# Annual Report 2007

Hutchison Harbour Ring

(Stock Code: 715)

A Hutchison Whampoa Company

# 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 *(Note)*

## 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

*Note: Retired on 15 February 2008*

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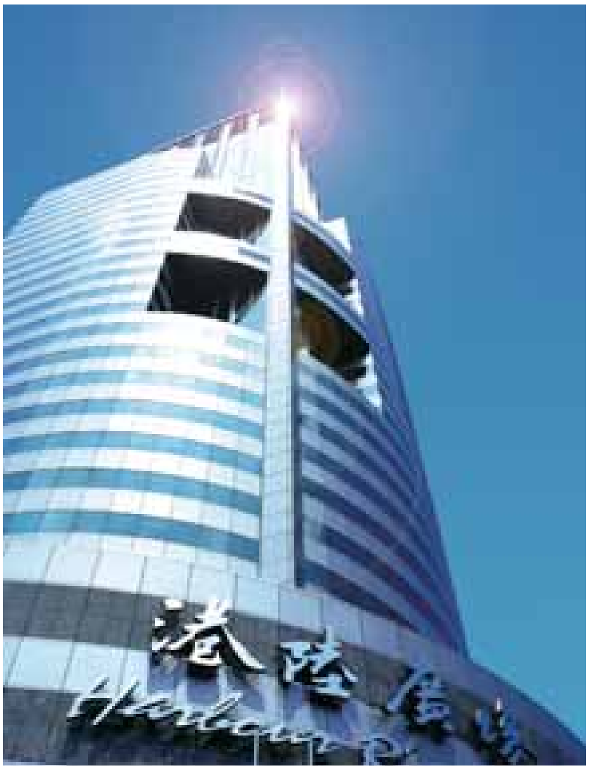
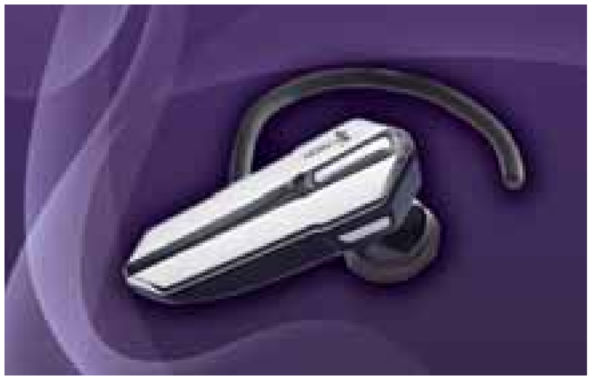
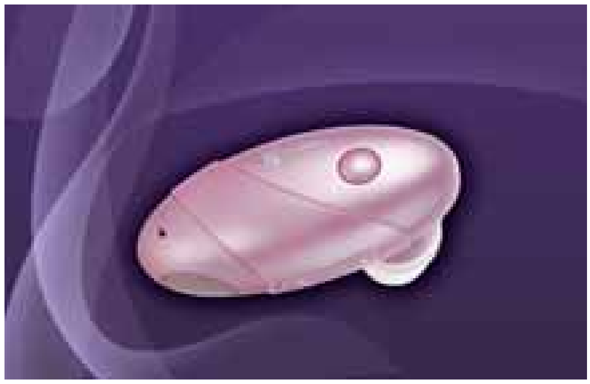
# CHAIRMAN'S STATEMENT







## FINANCIAL RESULTS

The Group's consolidated revenue grew by 5% to HK$2,709.7 million in 2007 as compared to last year's revenue of HK$2,587.8 million. The Group's consolidated earnings before interest expense and taxation ("EBIT") grew by 55% to HK$329.1 million compared to HK$213.0 million in 2006. These results include a profit on revaluation of investment properties of HK$168.5 million (2006: HK$99.0 million) and profit on disposal of investments and other net gains of HK$9.7 million (2006: HK$58.9 million). Recurring EBIT, excluding these one-time gains, was HK$150.9 million, a 174% increase compared to HK$55.1 million in 2006, reflecting improved results from the technology and property divisions, partially offset by increased losses from the toy division and the licensing and sourcing division.

The Group's interest expense for 2007 decreased by 29% to HK$39.3 million (2006: HK$55.7 million) reflecting the savings from the repayment of a bank loan in late 2006 and early redemption of convertible note in October 2007. The Group reported a net taxation credit of HK$32.4 million in 2007 (2006: taxation charge of HK$105.7 million) mainly due to a release of deferred tax liabilities amounting to HK$172.6 million (2006: Nil) from the announced reduction in corporate income tax rate in the People's Republic of China (the "PRC"). As a result, the Group's consolidated profit attributable to shareholders amounted to HK$311.7 million (2006: HK$50.1 million), a 522% increase and the basic earnings per share was HK4.37 cents (2006: HK0.75 cents), a 483% increase.

## DIVIDEND

The Directors are pleased to recommend the payment of a final dividend of HK2.2 cents per share for the year 2007 (2006: HK0.6 cents per share) to shareholders whose names appear on the Register of Members of the Company on 16 May 2008. The proposed final dividend will be paid on 19 May 2008 following approval at the Annual General Meeting.

## BUSINESS OVERVIEW

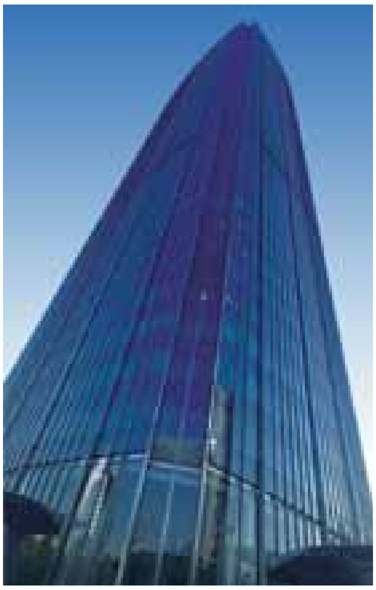
2007 was another challenging year. The business environment remained very difficult for our manufacturing and trading divisions with continued competition and costs pressures. To overcome these challenges, management has continued during the year to rationalise and re-engineer its cost structure, operating models, workflow and processes to improve efficiencies and to reduce costs.

The technology division significantly increased sales and profitability this year with the successful execution of sales channel expansion, development of new strategic global accounts, penetration into new markets, improvements in internal workflow and process refinement. The technology division will continue with the current proven business strategies to maintain and improve returns in the coming years.

The toy division continued to operate under a very challenging business environment. The continued rising material and labour costs and Renminbi appreciation adversely impacted the toy division's profitability for the year. To improve the long-term performance of this division, the Group is rationalising its capital investment in manufacturing assets. In December 2007, the toy division disposed of one of its two factories in Zhongshan and leased out the remaining factory, thereby substantially reducing its fixed operating costs. The resulting lower cost base enhances the Company's ability to focus on quality high-margin orders and reduces its reliance on the competitive lower margin high volume orders. As a result, this division's results are expected to improve.

The loss of the licensing and sourcing division for the year was mainly due to the heavy overhead costs of Shanghai Warner Bros. flagship store. Following a review of our retail sub-licensing business strategy and cost structure, the flagship store was closed in December 2007 in order to reduce operating and promotion costs. As a result, this division's results are also expected to improve. Going forward, this division will continue to develop the Warner Bros. agency business and to pursue business opportunities emerging from international sports events like Olympic Games and Fédération Internationale de Football Association ("FIFA") events by manufacturing and trading the official licensed mascots and related consumer products.

# CHAIRMAN'S STATEMENT

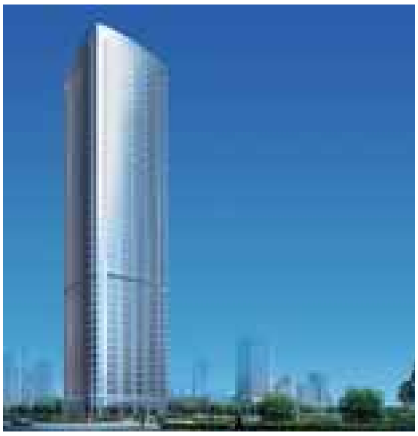


The property division continued to benefit from the strong property market in Shanghai and to provide a strong and reliable cashflow and income to the Group in 2007. The division continues to maintain high occupancy and rental rates with quality tenants.

## OUTLOOK

The technology division will build on its current growth momentum by continuing to broaden its product range, extend its business relationship with key strategic global accounts and strengthen its presence in established and new markets so as to optimise its returns and profitability.

In 2008, the toy division will benefit from a reduced fixed operating cost base resulting from the rationalisation of its manufacturing assets in December 2007. Moreover, the increased focus on research and development and end-to-end supply chain services provision will enhance the division's competitive ability.



The licensing and sourcing division is expected to benefit from an improved cost structure and also the opportunities arising from the Beijing 2008 Olympic Games and FIFA events.

The property division continues to provide stable rental income and cashflow to the Group.

On behalf of the Board, I would like to express my sincere gratitude to my fellow directors and the Group's employees for their consistent dedication, hard work, commitment and contributions to the Group. I would also take this opportunity to thank all our shareholders, business partners and customers for their continuous support to the Group.

**Fok Kin-ning, Canning**
*Chairman*

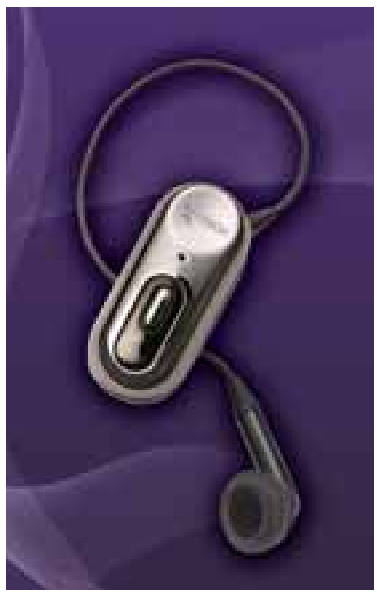
Hong Kong, 6 March 2008

# REVIEW OF OPERATIONS

## FINANCIAL OVERVIEW

The Group's consolidated revenue grew by 5% to HK$2,709.7 million in 2007 as compared to last year's revenue of HK$2,587.8 million. Consolidated earnings before interest expense and taxation ("EBIT") grew by 55% to HK$329.1 million as compared to HK$213.0 million in 2006. Excluding profit on revaluation of investment properties of HK$168.5 million (2006: HK$99.0 million) and profit on disposal of investments and other net gains of HK$9.7 million (2006: HK$58.9 million), EBIT from recurring operation was HK$150.9 million, a 174% increase as compared to HK$55.1 million in 2006. The improved results were mainly due to improved results from technology and property divisions.

## TECHNOLOGY DIVISION



The technology division reported improved sales and profitability this year. The division's revenue increased from HK$488.2 million in 2006 to HK$811.8 million and recorded a turnaround to EBIT of HK$54.1 million this year compared to loss before interest expense and taxation ("LBIT") of HK$74.9 million last year.

The much improved results were mainly attributable to the successful development of the Original Brand Manufacturer ("OBM") and Original Design Manufacturer ("ODM") businesses, expansion of sales channels, development of new strategic global accounts, penetration into new markets and cost rationalisation measures. The division will continue to build its brand in the Bluetooth® market and expand its sales and distribution channels in current markets, including Hong Kong. The division will also increase its investment in new markets with identified demand and consumption power to capture available business opportunities there. Currently, the division has achieved satisfactory performance and market share for the Bluetooth® device in Hong Kong, the Mainland and Asian countries nearby.

Given the success of the division's co-operative business relationships with key strategic global accounts, the division will continue to launch new products together with global handset manufacturers and expects that these business opportunities to further strengthen the Group's presence in established markets like the U.S.A. and developing markets like India.

The division will continue to apply its strong research and development, product differentiation and technology innovation capabilities to capture upcoming market demands for Bluetooth® devices.

# REVIEW OF OPERATIONS

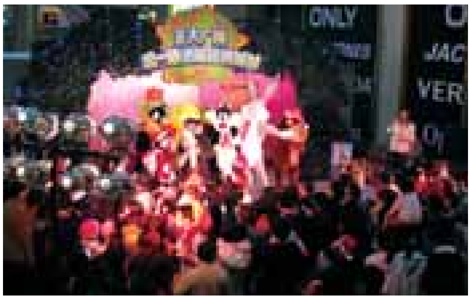
## TOY DIVISION

The toy division recorded a 13% decrease in revenue to HK$1,513.4 million and an 87% increase in LBIT from recurring operations to HK$58.4 million in 2007.

2007 was another challenging year for the toy division. The continued rising power, material and labour costs and Renminbi appreciation impacted our results for the year.

Looking ahead, the introduction of the New China Labour Law on 1 January 2008, implementation of stricter and more onerous quality reviews and customs procedures, and revised Value Added Tax and tax rules in the Mainland are expected to increase costs and challenges for the toy division. To enhance its competitive ability, the division is rationalising its capital investment in manufacturing assets. In December 2007, the toy division disposed one of its two factories in Zhongshan and leased out the remaining factory, thereby substantially reducing its fixed operating costs. The resulting lower cost base enhances the Company's ability to focus on quality high-margin orders and reduces its reliance on the competitive lower margin high volume orders. As a result, this division's results are expected to improve. At the same time, the toy division will be strengthening its research and development capabilities so as to provide a broader and wider range of products and offerings to customers.

## LICENSING AND SOURCING DIVISION



The licensing and sourcing division recorded a 39% decrease in revenue to HK$62.5 million and an 162% increase in LBIT from recurring operation to HK$27.0 million in the current year.

The loss of the licensing and sourcing division for the year was mainly due to the heavy overhead costs of the Warner Bros. flagship store in Shanghai. Following a review of our retail sub-licensing business strategy and cost structure, the flagship store was closed in December 2007 to reduce operating and promotion costs. As a result, this division's results are also expected to improve. Going forward, this division will continue to develop the Warner Bros. agency business. In addition, the division has identified business opportunities emerging from international sports events, like Olympic Games and Fédération Internationale de Football Association ("FIFA") for the manufacturing and trading of official licensed mascots and related consumer products, and will focus on business developments in these areas.

## PROPERTY DIVISION

The property division continued to contribute steady and promising revenue and EBIT to the Group. It recorded a 17% increase in revenue from HK$279.6 million in 2006 to HK$327.3 million this year and a 13% growth in EBIT from recurring operation of HK$255.1 million in 2007 as compared to HK$226.5 million last year.

The division continues to benefit from the robust Shanghai commercial property market and effect of Renminbi appreciation.

## PROSPECTS

In 2007, the Group has continued its focus to rationalise its cost structure and to restructure its business operational structure. As a result, despite the challenging business environment, the Group has delivered improved profitability for the year.

The technology division will continue with its current successful business strategies and to expand its sales activity by broadening its product range and customer base and strengthening its presence in established and new markets. The division will continue to improve productivity, strengthen cost control measures, enhance workflow to bolster efficiency and strengthen the ODM and OBM capabilities to increase long-term profitability.

Going forward, the toy division will continue to reduce its fixed operating cost base and look for ways to enhance its competitive abilities, including the provision of quality end-to-end supply chain services.

The licensing and sourcing division will develop identified business opportunities in the manufacturing and trading of official licensed mascots of the Beijing 2008 Olympic Games and FIFA events.

We are optimistic that the property sector will continue to benefit from the growth of the Mainland's economy and sustained demand for top-tier commercial properties in the coming year.

The 2007 results were achieved through the concerted efforts and commitment of the Group's employees and I would like to join our Chairman in thanking them for their hard work and contributions throughout the year.

**Chan Wen Mee, May (Michelle)**
*Managing Director*

Hong Kong, 6 March 2008

# CAPITAL RESOURCES AND OTHER INFORMATION

## CAPITAL RESOURCES AND LIQUIDITY

At the end of 2007, cash and cash equivalents together with other liquid listed investments totalled HK$1,079.4 million (2006: HK$940.9 million).

The Group's total borrowings at 31 December 2007 were HK$47.7 million (2006: HK$947.0 million). The prior year balance included the liability portion of a 2% convertible note due to a subsidiary of Hutchison Whampoa Limited ("HWL") of HK$900.0 million. In October 2007, the Group had redeemed the convertible note.

## TREASURY POLICIES

As at 31 December 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 31 December 2007, no assets were pledged for any facilities. As at 31 December 2006, available-for-sale financial assets of HK$89.1 million were pledged to a bank to secure banking facilities of HK$300.0 million, of which no bank loan has been drawn as at year end. As at 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.

The Group had provided guarantees of HK$2.9 million as at 31 December 2007 (2006: HK$3.1 million) for mortgage loan facilities granted to certain purchasers of the Group's property in Mainland China.

## HUMAN RESOURCES

Excluding associated companies, the Group employed 18,708 people at the end of 2007 (2006: 22,167). Total employee costs for the year, including directors' emoluments, amounted to HK$537.2 million (2006: HK$544.5 million).

The salary and benefit levels of Group employees are competitive and individual performance is rewarded through the Group's salary and bonus system. Remuneration packages are reviewed annually during the year.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**FOK Kin-ning, Canning,** aged 56, has been a Director since 1992 and the Chairman since 2002. He is also the Chairman of the Remuneration Committee of the Company. Mr Fok is an executive director and the group managing director of Hutchison Whampoa Limited ("HWL"). He is the chairman of Hutchison Telecommunications International Limited, Hutchison Telecommunications (Australia) Limited, Hongkong Electric Holdings Limited and Partner Communications Company Ltd. and the co-chairman of Husky Energy Inc. He is also the deputy chairman of Cheung Kong Infrastructure Holdings Limited, a non-executive director of Cheung Kong (Holdings) Limited ("CKH") and a director of Hutchison International Limited ("HIL") and Promising Land International Inc. ("Promising Land"). CKH, HWL, HIL and Promising Land are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is also a member of the Australian Institute of Chartered Accountants.

**LAI Kai Ming, Dominic,** aged 54, has been a Director since 1994 and a Deputy Chairman since 2001. He is also an Alternate Director to Mrs Chow Woo Mo Fong, Susan. He is an executive director of Hutchison Whampoa Limited ("HWL"), a director of Hutchison International Limited ("HIL") and Hutchison Telecommunications (Australia) Limited and an alternate director of Promising Land International Inc. ("Promising Land"). HWL, HIL and Promising Land are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He has over 25 years of management experience in different industries. He also holds a Bachelor of Science (Hons) degree and a Master's degree in Business Administration.

**LUK Tei, Lewis,** aged 47, has been an Executive Director since 2001 and a Deputy Chairman since 2002 and held such positions until his retirement on 15 February 2008. He was the Deputy Managing Director from 2004 to 2006. He has a law degree from the University of London and is a qualified lawyer in Hong Kong, England and Wales, Singapore and Australia. He holds an Honorary Doctorate degree in Business Administration from Lincoln University in the United States. He is also a Senior Member of the Institute of Industrial Engineers (Hong Kong) and a Companion of the Hong Kong Institution of Engineers. Before joining the toy and property divisions of the Company, he was a senior partner of a local law firm and a director of a major toy company in Hong Kong. He is the winner of Young Industrialist Awards of Hong Kong 1995 and the executive vice president of The Toys Manufacturers' Association of Hong Kong.

