

**HUTCHISON HARBOUR RING LIMITED**

*(Stock Code: 715)*



A Hutchison Whampoa Company



**2007 Interim Report**

## CORPORATE INFORMATION

### Chairman

FOK Kin-ning, Canning, BA, DFM, CA (Aus)

### Deputy Chairmen

LAI Kai Ming, Dominic, BSc, MBA  
(Also Alternate to CHOW WOO Mo Fong, Susan)

LUK Tei, Lewis, LLB, DBA

### Executive Directors

CHAN Wen Mee, May (Michelle), BBA  
(Managing Director)

CHOW WOO Mo Fong, Susan, BSc

CHOW Wai Kam, Raymond, JP, BA, B Arch, AP-List 1

Edith SHIH, BSE, MA, MA, EdM, Solicitor, FCS, FCIS  
(Also Alternate to FOK Kin-ning, Canning)

ENDO Shigeru, BA

KWOK Siu Kai, Dennis, MBA, ACA, CPA, FCCA

### Non-executive Director

Ronald Joseph ARCULLI, GBS, CVO, OBE, JP

### Independent Non-executive Directors

KWAN Kai Cheong, BA, CA (Aus)  
(Also Alternate to Ronald Joseph ARCULLI)

LAM Lee G, BSc, MSc, MBA, DPA, LLB (Hons), PhD, FHKIoD  
(Also Alternate to LAN Hong Tsung, David)

LAN Hong Tsung, David, Member – CPPCC, GBS, ISO, JP

### Audit Committee

KWAN Kai Cheong (Chairman)

Ronald Joseph ARCULLI

LAM Lee G

### Remuneration Committee

FOK Kin-ning, Canning (Chairman)

KWAN Kai Cheong

LAM Lee G

### Company Secretary

Edith SHIH

### Qualified Accountant

KWOK Siu Kai, Dennis

### Auditor

PricewaterhouseCoopers

### Bankers

The Hongkong and Shanghai Banking  
Corporation Limited

Standard Chartered Bank (Hong Kong)  
Limited

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## CHAIRMAN'S STATEMENT

### Results

The Group's unaudited consolidated profit attributable to shareholders of the Company for the half year ended 30 June 2007 increased by 237.4% to HK\$169.1 million (2006: HK\$50.1 million) and basic earnings per share attributable to the shareholders of the Company increased by 236.0% to HK2.52 cents (2006: HK0.75 cents). These results include net credit of deferred tax liabilities and others totalling HK\$144.2 million (2006: Nil) mainly resulting from the announced reduction of applicable income tax rates in The People's Republic of China; and profits after tax on disposals of property and security investments and profit on revaluation of investment properties of HK\$20.6 million (2006: HK\$84.9 million). Excluding these one-time gains, profit attributable to shareholders turned around 112.3% from a loss of HK\$34.8 million to a profit of HK\$4.3 million for the period.

### Dividend

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil). The recommendation on the payment of a final dividend for the year ending 31 December 2007 will be made after the full year results are available.

### Review of Operations

The Group's consolidated turnover for the first half year amounted to HK\$1,087.2 million, a 1.4% increase over the same period in 2006. The Group's consolidated earnings before interest expense and taxation ("EBIT") for the period totalled HK\$89.3 million (2006: HK\$139.7 million). Excluding the profits on disposals of property and security investments and profit on revaluation of the investment properties of HK\$19.1 million (2006: HK\$119.0 million), EBIT from recurring operations increased by 238.8% from HK\$20.7 million to HK\$70.2 million for the period. The significant increase in recurring EBIT was due to improved results from the technology and property divisions, partially offset by increased losses from the toy division and the licensing and sourcing division.

### Toy Division

The toy division remains the principal contributor to the Group's revenues. For the six months ended 30 June 2007, the turnover decreased by 16.7% to HK\$535.9 million from HK\$643.4 million for the same period last year and loss before interest expense and taxation ("LBIT") from recurring operations was HK\$29.7 million compared to HK\$16.5 million for the same period last year.

For the period under review, the toy division continued to operate under a challenging business environment. The traditional toys market was beset by continued fierce competition from non-conventional toy products whilst margins remained pressured by higher raw material costs, rising wages in Mainland China and continued appreciation of the Renminbi. In addition, cautious ordering in 2006 by major customers in the U.S.A. in anticipation of more moderate consumer toy spending continued into the first half of 2007 and there is a growing trend that orders are being deferred to the second half of this year.

The Group continues to upgrade its management information systems and to rationalise and re-engineer its workflows and processes to control and mitigate the negative impact of cost increases. In line with the strategies implemented last year, the division continues to focus on high end products with better margins and has started to enter into non-conventional toy categories including life-style products and teen electronics. The number of higher margin orders on hand is increasing and the division is cautiously optimistic of better results for the second half of the year.

### **Technology Division**

The technology division achieved significant improvement in results for the period under review. Turnover increased by 48.7% to HK\$372.0 million to achieve an EBIT of HK\$26.4 million for the period, compared to LBIT of HK\$45.2 million for the same period last year.

Our focus on our key strategic global accounts, continued brand-building efforts in the Bluetooth® market, together with the successful launch of new products and penetration of the U.S.A. market contributed towards the improved turnover and results for this period. Cost rationalisation exercises carried out last year also contributed to the improved performance of the division.

The Group expects that it will continue to benefit from its ongoing business relationship with key strategic global accounts, launch of new products by major mobile phone manufacturers and continued penetration of new business opportunities and the U.S.A. market in the second half of the year.

### **Licensing and Sourcing Division**

The licensing and sourcing division reported a turnover of HK\$29.7 million and a LBIT of HK\$14.2 million for the half year ended 30 June 2007, as compared to turnover of HK\$57.3 million and LBIT of HK\$3.7 million for the same period last year.

The results of this division were adversely impacted by a significant reduction in customer orders and investment in the Shanghai Warner Bros. flagship store opened in March 2006 and continued investment to expand the retail sub-licensing business. During the period, several retail sub-licensed outlets were opened in major cities in Mainland China and in Macau's high-traffic tourist districts, with more openings anticipated in the second half of the year. In order to ensure long-term profitability, the Group is reviewing its sub-licensing business strategy and cost structure. As the time draws nearer to the 2008 Beijing Olympics, the Group expects to benefit as a licensed toy manufacturer of Fuwa, the official mascots of this significant global event.

### **Property Division**

Turnover and EBIT from recurring operations of the property division increased by 12.6% and 11.2% to HK\$153.6 million and HK\$122.5 million respectively for the period ended 30 June 2007, compared to HK\$136.5 million and HK\$110.2 million respectively for the same period last year. All of the Group's properties remain substantially let. The increase in turnover and EBIT mainly reflects higher lease renewal rates for office premises and the Renminbi's appreciation.

Rental income is expected to grow as demand for office spaces, particularly in Shanghai, remains strong. Management is confident that the property division will continue to maintain strong and reliable earnings and cashflow.

