

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 2003. The consolidated results and consolidated cash flow statement for the six months ended 30 June 2003 and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 14 to 26 of this report.

### **MANAGEMENT DISCUSSION AND ANALYSIS**

The Severe Acute Respiratory Syndrome (“SARS”) outbreak in the first half of 2003 adversely affected Hong Kong’s economy and retail market. Nevertheless, the Group’s flagship property, Soundwill Plaza, continued to enjoy high pedestrian flow and a strong lease take-up. Its occupancy rate is one of the highest among all Grade A commercial buildings in Causeway Bay. Coupled with the signing of re-financing arrangement at the end of 2002 which would substantially reduce the Group’s interest expenses, the Group saw an outstanding performance in its property leasing and financial position during the period.

#### **Financial Position**

The Group resumed profit and achieved outstanding performance in its financial position in the first half of 2003, posting a profit attributable to shareholders of approximately HK\$14,179,000 and basic earning per share at approximately HK\$0.23. This significant performance was attributable to the Group’s agreements with major creditor banks on re-financing arrangement at the end of 2002, which lowered the Group’s borrowing interest rate by a wide margin and reduced interest expenses accordingly. During the period, Soundwill Plaza recorded a remarkable growth in occupancy rates, generating a stable and substantial rental income for the Group. Underpinned by various positive factors, the Group’s earnings were on a rise, and the management is optimistic about the Group’s



outlook. At present, the Group has a sufficient level of working capital. With a prudent finance strategy, the Group's working capital is sufficient to meet its daily operational and other development needs.

In order to enable shareholders to enjoy benefits arising from its development, the Group has decided to issue bonus warrants to its shareholders. The Group has been adopting pragmatic business approach and with the resumption of profit making during the period, the management believes that the proposed bonus issue of warrants will enable the shareholders to participate in the Group's growth and is beneficial to the Group and its shareholders as a whole.

### **Property Leasing**

Soundwill Plaza, the Group's flagship property, is the largest beauty and wellness complex in Hong Kong. The Plaza is also the first Grade A commercial building to offer complimentary assistance on promotions and marketing strategies for tenants. With a clear retail market niche, Soundwill Plaza attracts tenants from large corporations in the retail sector. During the period, Soundwill Plaza registered an occupancy rate of over 95%, and retail merchants accounted for about 80% of the tenants. The rental levels of Soundwill Plaza were similar to that in the corresponding period of the previous year, and rental revenue remained stable.

In the course of SARS outbreak, Soundwill Plaza reacted proactively to address concerns of customers and tenants, and make them rest assured by implementing various measures including comprehensive cleaning and sterilization of the building, as well as assistance on tenants' promotional campaigns. These promotional events were held in co-operation with different corporations, such as credit cards companies, hotel and high-end shops. Together with promotions like Mother's Day special offers, advertisement publication, and production of marketing communications, tenants' competitive edge is greatly improved. With a view to achieving a stable development, the Group also maintained close contact with tenants in order to understand their business development and work on advertising and promotion strategies. Rentals of some Grade A commercial

buildings were subject to downward pressure in the light of external economic situation and SARS outbreak. Capitalizing on its unparalleled location and quality service, Soundwill Plaza has managed to not only maintain occupancy rates of above 95%, but also attract a number of large chain stores from the service sector in the first half year. These achievements reinforce Soundwill Plaza's leading position among the Grade A commercial buildings in the district.

### **Outlook**

In view of the growing number of tourists from Mainland China, and the accelerated economic integration of Hong Kong and the Pearl River Delta, it is expected that the economy and retail market in Hong Kong will be greatly improved. The Group is determined to capture this golden opportunity and develop Soundwill Plaza into a beauty kingdom where customers from Hong Kong and Mainland China should not miss. Looking forward, the Group will keep focusing on property leasing and investment, and seek business diversification potential. With its pragmatic and entrepreneurial vision, the Group strives to enhance profitability and increase shareholders' benefit in the long run.

### **INTERIM DIVIDEND**

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2003 (2002: Nil).



## CAPITAL STRUCTURE

	<b>Six months ended 30 June 2003 (Unaudited) HK\$'000</b>	Year ended 31 December 2002 (Audited) HK\$'000
Shareholders' funds	<b>644,444</b>	320,466
Total borrowing	<b>1,439,330</b>	1,405,375
Total borrowing costs	<b>30,508</b>	95,713
Gearing ratio (included all borrowings)	<b>2.23</b>	4.39
Average cost of borrowing	<b>4.2%</b>	6.8%

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\$49,523,000 as at 30 June 2003. As at 30 June 2003, the Group's current ratio, as a ratio of current assets to current liabilities, was 1.16 (31 December 2002: 0.84) and the Group's gearing ratio, as a ratio of total borrowings to shareholders' funds, was 2.23 (31 December 2002: 4.39).