**CHAN Wen Mee, May (Michelle),** aged 43, has been the Managing Director since 2006. She joined the Group as Executive Director in 2001 and became the Deputy Managing Director in 2005. Ms Chan has extensive experience in managing property development and investment businesses in Mainland China. She also holds directorships in certain companies controlled by Hutchison Whampoa Limited, including Hutchison E-Commerce Limited, BigboXX.com Limited, ESD Services Limited, Hutchison-Priceline Limited, Vanda IT Solutions & Systems Management Limited and Metro Broadcast Corporation Limited. Ms Chan is a member of the Hong Kong Toys Council and a member of the Hong Kong Exporter's Association. At the same time, she serves as the Vice President of The Toys Manufacturers' Association of Hong Kong. She holds a Bachelor's degree in Business Administration.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**CHOW WOO Mo Fong, Susan,** aged 54, has been an Executive Director since 2001. She is an executive director and the deputy group managing director of Hutchison Whampoa Limited ("HWL"). She is also an executive director of Cheung Kong Infrastructure Holdings Limited and Hongkong Electric Holdings Limited, a non-executive director of Hutchison Telecommunications International Limited and TOM Group Limited, a director of Hutchison Telecommunications (Australia) Limited, Partner Communications Company Ltd., Hutchison International Limited ("HIL") and Uptalent Investments Limited ("Uptalent"). HWL, HIL and Uptalent are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. She is a solicitor and holds a Bachelor's degree in Business Administration.

**CHOW Wai Kam, Raymond,** JP, aged 60, has been an Executive Director since 2001. He is the group managing director of Hutchison Whampoa Properties Limited and Harbour Plaza Hotel Management (International) Limited. He holds a degree of Bachelor of Arts in Architectural Studies and a degree of Bachelor of Architecture from the University of Hong Kong. He is a Registered Architect and List 1 Authorised Person.

**Edith SHIH,** aged 56, has been an Executive Director and the Company Secretary since 2001. She is also an Alternate Director to Mr Fok Kin-ning, Canning. She is the head group general counsel and company secretary of Hutchison Whampoa Limited ("HWL"). She is also a non-executive director of Hutchison China MediTech Limited, a director of Hutchison International Limited ("HIL") as well as director and company secretary of various HWL group companies. HWL and HIL are substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. She holds a Bachelor of Science degree in Education and a Master of Arts degree from the University of the Philippines, a Master of Arts degree and a Master of Education degree from Columbia University, New York. Ms Shih is a qualified solicitor in Hong Kong, England and Wales and Victoria, Australia and is also a Fellow of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

**ENDO Shigeru,** aged 73, has been an Executive Director since 2002. He was the president of Hutchison Whampoa Japan K.K. from 2001 to 2006 and has been its chief executive officer since 2007. He has spent over 40 years with Mitsui (former senior executive managing director and a member of the main board of Mitsui Co., Ltd.) and has worked in many geographical areas such as Hong Kong, Beijing and New York. He holds a Bachelor of Arts degree in Economics from Keio University.

**KWOK Siu Kai, Dennis,** aged 46, has been an Executive Director since 1 October 2006. He joined Hutchison Harbour Ring Industries Limited, a wholly owned subsidiary of the Company, as a director in July 2005 and was appointed the Director of Finance of the Company in January 2006. He has over 20 years of experience in corporate management, auditing, accounting and financial management in China, Hong Kong and the United Kingdom. He holds a Master of Business Administration degree from The University of Hull, United Kingdom and is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales and the Association of Chartered Certified Accountants.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Ronald Joseph ARCULLI,** GBS, CVO, OBE, JP, aged 69, has been a Director since 2001. He is currently a Non-executive Director and a member of the Audit Committee of the Company. He became a Member of the Legislative Council in 1988, representing the Real Estate and Construction functional constituency from 1991 to the end of June 2000 and was appointed a member of the Executive Council of Hong Kong Special Administrative Region, the People's Republic of China on 1 November 2005. Mr Arculli became an independent non-executive director and the chairman of Hong Kong Exchanges and Clearing Limited with effect from 26 and 28 April 2006 respectively. He ceased as the chairman of the International Award Association of The Duke of Edinburgh's Award Association on 2 November 2007. He is also a director of The Community Chest of Hong Kong and serves as member of the Global Advisory Boards of the University of Colorado Denver's Institute of International Business and Harvard's John F. Kennedy School of Government. He is a board member of The Hong Kong Mortgage Corporation Limited and has a distinguished record of public service on numerous government committees and advisory bodies. He is a senior partner of a firm of solicitors in Hong Kong and holds a number of directorships in listed companies (including Hongkong Electric Holdings Limited) in Hong Kong.

**KWAN Kai Cheong,** aged 58, has been an Independent Non-executive Director since 2004. He is also an Alternate Director to Mr Ronald Joseph Arculli and the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is an independent non-executive director of Hutchison Telecommunications International Limited, SPG Land (Holdings) Limited, Win Hanverky Holdings Limited, Soundwill Holdings Limited, Sunlight Reit and JF Household Furnishings Limited. He is currently the president of Morrison & Company Limited, which is a business consultancy firm, and a non-executive director of China Properties Group Limited and China Medical and Bio Science Limited. He worked for Merrill Lynch & Co. Inc. ("Merrill Lynch") for over 10 years during the period from 1982 to 1993. His last position with Merrill Lynch was president for its Asia Pacific region. He was also previously the joint managing director of Pacific Concord Holding Limited. He holds a Bachelor of Accountancy (Honours) degree and is member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia and a Fellow of the Hong Kong Institute of Directors. He completed the Stanford Executive Program in 1992.

**LAM Lee G,** aged 48, has been an Independent Non-executive Director since 2004. He is also an Alternate Director to Mr Lan Hong Tsung, David and a member of the Audit Committee and Remuneration Committee of the Company. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the United Kingdom, and a Doctor of Philosophy from the University of Hong Kong. Dr Lam has over 25 years of multinational general management, corporate governance, investment banking, and direct investment experience. He is the chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. He is a member of the Hong Kong Institute of Bankers, a member of the Young Presidents' Organisation, a Fellow of the Hong Kong Institute of Directors and of the China Institute of Directors, and a member of the General Committee of the Chamber of Hong Kong Listed Companies.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**LAN Hong Tsung, David,** Member-CPPCC, GBS, ISO, JP, aged 67, has been an Independent Non-executive Director since 2005. He is currently the chairman of David H T Lan Consultants Limited. He is also an independent non-executive director of Cheung Kong Infrastructure Holdings Limited and ARA Asset Management (Prosperity) Limited, the manager of the Prosperity Real Estate Investment Trust and holds directorship at Nanyang Commercial Bank, Limited, as well as a senior advisor of Mitsui & Company (Hong Kong) Limited. Mr Lan was the Secretary for Home Affairs of the Hong Kong Special Administrative Region Government till his retirement in July 2000. He had served as civil servant in various capacities for 39 years. He was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. In January 2003, he was appointed National Committee Member of the Chinese People's Political Consultative Conference, the People's Republic of China. Mr Lan is a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He received his Bachelor of Arts degree in Economics and Law from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston.

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting to shareholders their report and statement of audited accounts for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries and associated companies are shown on pages 117 to 121.

The analysis of the turnover and results by principal activities and geographical locations of the operations of the Company and its subsidiaries (collectively the "Group") during the financial year are set out in note 5 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated profit and loss account on page 52.

## DIVIDEND

No interim dividend for the year ended 31 December 2007 was paid and the Directors recommend the declaration of a final dividend at the rate of HK2.2 cents per share payable on Monday, 19 May 2008 to all persons registered as holders of the Company's shares on Friday, 16 May 2008. The Registers of Members will be closed from Friday, 9 May 2008 to Friday, 16 May 2008, both days inclusive.

## RESERVES

Particulars on the movements in the reserves of the Company during the year are set out in note 35 to the accounts and the consolidated statement of changes in equity on pages 58 and 59 respectively.

## CHARITABLE DONATIONS

Donations to charitable organisations by the Group during the year amounted to HK$44,000 (2006: HK$44,000).

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the movements of property, plant and equipment and investment properties are set out in notes 17 and 18 to the accounts, respectively.

# REPORT OF THE DIRECTORS

## PROPERTIES

Particulars of major properties of the Group are set out on pages 123 to 125.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 33 to the accounts.

## DIRECTORS

The board of Directors of the Company (the "Board") as at 31 December 2007 comprised thirteen Directors, including (i) nine Executive Directors, namely, Mr Fok Kin-ning, Canning (Chairman), Mr Lai Kai Ming, Dominic (Deputy Chairman), Mr Luk Tei, Lewis (Deputy Chairman), Ms Chan Wen Mee, May (Michelle) (Managing Director), Mrs Chow Woo Mo Fong, Susan, Mr Chow Wai Kam, Raymond, Ms Edith Shih, Mr Endo Shigeru and Mr Kwok Siu Kai, Dennis; (ii) one Non-executive Director, namely, Mr Ronald Joseph Arculli; and (iii) three Independent Non-executive Directors, namely, Mr Kwan Kai Cheong, Dr Lam Lee G and Mr Lan Hong Tsung, David.

During the year, Mr Lai Kai Ming, Dominic and Dr Lam Lee G were appointed as Alternate Director to Mrs Chow Woo Mo Fong, Susan and Mr Lan Hong Tsung, David respectively on 7 March 2007.

In addition, Mr Ko Yuet Ming resigned as Non-executive Director and Deputy Chairman, and Mr Tam Yue Man resigned as Non-executive Director on 1 January 2007. Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman on 15 February 2008. The Board expresses its gratitude to Messrs Ko Yuet Ming, Tam Yue Man and Luk Tei, Lewis for their valuable contributions to the Company.

In accordance with Bye-laws 112(A) and 112(B) of the Company and pursuant to code provision A.4.2 of Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Messrs Fok Kin-ning, Canning, Chan Wen Mee, May (Michelle), Edith Shih, Endo Shigeru, Kwan Kai Cheong and Lam Lee G will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received confirmation from the Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considered all the Independent Non-executive Directors as independent.

The Directors' biographical details are set out on pages 9 to 12.

## INTEREST IN CONTRACTS

No contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company or a subsidiary was a party in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' SERVICE CONTRACT

None of the Directors of the Company who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed on 20 May 2004, the Company adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group, to continue and/or render improved service with the Group, and/or to establish a stronger business relationship between the Group and such participants.

The Directors (which expression shall include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of HK$0.10 each in the share capital of the Company:

(a) any employee/consultant (as to functional areas of finance, business or personnel administration or information technology) or proposed employee/consultant (whether full time or part time, including any Executive Director but excluding any Non-executive Director) (the "Eligible Employee") of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which any member of the Group holds any equity interest;

(b) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

## REPORT OF THE DIRECTORS

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(g) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and

(h) any company wholly owned by one or more persons belonging to any of the above classes of participants.

For the avoidance of doubt, the grant of any options by the Company for the subscription of shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group. The maximum number of shares of the Company to be allotted and issued is as follows:

(a) The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company (or its subsidiaries) in issue from time to time.

(b) The total number of shares of the Company which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 6% of the relevant class of securities of the Company (or its subsidiaries) in issue as at 20 May 2004, being the date of passing the relevant resolution adopting the Share Option Scheme (the "General Scheme Limit"). Based on the number of shares in issue of the Company on 20 May 2004, the General Scheme Limit of the Share Option Scheme is 402,300,015 shares. As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 402,300,015, representing 4.5% of the existing issued share capital of the Company.

(c) Subject to (a) above and without prejudice to (d) below, the Company may seek approval of its shareholders in general meeting to refresh the General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the shareholders of the Company for that purpose) provided that the total number of shares of the Company which may be allotted and issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not exceed 10% of the relevant class of securities of the Company (or its subsidiaries) in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group will not be counted.

(d) Subject to (a) above and without prejudice to (c) above, the Company may seek separate approval of the shareholders in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by the Company before such approval is sought.

The total number of shares of the Company issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to any one participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the approval of the shareholders in a general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of the options to be granted (and options previously granted to such participant) must be fixed before the approval of the shareholders and the date of the board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

An option may be accepted by a participant within 21 days from the date of the offer for the grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined on the date of offer for the grant of option and notified by the Directors to each grantee, which period may commence, once the offer for the grant is accepted within the prescribed time by the grantee, from the date of the offer for the grant of options but shall end in any event not later than ten years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Directors but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "SEHK") for trade in one or more board lots of the shares of the Company on the date of the offer of grant which must be a business day; (ii) the average closing price of shares of the Company as stated in the SEHK's daily quotations sheet for trade in one or more board lots of shares of the Company for the five trading days immediately preceding the date of the offer of grant which must be a business day; and (iii) the nominal value of the shares of the Company. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional.

The following share options were outstanding under the Share Option Scheme during the year ended 31 December 2007:

| | Grant date | Options held at 1 January 2007 | Options granted during the year | Options exercised during the year | Options cancelled/ lapsed during the year | Options held at 31 December 2007 | Exercise Period [1] | Exercise price per share *HK$* | Share price on the grant date [2] *HK$* | Share price on the exercise date *HK$* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | |
| Ko Yuet Ming [3] | 3.6.2005 | 4,000,000 | – | – | (4,000,000) | – | 3.6.2006 - 2.6.2015 | 0.822 | 0.82 | N/A |
| Luk Tei, Lewis [4] | 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 |
| ***Sub-total*** | | *35,000,000* | *4,000,000* | – | *(4,000,000)* | *35,000,000* | | | | |
| **Other employees** | 3.6.2005 | 36,732,000 | – | – | (9,232,000) | 27,500,000 | 3.6.2006 - 2.6.2015 | 0.822 | 0.82 | N/A |
| | 25.5.2007 | – | 29,000,000 | – | (400,000) | 28,600,000 | 25.5.2008 - 24.5.2017 | 0.616 | 0.61 | N/A |
| ***Sub-total*** | | *36,732,000* | *29,000,000* | – | *(9,632,000)* | *56,100,000* | | | | |
| ***Total*** | | *71,732,000* | *33,000,000* | – | *(13,632,000)* | *91,100,000* | | | | |

*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 closing price of the shares on the SEHK 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 of the Company with effect from 1 January 2007.*

*(4) Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman of the Company with effect from 15 February 2008.*

The fair value of options granted estimated in accordance with the Binomial valuation model is disclosed in Note 34 to the accounts.

Apart from the Share Option Scheme, at no time during the year ended 31 December 2007 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

## CONNECTED TRANSACTIONS

### (I) Master Agreement for HHR Supplies and HWL Supplies

On 19 October 2005, the Company entered into an agreement (the "Master Agreement") with Hutchison International Limited ("HIL", a wholly owned subsidiary of HWL) in relation to the "HHR Supplies" and the "HWL Supplies" (both as defined below) with the intention of setting the framework terms for transactions to be made between the Group on the one hand and HIL, its subsidiaries and entities controlled, directly or indirectly, as to no less than 50% by HIL, other than the Group (collectively the "HWL Group") on the other hand for three years after 1 January 2006.

The "HHR Supplies" are supplies by the Group to HWL Group during the period from 1 January 2006 to 31 December 2008 of plastic products (including without limitation bottle caps), moulds and related toolings, mobile phone accessories and related products (including without limitation Bluetooth® mono headsets, Bluetooth® stereo headsets, mono headsets, stereo headsets, batteries, chargers, car charges, data cable, AC adaptors, USB connectors, mobile music stands and carry cases), consumer electronic products (including without limitation Digital Audio Broadcast radios, MP3 players and Personal Multi-media Players), toys (including without limitation stuff toys) and games, gifts and premium products, novelties, fine arts and collectibles, electrical and electronic products (including without limitation illuminated signs), home appliances (including without limitation audio and audio-visual systems, LCD televisions, DVD recorders and speakers and hi-fi systems), household products (including without limitation laundry and shopping bags, housewares and first-aid kits), papers products, publishing products, stationeries, office supplies, fabrics, garment and textile, footwear, fashion and leather accessories (including without limitation bags, key holders, wallets and watches), beauty and health products, sports goods (including without limitation retractable bicycles), pet products, food and beverage (including without limitation Chinese herbal soup and food packs), product design services, sales referral, distribution and outsourcing services.

The Company announced on 19 October 2005 that it had set the maximum aggregate annual value of HHR Supplies (the "HHR Supplies Annual Caps") for the three years ending 31 December 2008 at HK$205,000,000, HK$238,000,000 and HK$262,000,000 respectively by reference to the factors as announced.

The "HWL Supplies" are supplies by the HWL Group to the Group during the period from 1 January 2006 to 31 December 2008 of mobile handsets; premium products (including without limitation MP3 and DVD movie games); distilled water, food and beverages, groceries; stationeries, office supplies; printing services, telecommunications and Internet services; administrative, legal, consultancy, insurance support services, hotel services, travel and transportation services; and advertising and promotional services.

The Company announced on 19 October 2005 that it had set the maximum aggregate annual value of HWL Supplies (the "HWL Supplies Annual Caps") for the three years ending 31 December 2008 at HK$35,000,000, HK$45,000,000 and HK$45,000,000 respectively by reference to the factors as announced.

The Master Agreement was entered into on normal commercial terms or on terms no less favourable to the Group than terms available to or from other independent third party customers or supplies for the relevant products or services.

The HHR Supplies and the HWL Supplies constitute continuing connected transactions for the Company for the purpose of the Listing Rules. The HHR Supplies were approved by the shareholders of the Company, other than Cheung Kong (Holdings) Limited, HWL and their respective associates (the "Independent Shareholders") by poll as required under Listing Rule 14A.35 at a special general meeting held on 23 November 2005 (the "SGM").

**(II) Estate Management Agreement, Letting and Lease Management Agreement and Leaseback Agreements**

On 25 November 2005, the following agreements (the "Management Agreements") were entered into:

(i) a supplemental agreement (the "Estate Management Agreement") to an agreement dated 25 August 2005 and made among Shanghai He Hui Property Development Co., Ltd. 上海和滙房產開發有限公司 ("He Hui", an indirect wholly owned subsidiary of the Company) and Shanghai Xin Hui Property Development Co., Ltd. 上海新滙房產開發有限公司 ("Xin Hui", an indirect wholly owned subsidiary of the Company, which together with He Hui are together referred to as the "Property Owners") as property owners and Hutchison Estate Service & Agency (Shanghai) Limited ("HESA", an indirect wholly owned subsidiary of HWL) as manager in respect of the provision of estate management services for the development known as "The Center" located at 989 Changle Road, Shanghai, the People's Republic of China (the "PRC") with a total gross floor area of 98,337.09 square metres (including 204 underground parking spaces) (the "Development"), on an exclusive basis, for a term of five years commencing on 25 August 2005, and at the option of the Property Owners, a further term of five years at a management fee of 5% of the monthly management expenses; and

(ii) an agreement (the "Letting and Lease Management Agreement") made among the Property Owners and Pacific Property (Shanghai) Limited 和巽物業諮詢（上海）有限公司 ("PPSL", an indirect wholly owned subsidiary of HWL) in respect of the appointment of PPSL as the leasing and letting manager of the Development to provide letting and lease management services, on an exclusive basis, for a term of five years commencing on 25 November 2005, and at the option of the Property Owners, a further term of five years in return for a management fee and commission comprising the aggregate of (a) 1% of one month's rental receivable under all letting; (b) one month's rental as commission for each new letting but if the letting is procured by an external agent, no commission is payable to PPSL but the Property Owners will bear any external agent's commission; and (c) 50% of one month's rental for each lease renewal with an existing tenant.

The Management Agreements constitute non-exempt continuing connected transactions for the Company and are subject to the reporting and announcement requirements described in Listing Rules 14A.45 to 14A.47.

For the purposes of Chapter 14A of the Listing Rules, the Company announced on 19 October 2005 that it had set the maximum aggregate management fees under the Estate Management Agreement for each of the six years ending 31 December 2010 at HK$170,000, HK$1,600,000, HK$1,800,000, HK$2,000,000, HK$2,100,000 and HK$2,200,000 respectively by reference to the factors as announced.

For the purposes of Chapter 14A of the Listing Rules, the Company announced on 19 October 2005 that it had set the maximum aggregate commission payable under the Letting and Lease Management Agreement for six years ending 31 December 2010 at HK$250,000, HK$4,300,000, HK$7,900,000, HK$8,700,000, HK$5,100,000 and HK$16,000,000 respectively by reference to the factors as announced.