## Outlook

The toy division is expected to record increased sales in the second half of the year in line with the seasonality of the toy industry. The business environment for the toy division is expected to remain challenging as competition and costs are expected to remain high. Management will continue to focus on high-end products that deliver better margins and also on rationalisation of costs.

The technology division is expected to maintain its growth momentum as the Group continues to broaden product offerings, expand its business relationship with key strategic global accounts, and grow in established and new markets.

The licensing and sourcing division will further explore opportunities with new strategic business partners to build its business. At the same time, Management will continue to review, develop and adjust its business strategy and cost structure to ensure long-term profitability.

Benefiting from the favourable economic environment of Mainland China, and the expected continued strong demand for high quality office premises in Shanghai, the property division is expected to provide a strong recurrent earnings base for the Group.

The Board would like to thank all employees for their hard work and dedication and our shareholders and business partners for their continued support.

**Fok Kin-ning, Canning**

*Chairman*

HONG KONG, 22 August 2007

## CAPITAL RESOURCES AND OTHER INFORMATION

### Capital Resources and Liquidity

As at 30 June 2007, the Group's total cash and cash equivalents together with other listed investments amounted to HK\$958.5 million (31 December 2006: HK\$940.9 million), while total borrowings were HK\$959.0 million (31 December 2006: HK\$947.0 million) including the liability portion of a 2% convertible note due to a subsidiary of Hutchison Whampoa Limited ("HWL") of HK\$911.6 million (31 December 2006: HK\$900.0 million).

### Treasury Policies

As at 30 June 2007, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

### Charges and Contingent Liabilities

As at 30 June 2007 and 31 December 2006, certain shares of and loans to the Group's subsidiaries which have interests in The Center in Shanghai were pledged to a subsidiary of HWL as security for the convertible note mentioned above. No available-for-sale financial assets (31 December 2006: HK\$89.1 million) were pledged to secure banking facilities totalling HK\$300.0 million (31 December 2006: HK\$300.0 million) made available to the Group, and no bank loans were drawn as at 30 June 2007 (31 December 2006: Nil).

The Group had provided guarantees of HK\$3.1 million as at 30 June 2007 (31 December 2006: HK\$3.1 million) for mortgage loan facilities granted to certain purchasers of the Group's property in Mainland China.

### Human Resources

As at 30 June 2007, excluding an associated company, the Group employed 25,581 people (30 June 2006: 26,511). Total employee costs for the period ended 30 June 2007, including directors' emoluments, amounted to HK\$240.7 million (2006: HK\$248.9 million). The Group's employment and remuneration policies remain the same as those described in the Annual Report for the year ended 31 December 2006.

### Review of Unaudited Condensed Consolidated Interim Accounts

The unaudited condensed consolidated interim accounts of the Company and its subsidiaries for the six months ended 30 June 2007 have been reviewed by the Audit Committee of the Company and by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's report on review of interim accounts is set out on page 13 of this Interim Report.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2007, 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 period.

## DISCLOSURE OF INTERESTS

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the "Model Code") were as follows:

#### (I) Interests and short positions in the shares, underlying shares and debentures of the Company

##### *Long positions in the shares and underlying shares of the Company*

Name of Director	Capacity	Nature of interests	Number of shares of the Company held	Number of underlying shares of the Company held	Total	Approximate % of shareholding of the Company
Fok Kin-ning, Canning	Interest of a controlled corporation	Corporate interest	5,000,000 <sup>(1)</sup>	–	5,000,000	0.07457%
Luk Tei, Lewis	(i) Beneficial owner (ii) Beneficiary of a trust (iii) Interest of spouse	(i) Personal interest (ii) Other interest (iii) Family interest	149,495,078 1,000,000 48,000,000	10,000,000 <sup>(2)</sup> ) – ) ) – ) )	208,495,078	3.10955%
Chan Wen Mee, May (Michelle)	Beneficial owner	Personal interest	–	12,000,000 <sup>(2)</sup>	12,000,000	0.17897%
Endo Shigeru	Beneficial owner	Personal interest	80,000	5,000,000 <sup>(2)</sup>	5,080,000	0.07576%
Kwok Siu Kai, Dennis	Beneficial owner	Personal interest	–	8,000,000 <sup>(2)</sup>	8,000,000	0.11931%

##### Notes:

- (1) Such shares were held by a company which is equally owned by Mr Fok Kin-ning, Canning and his spouse.
- (2) These represented the interests in underlying shares in respect of share options granted by the Company, the details of which are set out in the section titled "Share Options and Directors' Rights to Acquire Shares" on page 11.



## (II) Interests and short positions in the shares, underlying shares and debentures of the associated corporations

## (A) Long positions in the shares and underlying shares of Hutchison Whampoa Limited ("HWL")

Name of Director	Capacity	Nature of interests	Number of shares held in HWL	Total	Approximate % of shareholding of HWL
Fok Kin-ning, Canning	Interest of a controlled corporation	Corporate interest	4,310,875 <sup>(1)</sup>	4,310,875	0.101111%
Lai Kai Ming, Dominic	Beneficial owner	Personal interest	50,000	50,000	0.00117%
Luk Tei, Lewis	Beneficial owner	Personal interest	22,270	22,270	0.00052%
Chan Wen Mee, May (Michelle)	Beneficial owner	Personal interest	531	531	0.00001%
Chow Woo Mo Fong, Susan	Beneficial owner	Personal interest	150,000	150,000	0.00352%
Edith Shih	(i) Beneficial owner (ii) Interest of spouse	(i) Personal interest (ii) Family interest	(i) 27,200 (ii) 7,400	34,600	0.00081%
Endo Shigeru	Beneficial owner	Personal interest	2,000	2,000	0.00005%
Ronald Joseph Arculli	Interest of a controlled corporation	Corporate interest	11,224 <sup>(2)</sup>	11,224	0.00026%
Lan Hong Tsung, David	Beneficial owner	Personal interest	20,000	20,000	0.00047%

## Notes:

- (1) Such shares in HWL were held by a company which is equally owned by Mr Fok Kin-ning, Canning and his spouse.
- (2) Such shares in HWL were held by a company which is beneficially owned by Mr Ronald Joseph Arculli.