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

There are no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30 June 2003.

## **SIGNIFICANT INVESTMENTS HELD**

There is no material change in the significant investments held by the Group during the six months ended 30 June 2003.

## **EMPLOYEES**

There are no material changes regarding the number and remuneration of the employees of the Group since the publication of the Company's 2002 Annual Report.

## **CHARGES ON GROUP ASSETS**

As at 30 June 2003, properties of the Group with an aggregate net book value of approximately HK\$2,013,412,000 (31 December 2002: approximately HK\$1,702,740,000) 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 2003, 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 Part XV of the Securities and Futures Ordinance (Cap. 571) (the "SFO") were as follows:

Director	Number of shares	Number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
Foo Kam Chu, Grace ("Mrs. Chan")	34,792,000 (Corporate interest)	146,000	34,938,000	56.06%
Tse Chun Kong, Thomas	5,603 (Personal interest)	90,000	95,603	0.15%

- (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 34,792,000 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 SFO.

## SHARE OPTION SCHEMES

The Company operates 2 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 2003 <sup>4</sup>
				As at 1 January 2003	granted during the 6 months period ended 30 June 2003	lapsed during the 6 months period ended 30 June 2003	
<b>Directors</b>							
Foo Kam Chu, Grace	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	3,500,000	—	—	70,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	3,800,000	—	—	76,000
Leung Yeuk Kuk, Joseph	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	2,000,000	—	2,000,000 <sup>3</sup>	—
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	2,500,000	—	2,500,000 <sup>3</sup>	—
Liu Guoyuan	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	3,800,000	—	3,800,000 <sup>3</sup>	—
Chan Wai Ling	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	3,000,000	—	—	60,000
Tse Chun Kong, Thomas	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	2,000,000	—	—	40,000
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	2,500,000	—	—	50,000
Kwan Chai Ming	1 June 2000	HK\$12.40	1 June 2001 to 24 February 2007	1,000,000	—	—	20,000
	2 January 2001	HK\$2.97	2 January 2002 to 24 February 2007	500,000	—	—	10,000
<b>Other Employees</b>							
	8 February 2000	HK\$8.20	8 August 2000 to 31 December 2004	3,500,000	—	—	70,000
	1 June 2000	HK\$12.40	1 December 2000 to 1 December 2005	500,000	—	—	10,000

Name of grantee	Date of grant	Exercise price <sup>1</sup>	Exercise Period	Number of options			As at 30 June 2003 <sup>4</sup>
				As at 1 January 2003	granted during the 6 months period ended 30 June 2003	lapsed during the 6 months period ended 30 June 2003	
	2 January 2001	HK\$2.97	2 July 2001 to 24 February 2007	9,400,000	—	—	188,000
	14 June 2002	HK\$2.55 <sup>2</sup>	14 June 2002 to 24 February 2007	2,500,000	—	—	50,000
				40,500,000	—	8,300,000	644,000

*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. Mr. Leung Yeuk Kuk, Joseph and Mr. Liu Guoyuan resigned from their directorship during the period and the share options previously granted to them became lapsed;
4. The number of outstanding options were adjusted following the share consolidation of the Company effective on 4 April 2003 by dividing the original numbers by 50;
5. None of the share options granted was exercised during the year.



## 2002 Share Option Scheme

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

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, as at 30 June 2003, 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 Part XV of the SFO.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons are interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under Part XV of the SFO.

Shareholder	Number of Shares	Number of underlying shares held pursuant to share options	Total interests	Percentage of the Company's issued share capital
Foo Kam Chu, Grace ( <i>Note i</i> )	34,792,000	146,000	34,938,000	56.06%
China Ocean Shipping (Group) Company ( <i>Note ii</i> )	6,614,720	—	6,614,720	10.61%

*Notes:*

- (i) 34,792,000 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) 3,705,920 shares and 2,908,800 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) 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/or costs.
- (b) As 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\$1,060,070,000.
- (c) Save and except the aforesaid there are no material changes since the publication of the Company's 2002 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 2003.



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

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 2003, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (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 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, 1 September 2003