

The Board of directors submit herewith the Interim Report and Condensed Financial Statements of Soundwill Holdings Limited (the “Company”) and its subsidiaries (the “Group”) for the six months ended 30 June 2004. The consolidated results and consolidated cash flow statement for the six months ended 30 June 2004 and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 17 to 34 of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overview**

The improvements in Hong Kong’s economy and retail market during the first half of 2004 were driven largely by the introduction of the Individual Visit Scheme and the signing of the Closer Economic Partnership Arrangement (CEPA). The consumer price index released by the Government in July 2004 marked the end of Hong Kong’s deflation, which had endured for 68 consecutive months, whilst the Government’s latest economic statistics showed a 12.1% GDP growth in the second quarter of 2004. The traffic flow and occupancy of Soundwill Plaza, the Group’s flagship property, remained robust benefiting from the buoyant retail market and its occupancy rate remains one of the highest amongst Grade A commercial buildings in Causeway Bay. Coupled with a healthy financial position and a good relationship with banks, the Group was able to obtain an adjustment in interest rates from major creditor banks. This resulted in a reduction in the Group’s interest expenses and the Group saw a healthy financial position with solid performances in property leasing during the period.

### **Business in Hong Kong**

#### ***Property Leasing***

Soundwill Plaza, the Group’s flagship development, is situated in a prime commercial and retail location in Causeway Bay, Hong Kong. With a gross floor area of about 250,000 square feet, Soundwill Plaza is currently one of the largest

leisure and shopping hot spots operating under the concept of upper-floor retailing. It is occupied by about 50 tenants, the majority of which are high-end shops including world-renowned beauty saloons, slimming centres, spas as well as fashion, optical and accessories shops that target female customers.

Soundwill Plaza, which is held for rentals, recorded an occupancy rate of near 100% during the period with retail shops accounting for about 80% of the tenants. Its occupancy rate remains one of the highest amongst Grade A commercial buildings in the district. With improved market conditions, rental rates at Soundwill Plaza recorded an increment of about 10% generating stable and respectable rental income.

During the period, the Group adopted a proactive strategy by assisting tenants through launching promotional campaigns including joint promotional activities with bank credit cards, hotels, renowned retailers, newspapers and magazines, which all contributed towards raising the tenants' competitive advantages. In addition, the Group maintained close association with its tenants by ensuring a thorough understanding of tenants' businesses and exploring joint marketing and promotional opportunities with a view to achieving stable development.

### ***Property Management***

The Group's subsidiary, Goldwell Property Management Limited ("Goldwell"), specializes in providing property and facility management services to large-scale commercial buildings, residential properties and shopping malls. Goldwell has been accredited with the international ISO9001:2000 certification and is a full member of The Hong Kong Association of Property Management Companies Limited.

The various professional qualifications obtained by Goldwell were attributable to the company's quality management services and the expertise of its professional staff. Currently, Goldwell and its affiliated companies provide management services to 40 buildings — which occupy a total floor area of over 2 million square feet — with around 1,500 residents and tenants.

To widen its income sources, the Group formed Strong Well Property Management Limited (“Strong Well”) last year. Strong Well provides property management service to small-to-medium-sized residential developments and has obtained management contracts for more than 16 buildings of which most are residential properties.

## **Business in The Mainland**

### ***Urban Infrastructure***

Through Soundwill (China) Limited, which is engaged in the operation of and investment in urban infrastructure facilities in the Mainland, the Group excels in the installation of comprehensive underground conduit network. With the benefit of a seamless commercial network, solid engineering experience and thorough strategic planning, the Group has built confidence amongst various city and provincial authorities regarding co-operation in urban infrastructure development. The Group has successfully obtained exclusive rights in about 20 major provinces and cities in the Mainland to develop, operate and manage urban infrastructure facilities for a period of more than twenty years. The Group’s capital contribution to the PRC subsidiaries will be made in accordance with the joint venture agreements and the required fundings will be financed by internal resources and available banking facilities of the Group.