**(B) Long positions in the shares, underlying shares and debentures of other associated corporations**

As at 30 June 2007, Mr Fok Kin-ning, Canning had the following interests:

- (i) (a) 5,100,000 ordinary shares, representing approximately 0.75152% of the then issued share capital, in Hutchison Telecommunications (Australia) Limited ("HTAL") comprising personal and corporate interests in 4,100,000 ordinary shares and 1,000,000 ordinary shares respectively; and
- (b) 1,474,001 underlying shares in HTAL comprising personal and corporate interests in 134,000 underlying shares and 1,340,001 underlying shares respectively on conversion of the listed and physically settled 5.5% Unsecured Convertible Notes due 2007 issued by HTAL;
- (ii) corporate interest in (1) a nominal amount of US\$2,500,000 in the 6.25% Notes due 2014 (2) a nominal amount of US\$2,500,000 in the 5.45% Notes due 2010 and (3) a nominal amount of US\$2,000,000 in the 7.45% Notes due 2033 issued by Hutchison Whampoa International (03/33) Limited;
- (iii) corporate interest in a nominal amount of US\$2,500,000 in the 6.50% Notes due 2013 issued by Hutchison Whampoa International (03/13) Limited;
- (iv) corporate interest in 1,202,380 ordinary shares, representing approximately 0.03% of the then issued share capital, in Hutchison Telecommunications International Limited ("Hutchison Telecom"); and
- (v) corporate interest in 225,000 ordinary shares, representing approximately 0.14% of the then issued share capital, in Partner Communications Company Ltd.

Mr Fok Kin-ning, Canning held the above personal interests in his capacity as a beneficial owner and held the above corporate interests through a company which is equally owned by Mr Fok and his spouse.

As at 30 June 2007, Mrs Susan Chow had personal interests in her capacity as a beneficial owner in 250,000 ordinary shares, representing approximately 0.005% of the then issued share capital, in Hutchison Telecom.

As at 30 June 2007, Ms Edith Shih had the following interests:

- (i) personal interests in her capacity as a beneficial owner in (1) a nominal amount of US\$500,000 in the 6.5% Notes due 2013 issued by Hutchison Whampoa International (03/13) Limited ("HWI (03/13) Notes") (2) a nominal amount of US\$300,000 in the 6.25% Notes due 2014 issued by Hutchison Whampoa International (03/33) Limited ("HWI (03/33) Notes"); and (3) 2,400 convertible preference shares, representing approximately 0.00002% of the then issued share capital, in HTAL; and
- (ii) family interests in (1) a nominal amount of US\$100,000 in the HWI (03/13) Notes and (2) a nominal amount of US\$100,000 in the HWI (03/33) Notes held by her spouse.

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executive of the Company and their respective associates had any interest or short position 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 had to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were recorded in the registers required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the SEHK.

## Interests and Short Positions of Shareholders Discloseable under the SFO

So far as is known to the Directors and chief executive of the Company, as at 30 June 2007, the following persons had interests or short positions in the shares or 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, or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

### (I) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company

#### *Long positions in the shares and underlying shares of the Company*

Name	Capacity	Number of shares of the Company held	Number of underlying shares of the Company held	Total	Approximate % of shareholding of the Company
Li Ka-shing	Founder of discretionary trusts and interest of controlled corporations	4,155,284,508 <sup>(1), (3)</sup>	1,123,550,561 <sup>(2), (3)</sup>	5,278,835,069	78.73%
Li Ka-Shing Unity Trustcorp Limited ("LKSUT")	Trustee and beneficiary of a trust	4,155,284,508 <sup>(1), (3)</sup>	1,123,550,561 <sup>(2), (3)</sup>	5,278,835,069	78.73%
Li Ka-Shing Unity Trustee Corporation Limited ("LKSUTC")	Trustee and beneficiary of a trust	4,155,284,508 <sup>(1), (3)</sup>	1,123,550,561 <sup>(2), (3)</sup>	5,278,835,069	78.73%
Li Ka-Shing Unity Trustee Company Limited ("LKSUTCO")	Trustee	4,155,284,508 <sup>(1), (3)</sup>	1,123,550,561 <sup>(2), (3)</sup>	5,278,835,069	78.73%
Cheung Kong (Holdings) Limited ("CKH")	Interest of controlled corporations	4,155,284,508 <sup>(1), (3)</sup>	1,123,550,561 <sup>(2), (3)</sup>	5,278,835,069	78.73%
Hutchison Whampoa Limited ("HWL")	Interest of controlled corporations	4,155,284,508 <sup>(1)</sup>	1,123,550,561 <sup>(2)</sup>	5,278,835,069	78.73%
Hutchison International Limited ("HIL")	Interest of controlled corporations	4,155,284,508 <sup>(1)</sup>	1,123,550,561 <sup>(2)</sup>	5,278,835,069	78.73%
Promising Land International Inc. ("Promising Land")	Beneficial owner	4,155,284,508 <sup>(1)</sup>	–	4,155,284,508	61.97%
Uptalent Investments Limited ("Uptalent")	Beneficial owner	–	1,123,550,561 <sup>(2)</sup>	1,123,550,561	16.76%

Notes:

- (1) *Promising Land is a wholly owned subsidiary of HIL, which in turn is a wholly owned subsidiary of HWL. By virtue of the SFO, HWL and HIL were deemed to be interested in the 4,155,284,508 shares of the Company held by Promising Land.*
- (2) *By virtue of the SFO, Uptalent, a wholly owned subsidiary of HIL, was interested in 1,123,550,561 underlying shares of the convertible note in the principal sum of US\$128,200,000 (the "Convertible Note") which may be issued pursuant to the convertible note subscription agreement in relation to the subscription of the Convertible Note. By virtue of the SFO, HWL and HIL were deemed to be interested in the 1,123,550,561 underlying shares of the Company in which Uptalent was interested.*
- (3) *Li Ka-Shing Unity Holdings Limited, of which each of Mr Li Ka-shing, Mr Li Tzar Kuoi, Victor and Mr Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of LKSUTCO. LKSUTCO as trustee of The Li Ka-Shing Unity Trust, together with certain companies which LKSUTCO 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, hold more than one-third of the issued share capital of CKH. Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.*

*In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of LKSUTC as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and LKSUT as trustee of another discretionary trust ("DT2"). Each of LKSUTC and LKSUT holds units in The Li Ka-Shing Unity Trust.*

*By virtue of the SFO, each of Mr Li Ka-shing being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, LKSUT, LKSUTC, LKSUTCO and CKH was deemed to be interested in the 4,155,284,508 shares of the Company and the 1,123,550,561 underlying shares of the Company in which Promising Land and Uptalent were interested respectively.*

## (II) Interests and short positions of other persons in the shares and underlying shares of the Company

### *Long positions in the shares of the Company*

<b>Name</b>	<b>Capacity</b>	<b>Number of shares of the Company held</b>	<b>Approximate % of shareholding of the Company</b>
Kwok Sau Po	Beneficial owner	547,532,000	8.17%
Kwok Chun Wai	Beneficial owner	344,146,000	5.13%

Save as disclosed above, as at 30 June 2007, there was no other person (other than the Directors or the chief executive of the Company) who was recorded in the register of the Company as having an interest or short positions in the shares or 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Share Options and Directors' Rights to Acquire Shares

The Company operates a share option scheme which was adopted in 2004. Particulars of options outstanding at the beginning and at the end of the financial period for the six months ended 30 June 2007 and options granted, exercised, cancelled or lapsed under such scheme during the period were as follows:

