



A member company of
Hutchison Whampoa Limited



● Interim Report **2002**

RESULTS

Hutchison Harbour Ring Limited ("the Company") and its subsidiary and associated companies ("the Group") recorded an unaudited consolidated profit attributable to shareholders of HK\$23.3 million for the six months ended 30 June 2002 (six months ended 30 June 2001: loss of HK\$104.8 million).

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

REVIEW OF OPERATIONS

The Group's turnover including share of associated companies for the period was HK\$660.3 million. The turnover was mainly attributed to the manufacturing and trading of toys and accessories as well as rental income from properties. In comparison, the turnover in the first half of year 2001 was HK\$21.5 million generated by Internet B2B operations. The consolidated results for the six months ended 30 June 2001 excluded the operations of the toys and property subsidiary companies. The net assets and results of these subsidiary companies were included in the consolidated accounts with effect from 31 December 2001, after the right to manage and operate such subsidiary companies reverted to the Group.

During 2001, the Group underwent a significant change in its ownership structure and became a subsidiary of Hutchison Whampoa Limited. It had since exited from its Internet B2B business interests and now retained only small holdings in those businesses. The Group's principal business is now centred on its toys and property activities. It is also actively developing and expanding its product portfolio to include premium products, video game controllers and mobile phone accessories. A new division had been established to spearhead the design, marketing and sales of these new products. In the area of video game controllers, the manufacture, sales and marketing activities have already started with orders placed by leading Japanese TV games developers. A Memorandum of Understanding was signed recently with Motorola to establish a long term strategic relationship for the supply of mobile handset related accessories. A high level meeting between senior management of Motorola and the Group was held in Chicago on business planning and partnership strengthening. In Japan, a representative office was set up in Tokyo to capture potential business opportunities identified. In addition, new mobile phone accessories

are being developed for a leading Japanese manufacturer. Capitalizing on the Hutchison Whampoa group's international networking and relationships, business contacts have been made with and product presentations have been conducted for many major corporations in Korea, Japan and the United States of America. The feedback had been positive and encouraging.

Toys Operations

The core business of the Group continued to be the manufacturing and trading of hard, soft and electronic toys. A distinctive feature of the toys industry is its seasonality and generally, sales are concentrated in the second half of the year. The Group recorded satisfactory performance with HK\$588.7 million in turnover and profit before taxation of HK\$9.0 million for the six months ended 30 June 2002. It also implemented a facility enhancement programme through which current production facilities were upgraded and new equipment acquired for the purposes of enhancing overall production capacity, catering for production volume surge during peak season and meeting production demand on manufacture of new products.

Property Operations

During the period under review, the investment property business in Shanghai showed improvement in gross rental income due mainly to the higher rental rate on new tenancies and rental renewal. 11 units of villas in Canadian Garden held by an associated company were sold during the period and the plan is to sell the remaining 42 units by the end of this year. In Shaoxing, renovation of the Xian Heng Hotel is in progress and is scheduled to complete in October 2002. With the facilities upgrade after the renovation, the hotel is expected to generate additional revenue in future. The results of the property segment remained steady, contributing a profit before taxation of HK\$14.2 million for the six months ended 30 June 2002.

Internet B2B Investments

The segment loss of HK\$15.8 million in the first half of this year was mainly the result of the reduction of the Group's equity interest in Whizz-Work Holdings Limited from 75 per cent to 15 per cent on 31 January 2002. In the first half of 2001, the Internet B2B activities produced a loss of HK\$107.0 million.

GROUP CAPITAL RESOURCES AND LIQUIDITY

The Group continues to maintain a healthy financial position during the period. Total cash and cash equivalents plus other liquid listed investments amounted to HK\$1,382.4 million as at 30 June 2002 (31 December 2001: HK\$1,407.6 million). The Group was debt free at 30 June 2002 and 31 December 2001.