### ***Property***

Leveraging on the Group’s healthy financial position and its solid experience in the property sector, the Group has been proactive in researching on Mainland property investment strategy with a view to injecting new momentum into the Mainland property market.

## **Financial Review**

During the first half of 2004, the Group achieved a healthy financial position, posting a profit attributable to shareholders of approximately HK\$16,048,000. This represents an increase of 13% as compared with the same period last year.

Earnings per share amounted to approximately HK\$0.15. The improvement on the Group's operating results was attributable to its healthy financial position and good relationship with banks. During the period, the Group negotiated with major creditor banks to enhance financing terms and was able to secure lower interest rates, which helped reduce the Group's interest expenses and finance costs. For the period under review, the Group's interest expenses were approximately HK\$19,607,000 which showed a decrease of 36% over the interest expenses of approximately HK\$30,508,000 recorded for the same period last year due to the lower interest rate environment.

Furthermore, the Group's flagship property Soundwill Plaza achieved satisfactory performance in leasing activity, with rental rates recording a slight upward adjustment as a result of better market conditions. This generated stable and respectable rental revenue for the Group. With better market conditions, the Group's profit increased steadily and the management is optimistic towards the Group's upcoming performance. Currently, the Group has adequate working capital which, coupled with a prudent financing strategy, is sufficient for its daily operational needs.

## **Prospects**

With huge spending from the 2.6 million visitors entering Hong Kong under the Individual Visit Scheme (introduced just over a year ago), the Hong Kong tourism industry remained buoyant, benefiting Hong Kong's overall economy. Hong Kong's retail market continues to benefit from the Individual Visit Scheme and will improve as consumers' willingness to spend grows. A better retail market is expected for the second half of 2004 as market conditions are expected to remain positive. The Group is determined to capture this golden opportunity by positioning Soundwill Plaza as a leisure and shopping ideal venue not-to-be-missed by either local or Mainland visitors. Looking forward, the Group will continue its pragmatic and entrepreneurial vision by focusing on property investment and leasing as well as striving to enhance profitability and the shareholders' returns.

In addition, the Group will continue to explore new urban infrastructure development opportunities in Mainland provinces and cities to further strengthen the Group's competitive advantage. The Group will monitor closely any Mainland property with good development potential for investment use. Leveraging on its expertise in development and management of Grade A commercial and residential buildings, the Group will explore opportunities in the Mainland property market to seek business diversification and broaden the Group's earning base.

### Interim Dividend

The Directors do not recommend any interim dividend for the six months ended 30 June 2004 (30 June 2003: Nil).

### CAPITAL STRUCTURE

	<b>Six months ended 30 June 2004 (Unaudited) HK\$'000</b>	<b>Year ended 31 December 2003 (Audited) HK\$'000</b>
Shareholders' funds	<b>1,309,609</b>	921,511
Interest bearing borrowings	<b>1,274,250</b>	1,356,700
Total borrowing costs	<b>19,607</b>	54,658
Gearing ratio (included all borrowings)	<b>97%</b>	147%
Average cost of borrowings	<b>2.9%</b>	4.0%

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong dollars and Renminbi. As there is no significant fluctuation in exchange rate between the Hong Kong dollars and Renminbi, the Group believes its exposure to exchange rate risk is not material.

During the period, the Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

Funding and treasury policies of existing subsidiaries in the Group are centrally managed and controlled by the top management in Hong Kong.

All the bank borrowings of the Group are at floating interest rate.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continues to be in a stable financial position with cash and bank balances of approximately HK\$36,943,000 as at 30 June 2004 (31 December 2003: approximately HK\$36,039,000). As at 30 June 2004, the Group's current ratio, as a ratio of current assets to current liabilities, was 0.25 (31 December 2003: 0.21) and the Group's gearing ratio, expressed as a ratio of interest bearing borrowings to shareholders' funds, was 97% (31 December 2003: 147%).

## **DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

There was no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2004.

## **SIGNIFICANT INVESTMENTS HELD**

There was no material change in the significant investments held by the Group during the six months ended 30 June 2004.

## **EMPLOYEES**

There was no material change regarding the number and remuneration of the employees of the Group since the publication of the Company's 2003 Annual Report.