	Grant date <sup>(1)</sup>	Options held at 1 January 2007	Options granted during the period	Options exercised during the period	Options cancelled/ lapsed during the period	Options held at 30 June 2007	Exercise Period	Exercise price per share HK\$	Share price on the grant date <sup>(2)</sup> HK\$	Share price on the exercise date HK\$
<b>Directors</b>										
Ko Yuet Ming <sup>(3)</sup>	3.6.2005	4,000,000	-	-	(4,000,000)	-	3.6.2006 – 2.6.2015	0.822	0.82	N/A
Luk Tei, Lewis	3.6.2005	10,000,000	-	-	-	10,000,000	3.6.2006 – 2.6.2015	0.822	0.82	N/A
Chan Wen Mee, May (Michelle)	3.6.2005	12,000,000	-	-	-	12,000,000	3.6.2006 – 2.6.2015	0.822	0.82	N/A
Endo Shigeru	3.6.2005	5,000,000	-	-	-	5,000,000	3.6.2006 – 2.6.2015	0.822	0.82	N/A
Kwok Siu Kai, Dennis	3.6.2005	4,000,000	-	-	-	4,000,000	3.6.2006 – 2.6.2015	0.822	0.82	N/A
	25.5.2007	-	4,000,000	-	-	4,000,000	25.5.2008 – 24.5.2017	0.616	0.61	N/A
<b>Sub-total</b>		<b>35,000,000</b>	<b>4,000,000</b>	<b>-</b>	<b>(4,000,000)</b>	<b>35,000,000</b>				
<b>Other employees</b>										
	3.6.2005	36,732,000	-	-	(3,132,000)	33,600,000	3.6.2006 – 2.6.2015	0.822	0.82	N/A
	25.5.2007	-	29,000,000	-	-	29,000,000	25.5.2008 – 24.5.2017	0.616	0.61	N/A
<b>Sub-total</b>		<b>36,732,000</b>	<b>29,000,000</b>	<b>-</b>	<b>(3,132,000)</b>	<b>62,600,000</b>				
<b>Total</b>		<b>71,732,000</b>	<b>33,000,000</b>	<b>-</b>	<b>(7,132,000)</b>	<b>97,600,000</b>				

### Notes:

- (1) The share options are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of the first, second and third anniversaries of the date of grant of share options.
- (2) The stated price was the SEHK closing price of the shares on the trading day immediately prior to the date of the grant of the share options.
- (3) Mr Ko Yuet Ming resigned as Non-executive Director and Deputy Chairman with effect from 1 January 2007.

The fair value of options granted estimated in accordance with the Binomial valuation model is disclosed in Note 20 to the Interim Accounts on page 30.

## CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance as it believes that effective corporate governance practices provide a framework and solid foundation for enhancing shareholder value and safeguarding shareholder interests. The principles of corporate governance adopted by the group emphasise a quality board, sound internal control, transparency and accountability to all stakeholders.

### Compliance with the Code on Corporate Governance Practices

The Company has been fully compliant with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2007. Corporate governance practices adopted by the Company during such period are in conformity with those adopted by the Company for the year ended 31 December 2006, which were set out in the 2006 Annual Report of the Company.

### Compliance with the Model Code

The Board of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Group's code of conduct regarding Directors' securities transactions. All Directors have confirmed that they had complied with the Model Code throughout the six months ended 30 June 2007.

### Audit Committee

The Audit Committee of the Company comprises two Independent Non-executive Directors and one Non-executive Director who possess the appropriate business and financial experience and skills to understand financial statements and internal control. It is chaired by Mr Kwan Kai Cheong and the other members of the Committee are Mr Ronald Joseph Arculli and Dr Lam Lee G. The Audit Committee meets regularly with management and the external auditor of the Company and reviews matters relating to audit, accounting and financial statements as well as internal control, risk evaluation and general compliance of the Group and reports directly to the Board of the Company. The terms of reference of the Audit Committee adopted by the Board are published on the Group's website.

### Remuneration Committee

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Committee is chaired by the Chairman, Mr Fok Kin-ning, Canning with Mr Kwan Kai Cheong and Dr Lam Lee G, both Independent Non-executive Directors as members.

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating people of the highest calibre and experience needed to shape and execute strategy across the Group's substantial, diverse and international business operations. It assists the Group in the administration of a fair and transparent procedure for setting remuneration policies including assessing the performance of Directors and senior management of the Group and determining their remuneration packages. Terms of reference of the Remuneration Committee which have been adopted by the Board are available on the Group's website.

## REPORT ON REVIEW OF INTERIM ACCOUNTS

To the Board of Directors of  
**Hutchison Harbour Ring Limited**  
*(incorporated in Bermuda with limited liability)*

### Introduction

We have reviewed the interim accounts set out on pages 14 to 33, which comprise the condensed consolidated balance sheet of Hutchison Harbour Ring Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2007 and the related condensed consolidated profit and loss account, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim accounts to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of these interim accounts in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim accounts based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim accounts consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim accounts are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 22 August 2007

## INTERIM ACCOUNTS

### Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2007

		Unaudited	
	Note	2007 HK\$'000	2006 HK\$'000
<b>Turnover</b>			
Company and subsidiaries		1,087,157	1,072,602
Share of an associated company		2,080	2,462
		<b>1,089,237</b>	1,075,064
Company and subsidiaries			
Turnover	2	1,087,157	1,072,602
Cost of sales		(922,213)	(909,229)
		<b>164,944</b>	163,373
<b>Gross profit</b>			
Interest income		12,647	17,464
Other net income	3	19,067	119,022
Administrative expenses		(74,300)	(112,043)
Selling and distribution costs		(32,307)	(48,153)
		<b>90,051</b>	139,663
<b>Operating profit</b>			
Share of (loss)/profit of an associated company		(792)	79
		<b>89,259</b>	139,742
<b>Earnings before interest expense and tax</b>			
Finance costs	5	(23,835)	(27,914)
		<b>65,424</b>	111,828
<b>Profit before tax</b>			
Tax credit/(charge)	6	110,564	(59,551)
		<b>175,988</b>	52,277
<b>Profit for the period</b>			
<b>Attributable to:</b> Shareholders of the Company		<b>169,138</b>	50,136
Minority interests		6,850	2,141
		<b>175,988</b>	52,277
Earnings per share for profit attributable to shareholders of the Company	8	<b>HK2.52 cents</b>	HK0.75 cents



