



A member company of
Hutchison Whampoa Limited



I n t e r i m R e p o r t 2 0 0 5

CORPORATE INFORMATION

Chairman

FOK Kin-ning, Canning, BA, DFM, ACA (Aus)⁽¹⁾

Deputy Chairmen

LAI Kai Ming, Dominic, BSc, MBA

LUK Tei, Lewis, LLB

(also Deputy Managing Director)

Executive Directors

KO Yuet Ming

(Managing Director)

CHAN Wen Mee, May (Michelle), BBA

(Executive Deputy 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, FCS, FCIS

(also Alternate Director to Fok Kin-ning, Canning)

ENDO Shigeru, BA

CHEUNG Wing Han, Miranda,

BCom, LLB, MBA, FHKICPA, FCPA(Aus), ACA

TAM Yue Man, BSc

Non-executive Director

Ronald Joseph ARCULLI, GBS, CVO, OBE, JP⁽⁴⁾

Independent Non-executive Directors

KWAN Kai Cheong, BA, ACA (Aus)^{(2), (3)}

LAM Lee G., BSc, MSc, MBA, DPA, PhD, FHKIoD^{(2), (4)}

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

Company Secretary

Edith SHIH, BSE, MA, MA, EdM, FCS, FCIS

Auditors

PricewaterhouseCoopers

Bankers

The Hongkong and Shanghai Banking
Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

⁽¹⁾ Chairman of Remuneration Committee

⁽²⁾ Member of Remuneration Committee

⁽³⁾ Chairman of Audit Committee

⁽⁴⁾ Member of Audit Committee

CONTENTS

	<i>Page</i>
Chairman's Statement	2-5
Disclosure of Interests	6-12
Corporate Governance and Other Information	13
Independent Review Report	14
Interim Financial Statements	15-33
Information for Shareholders	34

CHAIRMAN'S STATEMENT

Results

The Group's turnover, including its share of associates' turnover, for the period increased by 7% to HK\$1,020.3 million. Unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2005 ("the period") increased by 11% to HK\$48.8 million (six months ended 30 June 2004: HK\$44.0 million) and basic earnings per share was HK0.73 cents (six months ended 30 June 2004: HK0.66 cents).

Dividend

In view of the seasonality of the Group's principal toy operation and consistent with past years, the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil) and will consider the payment of any final dividend for the full year ending 31 December 2005.

Review of Operation

The Group's turnover, including its share of associates' turnover, for the period ended 30 June 2005 amounted to HK\$1,020.3 million, compared to HK\$954.6 million in 2004. Unaudited consolidated profit attributable to shareholders totaled HK\$48.8 million for the six months ended 30 June 2005, 11% ahead of the HK\$44.0 million reported for same period last year.

Earnings before interest expense and taxation ("EBIT") for the period was HK\$53.0 million, compared to HK\$58.5 million for the same period in 2004. There was an increase in spending by the technology operation on marketing activities and the setting up of overseas operation and distribution network as the Group expands into new markets. These spending were partially offset by increased sales performance of the toy operation. The Group's two prime office towers in Shanghai continued to generate stable rental income.

Toy operation

The toy operation remains the Group's principal revenue contributor, accounting for 69% of total turnover. For the six months ended 30 June 2005, turnover grew by 7% from HK\$655.7 million in 2004 to HK\$704.4 million while EBIT increased from HK\$1.8 million in 2004 to HK\$12.1 million. In 2004, the operation's profit margin was adversely affected by the spiraling raw material cost associated with upsurge in oil price. This situation has improved during the first half of 2005 due to pricing adjustment for plastic materials on new projects and sharing the fluctuations in major raw material costs with customers on on-going projects. On the other hand, the increase in statutory minimum wages since March 2005 in the Pearl River Delta Region ("PRD") where the Group's manufacturing facilities are located increased manufacturing costs. In addition, the toy factories continued to be affected by the adverse impact of the shortage of skilled labour and reliable electricity supply in the PRD. With appropriate investment in backup power generators and measures implemented to attract more workers, the Group is maintaining its competitive edge in the market place.

Management continuously upgrades its facilities to cope with changes in production demand and laws and regulations. The operation's factories have recently been equipped with the production equipment to manufacture hazardous-free products in compliance with the requirements of certain new environmental rules laid down by the European Union. During the period, a new sewing plant has been set up in Qing Yuan, thereby allowing management to effectively control costs given attractive incentives offered by local government to entice foreign investment.

The operation continues to broaden and diversify its product offerings. During the period, it was the sole manufacturer engaged by Playmates to start production on the King Kong toys series to prepare for the imminent launch of the premiere. Sales of Cabbage Patch Dolls, which were reintroduced in late 2004, also saw significant growth in 2005 compared to the same period last year. After embarking on the manufacturing of digital cameras three years ago, the operation has rapidly developed the skill set to manufacture latest high quality five mega pixel models. Six mega pixels cameras with advanced features are under development for imminent market release.

Due to the seasonality of the toy industry and in line with past track record of the Group, management expects healthy profits from the toy operation during the peak season in the second half of the year.

Technology operation

The technology operation experienced a drop in sales by 4% from HK\$266.6 million in 2004 to HK\$255.3 million in 2005 and a loss before interest expense and taxation ("LBIT") of HK\$8.2 million compared to an EBIT of HK\$19.5 million for the same period last year. The technology operation mainly engages in the manufacturing and trading of mobile phone accessories for distribution to customers in Asia and Europe. The decline in EBIT was mainly attributed to the increase in marketing costs to brand build the in-house developed "i. Tech" brand to position the operation as an original brand manufacturing ("OBM") player, thereby reducing its reliance on mobile handset brand owners; the establishment of an office in the United Kingdom ("UK") as a first step to expand the global distribution network; and lower profit margins from different product mix compared to last year.