TREASURY POLICIES

At 30 June 2002, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CONTINGENT LIABILITIES AND CHARGES ON GROUP ASSETS

At 30 June 2002, the Group had pledged fixed assets to the value of HK\$49.8 million (31 December 2001: HK\$50.4 million) in relation to certain general banking facilities. Mortgage loan facilities totalling HK\$7.9 million (31 December 2001: HK\$9.7 million) granted by certain banks to purchasers of the Group's properties in China were secured by the guarantee of a subsidiary company and a pledge of the Group's fixed deposits of approximately HK\$7.3 million (31 December 2001: HK\$10.1 million).

EMPLOYEES

At 30 June 2002, excluding associated companies, the Group employed a work force of 22,294 people (31 December 2001: 17,425 people), 19,661 of whom were factory and other workers (31 December 2001: 14,875). During the first six months of the year, the employee costs, including directors' emoluments, amounted to HK\$150.0 million. The Group's employment and remuneration policies remained the same as those described in the Annual Report for the year ended 31 December 2001.

AUDIT COMMITTEE

The Audit Committee, consisting of two independent non-executive Directors, reviewed with management the accounting principles and policies adopted by the Group and discussed financial reporting matters including a review of the unaudited condensed consolidated accounts for the six months ended 30 June 2002.

OUTLOOK

The Group has completed its exit from Internet B2B businesses and refocused on toys and property operations. The toys and property operations showed satisfactory results in line with the gradual recovery in the US economy and robust economic growth in China. Looking forward, the Group will continue to build on the momentum capitalizing on its existing extensive networking and the relationships with the Hutchison Whampoa group to actively expand its customer base and product range as well as to pursue new businesses. Supply of Original Equipment Manufacturers products to Hutchison Whampoa group companies has started; the business relationship is expected to expand into Original Design Manufacturers products over time. Development efforts in cooperation with global inventors on new premium and electronic products as well as mobile phone accessories are intensifying. These marketing efforts coupled with improvement initiatives on costs and efficiency as well as product diversification to balance the seasonality factor will provide the driving force to propel the Group forward through increase in turnover and higher profit margin.

The Board of Directors further wishes to pay tribute to the late Dr. Luk Chung Lam, the founder and Co-Chairman of the Company, who passed away on 15 August 2002. Over the past years, Dr. Luk made tremendous contributions to the growth and development of the Company. His leadership and dedication to the Company was accompanied at all times with kindness and deep concern for his colleagues. He is greatly missed and remembered with very fond memories.

The Board of Directors would like to express their appreciation to the employees for their hard work and dedication and to our shareholders for their continued support.

By Order of the Board

Edith Shih

Director and Company Secretary

Hong Kong, 20 August 2002

INDEPENDENT REVIEW REPORT

To the board of directors of Hutchison Harbour Ring Limited

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 6 to 23.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2002

		Unaudited	
	<i>Note</i>	2002 HK\$'000	2001 HK\$'000
Turnover			
Company and subsidiary companies		644,876	19,904
Share of associated companies		15,421	1,567
	2	660,297	21,471
Company and subsidiary companies			
Turnover	2	644,876	19,904
Cost of sales		(555,068)	(17,262)
Gross profit		89,808	2,642
Other revenues	2	21,422	32,612
Other operating income		6,528	796
Administrative expenses		(64,723)	(74,603)
Distribution costs		(16,133)	–
Other operating expenses		(1,853)	(5,699)
Impairment provision for non-trading securities		(8,410)	–
Loss on disposal of an associated company		–	(49,413)
Operating profit/(loss)	3	26,639	(93,665)
Share of profit/(loss) of associated companies		4,007	(14,691)
Finance costs		(10)	(26)
Profit/(loss) before taxation		30,636	(108,382)
Taxation	4	(6,280)	(304)
Profit/(loss) after taxation		24,356	(108,686)
Minority interests		(1,096)	3,904
Profit/(loss) attributable to shareholders		23,260	(104,782)
Basic earnings/(loss) per share	6	0.41 cent	(1.88 cents)
Fully diluted earnings per share	6	0.38 cent	N/A

CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2002	2001
	<i>Note</i>	HK\$'000	HK\$'000
Non-current assets			
Fixed assets	7	952,825	958,872
Intangible assets	8	–	15,100
Interests in associated companies		49,554	46,790
Held-to-maturity securities, listed	9	546,886	317,095
Non-trading securities	10	–	–
Loans receivable	11	16,777	18,146
		1,566,042	1,356,003
Current assets			
Inventories		234,381	175,954
Properties held for sale		89,700	89,700
Trade and other receivables	12	323,361	298,148
Loans receivable due within one year	11	2,695	5,743
Trading securities		1,212	1,861
Deposits with banks		658,194	951,739
Cash at bank and in hand		183,387	146,972
		1,492,930	1,670,117
Current liabilities			
Trade and other payables	13	512,943	429,379
Taxation		37,803	34,070
		550,746	463,449
Net current assets		942,184	1,206,668
Total assets less current liabilities		2,508,226	2,562,671
Deferred taxation		565	655
Minority interests	14	158,793	177,180
		2,348,868	2,384,836
Capital and reserves			
Share capital	15	561,000	561,000
Treasury shares	16	–	(13,478)
Reserves	17	1,787,868	1,837,314
		2,348,868	2,384,836

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	Unaudited	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	59,893	(15,813)
Net cash (used in)/from investing activities		
Additions to held-to-maturity securities, listed	(230,323)	–
Additions to long term deposits	(5,640)	(229,988)
Other investing activities	5,839	(28,482)
	(230,124)	(258,470)
Net cash (used in)/from financing activities		
Dividend paid	(84,150)	–
Release of pledged deposits	2,763	–
Repayment of loan to a minority shareholder	(8,959)	–
Repayment of bank loans	–	(1,834)
Other financing activities	570	2,158
	(89,776)	324
Net decrease in cash and cash equivalents	(260,007)	(273,959)
Cash and cash equivalents at 1 January	1,088,621	1,306,367
Cash and cash equivalents at 30 June	828,614	1,032,408
Analysis of cash and other listed investments		
Held-to-maturity securities, listed	546,886	–
Long term deposits	5,640	229,988
Trading securities	1,212	–
Long term deposits and other listed investments	553,738	229,988
Cash at bank and in hand	183,387	40,263
Deposits with banks with maturity of less than three months	652,554	992,145
Bank deposits pledged	(7,327)	–
Cash and cash equivalents as above	828,614	1,032,408
Total cash and other listed investments	1,382,352	1,262,396

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Unaudited	
	2002	2001
	HK\$'000	HK\$'000
At 1 January – total equity	2,384,836	1,666,198
Gain/(loss) on disposal of treasury shares (see Note 16)	12,719	(22,426)
Exchange translation differences	(1,275)	354
Net gains/(losses) not recognised in the consolidated profit and loss account	11,444	(22,072)
Issues of shares	–	17,970
Movement of treasury shares	13,478	17,144
Profit/(loss) attributable to shareholders	23,260	(104,782)
Dividend paid (see Note 5)	(84,150)	–
At 30 June – total equity	2,348,868	1,574,458

NOTES TO THE ACCOUNTS

1 (a) **Basis of preparation and accounting policies**

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim accounts. These interim accounts should be read in conjunction with the 2001 annual accounts. The Group has also adopted new SSAPs effective for accounting periods commencing on or after 1 January 2002. The adoption of these new SSAPs had no material effect on the Group's results.

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

(b) **Basis of consolidation**

Pursuant to a Management Services Agreement dated 28 April 2000 ("MSA"), the Company's control over the assets and operations of toys and property subsidiary companies was significantly restricted. Consequently, the Company ceased consolidating these subsidiary companies from 4 May 2000, the date on which the restrictions came into force.

As the Company resumed control over the assets and operations of these subsidiary companies upon the cancellation of the MSA, the Group's consolidated accounts as of 31 December 2001 include the results and the net assets of these subsidiary companies with effect from 31 December 2001.