In addition, as a result of the Property Owners becoming wholly owned subsidiaries of the Company on 25 November 2005, the following documents (the "Leaseback Agreements") entered into by the Property Owners prior to such date with connected persons of the Company became the continuing connected transactions for the Company under the Listing Rules from such date:

(a) the tenancy agreement dated 13 June 2004 made between the Property Owners as landlords and Shanghai Yahui Property Development Co, Limited上海雅滙房產開發有限公司 ("Ya Hui, a company indirectly owned as to 50% by each of HWL and CKH) as tenant in respect of the whole of the 2nd Floor of the Development with an area of 2,163 square metres for the lease period of 72 months from 1 October 2004 to 30 September 2010 subject to a decoration period of 3 months from 1 July 2004 to 30 September 2004 and rent free period of 61 days from 1 October 2004 to 30 November 2004; and

(b) the tenancy agreement dated 3 October 2005 and made between the Property Owners as landlords and Ya Hui as tenant in respect of the whole of the Mezzanine Floor of the Development with an area of 636.36 square metres for the lease period of 60 months from 1 October 2005 to 30 September 2010 subject to a rent free period of 4 months in total from 1 October 2005 to 30 November 2005 and from 1 October 2006 to 30 November 2006.

For the purpose of Chapter 14A of the Listing Rules, the Company announced on 4 October 2005 that it had set the maximum aggregate rental income and management fees payable under the Leaseback Agreements for each of the five years ending 31 December 2009 and the 9 months ending 30 September 2010 at HK$1,100,000, HK$4,800,000, HK$5,200,000, HK$5,700,000, HK$5,700,000 and HK$4,400,000 respectively by reference to the factors as announced.

**(III) Sub-Tenancy Agreement**

On 28 March 2006, Hutchison Harbour Ring Industries Limited ("HHRI") (an indirect wholly owned subsidiary of the Company) as tenant entered into a sub-tenancy agreement (the "Sub-Tenancy Agreement") with Tremayne Investments Limited ("TIL") (an indirect wholly owned subsidiary of HWL) as landlord for the lease and use as the office of the Company of the whole of the 5th Floor of Harbourfront Landmark, No. 11 Wan Hoi Street, Hung Hom, Kowloon, Hong Kong (the "Premises") for a term of three years commencing on 27 March 2006 (the "Term") subject to HHRI's right to renew the Sub-Tenancy for a further term of 31 months and 4 days prior to expiry of the Term.

Under the Sub-Tenancy Agreement, the monthly rental and service fees payable by HHRI to TIL throughout the Term are HK$467,340.50 (exclusive of service fees, Government rent and rates) and HK$141,679.50 (subject to adjustment resulting from any increase of the operating costs in relation to the supply of air conditioning and provision of management services) respectively.

For the purposes of Chapter 14A of the Listing Rules, the Company announced on 28 March 2006 that it had set the maximum aggregate annual consideration payable to TIL under the Sub-Tenancy Agreement (the "Tenancy Annual Caps") for the three years ending 31 December 2008 at HK$7,600,000 and, HK$8,200,000 and HK$8,500,000 respectively by reference to the factors as announced.

TIL is a connected person of the Company by virtue of being an associate of HWL, a substantial shareholder of the Company; and the sub-tenancy under the Sub-Tenancy Agreement constitutes a continuing connected transaction of the Company under the Listing Rules. As the projected Tenancy Annual Caps were expected to be less than 2.5% but more than 0.1% of the relevant percentage ratios of the Company, such continuing connected transaction is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules respectively.

All the Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions for the year ended 31 December 2007 and confirmed that (a) they were entered into (i) by the Group in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, the auditor of the Company has confirmed in a letter to the Board to the effect that the above continuing connected transactions for the year ended 31 December 2007 (a) have been approved by the Board; (b) were in accordance with the pricing policies of the Group if transactions involved provision of goods and services by the Group; (c) were carried out in accordance with the terms of the relevant agreements governing them; and (d) did not exceed the respective annual caps.

**(IV) Amendment to Redemption Terms of 2010 Convertible Note and Conditional Issue of New Shares**

On 4 October 2005, HWL and the Company jointly announced, amongst other things, that the Company had entered into a note subscription agreement (the "Note Subscription Agreement") for the issue to HIL or its designated subsidiary a convertible note in the principal amount of US$128,200,000 (or approximately HK$998,678,000) (the "2010 Convertible Note") pursuant to the Note Subscription Agreement subject to satisfaction of the conditions set out therein including obtaining the Company's independent shareholders approval at a general meeting. The 2010 Convertible Note was subsequently issued to Uptalent Investments Limited ("Uptalent", a wholly owned subsidiary of HIL) on 25 November 2005.

On 13 September 2007, the Company announced that it had entered into a conditional agreement with Uptalent for amendment of the terms of the 2010 Convertible Note (the "Amendment Agreement") and a conditional share subscription agreement with HIL for the subscription of 2,244,444,444 new Company's shares at HK$0.45 per share (the "Share Subscription Agreement"). The Amendment Agreement provided, inter alia, for the Company's right to redeem the 2010 Convertible Note at par together with accrued interest; and Uptalent's waiver of its conversion rights under the 2010 Convertible Note on exercise of the Company's early redemption right.

The Share Subscription Agreement provided, inter alia, for (a) the subscription by HIL or its designated wholly owned subsidiary, and the issue by the Company, of 2,244,444,444 shares of the Company (the "Subscription Shares") at HK$0.45 per share, representing approximately 33.47% of the then existing issued share capital of the Company and approximately 25.08% of the enlarged issued share capital of the Company immediately after such subscription; and (b) the application of all of the net proceeds from the issue and allotment of the Subscription Shares towards the early redemption of the 2010 Convertible Note (as amended by the Amendment Agreement). The Subscription Shares were subsequently subscribed by Uptalent on completion.

Each of HIL and Uptalent was a connected person of the Company by virtue of being an associate of Promising Land International Inc. ("Promising Land"), a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of HWL, the controlling shareholder of the Company. The transactions contemplated under the Amendment Agreement and the Share Subscription Agreement constituted connected transactions for the Company under the Listing Rules and the requisite approvals therefor of the independent shareholders of the Company, other than Promising Land and its associates were obtained by way of poll at a special general meeting held on 23 October 2007. These transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

On completion of the Amendment Agreement and the Share Subscription Agreement, which took place on 24 October 2007, the issue of the Subscription Shares raised up to approximately HK$1,008 million for the Company in cash, net of related expenses, all of which was applied towards the early redemption of the 2010 Convertible Note in accordance with the terms thereof (as amended by the Amendment Agreement).

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with regard to the above continuing connected transactions (I), (II) and (III), and connected transaction (IV).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 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 [1] | — | 5,000,000 | 0.05587% |
| Luk Tei, Lewis [2] | (i) Beneficial owner<br>(ii) Beneficiary of a trust<br>(iii) Interest of spouse | (i) Personal interest<br>(ii) Other interest<br>(iii) Family interest | (i) 149,495,078<br>(ii) 1,000,000<br>(iii) 48,000,000 | (i) 10,000,000 [3]<br>(ii) —<br>(iii) — | 208,495,078 | 2.32970% |
| Chan Wen Mee, May (Michelle) | Beneficial owner | Personal interest | — | 12,000,000 [3] | 12,000,000 | 0.13409% |
| Endo Shigeru | Beneficial owner | Personal interest | 80,000 | 5,000,000 [3] | 5,080,000 | 0.05676% |
| Kwok Siu Kai, Dennis | Beneficial owner | Personal interest | — | 8,000,000 [3] | 8,000,000 | 0.08939% |

*Notes:*

*(1) Such shares were held by a company which is equally owned by Mr Fok Kin-ning, Canning and his spouse.*

*(2) Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman with effect from 15 February 2008.*

*(3) These represented the interests in underlying shares in respect of the share options granted by the Company, the details of which are set out in the section titled "Share Options Scheme" on pages 15 to 19.*

**(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 [(1)] | 4,310,875 | 0.10111% |
| Lai Kai Ming, Dominic | Beneficial owner | Personal interest | 50,000 | 50,000 | 0.00117% |
| Luk Tei, Lewis [(2)] | 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<br>(ii) Interest of spouse | (i) Personal interest<br>(ii) Family interest | (i) 27,200<br>(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 [(3)] | 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) Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman with effect from 15 February 2008.*

*(3) Such shares in HWL were held by a company which is beneficially owned by Mr Ronald Joseph Arculli.*

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

As at 31 December 2007, Mr Fok Kin-ning, Canning had the following interests:

(i) 5,100,000 ordinary shares, representing approximately 0.75% of the then issued share capital, in Hutchison Telecommunications (Australia) Limited comprising personal and corporate interests in 4,100,000 ordinary shares and 1,000,000 ordinary shares respectively;

(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 6.5% 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 31 December 2007, Mrs Chow Woo Mo Fong, Susan 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 31 December 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"); and (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

(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 31 December 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 required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein 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 31 December 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 of the Company*

| Name | Capacity | Number of shares of the Company held | Total | Approximate % of shareholding of the Company |
|---|---|---|---|---|
| Li Ka-shing | Founder of discretionary trusts and interest of controlled corporations | 6,399,728,952 [(1),(2),(3)] | 6,399,728,952 | 71.51% |
| Li Ka-Shing Unity Trustcorp Limited ("LKSUT") | Trustee and beneficiary of a trust | 6,399,728,952 [(1),(2),(3)] | 6,399,728,952 | 71.51% |
| Li Ka-Shing Unity Trustee Corporation Limited ("LKSUTC") | Trustee and beneficiary of a trust | 6,399,728,952 [(1),(2),(3)] | 6,399,728,952 | 71.51% |
| Li Ka-Shing Unity Trustee Company Limited ("LKSUTCO") | Trustee | 6,399,728,952 [(1),(2),(3)] | 6,399,728,952 | 71.51% |
| Cheung Kong (Holdings) Limited ("CKH") | Interest of controlled corporations | 6,399,728,952 [(1),(2),(3)] | 6,399,728,952 | 71.51% |
| Hutchison Whampoa Limited ("HWL") | Interest of controlled corporations | 6,399,728,952 [(1),(2)] | 6,399,728,952 | 71.51% |
| Hutchison International Limited ("HIL") | Interest of controlled corporations | 6,399,728,952 [(1),(2)] | 6,399,728,952 | 71.51% |
| Promising Land International Inc. ("Promising Land") | Beneficial owner | 4,155,284,508 [(1)] | 4,155,284,508 | 46.43% |
| Uptalent Investments Limited ("Uptalent") | Beneficial owner | 2,244,444,444 [(2)] | 2,244,444,444 | 25.08% |

*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) Uptalent 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 2,244,444,444 shares of the Company held by Uptalent.*

*(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 and 2,244,444,444 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*

| Name | Capacity | Number of shares of the Company held | Approximate % of shareholding of the Company |
|---|---|---|---|
| Kwok Sau Po | Beneficial owner | 668,326,000 | 7.47% |

Saved as disclosed above, as at 31 December 2007, there was no other person (other than the Directors and 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2007, the following Directors of the Company had interests in the following businesses (apart from the Company's businesses) conducted through the companies named below, their subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Company conducted during the year ended 31 December 2007 required to be disclosed pursuant to Rule 8.10 of the Listing Rules:

| Name | Name of company | Nature of interest | Nature of competing business |
|---|---|---|---|
| Fok Kin-ning, Canning | CKH | Non-executive Director | – Property development and investment |
| | HWL | Group Managing Director | – Property development and investment |
| | Cheung Kong Infrastructure Holdings Limited ("CKI") | Deputy Chairman | – Information technology and new technology |
| Lai Kai Ming, Dominic | HWL | Executive Director | – Property development and investment |
| Luk Tei, Lewis (Note) | Fill Sales Services Limited | Director | – Property investment |
| | Lord Young Investment Limited | Director | – Property investment holding |
| | Main Sales Development Limited | Director | – Property investment |
| Chow Woo Mo Fong, Susan | HWL | Deputy Group Managing Director | – Property development and investment |
| | CKI | Executive Director | – Information technology and new technology |
| Chow Wai Kam, Raymond | Hutchison Whampoa Properties Limited | Group Managing Director | – Property development and investment |
| Edith Shih | HIL | Director | – Property development and investment<br>– Information technology and new technology |
| Ronald Joseph Arculli | HKR International Limited | Non-executive Director | – Property development and investment |
| | Sino Land Company Limited | Non-executive Director | – Property development and investment |
| | Tsim Sha Tsui Properties Limited | Non-executive Director | – Property development and investment |

*Note:*

*Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman with effect from 15 February 2008.*

As the Board is independent of the boards of directors of these entities, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above businesses.

Save as disclosed above, as at 31 December 2007, none of the Directors or their respective associates had an interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

## BORROWINGS

Details of the Group's borrowings are set out in notes 29, 31(a) and 32 to the accounts.

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

During the year, 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 year.

## PRE-EMPTIVE RIGHTS

There was no provisions for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 122.

## RETIREMENT BENEFITS SCHEMES

Information on the retirement benefits schemes of the Group is set out in note 13 to the accounts.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales for the year ended 31 December 2007 attributable to the Group's major customers are as follows:

| | Percentage of the Group's total sales |
|---|---|
| The largest customer | 16.9% |
| Five largest customers combined | 54.0% |

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers noted above.

During the year ended 31 December 2007, the percentage of purchases attributable to the five largest suppliers combined of the Group was less than 30% of the total value of the Group's purchases.

## PUBLIC FLOAT

As at the date of this report, based on information available to the Company and within the knowledge of the Directors of the Company, the public float capitalisation amounted to approximately HK$1,527 million, representing 28.43% of the issued share capital of the Company.

## AUDITOR

The accounts have been audited by PricewaterhouseCoopers, who will retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

**Edith Shih**
*Director and Company Secretary*

Hong Kong, 6 March 2008

# CORPORATE GOVERNANCE REPORT

The Company strives to attain and maintain the highest standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safe guarding interests of shareholders and other stakeholders. The Company has accordingly adopted sound corporate governance principles that emphasise a quality board of Directors (the "Board"), effective internal control, stringent disclosure practices and transparency and accountability to all stakeholders. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

The Company is 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"). It also adopts a number of recommended practices stated therein for the year ended 31 December 2007. The key corporate governance principles and practices are as follows:

## THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board, led by the Chairman, Mr Fok Kin-ning, Canning, approves and monitors wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company (the "Management"). Management is responsible for the day-to-day operations of the Group under the leadership of the Managing Director.

As at 31 December 2007, the Board comprised thirteen Directors, including the Chairman, two Deputy Chairmen, Managing Director, five Executive Directors, one Non-executive Director and three Independent Non-executive Directors following the resignation of two Non-executive Directors on 1 January 2007. During the year, Mr Lai Kai Ming, Dominic and Dr Lam Lee G have been appointed as Alternate Director to Mrs Chow Woo Mo Fong, Susan and Mr Lan Hong Tsung, David respectively on 7 March 2007. In addition, Mr Luk Tei, Lewis retired as Executive Director and Deputy Chairman on 15 February 2008.

Accordingly, as at the date of this report, the Board comprised twelve Directors, including the Chairman, the Deputy Chairman, the Managing Director, five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Biographical details of the Directors are set out in the Directors and Senior Management Section on pages 9 to 12.

For a Director to be considered independent, the Board must be satisfied that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The roles of the Chairman and the Deputy Chairman are separate from that of the Managing Director. Such division of responsibilities helps to reinforce their independence and accountability.

The Chairman, assisted by the Deputy Chairman, Mr Lai Kai Ming, Dominic, is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that it acts in the best interests of the Group and that Board meetings are planned and conducted effectively. The Chairman is responsible for setting the agenda for each Board meeting, taking into account, where appropriate, matters proposed by the Directors and the Company Secretary for inclusion in the agenda. With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly informed of issues arising at Board meetings and provided with adequate and accurate information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affairs and contribute to the Board's functions. In addition to Board meetings, the Chairman holds regular meetings with Executive Directors and at least two meetings with Non-executive Directors annually without the presence of Executive Directors. The Board, under the leadership of the Chairman, has adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders and other stakeholders, as outlined later in the Report.

The Managing Director, Ms Chan Wen Mee, May (Michelle), is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations. Acting as the principal manager of the Group's businesses, the Managing Director attends to developing strategic operating plans that reflect the longer-term objectives and priorities established by the Board and is directly responsible for maintaining the operational performance of the Group. Working with the Finance Director, Mr Kwok Siu Kai, Dennis, other Executive Directors and the executive management team of each core business division, the Managing Director presents annual budgets to the Board for consideration and approval, and ensures that the Board is fully apprised of the funding requirements of the businesses of the Group. With the assistance of the Finance Director, the Managing Director sees to it that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. She maintains an ongoing dialogue with the Chairman, the Deputy Chairman and all Directors to keep them fully informed of all major business development and issues. She is also responsible for building and maintaining an effective executive team to support her in her role.

The Board meets regularly, and at least four times a year. Between scheduled meetings, senior management of the Group provides information to Directors on a regular basis on the activities and development in the businesses of the Group. Throughout the year, Directors participate in the consideration and approval of routine and operational matters of the Company by way of circular resolutions with supporting explanatory materials, supplemented by additional verbal and/or written information or notification from the Company Secretary and other executives as and when required. Details of material or notable transactions of subsidiary and associated companies are provided to the Directors as appropriate. Whenever warranted, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, Directors receive written notice of the meeting at least fourteen days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. With respect to other meetings, Directors are given as much notice as is reasonable and practicable in the circumstances.

The Board held five meetings in 2007 with 100% attendance.

| | Name of Director | Attended/Eligible to attend |
|---|---|---|
| Chairman | Fok Kin-ning, Canning | 5/5 |
| Executive Directors | Lai Kai Ming, Dominic [1] *(Deputy Chairman)* | 5/5 |
| | Luk Tei, Lewis [2] *(Deputy Chairman)* | 5/5 |
| | Chan Wen Mee, May (Michelle) *(Managing Director)* | 5/5 |
| | Chow Woo Mo Fong, Susan | 5/5 |
| | Chow Wai Kam, Raymond | 5/5 |
| | Edith Shih | 5/5 |
| | Endo Shigeru | 5/5 |
| | Kwok Siu Kai, Dennis | 5/5 |
| Non-executive Director | Ronald Joseph Arculli | 5/5 |
| Independent Non-executive Directors | Kwan Kai Cheong | 5/5 |
| | Lam Lee G [3] | 5/5 |
| | Lan Hong Tsung, David | 5/5 |

*Notes:*

(1) *Appointed as Alternate Director to Mrs Chow Woo Mo Fong, Susan on 7 March 2007.*

(2) *Retired as Executive Director and Deputy Chairman on 15 February 2008.*

(3) *Appointed as Alternate Director to Mr Lan Hong Tsung, David on 7 March 2007.*

Each of the Non-executive Directors is appointed for a term of 12 months, subject to renewal and re-election as and when required under the Listing Rules and the Bye-laws of the Company. However, any Director who is appointed by the Board to fill a casual vacancy shall hold office until the next following general meeting of the Company, or in the case of an addition to their number, until the next following annual general meeting of the Company, and shall be eligible for re-election at the relevant general meeting. All Directors are subject to retirement from office by rotation and re-election by shareholders at the annual general meeting at least about once every three years.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Where vacancies arise at the Board, candidates are proposed and put forward to the Board for consideration and approval, with the objective of appointing to the Board individuals with expertise in the businesses of the Group and leadership qualities so as to complement the capabilities of the existing Directors thereby enabling the Company to retain as well as improve its competitive position.