The technology operation is continuing to develop and expand its business. It recently partnered with a most prominent mobile handset distributor in Hong Kong for distribution of its headset products through its extensive retail network. A co-branding project with Mobilecast, a popular mobile phone accessories brand in Japan, offers opportunity for the Group to expand into the Japanese market. The operation has also established a strategic relationship with a world-leading Bluetooth® IC supplier to develop new Bluetooth® products with the most advanced technological features. A new series of Bluetooth® headset with stereo features was recently launched. Following the successful launch of digital audio broadcast radio in the UK in 2004, this product will also be introduced to other European and South East Asia countries. Portable media player with a unique in-built Bluetooth® feature will soon be launched globally.

Licensing and sourcing operation

The licensing and sourcing operation reported a turnover of HK\$40.2 million representing a growth of 38% while the LBIT for the six months ended 30 June 2005 was HK\$4.3 million, compared to HK\$1.2 million for the same period last year. The operation mainly engages in providing one-stop-shop value chain business solution from sourcing to distribution and brand licensing. Established in early 2004, the operation is still in the investment stage resulting in a decline in earnings despite prudent cost control. Management is in discussion with Warner Bros., its major licensing partner, to expand the array of product categories and characters covered by its global sourcing right.

Property operation

Property operation reported stable turnover and EBIT during the period ended 30 June 2005. The office rental market in Shanghai continues to experience strong growth during the first half of 2005 and the operation's two commercial properties maintained satisfactory rental yields and occupancy rates. Excluding the profit from the disposal of certain properties for the first half of 2004 and 2005 and the fair value gains on investment properties during the period, the operation reported an EBIT of HK\$16.6 million for the six months ended 30 June 2005, compared to HK\$15.3 million for the same period last year, representing a growth of 8%.

Capital Resources and Liquidity

The Group continues to maintain a healthy financial position. Total cash and cash equivalents plus other liquid listed investments amounted to HK\$1,872.7 million at 30 June 2005 (31 December 2004: HK\$2,043.3 million). The Group was debt free at 30 June 2005 and 31 December 2004.

Treasury Policies

At 30 June 2005, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Charges and Contingent Liabilities

There was no pledge of fixed assets at 30 June 2005 and 31 December 2004. There were no contingent liabilities at 30 June 2005 and there was no significant change in contingent liabilities from 31 December 2004.

Human Resources

At 30 June 2005, excluding associates, the Group employed 27,202 people (31 December 2004: 22,099). Total employee costs for the period ended 30 June 2005, including directors' emoluments, amounted to HK\$210.7 million (2004: HK\$174.9 million). The Group's employment and remuneration policies remained the same as those described in the Annual Report for the year ended 31 December 2004.

Review of Unaudited Condensed Consolidated Interim Accounts

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising two independent non-executive directors and one non-executive director, has reviewed with management and approved the unaudited condensed consolidated interim accounts for the six months ended 30 June 2005. The Company's auditors, PricewaterhouseCoopers, has reviewed the unaudited condensed consolidated accounts in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. The auditors' independent review report will be included in the Interim Report to shareholders.

Outlook

The toy operation of the Group managed to maintain its competitive position and solid reputation to report profits ahead of same period last year despite the on-going pressure resulted from shortage of skilled labour and reliable electricity supply as well as increased labour cost. Pricing strategies are continuously under review to mitigate the impact to profit margins caused by fluctuations in raw material costs. Efficiency improvement measures are being devised continuously to combat rising production costs.

The technology operation continues to work hard to expand the business profitably over a wider geographical spread to build brand recognition, and to gradually transform the business into an OBM mode of operation. Overseas entities will be established where there are business opportunities. Leveraging on the success of the Bluetooth® headsets, the operation continues to offer more technologically advanced Bluetooth® products to wider market establishing better prospect for the rest of the year.

The licensing and sourcing operation is pursuing promising opportunities for licensing arrangements with strategic partners. Increase in sourcing activities is anticipated to better serve the retail arm of the Hutchison group in Europe.

Strong economic growth and stable commercial property prices have attracted overseas investments into Shanghai's property market, further stimulating economic growth. Benefiting from this favourable economic environment, the property operation maintained high occupancy rate and contributed stable income to the Group. To optimise the utilisation of the Group's surplus capital, management continues to explore good investment opportunities to enhance the Group's investment returns.

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

Fok Kin-ning, Canning

Chairman

Hong Kong, 11 August 2005

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executives 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 (the "Model Code") adopted by the Company 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	0.07457%
Luk Tei, Lewis	(i) Beneficial owner (ii) Beneficiary of a trust	(i) Personal interest (ii) Other interest	4,630,000 1,000,000	10,000,000 ⁽²⁾ –	15,630,000	0.23311%
Ko Yuet Ming	(i) Beneficial owner (ii) Interest of spouse	(i) Personal interest (ii) Family interest	3,000,000 84,000	12,000,000 ⁽²⁾ –	15,084,000	0.22497%
Chan Wen Mee, May (Michelle)	Beneficial owner	Personal interest	–	12,000,000 ⁽²⁾	12,000,000	0.17897%
Endo Shigeru	Beneficial owner	Personal interest	80,000	5,000,000 ⁽²⁾	5,080,000	0.07576%
Cheung Wing Han, Miranda	Beneficial owner	Personal interest	–	10,000,000 ⁽²⁾	10,000,000	0.14914%
Tam Yue Man	Beneficial owner	Personal interest	2,100,000	10,000,000 ⁽²⁾	12,100,000	0.18046%

Notes:

