

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 2002. The consolidated results and consolidated cash flow statement for the six months ended 30 June 2002 and the consolidated balance sheet as at 30 June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 12 to 24 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Although Hong Kong’s economy is unstable for a variety of external factors, there is a great demand for quality commercial properties from both buyers and tenants.

Situated at the heart of Causeway Bay, the Group’s flagship property, Soundwill Plaza, enjoys an excellent geographical location. With its outstanding architectural design and quality property management, Soundwill Plaza has attracted a substantial number of large corporate tenants, including Marie France Bodyline, Angel Face Beauty Creations, Pure Yoga and Sa Sa Beauty+, etc., making it one of the largest beauty and slimming service complexes in Hong Kong. With around 90 percent occupancy and high rental rates compared with average rental rates in the vicinity, the Group will continue to enjoy sustainable and stable rental income from Soundwill Plaza.

In addition to the sale of the office portion of No. 8 Russell Street last year, the Group also sold the building’s retail portion early this year. Not only has this move reduced bank borrowings and interest expenses, but also improved the Group’s overall credit base.

The Group’s refinancing arrangement with the banks has been confirmed in principle, under which, interest expenses will be reduced substantially, further reinforcing the Group’s financial strength.

The Group is dedicated to exploring potential properties for development. It has been closely monitoring the local property market with the intention of, where appropriate, developing properties or related projects. At the same time, the Group is expanding its property management business in the hope of generating revenue from new sources and consolidating its profit contribution.

During the period, the Group together with other parties has signed a conditional memorandum of understanding with Fujian Group Ltd. (“Fujian”) for the acquisition of the latter. If this acquisition materializes, the Group will inject a PRC-based telecommunications project into Fujian to take control of the latter. These two listed companies will focus on property development and other projects respectively, hence expanding the Group’s corporate footprint.

The Group has seen a significant improvement in its development and financial situation. Under such circumstances, the Management is optimistic of strengthening the Group’s operations and further exploring business opportunities by taking advantage of the existing value-added and prudent commercial principles. Looking ahead, the Group will continue to achieve its target of ‘low cost and high returns’, and diversify its property business for the long-term benefits of shareholders.

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2002 (2001: Nil).

CAPITAL STRUCTURE

	Six months ended 30 June 2002 <i>(Unaudited)</i> <i>HK\$’000</i>	Year ended 31 December 2001 <i>(Audited)</i> <i>HK\$’000</i>
Shareholder’s fund	437,060	532,162
Total debts	1,408,349	1,657,137
Total borrowing costs	48,663	170,117
Gearing ratio (included all borrowings)	322%	311%
Average cost of borrowing	6.9%	11.4%

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

Net cash outflow from operating activities for the six months ended 30 June 2002 is approximately HK\$13,011,000 (net cash inflow as at 30 June 2001: approximately HK\$21,450,000).

The Group continues to be in a stable financial position with cash and bank balances of approximately HK\$6,940,000 as at 30 June 2002. As at 30 June 2002, the Group's current ratio, as a ratio of current assets to current liabilities, was 1.60 (31 December 2001: 1.17) and the Group's gearing ratio, as a ratio of total debts to shareholder's fund, was 322% (31 December 2001: 311%).

DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

The Group during the financial period recorded profit on the deemed disposal of interest in Well Pacific Development Limited, one of the Group's subsidiaries, as a result of the issuance of new shares by Well Pacific Development Limited to investors.

SIGNIFICANT INVESTMENTS HELD

Save as the deemed disposal of interest in a subsidiary mentioned above, there is no material change in the significant investments held by the Group during the six months ended 30 June 2002.

EMPLOYEES

There is no material changes regarding the number and remuneration of the employees of the Group since the publication of the Company's 2001 Annual Report.

CHARGES ON GROUP ASSETS

As at 30 June 2002, properties of the Group with an aggregate net book value of approximately HK\$1,703,710,000 (31 December 2001: approximately HK\$2,002,792,000) were charged to bank creditors to secure banking facilities for the Group.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2002, the interests of the Directors and chief executive in the shares of the Company or any associated corporation as recorded in the register to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Director	Number of shares
Foo Kam Chu, Grace ("Mrs. Chan")	1,739,586,000 (Corporate interest)
Tse Chun Kong, Thomas	280,179 (Personal interest)

- (a) Mrs. Chan's corporate interest (within the meaning of Practice Note (the "Practice Note")) No. 5 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), arises by virtue of her shareholding in Ko Bee Limited referred to in paragraph (b) below.
- (b) Mrs. Chan has a personal interest (within the meaning of the Practice Note) in respect of one share of US\$1, representing the entire issued share capital of Ko Bee Limited, a company incorporated in the British Virgin Islands, which holds and is beneficially interested in 1,739,586,000 shares.

Save as disclosed herein, none of the Directors nor any chief executive of the Company has any interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTION SCHEME

At the Special General Meeting of the Company held on 22 July 2002, shareholders of the Company approved the termination of the share option scheme adopted by the Company on 25 February 1997 ("the Old Scheme") and the adoption of a new share option scheme ("the New Scheme") in compliance with the amended Chapter 17 of the Listing Rules. A summary of the principal terms of the New Scheme is contained in the circular dated 28 June 2002 sent to the shareholders of the Company. No options had been granted under the New Scheme since its adoption.