Upon appointment to the Board, Directors receive a package of orientation materials on the Group and are provided with a comprehensive induction to the Group's businesses by senior executives. Continuing education and information are provided to Directors regularly to help ensure that Directors are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses.

## SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (the "Model Code") as the Group's code of conduct regarding Directors' securities transactions.

All Directors confirmed that they have complied with the Model Code in their securities transactions throughout 2007.

## BOARD COMMITTEES

The Board is supported by the Audit Committee and the Remuneration Committee, details of which are described later in this report. The terms of reference of these Committees adopted by the Board are published on the Company's website (www.hutchisonharbourring.com).

## COMPANY SECRETARY

The Company Secretary, Ms Edith Shih, is responsible to the Board for ensuring that Board procedures are followed and Board activities are efficiently and effectively conducted. These objectives are achieved through the adherence to proper Board processes and the timely preparation and dissemination to Directors and Board Committees comprehensive Board agendas and papers.

The Company Secretary is responsible for ensuring that the Board is fully apprised of all legislative, regulatory and corporate governance developments relating to the Group and that it takes these into consideration when making decisions for the Group.

The Company Secretary is also directly responsible for the Group's compliance with all obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of annual reports and interim reports within the periods laid down in the Listing Rules, timely dissemination to shareholders and the market of announcements and information relating to the Group and assisting in the notification of Directors' dealings in securities of the Group.

The Company Secretary advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensures that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report.

In relation to connected transactions, regular seminars are conducted for legal counsels and executives from business units within the Group to ensure that such transactions are handled in compliance with the Listing Rules. Detailed analyses are performed on all potential connected transactions to ensure full compliance and for Directors' consideration.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

**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 Committee meets towards the end of each year for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters.

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 executives of the Group and determining their remuneration packages.

The remuneration of Directors and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other local and international companies and the prevailing market conditions. Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual's performance.

All members of the Remuneration Committee met in December 2007 to review background information on market data (including economic indicators, recommendation from Employers' Federation of Hong Kong and 2008 Remuneration Review Guidelines of the Group), the Group's business activities and human resources issues, and headcount and staff costs. Prior to the end of the year, the Committee reviewed and approved the proposed 2007 directors' fees, year end bonus and 2008 remuneration package of Executive Directors and senior management of the Company and made recommendation to the Board on the 2007 directors' fees for Non-executive Directors. Executive Directors do not participate in the determination of their own remuneration.

Directors' emoluments comprise payments to Directors from the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director for 2007 are as below:

| Name of Director | Directors' Fees *HK$'000* | Basic Salaries, Allowances and Benefits-in-kind *HK$'000* | Discretionary Bonuses *HK$'000* | Provident Fund Contributions *HK$'000* | Employee Share Option Benefits [(7)] *HK$'000* | Total Emoluments *HK$'000* |
|---|---|---|---|---|---|---|
| Fok Kin-ning Canning [(1)] | 90 [(5)] | – | – | – | – | 90 |
| Lai Kai Ming, Dominic | 70 [(5)] | – | – | – | – | 70 |
| Luk Tei, Lewis | 70 | 1,531 | 300 | 66 | 385 | 2,352 |
| Chan Wen Mee, May (Michelle) | 70 [(5)] | 1,830 | 2,000 | 133 | 462 | 4,495 |
| Chow Woo Mo Fong, Susan | 70 [(5)] | – | – | – | – | 70 |
| Chow Wai Kam, Raymond | 70 [(6)] | – | – | – | – | 70 |
| Edith Shih | 70 [(5)] | – | – | – | – | 70 |
| Endo Shigeru | 70 [(5)] | – | – | – | 192 | 262 |
| Kwok Siu Kai, Dennis | 70 | 1,802 | 1,000 | 77 | 308 | 3,257 |
| Ronald Joseph Arculli [(2),(3)] | 140 | – | – | – | – | 140 |
| Kwan Kai Cheong [(1),(3),(4)] | 160 | – | – | – | – | 160 |
| Lam Lee G [(1),(3),(4)] | 160 | – | – | – | – | 160 |
| Lan Hong Tsung, David [(4)] | 70 | – | – | – | – | 70 |
| Total: | 1,180 | 5,163 | 3,300 | 276 | 1,347 | 11,266 |

*Notes:*

*(1) Members of the Remuneration Committee*

*(2) Non-executive Director*

*(3) Members of the Audit Committee*

*(4) Independent Non-executive Directors*

*(5) Paid to Hutchison Whampoa Limited*

*(6) Paid to Hutchison Whampoa Properties Limited*

*(7) Share option benefits represent the fair value of share options granted under the Company's Share Option Scheme, which is calculated in accordance with the methodology disclosed in note 2(u) to the accounts. This methodology does not take into account of the actual share price at the date of exercise and whether the share options have been exercised. The significant inputs to the valuation model and details of the share options granted are disclosed in note 34 to the accounts.*

## ACCOUNTABILITY AND AUDIT

**Financial Reporting**

The annual and interim results of the Company are published in a timely manner within the limits of three months and two months respectively after the end of the relevant periods.

The responsibility of Directors in relation to the financial statements is set out below. It should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 50 and 51 which acknowledges the reporting responsibility of the Group's Auditor.

**Annual Report and Accounts**

The Directors acknowledge their responsibility for the preparation of the Annual Report and financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with Hong Kong Companies Ordinance and the applicable accounting standards.

**Accounting Policies**

The Directors consider that in preparing the financial statements, the Group applies appropriate accounting policies that are consistently adopted and makes judgements and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

# CORPORATE GOVERNANCE REPORT

### Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group upon which financial statements of the Group could be prepared in accordance with the Group's accounting policies.

### Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

### Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## AUDIT COMMITTEE

The Audit Committee, comprises two Independent Non-executive Directors and one Non-executive Director who possess the appropriate business and financial management experience and skills to understand financial statements and internal controls. It is chaired by Mr Kwan Kai Cheong with Mr Ronald Joseph Arculli and Dr Lam Lee G as members.

Under the terms of reference of the Audit Committee, it is required to oversee the relationship between the Company and the external auditors, review the Group's preliminary results, interim results and annual financial statements, monitor compliance with statutory and Listing Rules requirements, review the scope, extent and effectiveness of the activities of the Internal Audit Department of the Group's holding company, engage independent legal or other advisers as it determines is necessary and perform investigations.

The Audit Committee held four meetings in 2007 with 100% attendance.

| Name of Members | Attended/Eligible to attend |
|---|---|
| Kwan Kai Cheong *(Chairman)* | 4/4 |
| Ronald Joseph Arculli | 4/4 |
| Lam Lee G | 4/4 |

**Financial Statements**

The Audit Committee meets with the Finance Director and other senior management of the Group from time to time to review the interim and final results and the Interim Report and Annual Report of the Group. It considers and discusses the reports and presentations of Management, the Group's internal and external auditors, with a view of ensuring that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong. It also meets with the Group's principal external auditor, PricewaterhouseCoopers ("PwC"), to consider their reports on the scope and outcome of their independent review of the interim financial report and their annual audit of the consolidated financial statements.

**External Auditors**

The Audit Committee reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process. It receives each year a letter from PwC confirming their independence and objectivity and holds meetings with PwC to consider the scope of their audit, approve their fees, and the scope and appropriateness of non-audit services, if any, to be provided by them. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

The Group's policy regarding the engagement of PwC for the various services listed below is as follows:

- Audit services – includes audit services provided in connection with the audit of the consolidated financial statements. All such services are to be provided by external auditors.

- Audit related services – includes services that would normally be provided by an external auditor but not generally included in audit fees, for example, audits of the Group's pension plans, due diligence and accounting advice related to mergers and acquisitions, internal control reviews of systems and/or processes, and issuance of special audit reports for tax or other purposes. The external auditors are to be invited to undertake those services that they must or are best placed to undertake in their capacity as auditors.

- Taxation related services – includes all tax compliance and tax planning services, except for those services which are provided in connection with the audit. The Group uses the services of the external auditors where they are best suited. All other significant taxation related work is undertaken by other parties as appropriate.

- Other services – includes, for example, audits or reviews of third parties to assess compliance with contracts, risk management diagnostics and assessments, and non-financial systems consultations. The external auditors are also permitted to assist management and the internal auditors of the Group's holding company with internal investigations and fact-finding into alleged improprieties. These services are subject to specific approval by the Audit Committee.

- General consulting services – the external auditors are not eligible to provide services involving general consulting work.

An analysis of the fees of PwC and other external auditors is shown in note 6 to the accounts. In the year ended 31 December 2007, the fees payable to PwC were primarily for audit services.

**Review of Risk Management and Internal Control**

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. It reviews with the internal auditors of the Group's holding company the work plan for their audits on the Group together with their resource requirements and considers the internal auditors' reports to the Audit Committee on the effectiveness of internal controls in the Group business operations. In addition, it also receives a report from the Company Secretary on the Group's compliance status on regulatory requirements. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the consolidated financial statements for the year.

## INTERNAL CONTROL AND GROUP RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risks. It also reviews and monitors the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequate. Reporting and review activities include review by the Executive Directors and the Board and approval of detailed operational and financial reports, budgets and plans provided by the management of the business operations, review by the Board of actual results against the budgets, review by the Audit Committee of the ongoing work of the Internal Audit and Risk Management Departments of the Group's holding company, as well as the regular business reviews by the Executive Directors and the executive management team of each core business division.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material mis-statement, errors, losses or fraud.

**Internal Control Environment**

The Board is overall responsible for monitoring the operations of the businesses within the Group. Executive Directors are appointed to the boards of all material operating subsidiaries and associates for monitoring those companies, including attendance at board meetings, review and approval of business strategies, budgets and plans, and setting of key business performance targets. The executive management team of each core business division is accountable for the conduct and performance of each business in the division within the agreed strategies and similarly the management of each business is accountable for its conduct and performance.

The Group's internal control procedures include a comprehensive system for reporting information to the executive management teams of each core business and the Executive Directors.

Business plans and budgets are prepared annually by the management of individual businesses and subject to review and approval by both the executive management teams and the Executive Directors as part of the Group's five-year corporate planning cycle. Reforecasts for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval. When setting budgets and forecasts, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks.

The Executive Directors review monthly management reports on the financial results and key operating statistics of each business and hold monthly meetings with the executive management team and senior management of business operations to review these reports, business performance against budgets, forecasts, significant business risk sensitivities and strategies. In addition, finance managers of business operations attend monthly meetings with the Finance Director and members of the Group Finance team to review monthly performance against budget and forecast, and to address accounting and finance related matters.

The Group maintains a centralised cash management system for its subsidiary operations and the Group's Finance Department oversees the Group's investment and lending activities. Treasury reports on the Group's cash and liquid investments, borrowings and movements thereof are distributed weekly.

The Finance Director has established guidelines and procedures for the approval and control of expenditures. Operating expenditures are subject to overall budget control and are controlled within each business with approval levels for such expenditures being set by reference to the level of responsibility of each executive and officer. Capital expenditures are subject to overall control within the annual budget review and approval process and, more specific control and approval prior to commitment by the Finance Director or Executive Directors are required for unbudgeted expenditures and material expenditures within the approved budget. Quarterly reports of actual versus budgeted and approved expenditures are also reviewed.

# CORPORATE GOVERNANCE REPORT

The General Manager of the Internal Audit Department of the Group's holding company, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations worldwide. Using risk assessment methodology and taking into account the dynamics of the Group's activities, internal audit derives its yearly audit plan, which is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. Internal Audit Department of the Group's holding company is responsible for assessing the Group's internal control system, formulating an impartial opinion on the system, and to report its findings to the Audit Committee, the Finance Director and the senior management concerned as well as following up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scopes of work.

Depending on the nature of business and risk exposure of individual business units, the scope of work performed by the internal audit function includes financial and operations reviews, recurring and surprise audits, fraud investigations and productivity efficiency reviews.

Reports from the external auditors on internal controls and relevant financial reporting matters are presented to the General Manager of the Internal Audit Department of the Group's holding company, and, as appropriate, to the Finance Director. These reports are reviewed and appropriate actions taken.

## GROUP RISK MANAGEMENT

The Managing Director and the Group Risk Management Department of the Group's holding company have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risks. The Group Risk Management Department of the Group's holding company, working with the business operations worldwide, is responsible for arranging appropriate insurance coverage and organising Group wide risk reporting.

## REVIEW OF INTERNAL CONTROL SYSTEMS

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2007, covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems are effective and adequate.

## CODE OF CONDUCT

The Group places utmost importance on employees' ethical, personal and professional standards. Every employee is provided with the Group's Code of Conduct booklet, and all employees are expected to adhere to the highest standards set out in the Code of Conduct.

## RELATIONSHIP WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

**Investor Relations and Shareholders' Rights**

The Group actively promotes investor relations and communication with the investment community when the interim and year end financial results are announced and during the course of the year. Through its Deputy Chairman, the Group responds to request for information and queries from the investment community.

The Board is committed to providing clear and full information on the Group to shareholders through the publication of notices, announcements, circulars, interim and annual reports. Moreover, additional information is also available to shareholders on the Company's website.

Shareholders are encouraged to attend all general meetings of the Company. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders by sending to the Company Secretary at the principal place of business a written request for such general meetings together with the proposed agenda items. All substantive resolutions at general meetings are decided on a poll which is conducted by the Company Secretary and scrutinised by the Group's Branch Share Registrars. The results of the poll are published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Financial and other information on the Group is made available on the Company's website, which is regularly updated.

During the period covered by this annual report, the 2007 Annual General Meeting and a Special General Meeting of the Company were held on 3 May 2007 and 23 October 2007 respectively at Harbour Plaza Hong Kong, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong. The resolutions proposed at those meetings and the percentage of votes cast in favour of such resolutions are set out below:

**Annual General Meeting**

1. Consideration and approval of the statement of audited accounts and reports of directors and independent auditor for the year ended 31 December 2006 (100%);

2. Declaration of a final dividend (100%);

3. Re-election of Mrs Chow Woo Mo Fong, Susan, Mr Luk Tei, Lewis, Mr Kwok Siu Kai, Dennis and Mr Ronald Joseph Arculli as Directors of Company (100% in respect of each individual resolution);

4. Authorisation of the Board of Directors to fix the Directors' remuneration (100%);

5. Re-appointment of Auditor and authorisation of the Board of Directors to fix the Auditor's remuneration (100%);

6. Granting of a general mandate to Directors to allot and issue securities of the Company (99.62%), repurchase shares of the Company (100%), and approve the addition of the repurchased shares to the aggregate nominal share capital that can be allotted (99.63%); and

7. Approval of the amendment of the Company's Bye-laws to reflect the requirements of the Listing Rules, including the Code on Corporate Governance Practices contained in Appendix 14 therein (100%). The amendment, which were the only changes made to the Company's Bye-laws during 2007, included:

   (1) all directors appointed to fill a casual vacancy are subject to election by shareholders at the first general meeting instead of the first annual general meeting after their appointment; and

   (2) (a) at each annual general meeting one-third of the Directors or, if their number is not a multiple of three, the number nearest to but not less than one-third (instead of not greater than one-third) shall retire from office by rotation; and

   (b) that every director, not just certain directors, is subject to retirement by rotation at annual general meetings of the Company.

**Special General Meeting**

Approval, ratification and confirmation of the Share Subscription Agreement dated 13 September 2007 entered into between Hutchison International Limited and the Company and an early redemption by the Company of the 2010 Convertible Note at Completion subject to and on the Conditions as amended by the Amendment Agreement (all capitalised terms as defined in the circular of the Company dated 4 October 2007) and authorisation of the Directors to execute documents and/or do all such acts and things on behalf of the Company in connection with the Share Subscription Agreement (100%).

All resolutions put to shareholders at those meetings were passed. The results of the voting by poll were published on the websites of the Company and the Stock Exchange. The poll results of the 2007 Annual General Meeting was also published in local newspapers.

Other corporate information is set out in the "Information for Shareholders" section of this annual report. This includes, among others, dates for key corporate events as well as public float capitalization as at 31 December 2007.

The Group values feedback from shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and can be addressed to the Deputy Chairman by mail to the Group or by e-mail to the Company's website.

By Order of the Board

**Edith Shih**
*Director and Company Secretary*

Hong Kong, 6 March 2008

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated accounts of Hutchison Harbour Ring Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 121, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

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

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

## OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 6 March 2008

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 31 December 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **2,709,739** | 2,587,808 |
| Cost of sales | | **(2,334,523)** | (2,244,542) |
| **Gross profit** | | **375,216** | 343,266 |
| Interest income | | **24,170** | 33,390 |
| Other gains, net | | **178,265** | 157,896 |
| Administrative expenses | | **(173,560)** | (220,775) |
| Selling and distribution costs | | **(76,255)** | (97,501) |
| **Operating profit** | 6 | **327,836** | 216,276 |
| Share of profit/(loss) of an associated company | | **1,286** | (3,299) |
| **Earnings before interest expense and tax** | | **329,122** | 212,977 |
| Finance costs | 7 | **(39,320)** | (55,658) |
| **Profit before tax** | | **289,802** | 157,319 |
| Tax credit/(charge) | 8 | **32,413** | (105,709) |
| **Profit for the year** | | **322,215** | 51,610 |
| **Attributable to:** Shareholders of the Company | 9 | **311,705** | 50,112 |
| Minority interests | | **10,510** | 1,498 |
| | | **322,215** | 51,610 |
| **Earnings per share for profit attributable to shareholders of the Company** | 10 | | |
| – Basic | | **HK4.37 cents** | HK0.75 cents |
| – Diluted | | **HK3.60 cents** | HK0.75 cents |
| **Dividend** | 11 | **196,888** | 40,230 |

# CONSOLIDATED BALANCE SHEET

*At 31 December 2007*

| | Note | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 15 | **362,563** | 342,040 |
| Licence rights | 16 | **55,114** | 55,114 |
| Property, plant and equipment | 17 | **137,603** | 192,229 |
| Investment properties | 18 | **3,785,324** | 3,425,420 |
| Leasehold land and land use rights | 19 | **16,237** | 29,132 |
| Investment in an associated company | 21 | **3,153** | 3,328 |
| Loans receivable | 22 | **–** | 3,879 |
| Deferred tax assets | 30 | **17,935** | 30,255 |
| | | **4,377,929** | 4,081,397 |
| **Current assets** | | | |
| Inventories | 23 | **258,101** | 297,056 |
| Trade receivables | 24 | **372,395** | 426,281 |
| Deposits, prepayments and other receivables | 25 | **126,220** | 121,142 |
| Loans receivable due within one year | 22 | **3,879** | 2,514 |
| Tax recoverable | | **4,338** | 11,701 |
| Available-for-sale financial assets | 26 | **11,288** | 223,099 |
| Cash and bank deposits | 27 | **1,068,118** | 717,764 |
| | | **1,844,339** | 1,799,557 |
| **Current liabilities** | | | |
| Trade payables | 28 | **234,922** | 314,018 |
| Other creditors and accruals | 29 | **506,907** | 501,257 |
| Tax payables | | **91,425** | 77,899 |
| | | **833,254** | 893,174 |
| **Net current assets** | | **1,011,085** | 906,383 |
| **Total assets less current liabilities** | | **5,389,014** | 4,987,780 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 30 | **660,469** | 720,599 |
| Other non-current financial liabilities | 31 | **69,281** | 69,101 |
| Convertible note | 32 | **–** | 899,955 |
| **Net assets** | | **4,659,264** | 3,298,125 |

# CONSOLIDATED BALANCE SHEET

*At 31 December 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 33 | **894,944** | 670,500 |
| Reserves | | **3,640,464** | 2,522,853 |
| Capital and reserves attributable to the shareholders of the Company | | **4,535,408** | 3,193,353 |
| Minority interests | | **123,856** | 104,772 |
| **Total equity** | | **4,659,264** | 3,298,125 |