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

(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 of HWL held	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	Beneficial owner	Personal interest	22,270	22,270	0.00052%
Ko Yuet Ming	Interest of spouse	Family interest	16,000	16,000	0.00038%
Chan Wen Mee, May (Michelle)	Beneficial owner	Personal interest	531	531	0.00001%
Chow Woo Mo Fong, Susan	Beneficial owner	Personal interest	150,000	150,000	0.00352%
Edith Shih	(i) Beneficial owner (ii) Interest of spouse	(i) Personal interest (ii) Family interest	27,200) 7,400)	34,600	0.00081%
Endo Shigeru	Beneficial owner	Personal interest	2,000	2,000	0.00005%
Cheung Wing Han, Miranda	Beneficial owner	Personal interest	12,000	12,000	0.00028%
Ronald Joseph Arculli	Interest of a controlled corporation	Corporate interest	11,224 ⁽²⁾	11,224	0.00026%

Notes:

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

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

As at 30 June 2005, Mr. Fok Kin-ning, Canning had the following interests:

- (i) (a) 1,100,000 ordinary shares, representing approximately 0.16209% of the then issued share capital, in Hutchison Telecommunications (Australia) Limited ("HTAL") comprising personal and corporate interests in 100,000 and 1,000,000 ordinary shares respectively; and

(b) 1,474,001 underlying shares in HTAL comprising personal and corporate interests in 134,000 and 1,340,001 underlying shares respectively on conversion of the listed and physically settled 5.5% Unsecured Convertible Notes due 2007 issued by HTAL;
- (ii) corporate interests in 250,000 ordinary shares, representing approximately 0.00556% of the then issued share capital, in Hutchison Telecommunications International Limited ("HTIL");
- (iii) corporate interests in 10,000,000 ordinary shares, representing approximately 0.14500% of the then issued share capital, in Hutchison Global Communications Holdings Limited;
- (iv) corporate interests in 225,000 American Depositary Shares (each representing one ordinary share), representing approximately 0.14866% of the then issued share capital, in Partner Communications Company Ltd. ("Partner"); and

- (v) corporate interests in (a) a nominal amount of US\$6,500,000 in the 6.25% Notes due 2014 issued by Hutchison Whampoa International (03/33) Limited (the "HWI(03/33) Notes"); (b) a nominal amount of US\$4,000,000 in the 13% unsecured senior subordinated notes due 2010 issued by Partner; and (c) a nominal amount of EUR12,600,000 in the 4.125% Notes due 2015 issued by Hutchison Whampoa Finance (05) Limited.

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

As at 30 June 2005, Mrs. Chow Woo Mo Fong, Susan in her capacity as a beneficial owner had personal interests in 250,000 ordinary shares, representing approximately 0.00550% of the then issued share capital, in HTIL.

As at 30 June 2005, Ms. Edith Shih had (i) in her capacity as a beneficial owner, personal interests in a nominal amount of US\$500,000 in the 6.5% Notes due 2013 issued by Hutchison Whampoa International (03/13) Limited (the "HWI(03/13) Notes") and in a nominal amount of US\$300,000 in the HWI(03/33) Notes; and (ii) family interests in a nominal amount of US\$100,000 in the HWI(03/13) Notes and in a nominal amount of US\$100,000 in the HWI(03/33) Notes held by her spouse.

Save as disclosed above, as at 30 June 2005, none of the directors and chief executives 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 corporation (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 contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), 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 executives of the Company, as at 30 June 2005, 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	Approximate % of shareholding of the Company
Li Ka-shing	Founder of discretionary trusts and interest of controlled corporations	4,155,284,508 ^{(1), (2)}	61.97%
Li Ka-Shing Unity Trustcorp Limited ("LKSUT")	Trustee and beneficiary of a trust	4,155,284,508 ^{(1), (2)}	61.97%
Li Ka-Shing Unity Trustee Corporation Limited ("LKSUTC")	Trustee and beneficiary of a trust	4,155,284,508 ^{(1), (2)}	61.97%
Li Ka-Shing Unity Trustee Company Limited ("LKSUTCO")	Trustee	4,155,284,508 ^{(1), (2)}	61.97%
Cheung Kong (Holdings) Limited ("CKH")	Interest of controlled corporations	4,155,284,508 ^{(1), (2)}	61.97%
HWL	Interest of a controlled corporation	4,155,284,508 ⁽¹⁾	61.97%
Hutchison International Limited ("HIL")	Interest of a controlled corporation	4,155,284,508 ⁽¹⁾	61.97%
Promising Land International Inc. ("Promising Land")	Beneficial owner	4,155,284,508 ⁽¹⁾	61.97%

(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
Acefield (B.V.I.) Limited ("Acefield")	Interest of controlled corporations	670,473,579 ⁽³⁾	9.99%
Reading Investments Limited ("Reading")	Beneficial owner	558,473,579 ⁽³⁾	8.33%

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) *Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of LKSUTCO. LKSUTCO as trustee of The Li Ka-Shing Unity Trust, together with certain companies which LKSUTCO as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.*

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

By virtue of the SFO, each of Mr. Li Ka-shing being the settlor and may being regarded as a founder of DT1 and DT2 for the purpose of the SFO, LKSUT, LKSUTC, LKSUTCO and CKH was deemed to be interested in the 4,155,284,508 shares of the Company held by Promising Land.

(3) *558,473,579 shares and 112,000,000 shares of the Company were held by Reading and International Toys (B.V.I.) Limited, both of which are wholly owned by Acefield, respectively. By virtue of the SFO, Acefield was deemed to be interested in an aggregate of 670,473,579 shares of the Company.*

Saved as disclosed above, as at 30 June 2005, there was no other person (other than the directors or the chief executives of the Company) who 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.