2 Turnover, revenues and segment information

Turnover represents sales value of goods supplied to customers, rental income and service income. The amount of each category of revenues recognised in turnover during the period is as follows:

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of toys and accessories	583,186	–
Gross rentals from investment properties and revenues from hotel operation	50,781	–
Sales of computer hardware and software	10,909	19,904
	644,876	19,904
Other revenues		
Interest income	21,388	32,612
Dividend income from listed securities	34	–
	21,422	32,612
Total revenues	666,298	52,516

2 Turnover, revenues and segment information (continued)

Segment information is presented in respect of the Group's business and geographical segments. The Group is grouped into three core businesses as described below and accordingly business segment information is chosen as the primary reporting format. Unallocated represents head office administration expense and, other income and expenses for non-operating purpose not allocated to the core businesses.

Primary segment information by business:

	Six months ended 30 June 2002				
	Toys operations HK\$'000	Property operations HK\$'000	Internet business- to-business investments HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover					
Company and subsidiary companies	584,556	49,411	10,909	-	644,876
Share of associated companies	4,142	11,279	-	-	15,421
	588,698	60,690	10,909	-	660,297
Segment results					
Company and subsidiary companies	8,079	11,058	(15,753)	23,255	26,639
Share of profits less losses of associated companies	875	3,132	-	-	4,007
	8,954	14,190	(15,753)	23,255	30,646
Finance costs					(10)
Profit before taxation					30,636
Taxation					(6,280)
Profit after taxation					24,356
Minority interests					(1,096)
Profit attributable to shareholders					23,260

2 Turnover, revenues and segment information (continued)

Six months ended 30 June 2001					
	Toys operations HK\$'000	Property operations HK\$'000	Internet business- to-business investments HK\$'000	Unallocated HK\$'000	Group HK\$'000
Turnover					
Company and subsidiary companies	-	-	19,904	-	19,904
Share of associated companies	-	-	1,567	-	1,567
	<u>-</u>	<u>-</u>	<u>21,471</u>	<u>-</u>	<u>21,471</u>
Segment results					
Company and subsidiary companies	-	-	(92,298)	(1,367)	(93,665)
Share of losses less profits of associated companies	-	-	(14,691)	-	(14,691)
	<u>-</u>	<u>-</u>	<u>(106,989)</u>	<u>(1,367)</u>	<u>(108,356)</u>
Finance costs					(26)
Loss before taxation					(108,382)
Taxation					(304)
Loss after taxation					(108,686)
Minority interests					3,904
Loss attributable to shareholders					<u>(104,782)</u>

2 Turnover, revenues and segment information (continued)

Secondary segment information by geographical locations:

Six months ended 30 June				
	Turnover		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States	342,556	–	2,190	–
Europe	99,841	–	506	–
Mainland China	50,840	–	12,987	–
Hong Kong	56,774	–	3,030	(48,617)
Japan	47,714	261	(242)	(20,694)
Singapore	11,868	19,643	(14,052)	(22,987)
Other regions	35,283	–	(1,035)	–
	644,876	19,904	3,384	(92,298)
Unallocated			23,255	(1,367)
Operating profit/(loss)			26,639	(93,665)

3 Operating profit/(loss)

Six months ended 30 June		
	2002 HK\$'000	2001 HK\$'000
Operating profit/(loss) is stated after charging the following:		
Staff costs (including directors' emoluments)	149,922	38,207
Amortisation of goodwill and intangible assets	654	5,699
Depreciation	27,286	3,727
Operating lease charges in respect of properties	15,450	6,150
Loss on disposal of fixed assets	5,049	–
Loss on disposal of investment in a subsidiary company (see Note 21(b))	2,455	–
	2,455	–

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current period provision	3,468	–
– under-provision in prior years	2,306	–
Overseas taxation	–	304
Deferred taxation	(90)	–
	5,684	304
Share of taxation attributable to associated companies	596	–
	6,280	304

5 Dividend

At the meeting held on 19 March 2002, the directors proposed a final dividend of HK1.5 cents per ordinary share totalling HK\$84,150,000 for the year ended 31 December 2001, which was paid on 25 May 2002 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2002.

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2002 (2001: Nil).

6 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$23,260,000 (2001: loss of HK\$104,782,000) and 5,610,000,000 (2001: weighted average number of 5,584,030,000) ordinary shares in issue during the period.