## **CHARGES ON GROUP ASSETS**

As at 30 June 2004, properties of the Group with an aggregate net book value of approximately HK\$2,516,046,000 (31 December 2003: approximately HK\$2,216,046,000) were pledged to secure banking facilities for the Group.

## DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

### (a) Directors' interest in the Company

As at 30 June 2004, the interests of the Directors and chief executive in the share, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO")) which are required to be (i) notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (i) Long positions in the shares:

Name of Director	Capacity	Number of Shares	Percentage of Shareholding
Foo Kam Chu Grace	Interest of controlled corporation	81,482,505 (Note)	67.05
Foo Kam Chu Grace	Beneficial owner	96,000	0.08
Tse Chun Kong Thomas	Interest of Spouse	6,000	0.00
Tse Chun Kong Thomas	Beneficial owner	723	0.00

*Note:* The 81,482,505 Shares are held by Ko Bee Limited, the entire issued share capital of which is held by Foo Kam Chu Grace.

- (ii) *Long position in underlying shares of equity derivatives of the Company — interest in bonus warrants each of which is convertible into one share at the subscription price of HK\$2.00:*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of shares underlying held as bonus warrants</b>	<b>Percentage of Underlying Shares</b>
Tse Chun Kong Thomas	Interest of Spouse	1,000	0.00
Tse Chun Kong Thomas	Beneficial owner	120	0.00

- (iii) *Long positions in underlying shares of equity derivatives of the Company — interests in share options of the Company (being granted and remained outstanding):*

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares in the Option</b>	<b>Exercise Period</b>	<b>Price of Grant</b>	<b>Subscription Price per Share</b>
Foo Kam Chu Grace	Beneficial owner	70,000	08/08/2000 to 31/12/2004	HK\$1.00	HK\$8.20
		76,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
Tse Chun Kong Thomas	Beneficial owner	40,000	08/08/2000 to 31/12/2004	HK\$1.00	HK\$8.20
		50,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
		60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
Chan Wai Ling	Beneficial owner	60,000	02/07/2001 to 24/02/2007	HK\$1.00	HK\$2.97
		60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
Kwan Chai Ming	Beneficial Owner	20,000	01/06/2001 to 24/02/2007	HK\$1.00	HK\$12.40
		10,000	02/01/2002 to 24/02/2007	HK\$1.00	HK\$2.97
		40,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
Liu Hanbo	Beneficial Owner	60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
Meng Qinghui	Beneficial owner	60,000	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50



**(b) Directors' interests in associated corporations**

Name of Director	Name of Associated Corporation	Capacity	Number and Class of Shares	Percentage of Shareholding
Foo Kam Chu Grace	Ko Bee Limited	Beneficial owner	1 ordinary share	100%

**SHARE OPTION SCHEMES**

The Company have two share option schemes adopted on 25 February 1997 (the “1997 Share Option Scheme”) and 22 July 2002 (the “2002 Share Option Scheme”) respectively, details of outstanding share options granted under which are as follows:

**1997 Share Option Scheme**

Name of grantee	Date of grant	Exercise price <sup>1</sup>	Exercise period	Number of options			As at 30 June 2004
				As at 1 January 2004	granted during the 6 months period ended 30 June 2004	lapsed during the 6 months period ended 30 June 2004	
<b>Directors</b>							
Foo Kam Chu, Grace	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	70,000	—	—	70,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	76,000	—	—	76,000
Chan Wai Ling	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	60,000	—	—	60,000
Tse Chun Kong, Thomas	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	40,000	—	—	40,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	50,000	—	—	50,000
Kwan Chai Ming	1 June 2000	HK\$12.40	1 June 2001 to 24 February 2007	20,000	—	—	20,000
	2 January 2001	HK\$2.97	2 January 2002 to 24 February 2007	10,000	—	—	10,000