Share Options and Directors' Rights to Acquire Shares

At the Special General Meeting of the Company held on 20 May 2004, the shareholders of the Company approved the adoption of a share option scheme. Particulars of outstanding options at the beginning and at the end of the financial period for the six months ended 30 June 2005 and options granted, exercised, cancelled and lapsed during the period were as follows:

	Grant date	Options held at 1 January 2005	Options granted during the period	Options exercised during the period	Options cancelled/ lapsed during the period	Options held at 30 June 2005	Exercise period	Exercise price per share HK\$	Share price on the grant date ⁽²⁾ HK\$	Share price on the exercise date HK\$
Directors										
Luk Tei, Lewis	3.6.2005	N/A	10,000,000	-	-	10,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Ko Yuet Ming	3.6.2005	N/A	12,000,000	-	-	12,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Chan Wen Mee, May (Michelle)	3.6.2005	N/A	12,000,000	-	-	12,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Endo Shigeru	3.6.2005	N/A	5,000,000	-	-	5,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Cheung Wing Han, Miranda	3.6.2005	N/A	10,000,000	-	-	10,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Tam Yue Man	3.6.2005	N/A	10,000,000	-	-	10,000,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Sub-total		N/A	59,000,000	-	-	59,000,000				
Other employees	3.6.2005	N/A	64,750,000	-	-	64,750,000	3.6.2006-2.6.2015	0.822	0.82	N/A
Total		N/A	123,750,000	-	-	123,750,000				

Notes:

- (1) The above share options are exercisable subject to the vesting schedule pursuant to which approximately one-third of the options will be vested on each of 3 June 2006 and 3 June 2007 and the balance of the options will be vested on 3 June 2008.
- (2) The price of the shares disclosed as at the date of grant of share options refers to the closing price of the shares quoted on the SEHK on the trading day immediately prior to the date of the grant of the options.

The fair value of options granted estimated in accordance with the Binomial valuation model is disclosed in Note 16 to the accounts.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has been fully compliant with all code provisions of the Code on Corporate Governance Practices of the Listing Rules throughout the six months ended 30 June 2005.

Audit Committee

The Audit Committee of the Company, which is chaired by an independent non-executive director, currently has a membership comprising two independent non-executive directors and one non-executive director who possess the appropriate business and financial experience and skills to review financial statements. The Audit Committee meets regularly with management and the external auditors of the Company and reviews matters relating to audit, accounting and financial statements as well as internal control, risk evaluation and general compliance of the Group and reports directly to the board of directors of the Company.

Remuneration Committee

The Remuneration Committee of the Company, which is chaired by the Chairman of the Company, currently has a membership comprising the Chairman and two independent non-executive directors with expertise in human resources and personnel emoluments. The responsibilities of the Remuneration Committee are to assist the board of directors of the Company in achieving its objective of attracting, retaining and motivating employees of the highest calibre and experience needed to shape and execute strategy across the Group's substantial, diverse and international business operations. The Remuneration Committee also assists the Group in the administration of a fair and transparent procedure for setting policies on the remuneration of directors and senior management of the Group and for determining their remuneration packages.

Model Code

The board of directors of the Company adopted the Model Code as the Group's code of conduct regarding directors' securities transactions. All directors of the Company confirmed that they have complied with the Model Code in their securities transactions throughout the accounting period covered by this interim report.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities. In addition, the Company has not redeemed any of its listed securities during the period.

INDEPENDENT REVIEW REPORT

To the board of directors of
Hutchison Harbour Ring Limited
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 15 to 33.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 August 2005

INTERIM FINANCIAL STATEMENTS

Consolidated Profit and Loss Account

For the six months ended 30 June

	Note	Unaudited	
		2005 HK\$'000	2004 HK\$'000
Turnover			
Company and subsidiaries		1,017,638	950,899
Share of associates		2,634	3,746
		1,020,272	954,645
Company and subsidiaries			
Turnover	4	1,017,638	950,899
Cost of sales		(908,759)	(838,243)
		108,879	112,656
Gross profit			
Other revenue	4	36,246	29,239
Other net income		26,574	17,577
Administrative expenses		(79,795)	(76,097)
Selling and distribution costs		(38,529)	(25,298)
		53,375	58,077
Operating profit	5		
Share of profits less losses of associates		(396)	466
		52,979	58,543
Earnings before interest expense and taxation			
Finance costs		(607)	(83)
		52,372	58,460
Profit before taxation			
Taxation	6	(3,158)	(12,347)
		49,214	46,113
Profit for the period			
Attributable to:			
Shareholders of the Company		48,825	44,043
Minority interests		389	2,070
		49,214	46,113
Earnings per share for profit attributable to the shareholders of the Company during the period	8	HK0.73 cents	HK0.66 cents

