

The Board of directors ("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 2006. The consolidated income statement and consolidated cash flow statement for the six months ended 30 June 2006 and the consolidated balance sheet as at 30 June 2006 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 17 to 36 of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overview**

The Hong Kong economy recorded steady growth for the first half of 2006. Official statistics released by the Hong Kong Government in June this year revealed that the GDP has risen by 8.2% in comparison with the same period last year. Furthermore, the retail industry's total value of sales of goods has increased by 5.2% as compared with last year while the latest unemployment rate has been lowered to 4.9%, hitting its five-year low. Benefited from encouraging economic environment and atmosphere, and growing female consuming power, Soundwill Plaza, the Group's flagship property that targets on modern female customers, has its occupancy rate continuously recorded as one of the highest among Grade A retail commercial buildings in Causeway Bay. Rental rates are found to increase considerably in general, with those for particular tenants increased by almost twofold. Despite uncertain factors, for example, rising interest rates in the US, the local property market remain robust. Furthermore, the Group's healthy financial status and its cordial relations with the banks have kept its property leasing business and financial position at a satisfactory level during the period.

### **Business in Hong Kong**

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

Soundwill Plaza, the Group's flagship property, is situated in a prime commercial and retail location in Causeway Bay. Benefited from the ceaseless traffic flow, Soundwill Plaza has long been regarded as one of the most reputable ginza-type commercial buildings. With a gross floor area of about 250,000 square feet, Soundwill Plaza focuses on providing one-stop personalized services including beauty, slimming, spas as well as branded fashion and accessories.

Soundwill Plaza is solely held for rental purpose. Benefited from the prime location geographical edge, together with the professional management services provided, Soundwill Plaza has always been popular among prominent tenants and has recorded a nearly 100% occupancy rate for many years. Such continuously steady occupancy rate has

led to a respectable and stable income for the Group, which recorded an increment of about 10-20%. Rental rates for particular tenants even increased by twofold, resulting in the rental to become one of the core income of the Group.

The Group will continue to adopt a proactive approach in holding promotional campaigns for tenants including joint promotional activities with high-end shops, restaurants, media, newspapers, magazines, travel publications, etc., which all contribute towards retaining the popularity of Soundwill Plaza while raising the tenants' competitive advantages.

### ***Property Development***

The Group has two property projects undergoing development. The low-density residential project in Sai Kung is known for its hip and stylish design. It offers over 10 houses with a total site area of approximately 25,500 square feet, and is expected to be completed by the end of this year. The other residential development in Yuen Long with a site area of 140,000 square feet is scheduled to commence construction early next year.

### ***Urban Redevelopment***

With its substantial experience in urban redevelopment accumulated over the years, the Group has been progressing steadily in this area and has particularly established a special department for urban redevelopment. The Group continued to participate actively in urban redevelopment, and is expecting to complete the acquisition of one to two projects within this year.

### ***Property Management, E&M and Building Maintenance***

The Group holds several property management and maintenance companies with internationally recognized professional qualifications. Goldwell Property Management Limited, as a full member of The Hong Kong Association of Property Management Companies Limited, specializes in providing property and facility management services for large-scale commercial buildings, residential properties and shopping malls while Strong Well Property Management Limited specializes in providing property management services for small-to-medium-sized residential developments. Goldprofit (Consultant) Services Company Limited, on the other hand, specializes in maintenance services for the properties being managed. These three companies recorded an aggregate revenue of approximately HK\$7,249,000 during the first half of 2006, representing a 16% increase as compared to the same period last year.

Reflected from the maturing property management business and increasing demand in the local market, the Group believes that professional property management groups are becoming mainstream in the industry. The Group intends to expand its property management business and will actively research into acquiring other property management companies in order to sharpen its competitive edge in the market.

### **Business in The Mainland**

Leveraging on its healthy financial position, the Group has been active in penetrating into the Mainland market. Among the businesses, development of urban infrastructure in Mainland cities has made remarkable progress, which has returned to the black during the first half of 2006 and is expected to make satisfactory profits at the end of the year. The Group has also been active in researching on property investment strategies and exploring related opportunities in the Mainland market.

### **Financial Review**

For the six months ended 30 June 2006, the Group has recorded a turnover of HK\$93,504,000 (30 June 2005: HK\$74,425,000), representing an increase of 26% over the same period of last year. The increased turnover reflected the incremental growth in rental income in Hong Kong and an increase in sales revenue of urban infrastructure business in PRC.

