



SOUNDWILL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 878)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

RESULTS

The Board of directors of Soundwill Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 which have been reviewed and approved by the Audit Committee of the Company, with comparative figures for the corresponding period in 2003 as follows:

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Turnover (<i>note 2</i>)	63,214	50,968
Cost of sales	(4,922)	(832)
Gross profit	58,292	50,136
Other revenue	1,788	10,597
Administrative expenses	(17,757)	(16,117)
Other operating expenses	(270)	(99)
Profit from operation (<i>note 3</i>)	42,053	44,517
Finance costs	(19,607)	(30,508)
Share of profits less losses of associates	(19)	6
Profit before taxation	22,427	14,015
Taxation (<i>note 4</i>)	(6,407)	—
Profit after taxation	16,020	14,015
Minority interests	28	164
Profit attributable to shareholders	<u>16,048</u>	<u>14,179</u>
Earnings per share (<i>note 5</i>)		
— basis	<u>HK\$0.15</u>	<u>HK\$0.17</u>
— diluted	<u>HK\$0.15</u>	<u>HK\$0.17</u>

1 BASIS OF PREPARATION

These Interim Financial Statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” (“SSAP 25”) issued by the Hong Kong Society of Accountants and with the Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies, methods of computation and basis of preparation used in the preparation of these Interim Financial Statements are consistent with those used in Group’s Annual Financial Statements for the year ended 31 December 2003.

2. SEGMENTAL INFORMATION

In accordance with the Group’s internal financial reporting, the Group has determined that business segments are its primary reporting format, with each segment organized and managed separately.

Business segments

Property development : Property development and sale of properties

Property leasing : Property rental including signage rental

Building management and other services : Providing property management, repair and maintenance services

Urban infrastructure : Urban infrastructure development

The following table represents revenue and results information for the six months ended 30 June 2004 for the Group’s business segments:

	Six months ended 30 June 2004							Total HK\$’000
	Property development HK\$’000	Property leasing HK\$’000	Building management and other services HK\$’000	Urban infrastructure HK\$’000	Others HK\$’000	Elimination HK\$’000		
Segment revenue								
External customers	—	50,047	4,516	8,419	232	—		63,214
Inter-segments	—	1,673	—	—	—	(1,673)		—
	<u>—</u>	<u>51,720</u>	<u>4,516</u>	<u>8,419</u>	<u>232</u>	<u>(1,673)</u>		<u>63,214</u>
Segment results								
External customers	—	48,999	2,872	(2,577)	(2,432)	—		46,862
Inter-segments	—	2,057	551	—	—	(2,608)		—
Contribution from operations	<u>—</u>	<u>51,056</u>	<u>3,423</u>	<u>(2,577)</u>	<u>(2,432)</u>	<u>(2,608)</u>		<u>46,862</u>
Unallocated income and expenses								(4,809)
Profit from operations								42,053
Finance costs								(19,607)
Share of profits less losses of associates								(19)
Taxation								(6,407)
Minority interest								28
Net profit for the period								<u>16,048</u>

	Six months ended 30 June 2003							Total HK\$'000
	Property development HK\$'000	Property leasing HK\$'000	Building management and other services HK\$'000	Urban infrastructure HK\$'000	Others HK\$'000	Elimination HK\$'000		
Segment revenue								
External customers	60	42,893	4,124	—	3,891	—		50,968
Inter-segments	—	1,703	—	—	703	(2,406)		—
	<u>60</u>	<u>44,596</u>	<u>4,124</u>	<u>—</u>	<u>4,594</u>	<u>(2,406)</u>		<u>50,968</u>
Segment results	(51)	42,538	3,108	—	(8,121)	—		37,474
Inter-segments	—	(1,000)	—	—	1,018	—		18
Contribution from operations	<u>(51)</u>	<u>41,538</u>	<u>3,108</u>	<u>—</u>	<u>(7,103)</u>	<u>—</u>		<u>37,492</u>
Unallocated income and expenses								<u>7,025</u>
Profit from operations								44,517
Finance costs								(30,508)
Share of profits less losses of associates								6
Taxation								—
Minority interest								<u>164</u>
Net profit for the period								<u>14,179</u>

Geographical segments

The following table shows the distribution of the Company's consolidated revenue by geographical market:

	Sales revenue by geographical market	
	Six months ended 30 June 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Hong Kong	54,795	50,968
Other parts of the Peoples's Republic of China ("PRC")	<u>8,419</u>	<u>—</u>
	<u>63,214</u>	<u>50,968</u>

3. PROFIT FROM OPERATION

Profit from operation is arrived at after charging:

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Depreciation	406	731
Staff cost (including directors' remuneration)	7,630	6,263
Amortisation of goodwill	37	99
Amortisation of intangible assets	100	—
Cost of inventories recognised as expenses	4,378	—
Operating lease rental	686	135

4. TAXATION

	Six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
The charge comprises:		
Hong Kong profits tax		
— current year	7	—
— deferred taxation	6,400	—
	6,407	—

Hong Kong profits tax is provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in Hong Kong.

The Group's PRC subsidiaries are entitled to an exemption PRC enterprise income tax for the first two profitable years of operations and followed by a 50% reduction for the next three years. For the period under review, no provision for PRC enterprise income tax has been made as the Group's PRC subsidiaries were still within the tax exemption period.

Deferred tax has been provided for at 17.5% that is expected to apply in the period when the liability is settled or the asset is realised.

5. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the unaudited consolidated profit attributable to shareholders of approximately HK\$16,048,000 for the period (30 June 2003: HK\$14,179,000)

The basic earnings per share is based on the weighted average of 106,005,071 shares (30 June 2003: 82,582,014 shares adjusted for the effect of bonus issue) in issue during the six months ended 30 June 2004.

The diluted earnings per share is based on 106,005,071 shares (30 June 2003: 82,582,014 shares adjusted for the effect of bonus issue) which is the weighted average number of shares in issue during the six months ended 30 June 2004 plus the weighted average of 463,170 shares (30 June 2003: 1,464,000 shares) deemed to be issued if all outstanding warrants and share options granted by the Company were exercised.

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 Agreement (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 to 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 was 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, should be 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

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

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 is 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 six months ended 30 June 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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.

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 Listing Rules will be published on the Stock Exchange's website in due course.

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

As at the date of this announcement, the Board comprises of (1) Executive Directors: Foo Kam Chu, Grace, Chan Wai Ling, Tse Chun Kong, Thomas, Kwan Chai Ming; (2) Non-Executive Directors: Liu Hanbo, Meng Qinghui; and (3) Independent Non-Executive Directors: Wong Tak Leung, Charles and Yuen Hing Man.

*Please also refer to the published version of this announcement in the (**The Standard**)*