## Condensed Consolidated Balance Sheet

		Unaudited 30 June 2007 HK\$'000	Audited 31 December 2006 HK\$'000
	Note		
<b>Non-current assets</b>			
Goodwill		352,301	342,040
Licence rights		55,114	55,114
Property, plant and equipment	9	182,408	192,229
Investment properties	10	3,514,479	3,425,420
Leasehold land and land use rights		15,900	29,132
Investment in an associated company		2,691	3,328
Loans receivable		2,117	3,879
Deferred tax assets	11	21,205	30,255
		<b>4,146,215</b>	4,081,397
<b>Current assets</b>			
Inventories		383,317	297,056
Trade receivables	12	339,957	426,281
Deposits, prepayments and other receivables	13	135,798	121,142
Loans receivable due within one year		2,667	2,514
Tax recoverable		10,510	11,701
Available-for-sale financial assets	14	12,445	223,099
Cash and bank deposits		946,103	717,764
		<b>1,830,797</b>	1,799,557
<b>Current liabilities</b>			
Trade payables	15	326,809	314,018
Other creditors and accruals	16	450,811	501,257
Tax payables		84,599	77,899
		<b>862,219</b>	893,174
<b>Net current assets</b>			
		<b>968,578</b>	906,383
<b>Total assets less current liabilities</b>			
		<b>5,114,793</b>	4,987,780
<b>Non-current liabilities</b>			
Deferred tax liabilities	11	588,481	720,599
Other non-current financial liabilities	17	70,518	69,101
Convertible note	18	911,643	899,955
<b>Net assets</b>			
		<b>3,544,151</b>	3,298,125
<b>Equity</b>			
Share capital	19	670,500	670,500
Reserves		2,757,771	2,522,853
Capital and reserves attributable to the shareholders of the Company		<b>3,428,271</b>	3,193,353
Minority interests		115,880	104,772
<b>Total equity</b>			
		<b>3,544,151</b>	3,298,125

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Unaudited	
	2007	2006
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Cash generated from operating activities before interest and other finance costs, tax paid and changes in working capital	93,603	27,137
Interest received	16,662	14,496
Tax paid	(27,677)	(35,159)
<b>Funds from operations</b>	<b>82,588</b>	6,474
Changes in working capital	(57,164)	10,538
<b>Net cash inflow from operating activities</b>	<b>25,424</b>	17,012
<b>Investing activities</b>		
Net cash inflow on disposal of subsidiaries	–	7,527
Purchase of property, plant and equipment	(13,815)	(36,117)
Proceeds on disposal of investment properties, plant and equipment and leasehold land and buildings	57,507	56,336
Proceeds on maturity of available-for-sale financial assets	209,371	–
<b>Net cash inflow from investing activities</b>	<b>253,063</b>	27,746
<b>Financing activities</b>		
Dividend paid	(40,230)	(147,510)
New bank loan	–	30,000
Repayment of bank loan	–	(30,000)
Interest paid on convertible note	(9,918)	(9,917)
Interest paid on bank loans	–	(6,214)
<b>Net cash outflow from financing activities</b>	<b>(50,148)</b>	(163,641)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>228,339</b>	(118,883)
<b>Cash and cash equivalents at 1 January</b>	<b>717,764</b>	672,444
<b>Cash and cash equivalents at 30 June</b>	<b>946,103</b>	553,561
<b>Analysis of cash, cash equivalents and listed investments in securities</b>		
Deposits with banks with maturity of less than three months	566,863	298,214
Cash at banks and in hand	379,240	255,347
Cash and cash equivalents	946,103	553,561
Available-for-sale financial assets	12,445	479,329
Financial assets at fair value through profit or loss	–	7
Listed investments in securities	12,445	479,336
<b>Total cash, cash equivalents and listed investments in securities</b>	<b>958,548</b>	1,032,897

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Unaudited							Minority interests	Total
	Attributable to shareholders of the Company								
	Share capital	Share premium	Exchange reserve	Convertible note reserve	Other reserves	Retained profits	Sub-total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 1 January 2007</b>	670,500	1,813,437	144,801	123,975	22,425	418,215	3,193,353	104,772	3,298,125
Exchange translation differences			100,657	-	-	-	100,657	4,258	104,915
Change in fair value of available-for-sale financial assets			-	-	(1,283)	-	(1,283)	-	(1,283)
Net gains/(loss) not recognised in the condensed consolidated profit and loss account			100,657	-	(1,283)	-	99,374	4,258	103,632
Employee share option benefits	-	-	-	-	1,644	-	1,644	-	1,644
Reserve realised upon maturity of available-for-sale financial assets	-	-	-	-	4,992	-	4,992	-	4,992
Transfer between reserves	-	-	-	-	(598)	598	-	-	-
Profit for the period	-	-	-	-	-	169,138	169,138	6,850	175,988
2006 final dividend paid	-	-	-	-	-	(40,230)	(40,230)	-	(40,230)
<b>At 30 June 2007</b>	670,500	1,813,437	245,458	123,975	27,180	547,721	3,428,271	115,880	3,544,151

## Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2006

	Unaudited							Minority interests	Total
	Attributable to shareholders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Convertible note reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		
At 1 January 2006	670,500	1,813,437	14,752	123,975	8,623	514,703	3,145,990	97,276	3,243,266
Exchange translation differences			24,931	-	-	-	24,931	1,266	26,197
Change in fair value of available-for-sale financial assets			-	-	13,984	-	13,984	-	13,984
Net gains not recognised in the condensed consolidated profit and loss account			24,931	-	13,984	-	38,915	1,266	40,181
Employee share option benefits	-	-	-	-	4,571	-	4,571	-	4,571
Profit for the period	-	-	-	-	-	50,136	50,136	2,141	52,277
2005 final dividend paid	-	-	-	-	-	(147,510)	(147,510)	-	(147,510)
At 30 June 2006	670,500	1,813,437	39,683	123,975	27,178	417,329	3,092,102	100,683	3,192,785

**Note:**

*Other reserves comprise investment revaluation reserve, share-based compensation reserve, capital redemption reserve and legal reserve. At 30 June 2007, investment revaluation reserve surplus amounted to HK\$12,445,000 (1 January 2007: HK\$8,736,000; 30 June 2006: HK\$11,616,000 and 1 January 2006: deficit HK\$2,368,000), share-based compensation reserve amounted to HK\$10,684,000 (1 January 2007: HK\$9,638,000; 30 June 2006: HK\$11,587,000 and 1 January 2006: HK\$7,016,000), capital redemption reserve of HK\$3,558,000 (1 January 2007, 30 June 2006 and 1 January 2006: HK\$3,558,000) and legal reserve of HK\$493,000 (1 January 2007: HK\$493,000; 30 June 2006 and 1 January 2006: HK\$417,000) being set aside as required under the regulations for a subsidiary incorporated in Macau.*

## Notes to the Interim Accounts

### 1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited. These Interim Accounts should be read in conjunction with the annual accounts for the year ended 31 December 2006.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the annual accounts for the year ended 31 December 2006 except that the Group adopted all the new standards, amendments to standards and interpretations ("new/revised HKFRSs") which are effective for accounting periods commencing on 1 January 2007. The adoption of these new/revised HKFRSs did not have material impact to the Interim Accounts.