**Chan Wen Mee, May (Michelle)**
*Managing Director*

**Kwok Siu Kai, Dennis**
*Director*

# BALANCE SHEET

*At 31 December 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 20 | **659,099** | 659,099 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | **3,481,565** | 3,273,333 |
| Deposits, prepayments and other receivables | | **807** | 839 |
| Cash and bank deposits | 27 | **18,626** | 58,421 |
| | | **3,500,998** | 3,332,593 |
| **Current liabilities** | | | |
| Other creditors and accruals | | **15,616** | 14,562 |
| Amounts due to subsidiaries | | **55,327** | 82,648 |
| | | **70,943** | 97,210 |
| **Net current assets** | | **3,430,055** | 3,235,383 |
| **Total assets less current liabilities** | | **4,089,154** | 3,894,482 |
| **Non-current liabilities** | | | |
| Convertible note | 32 | **–** | 899,955 |
| **Net assets** | | **4,089,154** | 2,994,527 |
| **Equity** | | | |
| Share capital | 33 | **894,944** | 670,500 |
| Reserves | 35 | **3,194,210** | 2,324,027 |
| **Total equity** | | **4,089,154** | 2,994,527 |

**Chan Wen Mee, May (Michelle)**
*Managing Director*

**Kwok Siu Kai, Dennis**
*Director*

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operating activities before finance costs, tax paid and changes in working capital | 36(a) | **135,116** | 70,148 |
| Interest received | | **27,753** | 36,516 |
| Income tax paid – Hong Kong | | **(2,939)** | (9,049) |
| Income tax refund – Hong Kong | | **7,059** | – |
| Income tax paid – outside Hong Kong | | **(53,808)** | (51,534) |
| **Funds from operations** | | **113,181** | 46,081 |
| Changes in working capital | 36(b) | **45,003** | 92,874 |
| **Net cash from operating activities** | | **158,184** | 138,955 |
| **Investing activities** | | | |
| Net cash inflow on disposal of subsidiaries | 36(c) | **7,768** | 8,209 |
| Purchase of property, plant and equipment | | **(27,838)** | (53,321) |
| Proceeds on disposal of investment properties | | **14,984** | – |
| Proceeds on disposal of leasehold land and land use rights | | **25,529** | 47,964 |
| Proceeds on disposal of property, plant and equipment | | **17,087** | 10,991 |
| Proceeds on disposal of available-for-sale financial assets | | **–** | 43,063 |
| Proceeds on maturity of available-for-sale financial assets | | **209,371** | 271,408 |
| Dividend received from an associated company | | **1,772** | – |
| Addition of licence rights | | **–** | (2,400) |
| **Net cash from investing activities** | | **248,673** | 325,914 |
| **Financing activities** | | | |
| Dividend paid | | **(40,230)** | (147,510) |
| New bank loan | | **–** | 30,000 |
| Repayment of bank loans | | **–** | (271,800) |
| Interest paid on convertible note | | **(16,273)** | (20,081) |
| Interest paid on bank loans | | **–** | (10,158) |
| **Net cash used in financing activities** | | **(56,503)** | (419,549) |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31 December 2007*

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Increase in cash and cash equivalents** | **350,354** | 45,320 |
| **Cash and cash equivalents at 1 January** | **717,764** | 672,444 |
| **Cash and cash equivalents at 31 December** | **1,068,118** | 717,764 |
| **Analysis of cash, cash equivalents and listed investments** | | |
| Deposits with banks with maturity of less than three months | **583,908** | 368,990 |
| Cash at banks and on hand | **484,210** | 348,774 |
| Cash and cash equivalents | **1,068,118** | 717,764 |
| Available-for-sale financial assets, listed investments | **11,288** | 223,099 |
| **Total cash, cash equivalents and listed investments** | **1,079,406** | 940,863 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2007*

| | Attributable to shareholders of the Company | | | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | 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$'000 | HK$'000 | HK$'000 |
| At 1 January 2007 | 670,500 | 1,813,437 | 144,801 | 123,975 | 22,425 | 418,215 | 3,193,353 | 104,772 | 3,298,125 |
| Exchange translation differences | | | 194,820 | - | - | - | 194,820 | 8,574 | 203,394 |
| Change in fair value of available-for-sale financial assets | | | - | - | (2,440) | - | (2,440) | - | (2,440) |
| Reserve realised upon maturity of available-for-sale financial assets | | | - | - | 4,992 | - | 4,992 | - | 4,992 |
| Net income recognised directly in equity | | | 194,820 | - | 2,552 | - | 197,372 | 8,574 | 205,946 |
| Profit for the year | - | - | - | - | - | 311,705 | 311,705 | 10,510 | 322,215 |
| Employee share option benefits | - | - | - | - | 3,506 | - | 3,506 | - | 3,506 |
| Issue of shares (Notes 32 and 33) | 224,444 | 785,556 | - | - | - | - | 1,010,000 | - | 1,010,000 |
| Share issuance costs | - | - | - | - | - | (2,000) | (2,000) | - | (2,000) |
| Early redemption of convertible note (Note 32) | - | - | - | (123,975) | - | (14,323) | (138,298) | - | (138,298) |
| Transfer between reserves | - | - | - | - | 18,165 | (18,165) | - | - | - |
| 2006 final dividend paid | - | - | - | - | - | (40,230) | (40,230) | - | (40,230) |
| At 31 December 2007 | 894,944 | 2,598,993 | 339,621 | - | 46,648 | 655,202 | 4,535,408 | 123,856 | 4,659,264 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2007*

| | Attributable to shareholders of the Company | | | | | | | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | 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$'000 | HK$'000 | 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 | | | 130,336 | – | (269) | – | 130,067 | 6,671 | 136,738 |
| Change in fair value of available-for-sale financial assets | | | – | – | 20,932 | – | 20,932 | – | 20,932 |
| Reserve realised upon disposal of available-for-sale financial assets | | | – | – | (9,559) | – | (9,559) | – | (9,559) |
| Relating to subsidiaries disposed of | | | (287) | – | – | – | (287) | (673) | (960) |
| Net income recognised directly in equity | | | 130,049 | – | 11,104 | – | 141,153 | 5,998 | 147,151 |
| Profit for the year | – | – | – | – | – | 50,112 | 50,112 | 1,498 | 51,610 |
| Employee share option benefits | – | – | – | – | 3,608 | – | 3,608 | – | 3,608 |
| Transfer between reserves | – | – | – | – | (910) | 910 | – | – | – |
| 2005 final dividend paid | – | – | – | – | – | (147,510) | (147,510) | – | (147,510) |
| At 31 December 2006 | 670,500 | 1,813,437 | 144,801 | 123,975 | 22,425 | 418,215 | 3,193,353 | 104,772 | 3,298,125 |

*Notes:*

*Other reserves comprise investment revaluation reserve, share-based compensation reserve, capital redemption reserve, legal reserve and the People's Republic of China ("PRC") statutory reserve. At 31 December 2007, investment revaluation reserve surplus amounted to HK$11,288,000 (1 January 2007: HK$8,736,000 and 1 January 2006: deficit HK$2,368,000), share-based compensation reserve amounted to HK$12,085,000 (1 January 2007: HK$9,638,000 and 1 January 2006: HK$7,016,000), capital redemption reserve of HK$3,558,000 (1 January 2007 and 1 January 2006: HK$3,558,000), legal reserve of HK$493,000 (1 January 2007: HK$493,000 and 1 January 2006: HK$417,000) being set aside for a subsidiary incorporated in Macau and PRC statutory reserve of HK$19,224,000 (1 January 2007 and 1 January 2006: Nil) being set aside as required under the regulations for subsidiaries incorporated in the PRC.*

# NOTES TO THE ACCOUNTS

## 1 GENERAL INFORMATION

Hutchison Harbour Ring Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in toy manufacturing, property investment, provision of integrated solutions of design and distribution of mobile phone accessories and other high-end electronic products as well as licensing and sourcing of consumer products. The Group has manufacturing plants in the Mainland China and its products are mainly sold to the United States and Europe. The Group also has property investment in the Mainland China and earns rental income.

The Company is a limited liability company incorporated in Bermuda and the shares of which are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). These accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties and certain financial instruments, which are carried at fair value, as explained in the significant accounting policies set out below.

**(a) Basis of consolidation**

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. The acquisition of subsidiaries is accounted for using the purchase method of accounting.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (b) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

### (c) Associated companies

Associated companies are all entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associated companies' post-acquisition profits and losses are recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in associated companies equal or exceed its interests in associated companies, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated companies.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interests in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Foreign currency translation

*(i) Functional and presentation currency*

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

*(iii) Group's entities*

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss account are translated at average exchange rates; and
- all resulting exchange differences are recognised in exchange reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment, and motor vehicles. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised and charged to the profit and loss account. All repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost less accumulated impairment losses over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 21 to 50 years |
| Leasehold improvements | 3 to 10 years or over the term of the relevant leases, whichever is shorter |
| Plant and machinery | 5 to 10 years |
| Furniture, fixtures and equipment | 5 to 10 years |
| Motor vehicles | 5 years |

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Investment properties

Investment properties are interests in land held under operating leases and buildings in respect of which construction work and development have been completed and which are held for their investment potential. Investment properties are measured initially at cost and are subsequently carried in the balance sheet at fair value determined annually by independent professional valuers at the balance sheet date, and are not depreciated. Changes in fair values are recognised in the profit and loss account.

### (g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses at the balance sheet date as a separate asset and is tested annually for impairment.

### (h) Licence rights

Licence rights comprise of the upfront payments made for acquiring licence on branded goods plus the capitalised present value of fixed periodic payments to be made in subsequent years.

The licences are amortised on a straight-line basis from the date of first commercial usage over the remaining licence periods.

### (i) Investments in securities

The Group classifies its investments in securities in the following categories: available-for-sale financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Investments in securities (Continued)

*(i) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories. Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Changes in fair value are recognised in the investment revaluation reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

The fair values of quoted investments are based on closing bid prices at the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. They arise when the Group provides money or services directly to a debtor or a related company with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Such impairment loss is recognised in the profit and loss account.

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

### (l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy of financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is recognised in the profit and loss account.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### (n) Borrowings

*(i) Borrowings other than convertible note*

Borrowings are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised costs. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

*(ii) Convertible note*

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion, maturity or redemption of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects, if any.

### (o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (including up-front prepayments made for the leasehold land and land use rights) net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

### (s) Finance costs

Finance costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other finance costs are charged to the profit and loss account in the year incurred.

### (t) Employee benefits

(i) Salaries, bonuses, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) The Group operates two defined contribution schemes for Hong Kong employees, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the PRC government. Contributions to these plans are expensed as incurred.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (u) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become vested. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit and loss account and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### (v) Revenue recognition

*(i) Sale of goods*

Revenue is recognised when goods are delivered to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

*(ii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the year in which they are earned.

*(iii) Licensing commission income*

Licensing commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the principal amounts outstanding and the interest rates applicable.

### (x) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (y) Dividend distribution

Dividend distribution of the final dividend to the Group's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group has adopted all of the new and revised HKFRSs and Interpretations that are effective on annual periods beginning on or after 1 January 2007. There have been no significant changes to the accounting policies applied in the accounts except for the adoption of HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures'. There have been some additional disclosures as set out in Notes 3(a), 3(b) and 24 to the accounts.

At the date of authorisation of these accounts, the following new/revised standards, amendments and interpretations were in issue but not yet effective:

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) |
| HKAS 23 (Revised) | Borrowing Costs (effective for annual periods beginning on or after 1 January 2009) |
| HKFRS 8 | Operating Segments (effective for annual periods beginning on or after 1 January 2009) |
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007) |
| HK(IFRIC) – Int 12 | Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008) |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008) |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008) |

The Group has carried out an assessment of the impact of the new standards, amendments and interpretations to existing standards which have been issued but are not yet effective and have not been early adopted by the Group. The adoption of these new standards, amendments and interpretations is not expected to result in substantial changes to the Group's accounting policies.

## 3 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. Risk management is carried out by senior management of the Group under policies approved by the board of directors of the Company.

*(i) Market risk*

*Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to US dollar, Hong Kong dollar and Renminbi. Revenue and majority of its operating costs and cost of sales are in US dollar, Hong Kong dollar and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group has not entered into any derivative instruments to hedge the foreign exchange exposures.

At 31 December 2007, if Hong Kong dollar had weakened/strengthened by 2% against the US dollar with all other variables held constant, profit for the year would have been HK$10,032,000 (2006: HK$8,114,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and cash and cash equivalents, and exchange losses/gains on translation of US dollar-denominated financial liabilities. Profit is more sensitive to movement in Hong Kong dollar/US dollar exchange rates in 2007 than 2006 because of the increased amount of US dollar denominated assets. The Group considers the risk of movements in exchange rates between the Hong Kong dollar and the US dollar to be insignificant due to the Hong Kong dollar and the US dollar are pegged. There is no impact on equity.

At 31 December 2007, if Hong Kong dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit for the year would have been HK$588,000 (2006: HK$1,482,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated trade receivables, and exchange losses/gains on translation of Renminbi-denominated trade payables. Profit is less sensitive to movement in Hong Kong dollar/Renminbi exchange rates in 2007 than 2006 because of the reduced amount of Renminbi denominated liabilities.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (a) Financial risk factors (Continued)

*(i) Market risk (Continued)*

*Price risk*

As the Group purchases plastics, a by-product of crude oil, in its manufacturing process at market prices, it is exposed to fluctuation in these prices. The Group does not use any derivative instruments to reduce its economic exposure to changes in the price of crude oil.

The Group has available-for-sale financial assets which are exposed to equity securities price risk. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale.

*Interest rate risk*

The Group has no significant interest-bearing assets except for cash and bank deposits, loans receivable and listed debt securities, the income and operating cash flows of which are substantially independent of changes in market interest rates.

The interest rate risk arises from convertible note, loans from minority shareholders and bank loans. Convertible note and loans from minority shareholders were issued at fixed rates and exposed the Group to fair value interest rate risk. The short-term bank loans are interest bearing at floating rates and are repayable on demand and exposed the Group to cash flow interest rate risk.

At 31 December 2007, if interest rates on cash and bank deposits had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been HK$10,748,000 (2006: HK$7,249,000) higher/lower, mainly as a result of higher/lower interest income on floating rate deposits; there will be no impact on other components of equity (2006: HK$167,000 lower/higher), as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (a) Financial risk factors (Continued)

*(ii) Credit risk*

Sales to each of the three (2006: three) of the Group's major customers exceed 10% of the total revenue. The aggregate sales to the five largest customers represent 54.0% (2006: 56.3%) of total revenue.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the accounts. Rental deposits are required from tenants prior to the commencement of leases.

At 31 December 2007, the three highest trade receivables amounted to the total of HK$198,370,000 (2006: HK$212,757,000), and the total credit limit granted to these three customers was HK$234,000,000 (2006: HK$234,000,000).

There is no significant credit risk in relation to the Group's cash and cash equivalents as cash and bank deposits are placed with reputable banks and financial institutions with good credit ratings.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets.

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (a) Financial risk factors (Continued)

*(iii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Non-contractual payment | | Contractual payment | | | |
|---|---|---|---|---|---|---|
| | Less than 1 year HK$'000 | Over 5 years HK$'000 | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 |
| **At 31 December 2007** | | | | | | |
| **Trade payables** | **–** | **–** | **234,922** | **–** | **–** | **–** |
| **Other creditors and accruals** | **378,954** | **–** | **127,953** | **–** | **–** | **–** |
| **Other non-current financial liabilities** | **–** | **39,785** | **–** | **11,700** | **15,600** | **7,800** |
| At 31 December 2006 | | | | | | |
| Trade payables | – | – | 314,018 | – | – | – |
| Convertible note | – | – | – | – | 999,960 | – |
| Other creditors and accruals | 361,265 | – | 139,992 | – | – | – |
| Other non-current financial liabilities | – | 39,605 | – | – | 27,300 | 7,800 |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as "total borrowings", as shown in the consolidated balance sheet, including the loan from minority shareholders. Total capital is calculated as "equity", as shown in the consolidated balance sheet.

The Group's strategy was to maintain a low gearing ratio. During the year, the Group has redeemed the convertible note by issuing shares to reduce the gearing ratio. The gearing ratios at 31 December 2007 and 2006 were as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Convertible note | **–** | 899,955 |
| Loan from minority shareholders – interest bearing | **39,785** | 39,605 |
| Loan from minority shareholders – interest free | **7,934** | 7,485 |
| Total debt | **47,719** | 947,045 |
| Total equity | **4,659,264** | 3,298,125 |
| Gearing ratio | **1.0%** | 28.7% |

## 3 FINANCIAL RISK MANAGEMENT (Continued)

### (c) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the closing bid price at the balance sheet date; the appropriate quoted market price for financial liabilities is the closing ask price at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 2 to the accounts includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgments to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgments on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgments under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

### (a) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (b) Estimated fair value of investment properties

The fair value of each investment property individually is determined at each balance sheet date by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

### (c) Estimated impairment of non-current assets

The Group tests annually whether tangible and intangible assets not subject to amortisation have suffered any impairment. For the purposes of impairment tests, the recoverable amounts of cash-generating units are determined based on value-in-use calculations. The value in use calculations primarily use cash flow projections based on five year financial budgets approved by management and estimated terminal value at the end of the five year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, growth rates and selection of discount rates and the earnings multiple that can be realised for the estimated terminal value. Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. The discount rates for the test were based on country specific pre-tax risk adjusted discount rate and ranged from 10% to 15%. Judgement is required to determine key assumptions adopted in cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

### (d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

### (e) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgment is required. In making this judgment, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

## 5 TURNOVER, REVENUE AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 43(a) to the accounts.

Turnover comprises revenue from 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 year is as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Sales of goods | **2,374,427** | 2,296,717 |
| Rental and service income from investment properties | **326,761** | 279,210 |
| Licensing commission and other income | **8,551** | 11,881 |
| Total revenues | **2,709,739** | 2,587,808 |

Segment information is presented in respect of the Group's business and geographical segments. Each business or geographical segment is subject to risks and returns that are different from the others. Business segment information is chosen as the primary reporting format. The Group's core business segments are technology division, toy 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. An analysis by principal business and geographical location of the divisions of the Group is set out on pages 82 to 85.

Earnings before interest expense and tax are presented as segment result in respect of the Group's business and geographical segments as the directors consider that this can be better reflect the performance of each division.