The Group's net profit attributable to equity holders of the Company increased to HK\$206,904,000 (30 June 2005: HK\$183,065,000), representing an increase of 13% over the corresponding period of last year. Basic earnings per share was HK\$0.93 (30 June 2005: HK\$1.21).

The underlying net profit, representing the net profit attributable to equity holders of the Company excluding the net gain on fair value adjustment of investment properties of HK\$223,868,000 and its related deferred tax of HK\$39,177,000, has increased to HK\$22,213,000, representing an increase of 25% over the same period of last year.

The Group's positive operating results was attributable to the global as well as local economic conditions remained broadly favourable despite a higher interest rate during the period under review. The Group's flagship property Soundwill Plaza has achieved a stable rental growth with an upward adjustment in rental rate upon renewal which generating steady rental income and sufficient cash flows for the Group.

## **Prospects**

The constantly rising number of visitors is expected to generate numerous opportunities for the Hong Kong retail industry. Together with the encouraging factors that local unemployment rate continues to lower while consuming sentiment continues to improve, the Hong Kong economy is stimulated as a whole. The Group believes that the local tourism and retail industry are expected to remain buoyant and robust for the second half of 2006, which in turn will be beneficial to the Hong Kong property market.

Along with the slowing down of uprising interest rates and the strong recovery of internal demand in the local economy, the Group expects continuous growth for Hong Kong's economy as a whole. The retail industry will take the lead in benefiting from the growth, in which businesses focusing on female will be particularly distinct. However, demand for quality rental sites in Causeway Bay outweighs supply. The Group is determined to capture this golden opportunity to sustain its leading position in the rental market of this district. Rental rates are estimated to rise about 10–20% for the second half of the year, and the Group's profit is expected to increase benefiting from the rental increment brought about by the new leasing contracts.

In addition, it is expected that the two property development projects will generate a sizable profit upon completion. Concerning urban redevelopment, the special department will be striving to increase the Group's land reserves for future use. The current legislation on redevelopment of old properties are under review for relaxation in the future. Together with the fact that interest rates have reached a stable level, the Group is very positive towards its urban redevelopment business and will cautiously consider acquiring more projects.

Looking forward, the Group will regularly review its operational strategies in order to optimize its business management, and will also diversify its leasing and property projects to continue its pragmatic and entrepreneurial vision. Furthermore, the Group will actively expand into the property and urban infrastructure market in the Mainland to further enhance the Group's profitability as well as the shareholders' returns.

## **INTERIM DIVIDEND**

The Directors do not recommend any interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2006, the Group's cash and cash equivalents amounted to HK\$74,364,000 (31 December 2005: HK\$72,196,000). The Group's total borrowings (including the convertible bonds due to the major shareholder) as at 30 June 2006 were HK\$1,296,221,000 (31 December 2005: HK\$1,143,964,000).

The Group's gearing ratio, expressed as a percentage of total borrowings over total equity, was 54% as at 30 June 2006 (31 December 2005: 53%). As at 30 June 2006, the Group's total net assets amounted to HK\$2,391,987,000 (31 December 2005: HK\$2,177,890,000), representing an increase of HK\$214,097,000 or 10%. With the total number of ordinary shares in issue of 222,507,816 as at 30 June 2006, the net asset value per share was HK\$10.80 (31 December 2005: HK\$9.80).

The Group's exposure to foreign exchange risk is not material given that its main asset base and operational cash flow are primarily denominated in Hong Kong dollars.

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.

The total interest expenses for the six months ended 30 June 2006 amounted to HK\$31,993,000 (30 June 2005: HK\$17,966,000), mainly due to a higher interest rate environment during the period as compared with same period of last year. The average cost of borrowings over the period was 5.51% (30 June 2005: 3.27%) which was expressed as a percentage of total interest expenses over the average total borrowings.

## **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 2006.

## **SIGNIFICANT INVESTMENTS HELD**

There was no material change in the significant investments held by the Group during the six months ended 30 June 2006.

## **EMPLOYEES**

There was no material change regarding the number and remuneration of the employees of the Group since the publication of the Company's 2005 annual report.