### 2 Turnover, revenues and segment information

Turnover represents sales of toys, consumer electronic products and accessories, rental and service income, and licensing commission and other income. The amount of each category of revenue recognised during the period is as follows:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of goods	<b>929,766</b>	930,923
Rental and service income from investment properties	<b>153,360</b>	136,299
Licensing commission and other income	<b>4,031</b>	5,380
<b>Total revenues</b>	<b>1,087,157</b>	1,072,602

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format. The Group's core business segments are toy division, technology division, licensing and sourcing division and property division. Other corporate income and expenses, investments in securities and cash held for non-operating purposes are not allocated to the above segments.

Toy industry is subject to seasonal fluctuations, with peak demand during holiday season in the second half of the year. As such, revenues and segment results of the Group's toy division in the first half of the year are lower than those in the second half of the year.

## 2 Turnover, revenues and segment information (Continued)

*Primary segment information by business:*

	Six months ended 30 June 2007						
	Toy division HK\$'000	Technology division HK\$'000	Licensing and sourcing division HK\$'000	Property division HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover							
Company and subsidiaries							
– External sales	533,358	370,802	29,637	153,360	–	–	1,087,157
– Inter-segment sales	2,581	1,166	54	253	–	(4,054)	–
	535,939	371,968	29,691	153,613	–	(4,054)	1,087,157
Share of an associated company	2,080	–	–	–	–	–	2,080
	538,019	371,968	29,691	153,613	–	(4,054)	1,089,237
Segment results before changes in fair value of investment properties and profits/(losses) on disposal of investments and others							
Company and subsidiaries	(28,885)	26,353	(14,245)	122,547	(34,327)	(459)	70,984
Share of an associated company	(792)	–	–	–	–	–	(792)
	(29,677)	26,353	(14,245)	122,547	(34,327)	(459)	70,192
Changes in fair value of investment properties	–	–	–	20	–	–	20
Profits/(losses) on disposal of investments and others	24,039	–	–	–	(4,992)	–	19,047
Earnings/(losses) before interest expense and tax	(5,638)	26,353	(14,245)	122,567	(39,319)	(459)	89,259
Finance costs							(23,835)
Tax credit							110,564
Profit for the period							175,988
Capital expenditure	(8,350)	(5,093)	(206)	(166)			(13,815)
Depreciation of property, plant and equipment	(14,219)	(6,084)	(1,021)	(454)			(21,778)
Amortisation of leasehold land and land use rights	(580)	–	–	(60)			(640)

## 2 Turnover, revenues and segment information (Continued)

### Primary segment information by business (Continued):

	Six months ended 30 June 2006						
	Toy division HK\$'000	Technology division HK\$'000	Licensing and sourcing division HK\$'000	Property division HK\$'000	Unallocated HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover							
Company and subsidiaries							
– External sales	630,982	248,603	56,718	136,299	–	–	1,072,602
– Inter-segment sales	12,434	1,537	622	153	–	(14,746)	–
	643,416	250,140	57,340	136,452	–	(14,746)	1,072,602
Share of an associated company	2,462	–	–	–	–	–	2,462
	645,878	250,140	57,340	136,452	–	(14,746)	1,075,064
Segment results before changes in fair value of investment properties and profits on disposal of investments and others							
Company and subsidiaries	(16,547)	(45,247)	(3,650)	110,157	(23,505)	(567)	20,641
Share of an associated company	79	–	–	–	–	–	79
	(16,468)	(45,247)	(3,650)	110,157	(23,505)	(567)	20,720
Changes in fair value of investment properties	–	–	–	93,496	–	–	93,496
Profits on disposal of investments and others	23,264	–	–	–	2,262	–	25,526
Earnings/(losses) before interest expense and tax	6,796	(45,247)	(3,650)	203,653	(21,243)	(567)	139,742
Finance costs							(27,914)
Tax charge							(59,551)
Profit for the period							52,277
Capital expenditure	(22,775)	(5,406)	(7,263)	(673)			(36,117)
Depreciation of property, plant and equipment	(14,578)	(5,403)	(754)	(306)			(21,041)
Amortisation of leasehold land and land use rights	(395)	–	–	(46)			(441)

## 2 Turnover, revenues and segment information (Continued)

### Secondary segment information by geographical location:

In presenting information of geographical segments, segment turnover is based on the geographical destination of delivery of goods and provision of services.

	Six months ended 30 June 2007						Total HK\$'000
	United States	Europe	Mainland China	Hong Kong	Other regions	Unallocated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	394,932	201,054	186,637	57,336	247,198	-	1,087,157
Segment results before change in fair value of investment properties and profits/(losses) on disposal of investments and others							
Company and subsidiaries	(8,163)	(1,450)	122,033	(871)	(6,238)	(34,327)	70,984
Share of an associated company	-	-	(792)	-	-	-	(792)
	(8,163)	(1,450)	121,241	(871)	(6,238)	(34,327)	70,192
Change in fair value of investment properties	-	-	-	20	-	-	20
Profits/(losses) on disposal of investments and others	-	-	-	24,039	-	(4,992)	19,047
Earnings/(losses) before interest expense and tax	(8,163)	(1,450)	121,241	23,188	(6,238)	(39,319)	89,259



## 2 Turnover, revenues and segment information (Continued)

### Secondary segment information by geographical location (Continued):

	Six months ended 30 June 2006						Total HK\$'000
	United States HK\$'000	Europe HK\$'000	Mainland China HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	
Turnover	367,852	233,413	173,103	69,058	229,176	–	1,072,602
Segment results before change in fair value of investment properties and profits on disposal of investments and others							
Company and subsidiaries	(5,210)	(17,136)	102,038	(6,695)	(28,851)	(23,505)	20,641
Share of an associated company	–	–	79	–	–	–	79
	(5,210)	(17,136)	102,117	(6,695)	(28,851)	(23,505)	20,720
Change in fair value of investment properties	–	–	92,896	600	–	–	93,496
Profits on disposal of investments and others	–	–	823	22,441	–	2,262	25,526
Earnings/(losses) before interest expense and tax	(5,210)	(17,136)	195,836	16,346	(28,851)	(21,243)	139,742

## 3 Other net income

	Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Gain on disposal of investment properties, leasehold land and buildings	24,039	22,441
Increase in fair value of investment properties	20	93,496
(Loss)/gain on maturity/disposal of available-for-sale financial assets	(4,992)	2,262
Gain on disposal of subsidiaries	–	823
	19,067	119,022

## 4 Operating profit

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Operating profit is stated after charging the following:		
Cost of inventories sold ( <i>Note</i> )	<b>889,948</b>	886,642
Staff costs (including directors' emoluments)	<b>240,682</b>	248,945
Depreciation of property, plant and equipment	<b>21,778</b>	21,041
Amortisation of leasehold land and land use rights	<b>640</b>	441
Operating lease charges in respect of properties	<b>22,812</b>	23,488
	<hr/>	<hr/>

