

HUTCHISON HARBOUR RING LIMITED



HUTCHISON HARBOUR RING LIMITED

和記港陸有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 715)

UNAUDITED RESULTS FOR SIX MONTHS ENDED 30 JUNE 2004

HIGHLIGHTS

	2004 HK\$'million	2003 HK\$'million	Changes
Turnover – company & subsidiaries	950.9	783.1	21.4%
Profit attributable to shareholders	44.0	32.8	34.4%
Earnings per share	0.66 cents	0.54 cents	22.2%

- Earnings before interest expense and taxation (“EBIT”) of HK\$58.5 million, an increase of 41%
 - Strong growth of technology operation with turnover of HK\$293.9million and EBIT of HK\$18.4 million, an increase of 155% and 339% respectively
 - Cash and liquid investments totalled HK\$1,968.7 million
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HUTCHISON HARBOUR RING LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June

	Note	Unaudited	
		2004 HK\$'000	2003 HK\$'000
Turnover			
Company and subsidiaries		950,899	783,109
Share of associates		3,746	13,188
	1	954,645	796,297
Company and subsidiaries			
Turnover	1	950,899	783,109
Cost of sales		(838,243)	(674,774)
Gross profit		112,656	108,335
Other revenues		29,239	23,720
Other net income		17,577	11,872
Administrative expenses		(76,097)	(79,220)
Selling and distribution costs		(25,298)	(22,987)
Operating profit	2	58,077	41,720
Share of profits less losses of associates		466	(212)
Earnings before interest expense and taxation		58,543	41,508
Finance costs		(83)	(136)
Profit before taxation		58,460	41,372
Taxation	3	(12,347)	(6,156)
Profit after taxation		46,113	35,216
Minority interests		(2,070)	(2,438)
Profit attributable to shareholders		44,043	32,778
Earnings per share	4	0.66 cents	0.54 cents

HUTCHISON HARBOUR RING LIMITED

Notes:

1 Segment information

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, other income and expenses for corporate management purpose which are not allocated to the core business segments.

Primary segment information by business:

	Six months ended 30 June 2004				
	Toy operation HK\$'000	Technology operation HK\$'000	Property operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
Company and subsidiaries					
- External sales	633,822	293,468	23,609	-	950,899
- Inter-segment sales	18,118	468	-	(18,586)	-
	651,940	293,936	23,609	(18,586)	950,899
Share of associates	3,746	-	-	-	3,746
	655,686	293,936	23,609	(18,586)	954,645
Segment results					
Company and subsidiaries	1,234	18,378	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	18,378	27,686		58,543
Finance costs					(83)
Taxation					(12,347)
Minority interests					(2,070)
Profit attributable to shareholders					44,043

HUTCHISON HARBOUR RING LIMITED

1 Segment information (continued)

	Six months ended 30 June 2003				
	Toy operation HK\$'000	Technology operation HK\$'000	Property operation HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
Company and subsidiaries					
- External sales	646,226	115,302	21,581	-	783,109
- Inter-segment sales	25,756	-	-	(25,756)	-
	671,982	115,302	21,581	(25,756)	783,109
Share of associates	4,521	-	8,667	-	13,188
	676,503	115,302	30,248	(25,756)	796,297
Segment results					
Company and subsidiaries	19,531	4,182	15,161		38,874
Other corporate income and expenses					2,846
Operating profit					41,720
Share of profits less losses of associates	600	-	(812)		(212)
Earnings before interest expense and taxation	20,131	4,182	14,349		41,508
Finance costs					(136)
Taxation					(6,156)
Minority interests					(2,438)
Profit attributable to shareholders					32,778

Secondary segment information by geographical locations:

	Six months ended 30 June			
	Turnover		Segment results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries				
United States	358,881	392,447	(4,009)	5,834
Europe	170,358	124,536	2,734	2,223
Japan	209,243	120,409	11,829	3,724
Hong Kong	101,782	51,311	6,520	2,180
Mainland China	32,724	31,123	30,429	24,024
Other regions	77,911	63,283	(96)	889
	950,899	783,109	47,407	38,874
Other corporate income and expenses			10,670	2,846
Operating profit			58,077	41,720

HUTCHISON HARBOUR RING LIMITED

2 Operating profit

Six months ended 30 June
2004 2003
HK\$'000 HK\$'000

Operating profit is stated after crediting and charging the following:

Crediting:

Gain on disposal of investment properties	12,386	-
Gain on disposal of a subsidiary	-	6,931