The calculation of fully diluted earnings per share is based on the profit attributable to shareholders of HK\$23,260,000 and 6,094,928,571 ordinary shares which comprises 5,610,000,000 ordinary shares in issue during the period plus the weighted average of 484,928,571 ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised. No diluted loss per share in 2001 was presented as the exercise of the outstanding warrants would be anti-dilutive.

7 Fixed assets

	Property, plant and equipment HK\$'000
Opening net book amount at 1 January 2002	958,872
Additions	33,218
Disposal of a subsidiary company	(2,808)
Disposals	(9,171)
Depreciation	(27,286)
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Closing net book amount at 30 June 2002	952,825
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8 Intangible assets

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Goodwill arising on consolidation		
At cost	24,873	24,873
Less: accumulated amortisation	(10,427)	(9,773)
Less: disposal of a subsidiary company	(14,446)	-
	<hr/>	<hr/>
	-	15,100
	<hr/>	<hr/>

9 Held-to-maturity securities, listed

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Listed, overseas		
Held-to-maturity securities, at cost	547,848	317,525
Less: amortisation	(962)	(430)
	<hr/>	<hr/>
	546,886	317,095
	<hr/>	<hr/>

As at 30 June 2002, the market value of held-to-maturity securities was approximately HK\$557,281,000 (31 December 2001: HK\$315,190,000).

10 Non-trading securities

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Unlisted, overseas		
Equity securities	73,668	65,258
Convertible notes	19,500	19,500
Less: impairment provision	(93,168)	(84,758)
	—	—

The Group's investments in unlisted non-trading securities are mainly in entities engaged in Internet business-to-business investment activities. The directors have reviewed the carrying value of these investments and considered it appropriate to make an impairment provision against these investments.

11 Loans receivable

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Gross loans receivable	19,472	23,889
Less: amount due within one year	(2,695)	(5,743)
	16,777	18,146

The gross loans receivable of HK\$19,472,000 (31 December 2001: HK\$20,774,000) is a balance of the net amount of unsecured loans advanced by the Group to a third party ("the Third Party") to finance the construction, by the Third Party, of factory buildings in the People's Republic of China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate.

The remaining balance of HK\$3,115,000 at 31 December 2001 represented amount advanced to a related company of the minority shareholder of Zhongshan International Toys Limited, a subsidiary company of the Group. The loan was unsecured, bearing interest at the rate of 2% above the higher of Hong Kong dollar prime rate or Hong Kong inter-bank offer rate. The entire amount was fully repaid during the period ended 30 June 2002.

12 Trade and other receivables

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Trade receivables, net of provision	229,054	191,601
Deposits, prepayments and other receivables	94,307	106,547
	323,361	298,148

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. As at 30 June 2002, the ageing analysis of trade receivables based on the date of invoice is as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
0–30 days	185,382	129,644
31–60 days	25,891	31,754
61–90 days	3,566	8,285
Over 90 days	14,215	21,918
	229,054	191,601

13 Trade and other payables

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Trade payables	200,344	144,184
Other creditors and accruals	312,599	285,195
	512,943	429,379

13 Trade and other payables (continued)

At 30 June 2002, the ageing analysis of trade payables is as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
0-30 days	92,609	65,735
31-60 days	40,633	23,126
61-90 days	5,933	3,494
Over 90 days	61,169	51,829
	200,344	144,184

14 Minority interests

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Equity interests	90,867	98,778
Loans from minority shareholders	67,926	78,402
	158,793	177,180

Loans from minority shareholders of subsidiary companies are unsecured, non-interest bearing and have no fixed terms of repayments.

15 Share capital

	30 June 2002 Number of shares	30 June 2002 Amount HK\$'000	31 December 2001 Number of shares	31 December 2001 Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	20,000,000,000	2,000,000	20,000,000,000	2,000,000
Issued and fully paid:				
At beginning of the period	5,610,000,000	561,000	5,550,500,000	555,050
Issue of shares	–	–	59,500,000	5,950
At end of the period	5,610,000,000	561,000	5,610,000,000	561,000

Note : The Company has warrants outstanding entitling the holders to subscribe in cash at any time on or after 4 May 2000 and until 3 May 2003 for ordinary shares up to 1,095,000,000 shares in the Company at a price of HK\$0.39 per share. During the period, no warrants were exercised and the warrants remained outstanding as at 30 June 2002.