Name of grantee	Date of grant	Exercise price <sup>1</sup>	Exercise period	Number of options			As at 30 June 2004
				As at 1 January 2004	granted during the 6 months period ended 30 June 2004	lapsed during the 6 months period ended 30 June 2004	
Other Employees	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	70,000	—	—	70,000
	1 June 2000	HK\$12.40	1 December 2000 to 1 December 2005	10,000	—	—	10,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	188,000	—	—	188,000
	14 June 2002	HK\$2.55 <sup>2</sup>	14 June 2002 to 24 February 2007	50,000	—	50,000	—
				644,000	—	50,000	594,000

*Notes:*

1. The exercise prices were adjusted following the share consolidation of the Company effective on 4 April 2003 by multiplying the original exercise prices 50 times;
2. The closing market price per share on the trading date immediately preceding the date on which the share options were granted was HK\$0.05;
3. None of the share options granted was exercised during the year.

## 2002 Share Option Scheme

					Number of options			As at 30 June 2004
					Exercised/ Granted		Lapsed during the 6 months period ended 30 June 2004	
					during the 6 months period ended 30 June 2004			
					As at 1 January 2004			
Name of grantee	Date(s) of grant	Closing price immediately preceding date of grant	Exercise price	Exercise period	2004	2004	2004	
<b>Directors</b>								
Foo Kam Chu, Grace	11 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	80,000	—	80,000	—
Chan Wai Ling	10 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000
Tse Chun Kong, Thomas	14 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000
Kwan Chai Ming	10 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	40,000	—	—	40,000
Liu Hanbo	16 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000
Meng Qinghui	16 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	—	60,000
<b>Other employees</b>	10 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	280,000	—	240,000	40,000
	11 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	70,000	—	40,000	30,000
	12 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	50,000	—	30,000	20,000
	14 July 2003	HK\$1.50	HK\$1.50	8 January 2004 to 7 January 2009	60,000	—	60,000	—
					820,000	—	450,000	370,000

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the six months ended 30 June 2004, were rights to subscribe for equity or debt securities of the Company granted to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive as recorded in the register required to be kept under Part XV of the SFO, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable any such persons to acquire any such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the persons other than a director or chief executive of the Company who has an interest or short position 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, were as follows:

### (a) Long positions in the Shares

<u>Name of Shareholder</u>	<u>Capacity</u>	<u>Number of Shares</u>	<u>Percentage of Shareholding</u>
Ko Bee Limited	Beneficial owner	81,482,505	67.05%
COSCO Investments Limited ( <i>Note 1</i> )	Beneficial owner	4,447,104	3.66%
Graceful Nice Limited ( <i>Note 1</i> )	Beneficial owner	3,490,560	2.87%

**(b) Long positions in underlying shares of equity derivatives of the Company — interest in the warrants of the Company:**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Units of Warrant</b>	<b>Number of Underlying Shares</b>
COSCO Investments Limited	Beneficial owner	741,184 (Note 2)	741,184
Graceful Nice Limited	Beneficial owner	581,760 (Note 2)	581,760

*Notes:*

1. COSCO Investments Limited and Graceful Nice Limited were both indirect subsidiaries of China Ocean Shipping (Group) Company.
2. 741,184 and 581,760 units of bonus warrant of the Company had been granted and remained unexercised.

## **CONTINGENT LIABILITIES**

- (a) The property related proceedings relating to the purchase of certain properties in Yuen Long involving the deposit of HK\$65,000,000 paid by a subsidiary of the Company is still under progress. According to the legal advice taken by the Company, the shareholders of such subsidiary would not in any event, incur any further liability other than the said deposit of HK\$65,000,000 and costs. Full provision has already been made in respect of the said deposit.
- (b) Save and except the aforesaid there are no material changes since the publication of the Company's 2003 Annual Report.

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

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

The information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange will be published on the Stock Exchange's website in due course.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management, the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2004.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

Save that non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's bye-laws, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with Appendix 14 of the Listing Rules on the Stock Exchange.

## APPRECIATION

As a final note, I wish to take this opportunity to thank all the directors and staff for their contributions and good performance during the period.

By order of the Board  
**Foo Kam Chu, Grace**  
*Chairman*

Hong Kong, 14 September 2004