## 5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

**Primary segment information by business:**

| | Year ended 31 December 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Technology division HK$'000 | Toy division HK$'000 | Licensing and sourcing division HK$'000 | Property division HK$'000 | Unallocated HK$'000 | Elimination HK$'000 | Group HK$'000 |
| Revenue | | | | | | | |
| Company and subsidiaries | | | | | | | |
| – External sales | 810,477 | 1,510,227 | 62,274 | 326,761 | – | – | 2,709,739 |
| – Inter-segment sales | 1,299 | 3,217 | 217 | 513 | – | (5,246) | – |
| | 811,776 | 1,513,444 | 62,491 | 327,274 | – | (5,246) | 2,709,739 |
| Segment results before changes in fair value of investment properties and profits on disposal of investments and others | | | | | | | |
| Company and subsidiaries | 54,057 | (59,652) | (26,958) | 255,132 | (73,179) | 171 | 149,571 |
| Share of an associated company | – | 1,286 | – | – | – | – | 1,286 |
| | 54,057 | (58,366) | (26,958) | 255,132 | (73,179) | 171 | 150,857 |
| Changes in fair value of investment properties | – | – | – | 168,507 | – | – | 168,507 |
| Profits/(losses) on disposal of investments and others | – | (1,908) | – | – | 11,666 | – | 9,758 |
| Earnings/(losses) before interest expense and tax | 54,057 | (60,274) | (26,958) | 423,639 | (61,513) | 171 | 329,122 |
| Finance costs | | | | | | | (39,320) |
| Tax credit | | | | | | | 32,413 |
| Profit for the year | | | | | | | 322,215 |
| Segment assets | 340,355 | 846,982 | 123,159 | 4,829,541 | – | | 6,140,037 |
| Investment in an associated company | – | 3,153 | – | – | – | | 3,153 |
| Tax recoverable | 18 | 4,205 | 115 | – | – | | 4,338 |
| Deferred tax assets | 4,262 | 13,673 | – | – | – | | 17,935 |
| Unallocated assets | – | – | – | – | 56,805 | | 56,805 |
| Total assets | | | | | | | 6,222,268 |
| Segment liabilities | 110,206 | 281,441 | 39,349 | 244,657 | – | | 675,653 |
| Loans from minority shareholders | – | 7,934 | – | 39,785 | – | | 47,719 |
| Tax payable | 2 | 1,447 | 119 | 89,857 | – | | 91,425 |
| Deferred tax liabilities | 270 | 21,818 | 3 | 638,378 | – | | 660,469 |
| Unallocated liabilities | – | – | – | – | 87,738 | | 87,738 |
| Total liabilities | | | | | | | 1,563,004 |
| Capital expenditure | (10,736) | (15,893) | (491) | (718) | – | | (27,838) |
| Depreciation of property, plant and equipment | (12,564) | (29,801) | (1,987) | (929) | – | | (45,281) |
| Amortisation of leasehold land and land use rights | – | (1,236) | – | (125) | – | | (1,361) |
| Impairment provision | – | (15,000) | – | – | – | | (15,000) |

## 5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

| | Year ended 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Technology division HK$'000 | Toy division HK$'000 | Licensing and sourcing division HK$'000 | Property division HK$'000 | Unallocated HK$'000 | Elimination HK$'000 | Group HK$'000 |
| Revenue | | | | | | | |
| Company and subsidiaries | | | | | | | |
| – External sales | 484,934 | 1,721,424 | 102,240 | 279,210 | – | – | 2,587,808 |
| – Inter-segment sales | 3,272 | 13,083 | 945 | 397 | – | (17,697) | – |
| | 488,206 | 1,734,507 | 103,185 | 279,607 | – | (17,697) | 2,587,808 |
| Segment results before changes in fair value of investment properties and profits on disposal of investments and others | | | | | | | |
| Company and subsidiaries | (74,945) | (27,949) | (10,295) | 226,530 | (54,584) | (377) | 58,380 |
| Share of an associated company | – | (3,299) | – | – | – | – | (3,299) |
| | (74,945) | (31,248) | (10,295) | 226,530 | (54,584) | (377) | 55,081 |
| Changes in fair value of investment properties | – | 3,020 | – | 96,014 | – | – | 99,034 |
| Profits on disposal of investments and others | – | 23,208 | – | – | 35,654 | – | 58,862 |
| Earnings/(losses) before interest expense and tax | (74,945) | (5,020) | (10,295) | 322,544 | (18,930) | (377) | 212,977 |
| Finance costs | | | | | | | (55,658) |
| Tax charge | | | | | | | (105,709) |
| Profit for the year | | | | | | | 51,610 |
| Segment assets | 294,495 | 823,925 | 130,251 | 4,272,092 | – | | 5,520,763 |
| Investment in an associated company | – | 3,328 | – | – | – | | 3,328 |
| Tax recoverable | 6,904 | 4,588 | 209 | – | – | | 11,701 |
| Deferred tax assets | 11,751 | 12,151 | 6,353 | – | – | | 30,255 |
| Unallocated assets | – | – | – | – | 314,907 | | 314,907 |
| Total assets | | | | | | | 5,880,954 |
| Segment liabilities | 105,245 | 352,071 | 68,513 | 263,884 | – | | 789,713 |
| Loans from minority shareholders | – | 7,485 | – | 39,605 | – | | 47,090 |
| Tax payable | – | 1,367 | 542 | 75,990 | – | | 77,899 |
| Deferred tax liabilities | – | 14,389 | 385 | 705,825 | – | | 720,599 |
| Unallocated liabilities | – | – | – | – | 947,528 | | 947,528 |
| Total liabilities | | | | | | | 2,582,829 |
| Capital expenditure | (8,351) | (35,512) | (63,437) | (1,135) | – | | (108,435) |
| Depreciation of property, plant and equipment | (9,892) | (30,349) | (1,759) | (723) | – | | (42,723) |
| Amortisation of leasehold land and land use rights | – | (575) | – | (103) | – | | (678) |

## 5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

**Secondary segment information by geographical location:**

In presenting information of geographical segments, segment revenue is based on the geographical destination of delivery of goods. Segment assets and capital expenditure are based on the geographical location of the assets.

| | Year ended 31 December 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | United States HK$'000 | Europe HK$'000 | Mainland China HK$'000 | Hong Kong HK$'000 | Other regions HK$'000 | Unallocated HK$'000 | Total HK$'000 |
| Revenue | 1,215,852 | 377,579 | 414,650 | 130,491 | 571,167 | - | 2,709,739 |
| Segment results before change in fair value of investment properties and profits on disposal of investments and others | | | | | | | |
| Company and subsidiaries | 3,704 | (19,677) | 279,400 | (15,712) | (24,965) | (73,179) | 149,571 |
| Share of an associated company | - | - | 1,286 | - | - | - | 1,286 |
| | 3,704 | (19,677) | 280,686 | (15,712) | (24,965) | (73,179) | 150,857 |
| Change in fair value of investment properties | - | - | 168,487 | 20 | - | - | 168,507 |
| Profits/(losses) on disposal of investments and others | - | - | (25,947) | 24,039 | - | 11,666 | 9,758 |
| Earnings/(losses) before interest expense and tax | 3,704 | (19,677) | 423,226 | 8,347 | (24,965) | (61,513) | 329,122 |
| Segment assets | 386,678 | 19,009 | 5,296,132 | 387,246 | 50,972 | - | 6,140,037 |
| Investment in an associated company | - | - | 3,153 | - | - | - | 3,153 |
| Tax recoverable | - | 18 | 186 | 4,134 | - | - | 4,338 |
| Deferred tax assets | - | 81 | 4,413 | 13,441 | - | - | 17,935 |
| Unallocated assets | - | - | - | - | - | 56,805 | 56,805 |
| Total assets | 386,678 | 19,108 | 5,303,884 | 404,821 | 50,972 | 56,805 | 6,222,268 |
| Capital expenditure | - | - | 25,626 | 2,212 | - | - | 27,838 |

## 5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

| | Year ended 31 December 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | United States HK$'000 | Europe HK$'000 | Mainland China HK$'000 | Hong Kong HK$'000 | Other regions HK$'000 | Unallocated HK$'000 | Total HK$'000 |
| Revenue | 1,102,341 | 497,602 | 359,837 | 131,301 | 496,727 | – | 2,587,808 |
| Segment results before change in fair value of investment properties and profits on disposal of investments and others | | | | | | | |
| Company and subsidiaries | (23,045) | (46,081) | 214,462 | 11,963 | (44,335) | (54,584) | 58,380 |
| Share of an associated company | – | – | (3,299) | – | – | – | (3,299) |
| | (23,045) | (46,081) | 211,163 | 11,963 | (44,335) | (54,584) | 55,081 |
| Change in fair value of investment properties | – | – | 95,414 | 3,620 | – | – | 99,034 |
| Profits/(losses) on disposal of investments and others | – | – | 823 | 22,441 | (56) | 35,654 | 58,862 |
| Earnings/(losses) before interest expense and tax | (23,045) | (46,081) | 307,400 | 38,024 | (44,391) | (18,930) | 212,977 |
| Segment assets | 123,868 | 52,306 | 4,811,662 | 447,071 | 85,856 | – | 5,520,763 |
| Investment in an associated company | – | – | 3,328 | – | – | – | 3,328 |
| Tax recoverable | – | 70 | 1,332 | 10,299 | – | – | 11,701 |
| Deferred tax assets | – | – | 12,458 | 17,797 | – | – | 30,255 |
| Unallocated assets | – | – | – | – | – | 314,907 | 314,907 |
| Total assets | 123,868 | 52,376 | 4,828,780 | 475,167 | 85,856 | 314,907 | 5,880,954 |
| Capital expenditure | – | 498 | 36,329 | 71,608 | – | – | 108,435 |

## 6 OPERATING PROFIT

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Operating profit is stated after crediting and charging the following: | | |
| Crediting | | |
| Rental from investment properties less outgoings of HK$32,512,000 (2006: HK$28,562,000) | **247,759** | 211,035 |
| Increase in fair value of investment properties (Note 18) | **168,507** | 99,034 |
| Gain on disposal of investment properties, leasehold land and buildings | **24,039** | 22,441 |
| Gain on disposal of property, plant and equipment | **–** | 1,851 |
| Gain on redemption of convertible note | **57,620** | – |
| Gain on disposal of available-for-sale financial assets | **–** | 43,063 |
| Gain on disposal of subsidiaries | **–** | 767 |
| Net exchange gains | **–** | 12,230 |
| Charging | | |
| Cost of inventories | **1,795,221** | 1,731,457 |
| Staff costs (Note 12) | **537,194** | 544,453 |
| Depreciation of property, plant and equipment (Note 17) | **45,281** | 42,723 |
| Impairment loss on property, plant and equipment (Note 17) | **15,000** | – |
| Amortisation of leasehold land and land use rights (Note 19) | **1,361** | 678 |
| Loss on disposal of plant and equipment | **6,174** | – |
| Loss on maturity of available-for-sale financial assets | **4,992** | 7,409 |
| Loss on disposal of subsidiaries | **5,302** | – |
| Operating lease charges in respect of properties | **40,616** | 48,779 |
| Auditor's remuneration | | |
| – Audit and audit related work | | |
| PricewaterhouseCoopers | | |
| Current year | **3,906** | 2,826 |
| Underprovision in prior years | **1,024** | 484 |
| Other auditors | **317** | 350 |
| – Non audit work | | |
| PricewaterhouseCoopers | **35** | 23 |
| Provision for bad debts (Note 24) | **5,930** | 5,270 |
| Net exchange losses | **1,935** | – |

## 7 FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on bank overdrafts | – | 147 |
| Interest on bank loans (wholly repayable within one year) | – | 10,011 |
| Interest on loans from minority shareholders (not wholly repayable within five years) | 1,197 | 1,183 |
| Interest on convertible note | | |
| – Cash portion | 16,273 | 19,999 |
| – Notional non-cash interest accretion | 19,327 | 22,739 |
| Interest accretion on licence fees payable | 2,523 | 1,579 |
| | 39,320 | 55,658 |

## 8 TAX (CREDIT)/CHARGE

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Current tax | | |
| – Hong Kong | 1,597 | 1,378 |
| – Outside Hong Kong | 51,616 | 53,061 |
| Deferred tax (credit)/charge (Note 30) | (85,626) | 51,270 |
| | (32,413) | 105,709 |

**PRC Enterprise Income Tax:**

The Group's subsidiaries in the Mainland China were subject to Enterprise Income Tax of Mainland China ("PRC Enterprise Income Tax") at rates range from 15% to 33% for 2007 (2006: 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. Up to 31 December 2007, these subsidiaries enjoyed a preferential income tax rate of 15% and were also exempted from PRC Enterprise Income Tax in the first two profit-making years followed by a 50% reduction in the PRC Enterprise Income Tax for the next three years thereafter.

## 8 TAX (CREDIT)/CHARGE (Continued)

**PRC Enterprise Income Tax (Continued):**

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 will be gradually changed to the standard rate of 25% over a five-year transition period. According to the Circular 39 passed by the State Council on 26 December 2007, the tax exemption and reduction will be terminated latest by 2012. The Group has assessed the impact of the change and consider the financial effect on the change in tax rate does not have material effect to the accounts.

The Group's other property operating subsidiaries in the Mainland China were subject to PRC Enterprise Income Tax at a rate of 33% (2006: 33%). As a result of the New Tax Law, the income tax rate applicable to these subsidiaries is 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 31 December 2007 in respect of these subsidiaries. The change in the PRC 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 year.

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.

## 8 TAX (CREDIT)/CHARGE (Continued)

**Hong Kong Profits Tax (Continued):**

The differences between the Group's expected tax charges calculated at the domestic rates and the Group's tax (credit)/charge for the years are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Profit before tax | 289,802 | 157,319 |
| Tax calculated at the domestic rates applicable to the profits in the countries concerned | 91,753 | 65,390 |
| Income not subject to tax | (19,740) | (14,400) |
| Expenses not deductible for tax purposes | 50,846 | 43,964 |
| Utilisation of previously unrecognised tax losses | (462) | (899) |
| Tax losses not recognised | 1,868 | 15,989 |
| Deferred tax assets written off | 12,838 | – |
| Other temporary differences | 2,011 | (188) |
| Under/(over) provision in prior years | 1,045 | (4,147) |
| Effect of change in tax rate | (172,572) | – |
| Total tax (credit)/charge | (32,413) | 105,709 |

The weighted average applicable tax rate was 31.7% (2006: 41.6%). The decrease is mainly caused by the recognition of a non-taxable gain on early redemption of convertible note (Note 32).

## 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$261,649,000 (2006: HK$213,388,000).

## 10 EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of the Company of HK$311,705,000 (2006: HK$50,112,000) and the weighted average number of ordinary shares in issue during the year of 7,129,292,500 (2006: 6,705,000,263).

(b) The diluted earnings per share for the year ended 31 December 2007 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible note at 1 January 2007 to 8,040,445,832; and the adjusted profit attributable to shareholders of the Company of HK$289,685,000, being the profit attributable to the shareholders of the Company of HK$311,705,000 adjusted to eliminate the interest expense of HK$35,600,000 and the gain on redemption of the convertible note of HK$57,620,000. The number of ordinary shares that would have been issued under the share option scheme was not included as they are anti-dilutive for the periods presented. No diluted earnings per share for the year ended 31 December 2006 was presented as it was anti-dilutive.

## 11 DIVIDEND

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Final dividend proposed – HK2.2 cents per ordinary share (2006: HK0.6 cents) | **196,888** | 40,230 |

At a meeting held on 6 March 2008 the directors declared a final dividend of HK2.2 cents per ordinary share. The amount of proposed final dividend for 2007 is based on 8,949,444,707 shares issued at 31 December 2007. This proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained profits for the year ending 31 December 2008.

The amount of proposed final dividend for 2006 was based on 6,705,000,263 shares issued at 31 December 2006 and the amount paid of HK$40,230,000 was based on 6,705,000,263 shares issued and recorded on the Register of Members of the Company on 3 May 2007.

## 12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Wages and salaries | **472,683** | 477,973 |
| Other allowances and benefits | **56,152** | 54,772 |
| Pension costs | **4,853** | 8,100 |
| Employee share option benefits | **3,506** | 3,608 |
| | **537,194** | 544,453 |

## 13 RETIREMENT BENEFITS SCHEMES

The Group has the following defined contribution schemes for all qualified employees.

(a) Hong Kong employees who commenced employment before 1 September 2000 and qualified employees from operations outside Hong Kong are members of the first defined contribution scheme. The assets of the first defined contribution scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employers and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employers' contributions and accrued interest after 10 years' service, or at an increasing scale of between 20% to 90% after completion of 2 to 9 years' service.

When there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, the forfeited employers' contributions arising from members terminating employment before becoming fully vested are allocated to the benefit of the remaining members instead of being used to reduce the future contributions of the employers.

(b) All qualified Hong Kong employees who commenced employment on or after 1 September 2000 are members of the second defined contribution scheme which has been set up in accordance with the guidelines of Mandatory Provident Fund Schemes Ordinance. Both the employers and employees contribute 5% of relevant income (limited to HK$1,000) to the scheme each month. The assets of the second defined contribution scheme are held separately from those of the Group in funds under the control of trustees.

(c) The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

## 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

Directors' emoluments comprise payments to directors of the Company by the Group in connection with the management of the affairs of the Group. The emoluments of the directors of the Company are as follows:

| Name of director | Directors' fees HK$'000 | Basic salaries, allowances and benefits-in-kind HK$'000 | Discretionary bonuses HK$'000 | Provident fund contributions HK$'000 | Employee share option benefits HK$'000 | 2007 Total emoluments HK$'000 |
|---|---|---|---|---|---|---|
| Fok Kin-ning, Canning (1) | 90 | – | – | – | – | 90 |
| Lai Kai Ming, Dominic | 70 | – | – | – | – | 70 |
| Luk Tei, Lewis | 70 | 1,531 | 300 | 66 | 385 | 2,352 |
| Chan Wen Mee, May (Michelle) | 70 | 1,830 | 2,000 | 133 | 462 | 4,495 |
| Chow Woo Mo Fong, Susan | 70 | – | – | – | – | 70 |
| Chow Wai Kam, Raymond | 70 | – | – | – | – | 70 |
| Edith Shih | 70 | – | – | – | – | 70 |
| Endo Shigeru | 70 | – | – | – | 192 | 262 |
| Kwok Siu Kai, Dennis | 70 | 1,802 | 1,000 | 77 | 308 | 3,257 |
| Ronald Joseph Arculli (2) | 140 | – | – | – | – | 140 |
| Kwan Kai Cheong (1) (2) (3) | 160 | – | – | – | – | 160 |
| Lam Lee G. (1) (2) (3) | 160 | – | – | – | – | 160 |
| Lan Hong Tsung, David (3) | 70 | – | – | – | – | 70 |
| Total – 2007 | 1,180 | 5,163 | 3,300 | 276 | 1,347 | 11,266 |

*Notes:*

*(1) Members of the Remuneration Committee*

*(2) Members of the Audit Committee*

*(3) Independent Non-executive Directors*

## 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

| Name of director | Directors' fees HK$'000 | Basic salaries, allowances and benefits-in-kind HK$'000 | Discretionary bonuses HK$'000 | Provident fund contributions HK$'000 | Employee share option benefits HK$'000 | 2006 Total emoluments HK$'000 |
|---|---|---|---|---|---|---|
| Fok Kin-ning, Canning (1) | 90 | – | – | – | – | 90 |
| Lai Kai Ming, Dominic | 70 | – | – | – | – | 70 |
| Ko Yuet Ming | 70 | 510 | – | 26 | 201 | 807 |
| Luk Tei, Lewis | 70 | 1,540 | 300 | 66 | 503 | 2,479 |
| Chan Wen Mee, May (Michelle) | 70 | 2,130 | 1,000 | 142 | 604 | 3,946 |
| Chow Woo Mo Fong, Susan | 70 | – | – | – | – | 70 |
| Chow Wai Kam, Raymond | 70 | – | – | – | – | 70 |
| Edith Shih | 70 | – | – | – | – | 70 |
| Endo Shigeru | 70 | – | – | – | 251 | 321 |
| Tam Yue Man | 70 | 1,614 | 852 | 76 | – | 2,612 |
| Kwok Siu Kai, Dennis (2) | 18 | 406 | 500 | 19 | 201 | 1,144 |
| Ronald Joseph Arculli (3) | 140 | – | – | – | – | 140 |
| Kwan Kai Cheong (1) (3) (4) | 160 | – | – | – | – | 160 |
| Lam Lee G. (1) (3) (4) | 160 | – | – | – | – | 160 |
| Lan Hong Tsung, David (4) | 70 | – | – | – | – | 70 |
| Total – 2006 | 1,268 | 6,200 | 2,652 | 329 | 1,760 | 12,209 |

*Notes:*

*(1) Members of the Remuneration Committee*

*(2) Appointed on 1 October 2006*

*(3) Members of the Audit Committee*

*(4) Independent Non-executive Directors*

## 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: four) directors whose emoluments are reflected in the analysis presented in Note 14(a) to the accounts. The emoluments payable to the two (2006: one) remaining individuals in 2007 are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Basic salaries, allowances and benefits-in-kind | 2,944 | 1,430 |
| Discretionary bonuses | 2,400 | – |
| Provident fund contributions | 123 | 66 |
| Employee share option benefits | 385 | 151 |
| | 5,852 | 1,647 |

The emoluments of the remaining two (2006: one) individuals with the highest emoluments in 2007 fell within the following bands:

| | Number of individuals | |
|---|---|---|
| **Emolument bands** | 2007 | 2006 |
| HK$4,000,001 – HK$4,500,000 | 1 | – |
| HK$1,500,001 – HK$2,000,000 | 1 | 1 |

## 15 GOODWILL

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 342,040 | 328,359 |
| Exchange translation differences | 20,523 | 13,681 |
| At 31 December | 362,563 | 342,040 |

Goodwill acquired through business combination has been allocated to the property division, which is a separate segment, for impairment testing.