16 Treasury shares

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
At beginning of the period	13,478	30,622
Ordinary shares issued to Whizz-Work Holdings Limited ("Whizz-Work")	–	13,478
Disposal of treasury shares by MegaVillage.com Holdings Limited	–	(30,622)
Disposal of treasury shares by Whizz-Work	(13,478)	–
At end of the period	–	13,478

In January 2002, when Whizz-Work was a 75% owned subsidiary company of the Company, Whizz-Work sold in the market approximately 59,500,000 shares of the Company. The Group's share of gain on the transaction of HK\$12,719,000 has been accounted for as a movement in Retained Profits Reserves (Note 17). On 31 January 2002, the Group reduced its ownership of Whizz-Work to 15% and incurred a loss of HK\$2,455,000. The Group made an impairment provision of HK\$8,410,000 against the remaining interest in Whizz-Work.

17 Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve on consolidation HK\$'000	Exchange reserve HK\$'000	Legal reserve HK\$'000	Merger reserve HK\$'000	Retained profits HK\$'000	30 June 2002 Total HK\$'000	31 December 2001 Total HK\$'000
At beginning of the period	1,495,889	3,558	46,244	(21,137)	200	72	312,488	1,837,314	1,141,770
Issue of new shares	-	-	-	-	-	-	-	-	12,020
Exchange translation differences	-	-	-	(1,275)	-	-	-	(1,275)	(263)
Inclusion of the toys and property subsidiary companies on consolidation	-	-	-	-	-	-	-	-	25,611
Realised gain/(loss) on disposal of treasury shares (see Note 16)	-	-	-	-	-	-	12,719	12,719	(22,426)
Profit for the period/year	-	-	-	-	-	-	23,260	23,260	680,602
Dividend	-	-	-	-	-	-	(84,150)	(84,150)	-
At end of the period	1,495,889	3,558	46,244	(22,412)	200	72	264,317	1,787,868	1,837,314
Retained by:									
Company and subsidiary companies	1,495,889	3,558	46,244	(6,537)	200	72	242,618	1,782,044	1,820,005
Associated companies	-	-	-	(15,875)	-	-	21,699	5,824	17,309
	1,495,889	3,558	46,244	(22,412)	200	72	264,317	1,787,868	1,837,314

The application of the share premium account is governed by section 40 of the Companies Act 1981 of Bermuda (as amended).

18 Contingent liabilities

- (a) As at 30 June 2002, mortgage loan facilities totalling HK\$7,900,000 (31 December 2001: HK\$9,666,000) were granted by certain banks to purchasers of the Group's properties in China and secured by a subsidiary company's guarantees and a pledge of the Group's fixed deposits of approximately HK\$7,327,000 (31 December 2001: HK\$10,090,000).
- (b) One of the Group's subsidiary companies ("the Subsidiary") was named in a law suit brought by a contractor relating to a property of the Group situated in the PRC since 1999. The dispute mainly includes outstanding balance of development costs, penalties on delay of construction and related damages. The amount due to this contractor has been fully accrued. While the final outcome of the proceedings is uncertain, in the opinion of the directors, additional liability (if any) will not have a material impact on the Group's financial position.

19 Capital commitments

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	19,958	15,206
Authorised but not contracted for	7,771	14,470
	27,729	29,676

20 Operating leases

- (a) As at 30 June 2002, the Group had future aggregate minimum lease receivables under non-cancellable leases in respect of investment properties as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Not later than one year	31,068	29,497
Later than one year and not later than five years	21,529	20,639
Later than five years	2,619	3,702
	55,216	53,838

- (b) As at 30 June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Not later than one year	34,645	33,736
Later than one year and not later than five years	132,381	130,646
Later than five years	79,202	95,067
	246,228	259,449

21 Material related party transactions

During the period, the Group had significant transactions with related parties, details of which are as follows:

- (a) The Group had transactions with minority shareholders and their affiliates during the period as follows:

	HK\$'000
Rental expenses	9,616
Management fee expenses	2,366

The above transactions were carried out in the normal course of business at terms determined and agreed by both parties.