Consolidated Balance Sheet

	Note	Unaudited 30 June 2005 HK\$'000	Restated 31 December 2004 HK\$'000
Non-current assets			
Property, plant and equipment		167,692	174,091
Investment properties	9	626,350	681,130
Leasehold land and land use rights		62,792	63,899
Investments in associates		3,915	3,844
Held-to-maturity securities, listed		1,263,644	1,458,034
Available-for-sale financial assets	10	8,968	–
Non-trading securities	11	–	273
Loans receivable	12	7,240	8,762
Deferred tax assets		12,956	11,117
		2,153,557	2,401,150
Current assets			
Inventories		409,813	290,669
Trade receivables	13	381,441	351,582
Deposits, prepayments and other receivables		143,747	121,936
Loans receivable due within one year	12	2,770	2,770
Held-to-maturity securities, listed		181,131	–
Trading securities		–	7
Financial assets at fair value through profit and loss		7	–
Deposits with banks		274,115	419,046
Cash at bank and in hand		153,837	166,225
		1,546,861	1,352,235
Current liabilities			
Trade payables	14	387,138	338,220
Other creditors and accruals		227,353	252,709
Taxation		28,516	25,789
		643,007	616,718
Net current assets			
		903,854	735,517
Total assets less current liabilities			
		3,057,411	3,136,667
Non-current liabilities			
Deferred tax liabilities		45,765	48,303
Loans from minority shareholders		46,361	46,361
Net assets			
		2,965,285	3,042,003
Equity			
Capital and reserves attributable to the Company's shareholders			
Share capital	15	670,500	670,500
Reserves		2,203,685	2,280,192
		2,874,185	2,950,692
Minority interests		91,100	91,311
Total equity			
		2,965,285	3,042,003

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June

	Unaudited	
	2005 HK\$'000	2004 HK\$'000
Net cash (outflow)/inflow generated from operations	(91,115)	37,167
Investing activities		
Proceeds on disposal of investment properties	70,818	20,822
Proceeds on disposal of available-for-sale financial assets	11,890	–
Proceeds on redemption of held-to-maturity securities	–	78,000
Other investing activities	(13,855)	(18,857)
Net cash inflow from investing activities	68,853	79,965
Net cash (outflow)/inflow before financing activities	(22,262)	117,132
Financing activities		
Dividend paid	(134,100)	(113,985)
Dividend paid to a minority shareholder by a subsidiary	(490)	–
Other financing activities	(467)	3,217
Net cash outflow from financing	(135,057)	(110,768)
Net (decrease)/increase in cash and cash equivalents	(157,319)	6,364
Cash and cash equivalents at 1 January	585,271	488,370
Cash and cash equivalents at 30 June	427,952	494,734
Analysis of cash, cash equivalents and other listed investments		
Cash at bank and in hand	153,837	169,939
Deposits with banks	274,115	324,795
Cash and cash equivalents as above	427,952	494,734
Held-to-maturity securities, listed	1,444,775	1,473,910
Trading securities	–	7
Financial assets at fair value through profit and loss	7	–
Bank deposits and other listed investments	1,444,782	1,473,917
Total cash, cash equivalents and other listed investments	1,872,734	1,968,651

Consolidated Statement of Changes in Equity

For the six months ended 30 June

	Unaudited							Minority interests	Total
	Attributable to shareholders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000		
At 1 January 2005, as previously reported	670,500	1,813,437	-	(3,118)	-	3,975	465,898	91,311	3,042,003
Effect of adopting HKAS 39	-	-	-	-	-	-	(3,111)	-	(3,111)
At 1 January 2005, as restated	670,500	1,813,437	-	(3,118)	-	3,975	462,787	91,311	3,038,892
Exchange translation differences			-	1,871	-	-	-	(110)	1,761
Changes in fair value of available-for-sale financial assets			-	-	8,968	-	-	-	8,968
Net gains not recognised in the consolidated profit and loss account			-	1,871	8,968	-	-	(110)	10,729
Employee share option benefits	-	-	1,040	-	-	-	-	-	1,040
Profit for the period	-	-	-	-	-	-	48,825	389	49,214
2004 final dividend paid	-	-	-	-	-	-	(134,100)	-	(134,100)
2005 interim dividend paid by a subsidiary	-	-	-	-	-	-	-	(490)	(490)
At 30 June 2005	670,500	1,813,437	1,040	(1,247)	8,968	3,975	377,512	91,100	2,965,285
Retained by:									
Company and subsidiaries	670,500	1,813,437	1,040	3,516	8,968	3,975	383,826	91,100	2,976,362
Associates	-	-	-	(4,763)	-	-	(6,314)	-	(11,077)
At 30 June 2005	670,500	1,813,437	1,040	(1,247)	8,968	3,975	377,512	91,100	2,965,285

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June

	Unaudited						Minority interests HK\$'000	Total HK\$'000
	Attributable to shareholders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Investment properties revaluation reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000		
At 1 January 2004, as previously reported	670,500	1,813,437	(9,098)	14,471	3,975	402,529	82,817	2,978,631
Effect of adopting HKAS 40	-	-	-	(14,471)	-	14,471	-	-
At 1 January 2004, as restated	670,500	1,813,437	(9,098)	-	3,975	417,000	82,817	2,978,631
Exchange translation differences			669	-	-	-	133	802
Net gains not recognised in the consolidated profit and loss account			669	-	-	-	133	802
Reserve realised upon liquidation of a subsidiary	-	-	5,566	-	-	-	-	5,566
Profit for the period	-	-	-	-	-	44,043	2,070	46,113
2003 final dividend paid	-	-	-	-	-	(113,985)	-	(113,985)
At 30 June 2004	670,500	1,813,437	(2,863)	-	3,975	347,058	85,020	2,917,127
Retained by:								
Company and subsidiaries	670,500	1,813,437	1,890	-	3,975	354,515	85,020	2,929,337
Associates	-	-	(4,753)	-	-	(7,457)	-	(12,210)
At 30 June 2004	670,500	1,813,437	(2,863)	-	3,975	347,058	85,020	2,917,127

At 30 June 2005, other reserves represent capital redemption reserve of HK\$3,558,000 (1 January 2005, 30 June 2004 and 1 January 2004: HK\$3,558,000) and legal reserve of HK\$417,000 (1 January 2005, 30 June 2004 and 1 January 2004: HK\$417,000) being set aside as required pursuant to the regulations applicable to a subsidiary incorporated in Macau.