*Note:*

*Cost of inventories sold includes certain portion of staff costs, depreciation and operating lease charges totalling HK\$214,802,000 (2006: HK\$207,179,000), which are also included in the respective amounts of expenses disclosed separately.*

## 5 Finance costs

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<hr/>		
Interest on bank loans (wholly repayable within one year)	–	6,271
Interest on loans from minority shareholders (not wholly repayable within five years)	<b>594</b>	586
Interest on convertible note		
– Cash portion	<b>9,918</b>	9,917
– Notional non-cash interest accretion	<b>11,688</b>	11,140
Interest accretion on licence fees payable	<b>1,635</b>	–
	<hr/>	<hr/>
	<b>23,835</b>	27,914
	<hr/>	<hr/>

## 6 Tax (credit)/charge

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Current tax		
– Hong Kong	<b>4,423</b>	729
– Outside Hong Kong	<b>29,242</b>	22,284
Deferred tax (credit)/charge	<b>(144,229)</b>	36,538
	<b>(110,564)</b>	59,551

**Enterprise Income Tax:**

The Group's subsidiaries in the Mainland China are subject to Enterprise Income Tax of Mainland China ("Enterprise Income Tax") at rates range from 15% to 33%.

The Group's certain operating subsidiaries are export-oriented production foreign-invested enterprises located in coastal economic open cities or development areas and hence enjoy a preferential income tax rate of 15%. These subsidiaries are also exempted from Enterprise Income Tax in the first two profit-making years followed by a 50% reduction in the Enterprise Income Tax for the next three years thereafter.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which will take effect on 1 January 2008. From 1 January 2008, the income tax rate for the operating subsidiaries mentioned above is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the New Tax Law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. Further detailed measures and regulations on determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces additional regulations, the Group will assess the impact, if any, and this change in accounting estimate will be accounted for prospectively.

The Group's other property operating subsidiaries in the Mainland China are currently subject to Enterprise Income Tax at a rate of 33%. As a result of the New Tax Law, it is expected that the income tax rate applicable to these subsidiaries will be reduced from 33% to 25% with effect from 1 January 2008. The new tax rate of 25% has been applied in the measurement of the Group's deferred tax at 30 June 2007 in respect of these subsidiaries. The change in the Enterprise Income Tax rate resulted in a deferred tax credit of HK\$172,572,000 (2006: Nil).

**Hong Kong Profits Tax:**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period.

The Inland Revenue Department of Hong Kong has commenced a tax audit of the Group's operation for the past few years. The tax audit is presently ongoing and it is too early to assess the likely outcome of such audit.

**7 Dividend**

At a meeting held on 7 March 2007 the Directors declared a final dividend of HK0.6 cents per ordinary share for the year ended 31 December 2006. Total amount of HK\$40,230,000 was paid on 4 May 2007 and has been reflected as an appropriation of retained profits for the six months ended 30 June 2007.

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2007 (2006: Nil).

**8 Earnings per share**

The calculation of earnings per share is based on the Group's profit attributable to shareholders of the Company of HK\$169,138,000 (2006: HK\$50,136,000) and 6,705,000,263 (2006: 6,705,000,263) ordinary shares in issue during the period.

The employee share options and the convertible note outstanding at 30 June 2007 and 2006 did not have any dilutive effect on the basic earnings per share.

**9 Property, plant and equipment**

During the period, the Group acquired property, plant and equipment with a cost of HK\$13,815,000 (30 June 2006: HK\$36,117,000). During the period, property, plant and equipment with a net book value of HK\$7,966,000 (30 June 2006: 7,222,000) were disposed of. During the period ended 30 June 2006, buildings of HK\$6,133,000 were transferred from investment properties to property, plant and equipment.

**10 Investment properties**

During the period, investment properties with a net book value of HK\$13,320,000 were disposed of (30 June 2006: Nil). During the period ended 30 June 2006, investment properties of HK\$8,662,000 were transferred to leasehold land and buildings to the extent of HK\$2,529,000 and HK\$6,133,000 respectively.

**11 Deferred tax**

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Deferred tax assets	<b>(21,205)</b>	(30,255)
Deferred tax liabilities	<b>588,481</b>	720,599
Net deferred tax liabilities	<b>567,276</b>	690,344

Analysis of net deferred tax liabilities:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Unused tax losses	<b>(18,597)</b>	(21,842)
Accelerated depreciation allowances	<b>72,624</b>	82,070
Change in fair value of investment properties	<b>488,883</b>	619,592
Other temporary differences	<b>24,366</b>	10,524
	<b>567,276</b>	690,344

**12 Trade receivables**

Included in trade receivables at 30 June 2007 are amounts due from certain subsidiaries of Hutchison Whampoa Limited ("HWL") totalling HK\$1,931,000 (31 December 2006: HK\$3,906,000).

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. At 30 June 2007 and 31 December 2006, the aging analysis of trade receivables, net of provision, based on the date of invoice is as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
0-30 days	<b>189,281</b>	179,715
31-60 days	<b>106,078</b>	134,295
61-90 days	<b>22,280</b>	53,121
Over 90 days	<b>22,318</b>	59,150
	<b>339,957</b>	426,281

**13 Deposits, prepayments and other receivables**

Included in deposits, prepayments and other receivables are amounts due from certain subsidiaries of HWL totalling HK\$11,835,000 (31 December 2006: HK\$8,667,000).

**14 Available-for-sale financial assets**

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Listed debt securities, overseas	–	209,280
Listed equity securities, overseas	<b>12,445</b>	13,819
Unlisted equity securities, overseas	–	–
	<b>12,445</b>	223,099

**15 Trade payables**

Included in trade payables at 30 June 2007 is an amount due to an associated company of the Group totalling HK\$9,509,000 (31 December 2006: HK\$9,718,000). The aging analysis of trade payables at 30 June 2007 and 31 December 2006 is as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
0-30 days	<b>233,176</b>	221,417
31-60 days	<b>79,308</b>	62,704
61-90 days	<b>5,398</b>	11,177
Over 90 days	<b>8,927</b>	18,720
	<b>326,809</b>	314,018

**16 Other creditors and accruals**

Included in other creditors and accruals are amounts due to certain subsidiaries and jointly controlled entities of HWL, and a loan from a minority shareholder of a subsidiary of the Group totalling HK\$3,746,000 (31 December 2006: HK\$19,204,000), HK\$39,408,000 (31 December 2006: HK\$41,857,000) and HK\$7,709,000 (31 December 2006: HK\$7,485,000) respectively.

**17 Other non-current financial liabilities**

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Loans from minority shareholders	<b>39,695</b>	39,605
Non-current portion of licence fees payable	<b>30,823</b>	29,496
	<b>70,518</b>	69,101

**18 Convertible note**

On 25 November 2005, the Company issued a five-year 2% convertible note with a nominal value of US\$128,200,000 to a subsidiary of HWL. The convertible note is convertible at a price of HK\$0.89 per share into ordinary shares of the Company. Unless earlier redeemed, converted or purchased and cancelled, the convertible note is redeemable by the Company subject to certain conditions, at any time after the third anniversary of 25 November 2005 and before maturity, at face value together with any accrued interest at the date of redemption. The convertible note is bearing interest at a rate of 2% per annum which is payable on a semi-annual basis.