- (b) On 31 January 2002, the Group entered into a Share Repurchase Agreement, a Shareholders' Agreement and an Option Agreement with Whizz-Work pursuant to which Whizz-Work agreed to repurchase 1,737,557 shares in Whizz-Work from the Group ("the First Share Repurchase") for a cash consideration of US\$5,850,000 (equivalent to approximately HK\$45,630,000). Upon completion of the First Share Repurchase, the Group's interest in Whizz-Work has been reduced from 75% to 15% and the Group recorded a loss of HK\$2,455,000 on the said reduction of interest. Pursuant to the Option Agreement, the Group has been granted a put option to require Whizz-Work to repurchase an additional 36,200 shares in Whizz-Work, representing 5% of the issued shares of Whizz-Work immediately following the First Share Repurchase, from the Group for a cash consideration of US\$200,000 (equivalent to approximately HK\$1,560,000). The put option is exercisable at any time between 31 January 2006 and 30 January 2009.
- (c) The Group entered into a surrender agreement with The Centre (67) Limited ("the landlord"), a wholly owned subsidiary company of a substantial shareholder of Hutchison Whampoa Limited. According to the agreement, the landlord received a lump sum of approximately HK\$3,622,000 for early termination of a lease with effect from 19 June 2002 on the terms and conditions stated therein. The lease was related to a premise of the entire 67th floor of The Centre with the term of three years from 1 May 2000 to 30 April 2003 at an average monthly rental of approximately HK\$776,800 including management fee and air-conditioning charges.
- (d) The Group manufactured the cap covers and injection moulds for parts of "Watsons Water" bottles for A.S.Watson Group (HK) Limited, an indirect wholly owned subsidiary company of Hutchison Whampoa Limited. The aggregate invoiced amount for the period is approximately HK\$821,000 which was determined after arm's length negotiations.

22 Ultimate holding company

The directors consider the ultimate holding company to be Hutchison Whampoa Limited, which is incorporated and listed in Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2002, the interests of the directors and chief executives of the Company in the securities of the Company or any of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("the SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the SEHK ("the Listing Rules") were as follows:

(a) Interests in the Company

Name	Number of securities held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Fok Kin-ning, Canning	-	-	5,000,000 ordinary shares	-	5,000,000 ordinary shares
Luk Chung Lam	3,450,000 ordinary shares	-	970,473,579 ordinary shares and 1 warrant	-	973,923,579 ordinary shares and 1 warrant
Ko Yuet Ming	3,000,000 ordinary shares	84,000 ordinary shares	-	-	3,084,000 ordinary shares
Endo Shigeru	80,000 ordinary shares	-	-	-	80,000 ordinary shares
Luk Tei, Lewis	4,630,000 ordinary shares	-	-	-	4,630,000 ordinary shares

(b) Interests in Associated Corporations*Hutchison Whampoa Limited ("HWL")*

Name	Number of ordinary shares held				Total
	Personal Interests	Family Interests	Corporate Interests	Other Interests	
Fok Kin-ning, Canning	-	-	1,260,875	-	1,260,875
Lai Kai Ming, Dominic	50,000	-	-	-	50,000
Ko Yuet Ming	-	16,000	-	-	16,000
Chow Woo Mo Fong, Susan	50,000	-	-	-	50,000
Edith Shih	-	17,100 <i>(Note)</i>	-	-	17,100
Chan Wen Mee, May (Michelle)	5,000	-	-	-	5,000
Endo Shigeru	2,000	-	-	-	2,000
Luk Tei, Lewis	22,270	-	-	-	22,270
Cheung Wing Han, Miranda	12,000	-	-	-	12,000
Ronald Joseph Arculli	-	-	11,224	-	11,224

Note: The interest represented the aggregate number of shares held by Ms. Edith Shih and her spouse.