Notes to the Condensed Consolidated Accounts

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts (“Interim Accounts”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These Interim Accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKASs which are effective for accounting periods commencing on or after 1 January 2005. The changes to the Group’s accounting policies and the effect of adopting these new accounting policies are set out in note 2 below.

2 Impact of new/revised HKFRSs and HKASs

(a) *Impact of adopting new/revised HKFRSs and HKASs in 2005*

The major and significant effects of the adoption of the new/revised HKFRSs and HKASs on the Group’s accounting policies and amounts disclosed in the Interim Accounts are summarised as follows:

- (i) The adoption of HKAS 1 “Presentation of Financial Statements” has affected the presentation of minority interests and share of after-tax results of associates.
- (ii) The adoption of HKAS 17 “Leases” has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously classified as “property, plant and equipment”, and were carried at cost less accumulated depreciation and impairment. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment. The land element of the leasehold properties was previously included in “other properties” and is now disclosed as “leasehold land and land use rights”.
- (iii) The Company operates a share option scheme. In June 2005, the Company granted 123,750,000 share options to the Group’s employees. The Group has adopted HKFRS 2 “Share-based Payments” which requires the Group to measure the fair value of the share options at the date of grant and recognise the amount as an expense over the relevant vesting periods. No share options were granted in prior years.

2 Impact of new/revised HKFRSs and HKASs (Continued)

(a) Impact of adopting new/revised HKFRSs and HKASs in 2005 (Continued)

- (iv) The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the financial assets have been classified into held-to-maturity securities, available-for-sale financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Held-to-maturity securities are stated in the balance sheet at amortised cost. Interest income from held-to-maturity securities is calculated using the effective interest method. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

The Group has adopted the transitional provisions of HKAS 39 as follows:

- redesignate all "non-trading securities" as "available-for-sale financial assets", the convertible notes in an investee as "loans and receivables", and "trading securities" as "financial assets at fair value through profit and loss" at 1 January 2005;
- remeasure those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised cost at 1 January 2005; and
- restate the held-to-maturity securities at amortised cost using effective interest method instead of straight line method from 1 January 2005.

2 Impact of new/revised HKFRSs and HKASs (Continued)

(a) Impact of adopting new/revised HKFRSs and HKASs in 2005 (Continued)

(v) The effects of changes in accounting policies on the consolidated balance sheet are as follows:

At 30 June 2005	Effect of adopting			
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	Total HK\$'000
Decrease in property, plant and equipment	(62,792)	–	–	(62,792)
Increase in leasehold land and land use rights	62,792	–	–	62,792
Increase in available-for-sale financial assets	–	–	8,968	8,968
Decrease in held-to-maturity securities, listed	–	–	(2,024)	(2,024)
Increase in net assets	–	–	6,944	6,944
Increase in share-based compensation reserve	–	1,040	–	1,040
Increase in investment revaluation reserve	–	–	8,968	8,968
Decrease in retained profits	–	(1,040)	(2,024)	(3,064)
Increase in equity	–	–	6,944	6,944

At 31 December 2004	Effect of adopting			
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	Total HK\$'000
Decrease in property, plant and equipment	(63,899)	–	–	(63,899)
Increase in leasehold land and land use rights	63,899	–	–	63,899
Increase in net assets	–	–	–	–

2 Impact of new/revised HKFRSs and HKASs (Continued)

(a) Impact of adopting new/revised HKFRSs and HKASs in 2005 (Continued)

- (vi) The change in accounting policies did not have material financial impact to the results and earnings per share for the six months ended 30 June 2004. The effects of changes in accounting policies on the consolidated profit and loss for the six months ended 30 June 2005 are as follows:

Six months ended 30 June 2005	Effect of adopting			Total HK\$'000
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	
Increase in staff costs and related expenses	–	(1,040)	–	(1,040)
Decrease in amortisation of held-to-maturity securities	–	–	1,087	1,087
(Decrease)/increase in profit attributable to shareholders	–	(1,040)	1,087	47

(b) Impact of early adopting HKFRS and HKASs in 2004

The Group early adopted HKAS 36 "Impairment of Assets", HKAS 38 "Intangible Assets", HKAS 40 "Investment Property" and HKFRS 3 "Business Combinations" with effect from 1 January 2004. The adoption of these standards did not have material financial impact to the Group's profit attributable to shareholders for the period ended 30 June 2004.

3 Critical accounting estimates and judgements

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) *Estimated fair value of financial instruments*

The fair value of financial instruments traded in active markets (such as trading 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 price at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(b) *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.

4 Turnover, revenues and segment information

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Sales of goods	994,232	927,290
Rental and service income from investment properties	23,406	23,609
	1,017,638	950,899
Other revenue		
Interest income	36,246	29,239
Total revenues	1,053,884	980,138

Segment information is presented in respect of the Group's business and geographical segments. The Group is grouped into core business segments as set out below. Other corporate income and expenses represent head office administration, income and expenses for corporate management purpose which are not allocated to the core business segments.