Note 4(c) to the accounts contains information about the estimates and assumptions used in the value in use calculation. Key assumptions, eg, rental income are comparable to those used in the calculation of the fair value of investment properties. There were no impairment at 31 December 2007 and 31 December 2006.

## 16 LICENCE RIGHTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **55,114** | – |
| Additions | **–** | 55,114 |
| At 31 December | **55,114** | 55,114 |

Balance represents licence rights on branded products.

On 20 June 2006, a subsidiary of Hutchison Whampoa Limited ("HWL") entered into a licence agreement ("Licence Agreement") with a third party to carry out a business to design, manufacture and trade certain goods under certain licenced marks. The rights granted for the use of the licenced marks in pursuance of the Licence Agreement are conditional. On the same date, the subsidiary of HWL entered into a sub-licence agreement with the Group whereby the subsidiary of HWL sub-licenced the business governed under the Licence Agreement to the Group. Pursuant to the sub-licence agreement, the Group agrees to pay the subsidiary of HWL a non-refundable option fee of HK$2,400,000 for a call option whereby the subsidiary of HWL agrees to grant to the Group an option to request the third party to enter into another agreement with the Group in replacement of the Licence Agreement. In addition, the subsidiary of HWL agrees to pay to the Group a non-refundable option fee of HK$10 for a put option whereby the Group agrees to grant to the subsidiary of HWL an option to request the Group to enter into another agreement with the third party in replacement of the Licence Agreement. Both the call option and the put option may be exercisable within three months after 20 June 2007. The Licence Agreement became unconditional on 4 July 2006. On 20 September 2007, the Group exercised the call option to enter into the Licence Agreement with the third party.

The cost of these licence rights represents capitalisation of the minimum licence fee payable, based on a discount rate equal to the Group's weighted average borrowing rate of 6% at the date of inception. No amortisation is charged for the year ended 31 December 2007 as the licence rights have not yet commenced its commercial usage.

## 17 PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2007 | 117,949 | 148,896 | 246,340 | 67,437 | 11,801 | 592,423 |
| Exchange translation differences | 5,728 | 3,049 | 5,555 | 1,763 | 389 | 16,484 |
| Additions | – | 11,440 | 7,208 | 8,282 | 908 | 27,838 |
| Disposals | (14,624) | (6,767) | (617) | (3,920) | (747) | (26,675) |
| Relating to subsidiaries disposed of (Note 36(c)) | – | (4,840) | (38,270) | (9,754) | (1,911) | (54,775) |
| At 31 December 2007 | 109,053 | 151,778 | 220,216 | 63,808 | 10,440 | 555,295 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January 2007 | 72,957 | 119,777 | 156,593 | 42,408 | 8,459 | 400,194 |
| Exchange translation differences | 2,445 | 1,031 | 1,630 | 502 | 82 | 5,690 |
| Charge for the year (Note 6) | 4,331 | 11,457 | 19,665 | 8,652 | 1,176 | 45,281 |
| Disposals | (6,974) | (2,752) | (489) | (1,805) | (701) | (12,721) |
| Relating to subsidiaries disposed of (Note 36(c)) | – | (2,620) | (24,610) | (7,326) | (1,196) | (35,752) |
| Impairment provision (Note 6) | – | – | 15,000 | – | – | 15,000 |
| At 31 December 2007 | 72,759 | 126,893 | 167,789 | 42,431 | 7,820 | 417,692 |
| **Net book value** | | | | | | |
| At 31 December 2007 | 36,294 | 24,885 | 52,427 | 21,377 | 2,620 | 137,603 |

## 17 PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2006 | 118,778 | 137,641 | 238,952 | 57,138 | 11,394 | 563,903 |
| Exchange translation differences | 4,078 | 2,231 | 6,559 | 1,128 | 298 | 14,294 |
| Transfer from investment properties | 6,133 | – | – | – | – | 6,133 |
| Additions | – | 21,956 | 16,286 | 14,203 | 876 | 53,321 |
| Disposals | (11,040) | (12,932) | (15,457) | (4,924) | (767) | (45,120) |
| Relating to subsidiaries disposed of (Note 36(c)) | – | – | – | (108) | – | (108) |
| At 31 December 2006 | 117,949 | 148,896 | 246,340 | 67,437 | 11,801 | 592,423 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2006 | 73,651 | 118,377 | 147,842 | 38,294 | 7,698 | 385,862 |
| Exchange translation differences | 2,209 | 1,742 | 2,679 | 796 | 197 | 7,623 |
| Charge for the year (Note 6) | 3,812 | 10,861 | 19,474 | 7,252 | 1,324 | 42,723 |
| Disposals | (6,715) | (11,203) | (13,402) | (3,900) | (760) | (35,980) |
| Relating to subsidiaries disposed of (Note 36(c)) | – | – | – | (34) | – | (34) |
| At 31 December 2006 | 72,957 | 119,777 | 156,593 | 42,408 | 8,459 | 400,194 |
| **Net book value** | | | | | | |
| At 31 December 2006 | 44,992 | 29,119 | 89,747 | 25,029 | 3,342 | 192,229 |

The Group's interests in buildings at their net book values are analysed as follows:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Leases of between 10 to 50 years | | |
| Hong Kong | **347** | 8,040 |
| Outside Hong Kong | **35,947** | 36,952 |
| | **36,294** | 44,992 |

## 18 INVESTMENT PROPERTIES

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Valuation** | | |
| At 1 January | **3,425,420** | 3,204,650 |
| Exchange translation differences | **204,717** | 130,398 |
| Transfer to property, plant and equipment and leasehold land and land use rights | **–** | (8,662) |
| Disposals | **(13,320)** | – |
| Increase in fair value (Note 6) | **168,507** | 99,034 |
| At 31 December | **3,785,324** | 3,425,420 |

*Notes:*

(a) *The Group's investment properties comprise:*

| | *2007 HK$'000* | *2006 HK$'000* |
|---|---|---|
| *Leases of between 10 to 50 years* | | |
| *Hong Kong* | ***170*** | *13,470* |
| *Outside Hong Kong* | ***3,785,154*** | *3,411,950* |
| | ***3,785,324*** | *3,425,420* |

(b) *The investment properties at 31 December 2007 and 31 December 2006 were revalued on an open market value basis by independent professional valuers, DTZ Debenham Tie Leung Limited.*

## 19 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments.

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| **Net book value** | | |
| At 1 January | **29,132** | 62,515 |
| Exchange translation differences | **927** | 542 |
| Transfer from investment properties | **–** | 2,529 |
| Disposals | **(12,461)** | (25,523) |
| Relating to a subsidiary disposed of (Note 36(c)) | **–** | (10,253) |
| Amortisation (Note 6) | **(1,361)** | (678) |
| At 31 December | **16,237** | 29,132 |

The Group's leasehold land and land use rights comprise:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Leases of between 10 to 50 years | | |
| Hong Kong | **1,801** | 14,293 |
| Outside Hong Kong | **14,436** | 14,839 |
| | **16,237** | 29,132 |

## 20 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 |
| Unlisted investments, at cost | **659,099** | 659,099 |

Particulars of the principal subsidiaries at 31 December 2007 are set out in Note 43(a) to the accounts.

## 21 INVESTMENT IN AN ASSOCIATED COMPANY

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Unlisted investment, at cost | **3,884** | 3,884 |
| Share of post acquisition reserves | **(731)** | (556) |
| | **3,153** | 3,328 |

*Notes:*

(a) *There is no share of tax attributable to an associated company for the year ended 31 December 2007 (2006: tax credit of HK$396,000).*

(b) *Particulars of the associated company at 31 December 2007 are set out in Note 43(b) to the accounts.*

(c) *The Group's interest in its unlisted associated company was as follows:*

| | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| ***Name*** | ***Assets HK$'000*** | ***Liabilities HK$'000*** | ***Revenues HK$'000*** | ***Profit HK$'000*** | *Assets HK$'000* | *Liabilities HK$'000* | *Revenues HK$'000* | *Loss HK$'000* |
| *Panyu Crown-Li Mould Co. Ltd.* | ***4,972*** | ***75*** | ***2,756*** | ***1,286*** | *9,367* | *3,130* | *5,577* | *(3,299)* |

## 22 LOANS RECEIVABLE

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Loans receivable | **3,879** | 6,393 |
| Less: amount due within one year | **(3,879)** | (2,514) |
| | **–** | 3,879 |

The loans receivable of HK$3,879,000 at 31 December 2007 (2006: HK$6,393,000) represented the net amount of unsecured loans advanced by the Group to a third party (the "Third Party") to finance the Third Party to construct factory buildings in the Mainland China. The Third Party leased the factory buildings back to the Group and used the rent derived thereon to repay the principal and the related interest. The loans bear interest at a range of Hong Kong dollar prime rate to 2% above Hong Kong dollar prime rate. The carrying value of loans receivable approximate to its fair value. The effective interest rate at 31 December 2007 was 9.6% (2006: 8.2%).

## 23 INVENTORIES

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Raw materials | **159,258** | 154,514 |
| Work in progress | **52,191** | 83,050 |
| Finished goods | **46,652** | 59,492 |
| | **258,101** | 297,056 |

## 24 TRADE RECEIVABLES

Included in trade receivables at 31 December 2007 are amounts due from certain subsidiaries of HWL totalling HK$1,967,000 (2006: HK$3,906,000).

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| 0-30 days | **172,329** | 179,715 |
| 31-60 days | **140,122** | 134,295 |
| 61-90 days | **30,348** | 53,121 |
| Over 90 days | **29,596** | 59,150 |
| | **372,395** | 426,281 |

No interest is charged on the overdue trade receivables. The trade receivables included in the above aging are considered not impaired as these relate to a number of independent customers for whom there is no recent history of default. All the impaired overdue trade receivables have been provided for. As of 31 December 2007, trade receivables of HK$14,305,000 (2006: HK$9,449,000) were impaired and provided for.

## 24 TRADE RECEIVABLES (Continued)

The movements on the provision for impairment of trade receivables are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| At 1 January | **9,449** | 12,043 |
| Provision recognised in profit and loss account | **10,681** | 6,987 |
| Provision released | **(4,751)** | (1,717) |
| Receivables written off during the year as uncollectible | **(1,074)** | (7,864) |
| At 31 December | **14,305** | 9,449 |

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 25 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Included in the Group's deposits, prepayments and other receivables at 31 December 2007 are amounts due from certain subsidiaries of HWL totalling HK$13,287,000 (2006: HK$8,667,000).

## 26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Listed debt securities, overseas | **–** | 209,280 |
| Listed equity securities, overseas | **11,288** | 13,819 |
| | **11,288** | 223,099 |

At 31 December 2007, no listed debt securities (2006: HK$89,142,000) is pledged as security for the Group's bank loan facilities.

## 27 CASH AND BANK DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits with banks | **583,908** | 368,990 | **11,700** | 55,004 |
| Cash at banks and on hand | **484,210** | 348,774 | **6,926** | 3,417 |
| | **1,068,118** | 717,764 | **18,626** | 58,421 |

Bank balances of HK$715,774,000 (2006: HK$537,263,000) are mainly denominated in Renminbi and placed with banks in the Mainland China. The remittance of these funds out of the Mainland China is subject to exchange control restrictions imposed by the PRC government. The remaining bank balances are mainly denominated in Hong Kong dollar or US dollar.

The average effective interest rate on short term bank deposits during the year ended 31 December 2007 was approximately 2.28% (2006: 1.93%) per annum. These deposits have an average maturity of 29 days (2006: 38 days).

## 28 TRADE PAYABLES

Included in trade payables at 31 December 2007 is an amount due to an associated company of the Group totalling HK$4,612,000 (2006: HK$9,718,000). The aging analysis of trade payables at 31 December is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0-30 days | **185,740** | 221,417 |
| 31-60 days | **29,463** | 62,704 |
| 61-90 days | **8,190** | 11,177 |
| Over 90 days | **11,529** | 18,720 |
| | **234,922** | 314,018 |

## 29 OTHER CREDITORS AND ACCRUALS

Included in the Group's other creditors and accruals at 31 December 2007 are amounts due to certain subsidiaries and jointly controlled entities of HWL and loan from a minority shareholder of a subsidiary of the Group totalling HK$1,844,000 (2006: HK$19,204,000), HK$47,986,000 (2006: HK$41,857,000) and HK$7,934,000 (2006: HK$7,485,000) respectively.

## 30 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes related to the same fiscal authority.

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **17,935** | 30,255 |
| Deferred tax liabilities | **660,469** | 720,599 |
| Net deferred tax liabilities | **642,534** | 690,344 |

(a) The gross movement in the net deferred tax liabilities is as follows:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| At 1 January | **690,344** | 613,744 |
| Exchange translation differences | **37,816** | 25,330 |
| (Credited)/charged to profit and loss account (Note 8) | **(85,626)** | 51,270 |
| At 31 December | **642,534** | 690,344 |

## 30 DEFERRED TAX (Continued)

(b) Analysis of net deferred tax liabilities/(assets):

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | At 1 January HK$'000 | Exchange translation differences HK$'000 | Charged/ (credited) to profit and loss account HK$'000 | At 31 December HK$'000 | At 1 January HK$'000 | Exchange translation differences HK$'000 | Charged/ (credited) to profit and loss account HK$'000 | At 31 December HK$'000 |
| Accelerated depreciation allowances | 82,070 | 4,862 | (323) | 86,609 | 56,559 | 2,946 | 22,565 | 82,070 |
| Changes in fair value of investment properties | 619,592 | 32,850 | (107,356) | 545,086 | 561,965 | 22,190 | 35,437 | 619,592 |
| Other temporary differences | 10,524 | 422 | 19,781 | 30,727 | 792 | 213 | 9,519 | 10,524 |
| Tax losses | (21,842) | (318) | 2,272 | (19,888) | (5,572) | (19) | (16,251) | (21,842) |
| | 690,344 | 37,816 | (85,626) | 642,534 | 613,744 | 25,330 | 51,270 | 690,344 |

(c) Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised, based on all available evidence. The Group has not recognised deferred tax assets of HK$18,104,000 (2006: HK$16,698,000) in respect of the unused tax losses carried forward amounting to HK$109,863,000 (2006: HK$97,971,000). Of these amounts, HK$102,480,000 (2006: HK$90,504,000) can be carried forward indefinitely and the remaining HK$7,383,000 (2006: HK$7,467,000) expires in the following years:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| 2007 | – | 756 |
| 2008 | – | – |
| 2009 | 781 | 3,591 |
| 2010 | 1,509 | 679 |
| 2011 | 2,441 | 2,441 |
| 2012 | 2,652 | – |
| | 7,383 | 7,467 |

(d) No provision for deferred tax has been made for taxes which would arise on the remittance of undeclared retained profits of overseas subsidiaries to Hong Kong as it is not anticipated that these amounts will be remitted in the foreseeable future. The unremitted earnings at 31 December 2007 was HK$61,352,000 (2006: HK$17,331,000).

## 31 OTHER NON-CURRENT FINANCIAL LIABILITIES

| | Note | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| Loans from minority shareholders | (a) | **39,785** | 39,605 |
| Non-current portion of licence fees payable (Note 16) | (b) | **29,496** | 29,496 |
| | | **69,281** | 69,101 |

*Notes:*

*(a) Loans from minority shareholders*

*At 31 December 2007, the interest bearing loans from minority shareholders were advanced by a minority shareholder of the Group's two PRC property development equity joint ventures. The loans from the minority shareholders are interest bearing at 3% (2006: 3%) per annum, unsecured and have no fixed terms of repayment.*

*The carrying amounts of loans from minority shareholders approximate to their fair values and are denominated in the following currencies.*

| | ***2007 HK$'000*** | *2006 HK$'000* |
|---|---|---|
| *US dollar* | ***36,605*** | *36,605* |
| *Renminbi* | ***3,180*** | *3,000* |
| | ***39,785*** | *39,605* |

*(b) Non-current portion of licence fees payable*

*The balance represents non-current portion of licence fees payable. The carrying value of the licence fees payable approximates to its fair value and is denominated at US dollar.*

## 32 CONVERTIBLE NOTE

On 25 November 2005, the Company issued a five-year 2% convertible note with 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.

On 23 October 2007, the independent shareholders of the Company passed an ordinary resolution and approved:

(a) the amendment to convertible note agreement that the Company may early redeem the convertible note at any time prior to the maturity date; and

(b) share subscription agreement to issue and allot 2,244,444,444 ordinary shares at a subscription price of HK$0.45 per share to a subsidiary of HWL and to apply all of the net proceeds from the issue and allotment of the shares to early redeem the convertible note.

On 24 October 2007, the Company early redeemed the nominal value of the convertible note, and its associated interest payable amounting to HK$999,960,000 and HK$8,382,000 respectively, and settled the amount due to HWL of HK$1,658,000 through the issue of 2,244,444,444 ordinary shares at HK$0.45 per share with total proceed amounting to HK$1,010,000,000 (Note 33).

## 32 CONVERTIBLE NOTE (Continued)

Movements of the liability portion of the convertible note are set out below:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Face value of convertible note upon initial recognition, net of arrangement fees | **999,960** | 999,960 |
| Equity component (Note 35) | **(123,975)** | (123,975) |
| Issuance expense | **(864)** | (864) |
| Liability component upon initial recognition | **875,121** | 875,121 |
| Accumulated interest charge | **82,459** | 46,859 |
| Accumulated interest paid | **(38,298)** | (22,025) |
| Early redeemed by the Company | **(919,282)** | – |
| Carrying amount at 31 December | **–** | 899,955 |

The fair value of the liability portion was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option and was subsequently stated at amortised cost. The residual amount is assigned as the equity portion and is included in shareholders' equity.

As part of the early redemption of the convertible note, a gain of HK$57,620,000 was recognised in the profit and loss account, being the difference between the fair value and the carrying amount of the liability portion at the date of redemption.

On 31 December 2006, the net proceeds received from the issue of the convertible note was split between the liability and equity portions of HK$899,955,000 and HK$123,975,000 respectively.

The carrying value of the liability portion of the convertible note at 31 December 2006 approximates to its fair values. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 4.82% per annum.

Interest expenses on the convertible note is calculated using the effective interest method by applying the effective interest rate of 4.82% per annum to the liability portion.

At 31 December 2006, the convertible note was 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$1,888,599,000. Newscott, Great Winwick and City Island are wholly owned subsidiaries of the Group.