## PLEDGE OF ASSETS

As at 30 June 2006, investment properties of the Group with a fair value of approximately HK\$3,850,340,000 (31 December 2005: approximately HK\$3,566,730,000) were pledged to secure banking facilities for the Group.

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

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

As at 30 June 2006, the interests of the Directors and chief executive 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 (Cap. 571 of the Laws of Hong Kong) (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 Issuers (the "Model Code") were as follows:

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

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate Percentage of Shareholding</b>
Foo Kam Chu, Grace	Interest of controlled corporation	156,783,709 <i>(Note)</i>	70.46
	Beneficial owner	96,000	0.04
Tse Chun Kong, Thomas	Interest of Spouse	6,000	0.00
	Beneficial owner	723	0.00

*Note:* The 156,783,709 shares are held by Ko Bee Limited, the entire issued share capital of which is held by Foo Kam Chu, Grace.

- (ii) *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>Exercisable Period</b>	<b>Price of Grant (HK\$)</b>	<b>Subscription Price per Share (HK\$)</b>
Foo Kam Chu, Grace	Beneficial owner	76,000	2/7/2001 to 24/2/2007	1.00	2.97
		200,000	6/1/2005 to 5/1/2010	1.00	1.47
		200,000	4/1/2006 to 3/1/2011	1.00	2.38
Tse Chun Kong, Thomas	Beneficial owner	50,000	2/7/2001 to 24/2/2007	1.00	2.97
		60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
Chan Wai Ling	Beneficial owner	60,000	2/7/2001 to 24/2/2007	1.00	2.97
		60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
Kwan Chai Ming	Beneficial owner	20,000	1/6/2001 to 24/2/2007	1.00	12.40
		10,000	2/1/2002 to 24/2/2007	1.00	2.97
		80,000	4/1/2006 to 3/1/2011	1.00	2.38
Liu Hanbo	Beneficial owner	60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38
Meng Qinghui	Beneficial owner	60,000	8/1/2004 to 7/1/2009	1.00	1.50
		90,000	6/1/2005 to 5/1/2010	1.00	1.47
		90,000	4/1/2006 to 3/1/2011	1.00	2.38

- (iii) *Long positions in underlying shares of equity derivatives of the Company — interests in convertible bonds each of which is convertible into one share at the conversion price of HK\$1.66:*

<b>Name of Director</b>	<b>Capacity</b>	<b>Principal Amount of Convertible Bonds</b>	<b>Number of Underlying Shares</b>
Foo Kam Chu, Grace	Interest of Controlled Corporation	HK\$23,499,490	14,156,319 <i>(Note)</i>

*Note:* These underlying shares are held by Ko Bee Limited, a company wholly owned by Madam Foo Kam Chu, Grace who is deemed, by virtue of the SFO, to be interested in these underlying shares.

**(b) Directors' interests in Associated Corporations**

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

Save as disclosed above, as at 30 June 2006, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which are required to be (i) notified to the Company and 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.



## SHARE OPTION SCHEMES

The Company has 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	Exercisable period	Number of options			As at 30 June 2006
				As at 1 January 2006	Granted during the 6 months period ended 30 June 2006	Exercised/ Lapsed during the 6 months period ended 30 June 2006	
		(HK\$)					
<b>Directors</b>							
Foo Kam Chu, Grace	2/1/2001	2.97	2/7/2001 to 24/2/2007	76,000	—	—	<b>76,000</b>
Chan Wai Ling	2/1/2001	2.97	2/7/2001 to 24/2/2007	60,000	—	—	<b>60,000</b>
Tse Chun Kong, Thomas	2/1/2001	2.97	2/7/2001 to 24/2/2007	50,000	—	—	<b>50,000</b>
Kwan Chai Ming	1/6/2000	12.40	1/6/2001 to 24/2/2007	20,000	—	—	<b>20,000</b>
	2/1/2001	2.97	2/1/2002 to 24/2/2007	10,000	—	—	<b>10,000</b>
<b>Other Employees</b>	2/1/2001	2.97	2/7/2001 to 24/2/2007	128,000	—	—	<b>128,000</b>
				344,000	—	—	<b>344,000</b>

