of the Company which shall be utilised by the directors of the Company as a distributable reserve of the Company in accordance with the Companies Law of the Cayman Islands and the articles of association of the Company;
- (iv) immediately following the Capital Reduction, each authorised but unissued Consolidated Share of HK\$2.00 each be sub-divided into two hundred Adjusted Shares of HK\$0.01 each (“Share Subdivision”);
- (v) all of the Adjusted Shares resulting from the Share Consolidation, Capital Reduction and Share Subdivision shall rank *pari passu* in all respects and have the rights and privileges and be subject to the restrictions contained in the Company’s articles of association; and
- (vi) the directors of the Company be and are hereby authorised generally to do all things they may consider appropriate and desirable to effect and implement the Share Consolidation, Capital Reduction, Share Subdivision and application of credit arising from the Capital Reduction (together, the “Capital Reorganisation”).

ORDINARY RESOLUTION

3. **“THAT** conditional on the Capital Reorganisation referred to in special resolution numbered 2 becoming effective, the passing of Resolutions numbered 1 and 2 and the fulfillment of other conditions in the Underwriting Agreement (as defined below):

NOTICE OF EGM

- (i) the underwriting agreement (the “Underwriting Agreement”) dated 19 November 2010 entered into between the Company and the underwriter, Kingston Securities Limited, copy of which has been produced at the EGM and marked “A” and initialed by the chairman of the EGM for identification purpose be and is hereby approved, confirmed and ratified in all respects;
- (ii) the issue by way of open offer (the “Open Offer”) of 1,207,273,775 new Adjusted Shares as defined in Resolution numbered 2 of the notice convening this meeting (“Offer Shares”) to the shareholders of the Company (the “Shareholders”) whose names appear on the register of members of the Company as at the close of business on 4 May 2011 (or such other date as the Underwriter may agree in writing with the Company) (the “Record Date”), in the proportion of five (5) Offer Shares for every one Adjusted Share then held (with bonus Shares (the “Bonus Shares”) in the proportion of two (2) Bonus Shares for every five (5) Offer Shares taken up under the Open Offer (the “Bonus Issue”)) with no facility for excess applications for the assured allotments of Offer Shares pursuant to and in accordance with the terms and conditions set out in the circular of the Company dated 15 December 2010 (the “Circular”, a copy of which has been produced at the EGM and marked “B” and initialed by the chairman of the EGM for identification purpose) be and is hereby approved; and
- (iii) the Directors be and are hereby authorized (i) to allot and issue the Offer Shares and Bonus Shares pursuant to or in connection with the Open Offer with Bonus Issue notwithstanding the Bonus Shares may be offered, allotted or issued otherwise than pro rata to the existing Shareholders and, in particular, the Directors be and are hereby authorized to make such exclusions or other arrangements in relation to fractional entitlements or those Shareholders whose names appear on the register of members of the Company on the Record Date as having registered addresses outside the Hong Kong Special Administration of the People’s Republic of China (“Hong Kong”) or stipulated in place(s) where, in the Director’s opinion, the Offer Shares and the Bonus Shares may not be offered without compliance with the registration and/or other legal or regulatory requirements of that jurisdiction or jurisdictions outside Hong Kong as they deemed necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company and (ii) generally to do such things or make such arrangements as the directors of the Company may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Open Offer, Bonus Issue, the Underwriting Agreement and the transactions contemplated thereunder.”

By order of the Board
Morning Star Resources Limited
CHI Chi Hung, Kenneth
Executive Director

Hong Kong, 15 December 2010

NOTICE OF EGM

Head office and Principal place of business in Hong Kong:

Unit 1803, 18th Floor
Tower 1, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay
Kowloon, Hong Kong

Registered Office:

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

Notes:

- (1) A form of proxy to be used for the meeting is enclosed.
- (2) Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint any number of proxies to attend in his stead at any one general meeting. In the case of a recognised clearing house, it may authorise such person(s) as it thinks fit to act as its representative(s) at the meeting and vote in its stead.
- (3) The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
- (4) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be delivered at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting at which the person named in such instrument proposes to vote. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting, or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (5) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.