4 Turnover, revenues and segment information (Continued)

Primary segment information by business:

	Six months ended 30 June 2005					
	Toy operation HK\$'000	Technology operation HK\$'000	Licensing and sourcing operation HK\$'000	Property operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
Company and subsidiaries						
– External sales	701,167	253,129	39,936	23,406	–	1,017,638
– Inter-segment sales	590	2,192	237	–	(3,019)	–
	701,757	255,321	40,173	23,406	(3,019)	1,017,638
Share of associates	2,634	–	–	–	–	2,634
	704,391	255,321	40,173	23,406	(3,019)	1,020,272
Segment results						
Company and subsidiaries	12,466	(8,230)	(4,254)	27,632		27,614
Other corporate income and expenses						25,761
Operating profit						53,375
Share of profits less losses of associates	(365)	–	–	(31)		(396)
Earnings before interest expense and taxation	12,101	(8,230)	(4,254)	27,601		52,979
Finance costs						(607)
Taxation						(3,158)
Profit for the period						49,214
Depreciation and amortisation	(16,364)	(4,937)	(102)	(212)		(21,615)
Gain on disposal of investment properties	–	–	–	8,285		8,285
Capital expenditure	(10,507)	(4,399)	(51)	(12)		(14,969)

4 Turnover, revenues and segment information (Continued)

Primary segment information by business (Continued):

	Six months ended 30 June 2004					
	Toy operation HK\$'000	Technology operation HK\$'000	Licensing and sourcing operation HK\$'000	Property operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover						
Company and subsidiaries						
– External sales	633,822	264,950	28,518	23,609	–	950,899
– Inter-segment sales	18,118	1,627	527	–	(20,272)	–
	651,940	266,577	29,045	23,609	(20,272)	950,899
Share of associates	3,746	–	–	–	–	3,746
	655,686	266,577	29,045	23,609	(20,272)	954,645
Segment results						
Company and subsidiaries	1,234	19,534	(1,156)	27,795		47,407
Other corporate income and expenses						10,670
Operating profit						58,077
Share of profits less losses of associates	575	–	–	(109)		466
Earnings before interest expense and taxation	1,809	19,534	(1,156)	27,686		58,543
Finance costs						(83)
Taxation						(12,347)
Profit for the period						46,113
Depreciation and amortisation	(18,587)	(4,597)	(126)	(379)		(23,689)
Gain on disposal of investment properties	–	–	–	12,386		12,386
Capital expenditure	(14,389)	(4,757)	(280)	(50)		(19,476)

4 Turnover, revenues and segment information (Continued)

Secondary segment information by geographical locations:

	Six months ended 30 June			
	Turnover		Segment results	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company and subsidiaries				
United States	406,004	358,881	(3,293)	(4,009)
Europe	193,098	170,358	(1,591)	2,734
Japan	65,842	209,243	5	11,829
Hong Kong	80,003	101,782	4,215	6,520
Mainland China	53,337	32,724	27,568	30,429
Korea	126,724	4,682	2,052	235
Other regions	92,630	73,229	(1,342)	(331)
	1,017,638	950,899	27,614	47,407
Other corporate income and expenses			25,761	10,670
Operating profit			53,375	58,077

5 Operating profit

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
<u>Crediting:</u>		
Gain on disposal of available-for-sale financial assets (Note a)	11,890	–
Gain on disposal of investment properties	8,285	12,386
Net exchange gains	–	4,820
Gain on disposal of property, plant and equipment	319	–
Fair value gains on investment properties	2,724	–
<u>Charging:</u>		
Cost of inventories sold (Note b)	904,905	833,241
Staff costs (including directors' emoluments)	210,699	174,883
Depreciation and amortisation	21,615	23,689
Operating lease charges in respect of properties	18,306	16,565
Net exchange losses	822	–

Notes:

- (a) The Group disposed of an equity interest of 8.1% in one of its available-for-sale financial assets for a consideration of HK\$11,890,000, and recorded a gain of HK\$11,890,000 for the six months ended 30 June 2005.
- (b) Cost of inventories sold includes certain portion of staff cost, depreciation and operating lease charge totalling HK\$186,176,000 (2004: HK\$162,316,000), which are also included in the respective amount of expenses disclosed separately.

6 Taxation

	Six months ended 30 June 2005				Six months ended 30 June 2004			
	Current taxation – Current taxation – current period HK\$'000	over provisions in prior periods HK\$'000	Deferred taxation HK\$'000	Total HK\$'000	Current taxation – Current taxation – current period HK\$'000	under/(over) provisions in prior periods HK\$'000	Deferred taxation HK\$'000	Total HK\$'000
Hong Kong	1,744	(2,389)	(1,563)	(2,208)	3,086	283	3,314	6,683
Outside Hong Kong	8,936	(755)	(2,815)	5,366	3,499	(736)	2,901	5,664
	10,680	(3,144)	(4,378)	3,158	6,585	(453)	6,215	12,347

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong has been provided for on the estimated assessable profits for the period at applicable rate ruling in the relevant countries.

7 Dividend

At a meeting held on 21 March 2005, the directors proposed a final dividend of HK2 cents per ordinary share for the year ended 31 December 2004. Dividends totalling HK\$134,100,000 were paid on 18 May 2005 and have been reflected as an appropriation of retained profits for the six months ended 30 June 2005.

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2005 (2004: Nil).

8 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$48,825,000 (2004: HK\$44,043,000) and 6,705,000,263 (2004: 6,705,000,263) ordinary shares in issue during the period.

The employee share options outstanding did not have a material dilutive effect on earnings per share.

9 Investment properties

	HK\$'000
Net book value at 1 January 2005	681,130
Disposals	(57,504)
Changes in fair value of investment properties	2,724
Net book value at 30 June 2005	626,350

10 Available-for-sale financial assets

Available-for-sale financial assets at 30 June 2005 represent unlisted overseas equity securities. Movement during the period is as follows:

	HK\$'000
At 1 January 2005	–
Credited to investment revaluation reserve (<i>Note 2(a)</i>)	8,968
At 30 June 2005	8,968

11 Non-trading securities

	31 December 2004 HK\$'000
Unlisted shares, Hong Kong	273
Unlisted securities, overseas	
Equity securities	65,912
Convertible notes	19,500
	85,685
Less: impairment provision	(85,412)
	273

Pursuant to the transitional provisions of HKAS 39, the Group has redesignated all of those investments previously classified as "non-trading securities" as shown above as "available-for-sale financial assets" and "loans receivable" with effect from 1 January 2005.