## 2002 Share Option Scheme

Name of grantee	Date of grant	Closing price immediately preceding the date of grant	Exercise price	Exercisable period	As at 1 January 2006	Number of Options		As at 30 June 2006
						Granted during the 6 months period ended 30 June 2006	Exercised/Lapsed during the 6 months period ended 30 June 2006	
		(HK\$)	(HK\$)					
<b>Directors</b>								
Foo Kam Chu, Grace	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	200,000	—	—	200,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	200,000	—	—	200,000
Chan Wai Ling	10/7/2003	1.50	1.50	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	90,000	—	—	90,000
Tse Chun Kong, Thomas	14/7/2003	1.50	1.50	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	90,000	—	—	90,000
Kwan Chai Ming	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	80,000	—	—	80,000
Liu Hanbo	16/7/2003	1.50	1.50	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	90,000	—	—	90,000
Meng Qinghui	16/7/2003	1.50	1.50	8/1/2004 to 7/1/2009	60,000	—	—	60,000
	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	90,000	—	—	90,000
<b>Other employees</b>	6/7/2004	1.45	1.47	6/1/2005 to 5/1/2010	90,000	—	—	90,000
	4/7/2005	2.35	2.38	4/1/2006 to 3/1/2011	620,000	—	—	620,000
					2,150,000	—	—	2,150,000

According to the transitional provisions of the new Hong Kong Financial Reporting Standard No. 2, this new recognition and measurement has been applied to share options granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of the options determined at the dates of grant using the Black-Scholes option pricing model (the "Model") was HK\$1.03 per share.

The Company has used the Model to value the share option granted during the review period. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions as shown below. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

<b>Date of grant</b>	<b>4 July 2005</b>	<b>6 July 2004</b>
Closing share price immediately preceding the date of grant	<b>HK\$2.35 per share</b>	HK\$1.45 per share
Expected volatility (based on the annualised historical volatility of the closing price of the shares of the Company from 2 January 2004/ 3 January 2005 to the date of grant)	<b>48.87%</b>	33.28%
Expected life (in years)	<b>5 years</b>	5 years
Risk-free interest rate	<b>3.38%</b>	5.48%
Expected dividend yield	<b>1.08%</b>	1.08%

## **DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES**

Save as disclosed above and note 15 to the interim financial statements, at no time during the six months ended 30 June 2006, 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 2006, 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 as recorded in the register required to be kept under section 336 of the SFO, were as follows:

(a) **Long positions in shares**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate Percentage of Shareholding</b>
Ko Bee Limited	Beneficial owner	156,783,709	70.46

(b) **Long positions in underlying shares of equity derivatives of the Company — interests in the convertible bonds of the Company:**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Principal Amount of Convertible Bonds</b>	<b>Number of Underlying Shares</b>
Ko Bee Limited	Beneficial owner	HK\$23,499,490	14,156,319

Save as disclosed above, as at 30 June 2006, the Company has not been notified of any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## CONTINGENT LIABILITIES

As at 30 June 2006, the Group had no material contingent liabilities.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Audit Committee comprising three independent non-executive Directors 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 2006.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2006, with the following exceptions.

### **Code Provision A.4.1**

Code provision A.4.1 provides that non-executive directors should be appointed for specific term and subject to re-election. The non-executive Directors of the Company are not appointed for a specific term of office. However, the non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Bye-Laws.

### **Code Provision A.4.2**

The second part of Code provision A.4.2 stipulates that every director including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In order to comply with Code provision A.4.2, amendments to the Bye-Laws of the Company have been made to reflect the requirements under the Code provision on the retirement of directors by rotation at least once every three years. Such amendments were approved at the annual general meeting held on 29 May 2006. Code provision A.4.2 has been fully complied with thereafter.

### **Code Provision C.2.1**

The annual review of internal controls in respect of the Code provision C.2.1 will be reported in the forthcoming corporate governance report to be contained in the Company's annual report for the financial year ending 31 December 2006.

### **Code Provision E.1.2**

Code provision E.1.2 stipulates that the chairman of the board of directors should attend the annual general meeting of the Company. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 29 May 2006 because of a business trip outside Hong Kong.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE “MODEL CODE”)**

The Company has adopted a code of conduct regarding directors' securities dealing transactions on term no less than the required standard set out in the Model Code (Appendix 10 of the Listing Rules).

Having made specific enquiry, all Directors have complied with the required standard set out in the Model Code during the period under review.

### **APPRECIATION**

As a final note, I wish to take this opportunity to thank 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, 21 September 2006