In addition, as at 30 June 2002, Mr. Fok Kin-ning, Canning had (i) a personal interest in 100,000 ordinary shares in Hutchison Telecommunications (Australia) Limited ("HTAL") and (ii) corporate interests in a nominal amount of US\$32,500,000 in the 7% Notes due 2011 issued by Hutchison Whampoa International (01/11) Limited ("HWI (01/11)"), 1,000,000 ordinary shares in HTAL, 300,000 common shares in Husky Energy Inc. and 225,000 American Depositary Shares (each representing one ordinary share) in and a nominal amount of US\$2,170,000 in the 13% Unsecured Senior Subordinated Notes due 2010 issued by Partner Communications Company Ltd. .

Dr. Luk Chung Lam had, as at 30 June 2002, a corporate interest in 50% of the registered capital of Shanghai Jia Hua Real-Estate Development Co., Ltd. .

Ms. Edith Shih had, as at 30 June 2002, (i) a personal interest in a nominal amount of US\$205,000 in the 6.95% Notes due 2007 issued by Hutchison Whampoa Finance (CI) Limited and (ii) a personal interest and a family interest in an aggregate nominal amount of US\$400,000 in the 7% Notes due 2011 issued by HWI (01/11).

Save as disclosed above, as at 30 June 2002, none of the directors or the chief executives of the Company had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance and none of the directors or the chief executives nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2002, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance showed, or the Company had been notified, that the following persons had an interest of 10% or more of the issued share capital of the Company:

Name	Number of ordinary shares
Promising Land International Inc. ("Promising Land") (Notes 1 and 2)	2,833,284,508
Acefield (B.V.I.) Limited ("Acefield") (Note 3)	970,473,579

Notes :

- Promising Land is a wholly owned subsidiary of Hutchison International Limited ("HIL"), which in turn is a wholly owned subsidiary of HWL. By virtue of the SDI Ordinance, HWL and HIL are deemed to be interested in the 2,833,284,508 ordinary shares of the Company held by Promising Land.*
- Li Ka-Shing Unity Holdings Limited (in which Mr. Li Ka-shing owns its entire issued share capital) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUTI"). TUTI as trustee of The Li Ka-Shing Unity Trust, together with certain companies in which TUTI as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings (the "Related Companies"), hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH together hold more than one-third of the issued share capital of HWL.*

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDTI"). TDTI as trustee of The Li Ka-Shing Unity Discretionary Trust holds a majority of units in The Li Ka-Shing Unity Trust.

By virtue of the interest in TDTI and TUTI through Li Ka-Shing Unity Holdings Limited, the interest in the shares of CKH held by TUTI as trustee of The Li Ka-Shing Unity Trust and its Related Companies, the interest of the subsidiaries of CKH in HWL, and the indirect interest of HWL in the ordinary shares in the Company as described above, Mr. Li Ka-shing is taken to have an interest in the ordinary shares of the Company held by Promising Land under the SDI Ordinance.

3. *858,473,579 ordinary shares and 112,000,000 ordinary shares of the Company were held by Reading Investments Limited and a company, both being companies of which more than one-third of the issued share capital was owned by Acefield. By virtue of the SDI Ordinance, Acefield was deemed to be interested in an aggregate of 970,473,579 ordinary shares of the Company.*

In addition, Dr. Luk Chung Lam owns more than one-third of the issued share capital of Acefield. By virtue of the SDI Ordinance, Dr. Luk Chung Lam was deemed to be interested in the 970,473,579 ordinary shares of the Company as described above. In addition to the personal interest in 3,450,000 ordinary shares of the Company as described in the section entitled "Directors' and Chief Executives' Interests in Securities", Dr. Luk Chung Lam was taken to have an interest in an aggregate of 973,923,579 ordinary shares of the Company.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company at 30 June 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2002, Whizz-Work Holdings Limited, a then subsidiary of the Company, sold a total of 59,502,488 shares of the Company on the SEHK for an aggregate consideration of approximately HK\$35,025,384.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities. In addition, the Company has not redeemed any of its listed securities during the six months ended 30 June 2002.

CODE OF BEST PRACTICE

With the exception of the two independent non-executive Directors having no set term of office and retiring from office on a rotational basis, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out by the SEHK in Appendix 14 to the Listing Rules.