No conversion has been made during the period.

The convertible note is secured by the pledge of equity interests in and loans to Newscott Investments Limited ("Newscott") and Great Winwick Limited ("Great Winwick") by City Island Developments Limited ("City Island") amounting to HK\$2,174,588,000 (31 December 2006: HK\$1,888,599,000). Newscott, Great Winwick and City Island are wholly-owned subsidiaries of the Group.

**19 Share capital**

	<b>30 June 2007</b>	<b>30 June 2007</b>	31 December 2006	31 December 2006
	<b>Number of shares</b>	<b>Amount HK\$'000</b>	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	<b>20,000,000,000</b>	<b>2,000,000</b>	20,000,000,000	2,000,000
Issued and fully paid:				
Ordinary shares of HK\$0.1 each	<b>6,705,000,263</b>	<b>670,500</b>	6,705,000,263	670,500

## 20 Share options

The Company operates a share option scheme which was adopted in 2004. 123,750,000 and 33,000,000 share options were granted on 3 June 2005 and 25 May 2007 to certain Directors and employees at the exercise price of HK\$0.822 and HK\$0.616 per share respectively. Share options are conditional on the employee completing the prescribed years of service. The share options are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of one-third on each of the first, second and third anniversaries of the date of grant of share options. The share options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

During the six months ended 30 June 2007, no share options were exercised but 7,132,000 (31 December 2006: 50,518,000) share options had lapsed. The number of share options outstanding at 30 June 2007 was 97,600,000 (31 December 2006: 71,732,000) of which 64,600,000 will expire on 2 June 2015 and the remaining 33,000,000 will expire on 24 May 2017 unless exercised before then.

The fair value of share options granted on 3 June 2005 and 25 May 2007, determined using the Binomial valuation model, was as follows:

Date of grant of share option	25 May 2007	3 June 2005
Value of each option	HK\$0.2565	HK\$0.2498
Significant inputs into the valuation model:		
Share price at grant date	HK\$0.61	HK\$0.82
Exercise price	HK\$0.616	HK\$0.822
Expected volatility (Note a)	37.4%	31.7%
Expected life of share options	7 years	7 years
Expected dividend yield	0.98%	2.44%
Annual risk-free interest rate	4.318%	3.444%

Notes:

- (a) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over one year immediately preceding the grant date.
- (b) Any change in the above variables adopted may affect the fair value estimation.



## 20 Share options (Continued)

*Movements in share options were as follows:*

	Date of grant	Number of share options				At 30 June 2007
		At 1 January 2007	Granted	Exercised	Cancelled/ lapsed	
Directors						
Ko Yuet Ming ( <i>Note</i> )	3 June 2005	4,000,000	-	-	(4,000,000)	-
Luk Tei, Lewis	3 June 2005	10,000,000	-	-	-	10,000,000
Chan Wen Mee, May (Michelle)	3 June 2005	12,000,000	-	-	-	12,000,000
Endo Shigeru	3 June 2005	5,000,000	-	-	-	5,000,000
Kwok Siu Kai, Dennis	3 June 2005	4,000,000	-	-	-	4,000,000
	25 May 2007	-	4,000,000	-	-	4,000,000
		35,000,000	4,000,000	-	(4,000,000)	35,000,000
Employees						
	3 June 2005	36,732,000	-	-	(3,132,000)	33,600,000
	25 May 2007	-	29,000,000	-	-	29,000,000
		36,732,000	29,000,000	-	(3,132,000)	62,600,000
<b>Total</b>		<b>71,732,000</b>	<b>33,000,000</b>	<b>-</b>	<b>(7,132,000)</b>	<b>97,600,000</b>

*Note:*

*Mr Ko Yuet Ming resigned as Non-executive Director and Deputy Chairman of the Company with effect from 1 January 2007.*

## 21 Contingent liabilities

At 30 June 2007, guarantees given to banks in connection with facilities granted to purchasers of the Group's properties in the Mainland China amounted to HK\$3,054,000 (31 December 2006: HK\$3,095,000).

## 22 Capital commitments

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	16,187	10,749
Authorised but not contracted for	63,313	82,566
	<b>79,500</b>	<b>93,315</b>

## 23 Operating leases

- (a) At 30 June 2007 and 31 December 2006, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Not later than one year	<b>204,560</b>	235,535
Later than one year and not later than five years	<b>222,386</b>	245,619
Later than five years	<b>2,957</b>	3,815
	<b>429,903</b>	484,969

- (b) At 30 June 2007 and 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Not later than one year	<b>44,969</b>	46,763
Later than one year and not later than five years	<b>61,484</b>	81,642
	<b>106,453</b>	128,405

## 24 Material related party transactions

Saved as disclosed in Note 18 to the Interim Accounts, the Group had the following significant transactions during the period with related parties which were carried out in the normal course of business at terms determined and agreed by both parties, details of which are as follows:

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

	<b>Six months ended 30 June 2007 HK\$'000</b>	2006 HK\$'000
Rental expenses	<b>11,804</b>	11,506
Management fee expenses	<b>1,950</b>	1,925
Interest expenses	<b>594</b>	586
	<b>14,348</b>	14,017

- (b) The Group manufactured a range of products including cap covers, premium items and mobile phone accessories for certain subsidiaries and an associated company of HWL. The aggregate invoiced amounts for the six months ended 30 June 2007 were approximately HK\$9,380,000 (2006: HK\$88,594,000).

**24 Material related party transactions (Continued)**

- (c) Hutchison International Limited, a wholly-owned subsidiary of HWL, has been providing and will continue to provide administrative and support services to the Group. The aggregate fees charged for the six months ended 30 June 2007 were approximately HK\$2,700,000 (2006: HK\$2,500,000).
- (d) During the period, the Group paid rental expenses and management fee to subsidiaries of HWL of approximately HK\$3,786,000 (2006: HK\$3,337,000). During the period, the Group received rental income from subsidiaries of HWL of approximately HK\$1,924,000 (2006: HK\$2,074,000).
- (e) No transactions have been entered with the Directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being key management personnel compensation) as follows:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Salaries and other short-term employee benefits	<b>2,485</b>	3,222
Share-based payments	<b>590</b>	2,197
	<b>3,075</b>	5,419

**25 Holding companies**

The Directors consider the ultimate holding company to be HWL, which is incorporated and listed in Hong Kong. Promising Land International Inc., a company incorporated in the British Virgin Islands, is the immediate holding company.

**26 Comparative figures**

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

## INFORMATION FOR SHAREHOLDERS

### Listing

The Company's ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

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### Investor Information

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