## 33 SHARE CAPITAL

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount HK$'000** | Number of shares | Amount HK$'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 1 January | **6,705,000,263** | **670,500** | 6,705,000,263 | 670,500 |
| Issue of shares for early redemption of convertible note (Note 32) | **2,244,444,444** | **224,444** | – | – |
| At 31 December | **8,949,444,707** | **894,944** | 6,705,000,263 | 670,500 |

## 34 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 year ended 31 December 2007, no share options were exercised (2006: Nil) but 13,632,000 (2006: 50,518,000) share options had lapsed. The number of share options outstanding at 31 December 2007 was 91,100,000 (2006: 71,732,000) of which 58,500,000 will expire on 2 June 2015 and the remaining 32,600,000 will expire on 24 May 2017 unless exercised before then. Out of the 91,100,000 (2006: 71,732,000) outstanding share options, 38,928,000 (2006: 26,756,000) were exercisable.

## 34 SHARE OPTIONS (Continued)

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 options | 25 May 2007 | 3 June 2005 |
| Value of each share 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.*

Movements in share options were as follows:

| | Date of grant | Number of share options<br>At 1 January 2007 | Granted | Exercised | Forfeited/ lapsed | At 31 December 2007 |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| Ko Yuet Ming *(Note)* | 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 | – | – | (9,232,000) | 27,500,000 |
| | 25 May 2007 | – | 29,000,000 | – | (400,000) | 28,600,000 |
| | | 36,732,000 | 29,000,000 | – | (9,632,000) | 56,100,000 |
| | Total | 71,732,000 | 33,000,000 | – | (13,632,000) | 91,100,000 |

*Note:*

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

## 35 RESERVES

### Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Share-based compensation reserve HK$'000 | Convertible note reserve HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2007** | **1,813,437** | **3,558** | **9,638** | **123,975** | **1,456** | **371,963** | **2,324,027** |
| Employee share option benefits | **–** | **–** | **3,506** | **–** | **–** | **–** | **3,506** |
| Transfer of reserves | **–** | **–** | **(1,059)** | **–** | **–** | **1,059** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **261,649** | **261,649** |
| Issue of shares (Note 32 and 33) | **785,556** | **–** | **–** | **–** | **–** | **–** | **785,556** |
| Share issuance costs | **–** | **–** | **–** | **–** | **–** | **(2,000)** | **(2,000)** |
| Early redemption of convertible note (Note 32) | **–** | **–** | **–** | **(123,975)** | **–** | **(14,323)** | **(138,298)** |
| 2006 final dividend paid | **–** | **–** | **–** | **–** | **–** | **(40,230)** | **(40,230)** |
| **At 31 December 2007** | **2,598,993** | **3,558** | **12,085** | **–** | **1,456** | **578,118** | **3,194,210** |
| At 1 January 2006 | 1,813,437 | 3,558 | 7,016 | 123,975 | 1,456 | 305,099 | 2,254,541 |
| Employee share option benefits | – | – | 3,608 | – | – | – | 3,608 |
| Transfer of reserves | – | – | (986) | – | – | 986 | – |
| Profit for the year | – | – | – | – | – | 213,388 | 213,388 |
| 2005 final dividend paid | – | – | – | – | – | (147,510) | (147,510) |
| At 31 December 2006 | 1,813,437 | 3,558 | 9,638 | 123,975 | 1,456 | 371,963 | 2,324,027 |

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

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

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operating activities before finance costs, tax paid and changes in working capital:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Operating profit | **327,836** | 216,276 |
| Adjustments for: | | |
| Interest income | **(24,170)** | (33,390) |
| Depreciation of property, plant and equipment | **45,281** | 42,723 |
| Amortisation of leasehold land and land use rights | **1,361** | 678 |
| Impairment loss on property, plant and equipment | **15,000** | – |
| Gain on redemption of convertible note | **(57,620)** | – |
| Loss/(gain) on disposal of subsidiaries | **5,302** | (767) |
| Gain on disposal of property, plant and equipment | **(3,081)** | (1,851) |
| Gain on disposal of investment properties | **(1,664)** | – |
| Gain on disposal of leasehold land and land use rights | **(13,120)** | (22,441) |
| Increase in fair value of investment properties | **(168,507)** | (99,034) |
| Net loss/(gain) on maturity/disposal of available-for-sale financial assets | **4,992** | (35,654) |
| Employee share option benefits | **3,506** | 3,608 |
| | **135,116** | 70,148 |

(b) Changes in working capital:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Decrease/(increase) in trade and other receivables, deposits and prepayments | **50,411** | (68,963) |
| Decrease in loans receivable | **3,281** | 2,369 |
| Decrease in inventories | **38,955** | 81,468 |
| (Decrease)/increase in trade and other payables | **(67,122)** | 63,547 |
| Exchange difference | **19,478** | 14,453 |
| | **45,003** | 92,874 |

## 36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment (Note 17) | **19,023** | 74 |
| Leasehold land and land use rights (Note 19) | **–** | 10,253 |
| Inventories | **–** | 3,027 |
| Trade and other receivables | **3,232** | 2,051 |
| Financial assets at fair value through profit and loss | **–** | 7 |
| Cash and cash equivalents | **232** | 599 |
| Trade and other payables | **–** | (7,010) |
| Minority interests | **–** | (673) |
| | **22,487** | 8,328 |
| Exchange reserve realised | **–** | (287) |
| (Loss)/gain on disposal | **(5,302)** | 767 |
| | **17,185** | 8,808 |
| Satisfied by: | | |
| Cash received | **8,000** | 8,808 |
| Consideration receivable | **9,185** | – |
| | **17,185** | 8,808 |

Analysis of net cash inflow in respect of disposal of subsidiaries:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Cash consideration received | **8,000** | 8,808 |
| Cash and cash equivalents disposed of | **(232)** | (599) |
| Net cash inflow in respect of disposal of subsidiaries | **7,768** | 8,209 |

(d) Major non-cash transaction:

During the year, the Company issued ordinary shares to a subsidiary of HWL for the early redemption of the convertible note. Details are set out in Note 32 to the accounts.

## 37 FINANCIAL GUARANTEES

At 31 December, financial guarantees not provided for in the accounts are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | **–** | – | **300,000** | 300,000 |
| Guarantees given to banks in connection with facilities granted to purchasers of the Group's properties in the Mainland China | **2,888** | 3,095 | **–** | – |
| | **2,888** | 3,095 | **300,000** | 300,000 |

## 38 CAPITAL COMMITMENTS

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Capital commitments for property, plant and equipment: | | |
| Contracted but not provided for | **16,749** | 10,749 |
| Authorised but not contracted for | **40,572** | 82,566 |
| | **57,321** | 93,315 |

## 39 OPERATING LEASES

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Not later than one year | **286,799** | 235,535 |
| Later than one year and not later than five years | **421,324** | 245,619 |
| Later than five years | **40,023** | 3,815 |
| | **748,146** | 484,969 |

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Not later than one year | **21,903** | 46,763 |
| Later than one year and not later than five years | **9,694** | 81,642 |
| | **31,597** | 128,405 |

## 40 MATERIAL RELATED PARTY TRANSACTIONS

Saved as disclosed in Notes 16 and 32 to the accounts, the Group had the following significant transactions during the year 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 entered into a lease agreement with a minority shareholder of a subsidiary to lease a manufacturing plant in the PRC. The rental expenses for the year amounted to HK$12,528,000 (2006: HK$11,484,000).

(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 year were approximately HK$15,189,000 (2006: HK$108,444,000).

## 40 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 year were approximately HK$5,400,000 (2006: HK$5,000,000).

(d) During the year, the Group paid rental expenses and management fee to subsidiaries of HWL of approximately HK$15,945,000 (2006: HK$9,883,000). During the year, the Group received rental income from subsidiaries of HWL of approximately HK$5,195,000 (2006: HK$4,694,000).

(e) Details of directors' remuneration (being the key management personnel compensation) are shown in Note 14 to the accounts.

## 41 HOLDING COMPANY

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

## 42 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 6 March 2008.

## 43 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND AN ASSOCIATED COMPANY

(a) Details of the principal subsidiaries at 31 December 2007 are as follows:

| | Name of subsidiaries | Place of operations/ incorporation | Particulars of issued/registered capital | Group's effective interest % | Principal activity |
|---|---|---|---|---|---|
| * | Hutchison Harbour Ring Toys Group Limited | British Virgin Islands | US$1,000 ordinary shares | 100 | Investment holding |
| * | Hutchison Harbour Ring Property Holdings Limited | British Virgin Islands | US$1 ordinary share | 100 | Investment holding |
| * | i. Tech Holdings Limited | British Virgin Islands | US$100 ordinary shares | 100 | Investment holding |
| * | PMW Holdings Limited | British Virgin Islands | US$1,000 ordinary shares | 100 | Investment holding |
| | Acefield Limited | Hong Kong | HK$100,000 ordinary shares<br>HK$2,000,000 non-voting deferred shares | 100 | Trading of toys, moulds, materials and provision of management services and investment holding |
| | City Island Developments Limited | British Virgin Islands | US$1,000 ordinary shares | 100 | Investment holding |
| | Coronet Toys Company Limited | Hong Kong | HK$100,000 ordinary shares<br>HK$200,000 non-voting deferred shares | 100 | Trading of toys, moulds and provision of management services |
| # | Dongguan Crown-Ace Toys Co., Ltd. | PRC | HK$81,390,000 registered capital | 95.80 | Manufacture of toys |
| | Goodway Electronic Technology Limited | PRC/ Hong Kong | HK$5,000,000 ordinary shares | 100 | Manufacture and trading of electronics toys |

## 43 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND AN ASSOCIATED COMPANY (Continued)

(a) Details of the principal subsidiaries at 31 December 2007 are as follows (Continued):

| Name of subsidiaries | Place of operations/ incorporation | Particulars of issued/registered capital | Group's effective interest % | Principal activity |
|---|---|---|---|---|
| Great Winwick Limited | PRC/ British Virgin Islands | US$100 ordinary shares | 100 | Investment holding |
| # Guangzhou i. Tech Electronic Technology Ltd. | PRC | HK$68,800,000 registered capital | 97.79 | Manufacture of mobile phone accessories and electronics technology products |
| Hutchison Harbour Ring Industries Limited | Hong Kong | HK$2 ordinary shares<br>HK$1,000,000 non-voting deferred shares | 100 | Investment holding and provision of management services |
| i. Tech Dynamic Limited | Hong Kong | HK$10,000 ordinary shares<br>HK$850,000 non-voting deferred shares | 100 | Trading of electronic technology and premium products |
| i. Tech Europe Sprl | Belgium | EUR768,550 ordinary shares | 100 | Investment holding |
| i. Tech Italy Srl | Italy | EUR10,000 quota | 100 | Trading of electronic technology products |
| Macau International Toys Limited | Hong Kong | HK$9,998 ordinary shares<br>HK$2 non-voting deferred shares | 100 | Provision of management services and trading of toys and moulds |

## 43 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND AN ASSOCIATED COMPANY (Continued)

(a) Details of the principal subsidiaries at 31 December 2007 are as follows (Continued):

| Name of subsidiaries | Place of operations/ incorporation | Particulars of issued/registered capital | Group's effective interest % | Principal activity |
|---|---|---|---|---|
| Newscott Investments Limited | PRC/ British Virgin Islands | US$100 ordinary shares | 100 | Investment holding |
| P & H Development Limited | Hong Kong | HK$7 ordinary shares<br>HK$3 non-voting deferred shares | 100 | Investment holding |
| PMW-GB Agency Limited | Hong Kong | HK$100 ordinary shares | 65 | Provision of agency services |
| PMW Global Sourcing Limited | Hong Kong | HK$1,000 ordinary shares | 100 | Sourcing and trading of business goods and other consumer products |
| PMW International Limited | Hong Kong | HK$1,000 ordinary shares | 100 | Trading of toys, premium goods and other consumer products |
| PMW Management Limited | Hong Kong | HK$1,000 ordinary shares | 100 | Provision of management services |
| PMW Product Licence Limited | Hong Kong | HK$1,000 ordinary shares | 100 | Licensing business |
| PMW Retail Group Limited | British Virgin Islands | US$1,250 ordinary shares | 80 | Investment holding |
| PMW Retail Store Limited | PRC/ British Virgin Islands | US$2,000 ordinary shares | 51 | Investment holding |

## 43 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND AN ASSOCIATED COMPANY (Continued)

(a) Details of the principal subsidiaries at 31 December 2007 are as follows (Continued):

| | Name of subsidiaries | Place of operations/ incorporation | Particulars of issued/registered capital | Group's effective interest % | Principal activity |
|---|---|---|---|---|---|
| # | Shanghai Gang Lu Real Estate Development Co., Ltd. | PRC | US$16,000,000 registered capital | 88 | Property holding |
| | Shanghai He Hui Property Development Co., Ltd. | PRC | US$46,330,000 registered capital | 100 | Property holding |
| # | Shanghai Pu Gang Real Estate Development Co., Ltd. | PRC | US$7,000,000 registered capital | 80 | Property holding |
| | Shanghai Xin Hui Property Development Co., Ltd. | PRC | US$15,600,000 registered capital | 100 | Property holding |
| # | Zhongshan International Toys Ltd. | PRC | HK$153,330,000 registered capital | 78.04 | Manufacture of toys |
| | 上海歐享龍工貿有限公司 | PRC | RMB5,000,000 registered capital | 100 | Trading of licensing products |
| @ | 港陸騰輝(上海)商業有限公司 | PRC | US$2,000,000 registered capital | 40.8 | Retailing of licensed products |

The non-voting deferred shares practically carry no rights to dividends or receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

* *Shares held directly by the Company*

\# *Sino-foreign equity joint ventures*

@ *The Group's voting power is more than 50%*

## 43 PARTICULARS OF THE PRINCIPAL SUBSIDIARIES AND AN ASSOCIATED COMPANY (Continued)

(b) Particulars of the associated company at 31 December 2007 are as follows:

| Name of an associated company | Place of operations/ incorporation | Particulars of issued/registered capital | Group's effective interest % | Principal activity |
|---|---|---|---|---|
| Panyu Crown-Li Mould Co. Ltd. | PRC | US$1,130,000 | 50 | Manufacture of moulds |

The above tables list the principal subsidiaries and an associated company of the Group which, in the opinion of the directors, principally affect the results and net assets of the Group. To give full details of subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# FIVE YEAR SUMMARY

| | **2007 HK$'000** | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Revenue | **2,709,739** | 2,587,808 | 2,620,389 | 2,602,017 | 2,192,311 |
| Operating profit | **327,836** | 216,276 | 225,898 | 197,684 | 175,478 |
| Share of profits less losses of associated companies | **1,286** | (3,299) | (87) | 171 | 106 |
| Finance costs | **(39,320)** | (55,658) | (6,739) | (8,061) | (199) |
| Profit before tax | **289,802** | 157,319 | 219,072 | 189,794 | 175,385 |
| Tax credit/(charge) | **32,413** | (105,709) | (26,509) | (18,616) | (23,632) |
| Profit for the year | **322,215** | 51,610 | 192,563 | 171,178 | 151,753 |
| Attributable to | | | | | |
| Shareholders of the Company | **311,705** | 50,112 | 186,016 | 162,883 | 142,691 |
| Minority interests | **10,510** | 1,498 | 6,547 | 8,295 | 9,062 |
| | **322,215** | 51,610 | 192,563 | 171,178 | 151,753 |
| **Assets and liabilities** | | | | | |
| Total assets | **6,222,268** | 5,880,954 | 5,830,550 | 3,762,244 | 3,663,383 |
| Total liabilities | **(1,563,004)** | (2,582,829) | (2,587,284) | (720,241) | (684,752) |
| Net assets | **4,659,264** | 3,298,125 | 3,243,266 | 3,042,003 | 2,978,631 |

# PARTICULARS OF MAJOR PROPERTIES

Particulars of major properties held by the Group which have been completed for existing use at 31 December 2007 are as follows:

## A. PROPERTIES HELD FOR THE GROUP'S OWN USE

| Name/Location | Lease expiry | Type | Gross floor area (sq.m) | Attributable interest |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| 1. Units B3 & B4 on 9th Floor in Tuen Mun Industrial Centre, No. 2 San Ping Circuit, Tuen Mun, New Territories, Hong Kong. | For a residual term to 30 June 2047 | G | 461 | 100% |
| **Macau** | | | | |
| 2. Unit D on 7th Floor of Edificio Industrial Chun Fok, Nos. 201-207 Avenida de Venceslau de Morais, Macau. | For a residual term to 19 December 2049 | I | 226 | 100% |
| **The People's Republic of China** | | | | |
| 3. Units 1001, 1002, 1003, 1003A and 1004 on level 10 in Harbour Ring Plaza, No. 18 Xizang Zhong Road, Huangpu District, Shanghai, The PRC. | The land use term of the property is 50 years from 1 August 1993 to 31 July 2043 | C | 948 | 88% |
| 4. A factory situated on Sha Pin Cun, Torch Development Zone, Zhongshan, Guangdong Province, The PRC. | The land use term of the property expires on 1 December 2045 | I | 71,377 | 78% |

# PARTICULARS OF MAJOR PROPERTIES

## B. INVESTMENT PROPERTIES

| Name/Location | Lease expiry | Type | Gross floor area (sq.m) | Attributable interest |
|---|---|---|---|---|
| **The People's Republic of China** | | | | |
| 1. Comprises 40-storey office building and car park basement in The Center, 989 Changle Road, Xuhui District, Shanghai, The PRC. | The land use term of the property is 50 years from 2 March 1995 to 1 March 2045 | C | 98,337 | 100% |
| 2. Various units on levels 1-3, 5-7, 11, 15, 16, 20 & 21 and the whole of levels 4,14, 22 & 23, and 50 car parking spaces in the basement, Harbour Ring Huang Pu Centre, No. 98 Luhe Road, Huangpu District, Shanghai, The PRC. | The land use term of the property is 50 years from 19 November 1992 to 18 November 2042 | C | 9,345 (exclude car park) | 80% |
| 3. Various units on levels 4-6, 9-14, 17-18, 23-24 & 28 and the whole of levels 2 & 3 and 152 car parking spaces in the basement, Harbour Ring Plaza, No. 18 Xizang Zhong Road, Huangpu District, Shanghai, The PRC. | The land use term of the property is 50 years from 1 August 1993 to 31 July 2043 | C | 25,666 (exclude car park) | 88% |

## B. INVESTMENT PROPERTIES (Continued)

| | Name/Location | Lease expiry | Type | Gross floor area (sq.m) | Attributable interest |
|---|---|---|---|---|---|
| | **The People's Republic of China (Continued)** | | | | |
| 4. | Level 29 in Harbour Ring Plaza, No. 18 Xizang Zhong Road, Huangpu District, Shanghai, The PRC. | The land use term of the property is 50 years from 1 August 1993 to 31 July 2043 | C | 1,269 | 80% |
| 5. | Levels 31 and 32 in Harbour Ring Plaza, No. 18 Xizang Zhong Road, Huangpu District, Shanghai, The PRC. | The land use term of the property is 50 years from 1 August 1993 to 31 July 2043 | C | 1,629 | 100% |

*Notes:*

Types of properties:

C – Commercial, I – Industrial, G – Godown

# INFORMATION FOR SHAREHOLDERS

## LISTING

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

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 715

## PUBLIC FLOAT CAPITALISATION

As at 31 December 2007:
approximately HK$1,361 million, representing 26.22% of the issued share capital of the Company.

## FINANCIAL CALENDAR

| | |
|---|---|
| 2007 Final Results Announcement | 6 March 2008 |
| Closure of Registers of Members | 9 May 2008 – 16 May 2008 |
| Annual General Meeting | 16 May 2008 |
| Payment of 2007 Final Dividend | 19 May 2008 |
| 2008 Interim Results Announcement | August 2008 |

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## INVESTOR INFORMATION

Corporate press releases, financial reports and other investor information on the Group are available online at the Company's website.

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