Charging:

Cost of inventories sold	833,241	670,111
Depreciation and impairment	23,689	21,715

3 Taxation

	Six months ended 30 June 2004				Six months ended 30 June 2003			
	Current taxation – current period HK\$'000	Current taxation – (over)/ under provisions in prior periods HK\$'000	Deferred taxation HK\$'000	Total HK\$'000	Current taxation – current period HK\$'000	Current taxation – over provisions in prior periods HK\$'000	Deferred taxation HK\$'000	Total HK\$'000
Hong Kong Subsidiaries	3,086	283	3,314	6,683	2,086	(1,775)	(1,117)	(806)
Outside Hong Kong Subsidiaries	3,430	(736)	2,901	5,595	3,462	-	3,428	6,890
Associates	69	-	-	69	72	-	-	72
	<u>6,585</u>	<u>(453)</u>	<u>6,215</u>	<u>12,347</u>	<u>5,620</u>	<u>(1,775)</u>	<u>2,311</u>	<u>6,156</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits 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.

HUTCHISON HARBOUR RING LIMITED

4 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$44,043,000 (2003: HK\$32,778,000) and 6,705,000,263 (2003: weighted average number of 6,021,381,000) ordinary shares in issue during the period.

DIVIDEND

Taking into consideration the seasonality of the Group's principal business in its toy division, like past years, the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003:Nil) and will consider the payment of any final dividend for the full year ending 31 December 2004.

REVIEW OF OPERATIONS

The Group's turnover, including its share of associates' turnover, for the period showed strong growth, rising 20% from HK\$796.3 million in 2003 to HK\$954.6 million in 2004. Earnings before interest expense and taxation ("EBIT") rose 41% from HK\$41.5 million in 2003 to HK\$58.5 million in 2004.

The Group's growth in turnover and EBIT was mainly attributed to the strong performance of the technology division in its sale of mobile phone accessories partially offset by the toy division's decreased revenue and EBIT contribution due to intensifying market competition, increased plastics prices and rising labour costs. The Group's investment properties in Shanghai continued to benefit from satisfactory occupancy rates and higher yields.

A new licensing and sourcing division was established early this year to capture the synergies of the Group's sourcing network in Europe, Korea and China and licensing opportunities on the foundation of the licensing agreements with Warner Brothers signed earlier this year. This division plans to pursue business opportunities covering the entire value chain from brand licensing, product sourcing, wholesale trading to retail distribution.

Toys

The toy division continued to be the principal contributor of the Group's turnover. As a result of intensive competition, turnover of the toy operation has declined slightly from HK\$676.5 million in 2003 to HK\$655.7 million in 2004. Despite the seasonality factor and adverse effects of unexpected increased plastic prices and also labour costs, the toy division managed to achieve an EBIT slightly above breakeven level. The aftermath of the Iraq war in 2003 and the disruptions in oil supply have caused an upsurge in prices of plastics, increasing the manufacturing costs. Shortage in electricity and labour, as well as increased manpower costs have further compounded the problem. In response, the Group has implemented engineering improvement programs in product development to minimize the adverse impact of rising plastic costs. In addition, new back-up power generation facilities have been installed to reduce the Group's reliance on the public power supply network.

Looking ahead, the Group will continue its efforts to diversify into new product lines, such as digital cameras and household products. Opportunities with electronic toy products are also being evaluated. The Group is also continually striving to improve efficiency through streamlining work processes and upgrading the manufacturing facilities.

Technology

The Group's technology division achieved strong growth during the period. Its turnover has grown by 155% to HK\$293.9 million for the six months ended 30 June 2004. EBIT grew 339% from HK\$4.2 million in 2003 to HK\$18.4 million in 2004. This impressive performance was mainly attributable to strong sales of mobile phone accessories to major 3G handset vendors and the popularity of the Group's in-house developed Bluetooth® headsets in the European and Asian markets.

In addition to the mobile phone chargers and headset products launched last year, the Group commenced successfully to launch a new product, batteries for 3G handsets, during the period under review. In early 2004,

HUTCHISON HARBOUR RING LIMITED

the Group launched its proprietary designed brand “i.Tech” Bluetooth® headset which has been well-received in the market. New enhanced versions with multimedia functions are planned for launch later this year.