Upon termination of the Old Scheme, no further options could be granted thereunder but in all other respects, the provisions of the Old Scheme shall, subject to the amended Chapter 17 of the Listing Rules, remain in force. All outstanding options which were granted under the Old Scheme, to subscribe for shares in the Company prior to the termination or expiration shall, subject to the amended Chapter 17 of the Listing Rules, continue to be valid and exercisable.

No share option has been granted under the New Scheme. Details of the share options granted under the Old Scheme and remain outstanding as at 30 June 2002 are as follows:

Name of grantee	Date of grant	Exercise price	Period within which option can be exercised	at 1 January 2002	Number of options granted during the 6 months period ended 30 June 2002	Number of options lapsed/changed during the 6 months period ended 30 June 2002	at 30 June 2002
Directors							
Foo Kam Chu, Grace	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	—	3,000,000
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	3,500,000
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	3,800,000	—	—	3,800,000
Leung Yeuk Kuk, Joseph	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	1,000,000	—	—	1,000,000
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	2,000,000
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	2,500,000	—	—	2,500,000
Liu Guoyuan	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	3,800,000	—	—	3,800,000
Kwong Che Keung, Gordon	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	2,000,000	—	2,000,000 ²	—
Chan Wai Ling	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	3,000,000	—	—	3,000,000
Tse Chun Kong, Thomas	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	2,000,000	—	—	2,000,000
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	2,000,000	—	—	2,000,000
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	2,500,000	—	—	2,500,000

Name of grantee	Date of grant	Exercise price	Period within which option can be exercised	at 1 January 2002	Number of options granted during the 6 months period ended 30 June 2002	Number of options lapsed/changed during the 6 months period ended 30 June 2002	at 30 June 2002
Directors							
Kwan Chai Ming	1 June 2000	HK\$0.248	1 June 2001 to 24 February 2007	1,000,000 ³	—	—	1,000,000
	2 January 2001	HK\$0.100	2 January 2002 to 24 February 2007	500,000 ³	—	—	500,000
Other Employees	7 February 1998	HK\$0.660	1 January 1999 to 31 December 2002	3,000,000	—	—	3,000,000
	8 February 2000	HK\$0.164	8 August 2000 to 31 December 2004	3,500,000	—	—	3,500,000
	1 June 2000	HK\$0.248	1 December 2000 to 24 February 2007	1,500,000	—	1,000,000 ³	500,000
	2 January 2001	HK\$0.100	2 July 2001 to 24 February 2007	12,200,000	—	2,800,000 ^{2,3}	9,400,000
	14 June 2002	HK\$0.100	14 June 2002 to 24 February 2007	—	2,500,000 ¹	—	2,500,000

Notes:

1. The closing market price per share at the date preceding the date on which the options were granted was HK\$0.050.
2. The director(s)/employee(s) resigned during the period and the options granted to them became lapse.
3. One of the employees became the member of the board during the period and relevant options granted in his favour were stipulated under the options granted to directors.
4. None of the options granted was exercised during the period.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, as at 30 June 2002, there is no right 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 section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the following persons are interested in 10% or more of the issued share capital of the Company as recorded in the register required to be kept under section 16(1) of the SDI Ordinance.

Shareholder	Number of Shares
Foo Kam Chu, Grace (<i>Note i</i>)	1,739,586,000
China Ocean Shipping (Group) Company (<i>Note ii</i>)	330,736,000

Notes:

- (i) 1,739,586,000 shares of the Company were held by Ko Bee Limited the share of which was beneficially wholly owned by Madam Foo Kam Chu, Grace.
- (ii) 185,296,000 shares and 145,440,000 shares of the Company were held by COSCO Investments Limited and Graceful Nice Limited respectively, both of which were indirect subsidiaries of China Ocean Shipping (Group) Company.

CONTINGENT LIABILITIES

- (a) In the property related proceedings relating to the purchase of certain properties in Tuen Mun, judgment in favour of the subsidiary of the Company as plaintiff has been granted by the Court whereby the deposit of HK\$33,000,000 originally paid by this subsidiary has been refunded before the date of this report. By another court order, the proceedings for appeal by the defendants was dismissed.

- (b) Another property related proceedings relating to the purchase of certain properties in Yuen Long involving the deposit of HK\$65,000,000 paid by another 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/or costs.
- (c) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee for banking facilities utilised by subsidiaries amounting to HK\$1,067,911,000 (31 December 2001: HK\$1,325,124,000).
- (d) Save and except the aforesaid there is no material changes since the publication of the Company's 2001 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 Listing Rules 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 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Group is not, or was not for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES

Pursuant to paragraph 3.7.1 of the Practice Note 19 of the Listing Rules, the conditions imposing specific performance obligations on any controlling shareholder in relation to bank facilities granted to the Group are set out below.

Pursuant to the Debt Restructure Agreement dated 8 May 2000, completion of which is subject to, inter alia, the execution of a subordination agreement in which the other loan in the sum of approximately HK\$243,580,000 as at 30 June 2002 payable to Mrs. Chan will be subordinated to bank borrowings and Mrs. Chan should maintain her shareholding in the Company not less than 45% of the issued share capital of the Company during the standstill period.

Pursuant to a Loan Agreement dated 20 October 2000, it is a condition, inter alia, to the availability of banking facility granted to a wholly owned subsidiary (“the subsidiary”) of the Company that Mrs. Chan, inter alia, shall enter into a subordination agreement in which all sums for which the subsidiary was then indebted (if any) and may thereafter become indebted to Mrs. Chan will be subordinated to bank borrowings.

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, 6 September 2002