12 Loans receivable

Included in loans receivable is an investment in convertible notes issued by FreeBorders, Inc. ("FreeBorders") with an aggregate principal amount of HK\$22,455,000 that matures on 31 July 2005 and 31 July 2006. A full impairment provision against these loans was made at 30 June 2005.

Upto the date of approval of these Interim Accounts, FreeBorders had defaulted the repayment of the convertible note of HK\$11,412,000 due on 31 July 2005. The Group is in the course of negotiating with FreeBorders on the repayment arrangement. No agreement has been reached.

13 Trade receivables

Included in trade receivables at 30 June 2005 are amounts totalling HK\$34,361,000 (31 December 2004: HK\$13,417,000) due from certain subsidiaries of Hutchison Whampoa Limited.

The Group's average credit period granted to trade debtors mainly ranges from 30 to 60 days. At 30 June 2005 and 31 December 2004, the aging analysis of trade receivables, net of provision, based on the date of invoice is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
0-30 days	249,523	175,498
31-60 days	71,133	97,838
61-90 days	43,859	50,820
Over 90 days	16,926	27,426
	381,441	351,582

14 Trade payables

At 30 June 2005 and 31 December 2004, the aging analysis of trade payables is as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
0-30 days	286,937	184,396
31-60 days	83,851	108,400
61-90 days	9,219	19,091
Over 90 days	7,131	26,333
	387,138	338,220

15 Share capital

	30 June 2005 Number of shares	30 June 2005 Amount HK\$'000	31 December 2004 Number of shares	31 December 2004 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:				
Ordinary shares of HK\$0.1 each	6,705,000,263	670,500	6,705,000,263	670,500

16 Share options

The Company operates a share option scheme. On 3 June 2005, 123,750,000 share options were granted to directors and employees at an exercise price of HK\$0.822 per share, which is higher than the market price of the shares on the date of grant. Options are conditional on the employee completing the prescribed years of services. One third of the options are exercisable after one year from the grant date; another one third are exercisable after two years from the grant date and the remaining one third are exercisable after three years from the grant date and up to 10 years commencing from the grant date. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No option is exercisable or has been exercised up to 30 June 2005. The number of share options outstanding at 30 June 2005 is 123,750,000, these options expire on 3 June 2015 unless exercised before then.

The fair value of options granted, determined using the Binomial valuation model, was HK\$0.2498 per share. The significant inputs into the model were share price of HK\$0.82 at the grant date, exercise price shown above, standard deviation of expected share price returns of 31.7%, expected life of options of 7 years, expected dividend paid out rate of 2.44% and annual risk-free interest rate of 3.444%. 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.

17 Capital commitments

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Capital commitments for property, plant and equipment:		
Contracted but not provided for	20,738	4,729
Authorised but not contracted for	52,382	94,744
	73,120	99,473

18 Operating lease commitments

- (a) At 30 June 2005 and 31 December 2004, the Group had future aggregate minimum lease receivables under non-cancellable leases in respect of investment properties as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Not later than one year	38,853	33,138
Later than one year and not later than five years	33,217	30,111
Later than five years	4,584	5,434
	76,654	68,683

- (b) At 30 June 2005 and 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Not later than one year	40,991	37,066
Later than one year and not later than five years	105,325	117,165
Later than five years	9,617	14,857
	155,933	169,088

19 Material related party transactions

During the period, the Group had the following material transactions with related parties, which were carried out in the normal course of business at terms determined and agreed by both parties:

- (a) The Group manufactured a range of products including the cap covers, injection moulds, premium items and mobile phone accessories for other subsidiaries of Hutchison Whampoa Limited. The aggregate purchase amount for the six months ended 30 June 2005 was approximately HK\$60,240,000 (30 June 2004: HK\$99,937,000).
- (b) The Group had transactions with minority shareholders of subsidiaries and their affiliates during the period as follows:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Rental expenses	10,855	10,017
Management fee expenses	1,866	1,870
Interest expenses	577	–

- (c) Hutchison International Limited, a wholly owned subsidiary of Hutchison Whampoa Limited, has been providing and will continue to provide administrative and support services to the Group. The aggregate fee charged for the six months ended 30 June 2005 was approximately HK\$2,000,000 (30 June 2004: HK\$1,500,000).

- (d) Key management compensation

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	4,728	4,340
Share-based payments	454	–
	5,182	4,340

20 Ultimate holding company

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

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

Registered Office

Clarendon House, Church Street
Hamilton HM11, Bermuda
Telephone : +441 295 1422
Facsimile : +441 292 4720

Head Office and Principal Place of Business

22nd Floor, Hutchison House
10 Harcourt Road, Hong Kong
Telephone : +852 2128 1188
Facsimile : +852 2128 1778

Business Address in Hong Kong

Level 12, Metroplaza, Tower 2
223 Hing Fong Road, Kwai Chung
New Territories, Hong Kong
Telephone : +852 2861 1638
Facsimile : +852 2422 1639

Bermuda Principal Share Registrars

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke, Bermuda
Telephone : +441 295 1111
Facsimile : +441 295 6759

Hong Kong Branch Share Registrars

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong
Telephone : +852 2862 8628
Facsimile : +852 2865 0990

Investor Information

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

Investor Relations Contact

Please direct enquiries to:
Deputy Managing Director
Level 12, Metroplaza, Tower 2
223 Hing Fong Road, Kwai Chung
New Territories, Hong Kong
Telephone : +852 2861 1638
Facsimile : +852 2422 1639

Website Address

www.hutchisonharbourring.com