To increase the Group’s competitive strength, management is focusing on expanding the Group’s product development capabilities and broadening the product range by rolling out more advanced Bluetooth®, multimedia and digital products that fit the strategies of communications service providers and cater for consumer preferences in the wake of the new mobile connectivity. In addition, a new generation digital radio is scheduled to be launched later this year, a new technology that has proven to be highly popular in Europe.

Property

The property division’s turnover from subsidiaries has grown 9% from HK\$21.6 million to HK\$23.6 million in 2004. During the period, the Group disposed of an industrial property in Shenzhen realizing a gain of HK\$12.4 million. Excluding the profit from this transaction, the property division reported EBIT of HK\$15.3 million for the six months ended 30 June 2004, which is 7% ahead of the same period last year.

The Group continued to benefit from demand for offices in Shanghai as more multinational corporations set up their representative offices or regional headquarters in the city. As a result, the Group’s two commercial buildings in Puxi, Shanghai achieved satisfactory rental yields and average occupancy of 98%.

GROUP CAPITAL RESOURCES AND LIQUIDITY

The Group continues to maintain a healthy financial position during the period. Total cash and cash equivalents plus other liquid listed investments amounted to HK\$1,968.7 million at 30 June 2004 (31 December 2003: HK\$2,047.5 million). The Group was debt free at 30 June 2004 and 31 December 2003.

TREASURY POLICIES

At 30 June 2004, the Group had no material exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

There was no pledge of fixed assets at 30 June 2004 and 31 December 2003. At 30 June 2004, mortgage loan facilities totalling HK\$0.1 million (31 December 2003: HK\$0.7 million) granted by certain banks to purchasers of the Group’s properties in China were secured by the guarantee of a subsidiary. Contingent liabilities did not change significantly from 31 December 2003.

EMPLOYEES

At 30 June 2004, excluding associates, the Group employed a work force of 23,022 (31 December 2003: 20,662). During the first six months of the year, the employee costs, including directors’ emoluments, amounted to HK\$174.9 million (2003: HK\$176.7 million). The Group’s employment and remuneration policies remained the same as those described in the Annual Report for the year ended 31 December 2003.

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 non-executive directors, has reviewed with management and approved the unaudited condensed consolidated accounts for the six months ended 30 June 2004.

OUTLOOK

The Group achieved strong profit growth during the first half of 2004, due to the strong performance of the technology division, favourable rental yields from the properties in Shanghai and the toy operation managed to reach an EBIT slightly above breakeven level despite higher plastic costs, unstable electricity supply, and rising labour costs.

HUTCHISON HARBOUR RING LIMITED

Looking ahead, the Group is focusing on further growth in business through continual product enrichment and diversification. Efforts will be exerted to enrich product offerings through innovation on original product design, in particular on Bluetooth®, multimedia and digital products, and to diversify the product range by penetrating into new product areas like high-end computer-related electronic toy products. In addition, and particularly in the toy operation, the Group is continuing to explore initiatives to mitigate the impact of rising production costs.

The Warner Brothers alliance formed earlier this year provides a promising business opportunity for future growth and the Group is scheduled to start establishing its network of Warner Brothers retail outlets in different cities of China, including a flagship store, in 2005. Management will continue to explore potential synergetic business opportunities in all operations in order to broaden the earnings base and increase shareholders' value.

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

PUBLICATION OF FURTHER INFORMATION

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") in force prior to 31 March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Company's and the Stock Exchange's websites in due course. The Group's unaudited condensed consolidated interim accounts have been reviewed by the Company's auditors, PricewaterhouseCoopers, and a report of their review will be included in the Interim Report to Shareholders.

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Mr. FOK Kin-ning, Canning (*Chairman*)
Mr. LAI Kai Ming, Dominic (*Deputy Chairman*)
Mr. LUK Tei, Lewis (*Deputy Chairman and Deputy Managing Director*)
Mr. KO Yuet Ming (*Managing Director*)
Mrs. CHOW WOO Mo Fong, Susan
Mr. CHOW Wai Kam, Raymond
Ms. Edith SHIH
Ms. CHAN Wen Mee, May (*Michelle*)
Mr. ENDO Shigeru
Ms. CHEUNG Wing Han, Miranda
Mr. TAM Yue Man

Non-executive Director:

Mr. Ronald Joseph ARCULLI

Independent Non-executive Director:

Mr. CHENG Ming Fun, Paul

HUTCHISON HARBOUR RING LIMITED

FOK Kin-ning, Canning
Chairman

Hong Kong, 17 August 2004

** for identification purpose only*

**A member company of
Hutchison Whampoa Limited**

