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If you have sold or transferred all your shares in Soundwill Holdings Limited, you should at once hand this document and the accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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SOUNDWILL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 878)

LOAN CAPITALISATION CONNECTED TRANSACTION

Financial adviser to the Independent Board Committee



HANTEC CAPITAL LIMITED

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 9 of this document.

A notice convening the SGM to be held at 10:00 a.m., Wednesday on 5th May 2004 at Room 02, 30th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong is set out on pages 23 to 24 of this document. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company at 21st Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM should you so desire.

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DEFINITIONS

In this document, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	Soundwill Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“COSCO”	China Ocean Shipping (Group) Company
“Director(s)”	the director(s), including independent non-executive director(s), of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders who are not involved nor interested in the Loan Capitalisation other than their interest as Shareholders
“Ko Bee”	Ko Bee Limited, a company incorporated in British Virgin Islands, the registered office of which is at the Offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands and the entire issued share capital of which is beneficially owned by Madam Foo Kam Chu Grace, the Chairman of the Company
“Latest Practicable Date”	13th April 2004
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalisation”	subscription for 17,000,000 Shares at HK\$2.55 per Share pursuant to the Loan Capitalisation Agreement
“Loan Capitalisation Agreement”	a conditional loan capitalization agreement dated 17th March 2004 and entered into between the Company and Ko Bee
“Loan Capitalisation Shares”	17,000,000 Shares in the issued share capital of the Company to be subscribed by Ko Bee pursuant to the Loan Capitalisation
“Mrs. Chan”	Foo Kam Chu Grace, chairman of the Company
“Mr. Tse”	Tse Chun Kong Thomas, executive Director of the Company
“SFO”	Securities and Futures Ordinance (Cap. 571)
“SGM”	the special general meeting of the Company to be held for the purpose of passing the relevant resolutions in relation to the Loan Capitalisation

DEFINITIONS

“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

EXPECTED TIMETABLE

2004

Latest time for lodging forms of proxy for the SGM	10:00 a.m. on 3rd May
SGM	10:00 a.m. on 5th May
Completion of the Loan Capitalisation	10th May

Note: All time references contained in this document refer to Hong Kong time.



SOUNDWILL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Directors:

Foo Kam Chu Grace, *Chairman*
Chan Wai Ling, *Executive Director*
Tse Chun Kong Thomas, *Executive Director*
Kwan Chai Ming, *Executive Director*
Liu Hanbo, *Non Executive Vice Chairman*
Meng Qinghui, *Non Executive Director*

Independent Non-executive Directors:

Wong Tak Leung Charles
Yuen Hing Man

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head Office and Principal Place
of Business:*

21st Floor, Soundwill Plaza
38 Russell Street
Causeway Bay
Hong Kong

16th April 2004

To the Shareholders and, for information only, warrant holders

Dear Sirs,

LOAN CAPITALISATION, CONNECTED TRANSACTION

1. INTRODUCTION

It was announced on 18th March 2004 that the Company entered into the Loan Capitalisation Agreement on 17th March 2004 with Ko Bee. Ko Bee is the controlling shareholder of the Company, currently holding around 60.40% of the Company's issued share capital and is a connected person of the Company as defined under Rule 14A.11(1) of the Listing Rules. Consequently, the Loan Capitalisation constitutes a connected transaction for the Company and will be subject to the approval by the Independent Shareholders at the SGM. Accordingly, the Independent Board Committee comprising Mr. Wong Tak Leung Charles and Mr. Yuen Hing Man, both being independent non-executive directors of the Company, have been formed to advise the Independent Shareholders on the terms of the Loan Capitalisation. Hantec Capital Limited has been appointed as the independent financial adviser to advise the independent board committee in this regard.

Ko Bee and its associates (as defined under the Listing Rules) will abstain from voting the resolutions approving the Loan Capitalisation at the SGM.

The purpose of this document is to provide you with further information in relation to the Loan Capitalisation, to set out the advice of the independent board committee to the Independent Shareholders, to set out the advice of Hantec Capital Limited to the independent board committee, and to give you the notice of the SGM.

LETTER FROM THE BOARD

2. THE LOAN CAPITALISATION AGREEMENT DATED 17TH MARCH 2004

Subscriber

Ko Bee, a company incorporated in the British Virgin Islands, is the controlling shareholder of the Company, currently holding around 60.40% of the Company's issued share capital. Ko Bee is wholly owned by Madam Foo Kam Chu Grace, the Chairman of the Company.

Up to 17th March 2004, the outstanding loan owed by the Company to Ko Bee is HK\$187,723,537.76.

Loan Capitalisation Shares

17,000,000 Shares at HK\$2.55 each.

The Loan Capitalisation Shares represent approximately 20.17% of the existing issued share capital of the Company and approximately 16.79% of the enlarged share capital of the Company upon completion of the Loan Capitalisation. The consideration of HK\$43,350,000 will be satisfied by setting off against part of the outstanding loan owed by the Company to Ko Bee.

Loan Capitalisation Price

The Loan Capitalisation price of HK\$2.55 per Loan Capitalisation Share has been arrived at taking into account the latest trading prices of the Shares. The Loan Capitalisation price :

- (i) is the same as the closing price of HK\$2.55 per share quoted on the Stock Exchange on 17th March 2004, being the last trading day before suspension of trading of the Share on 18th March 2004;
- (ii) represents a premium of approximately 0.29% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$2.543 for the 10 trading days ended 17th March 2004;
- (iii) represents a premium of approximately 6.25% the closing price of HK\$2.40 per share quoted on the Stock Exchange on the Latest Practicable Date; and
- (iv) represents a premium of approximately 5.59% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$2.415 for the 10 trading days ended the Latest Practicable Date.

Conditions of Loan Capitalisation

Completion of the Loan Capitalisation Agreement shall be conditional upon:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Loan Capitalisation Shares on the Stock Exchange;
- (ii) the approval of the Loan Capitalisation Agreement and the transactions therein contemplated by the Independent Shareholders in a SGM in accordance with the requirements of the Listing Rules; and

LETTER FROM THE BOARD

- (iii) if necessary, all consents of all relevant governmental or regulatory authorities and other relevant third parties in Hong Kong, Bermuda, or elsewhere which are required or appropriate for the entering into and the implementation of the Loan Capitalisation Agreement having been given or made.

Completion of Loan Capitalisation

Completion of the Loan Capitalisation Agreement shall take place on the third business day following satisfaction of all conditions specified in the Loan Capitalisation Agreement. If any of the above conditions are not fulfilled on or before 31st May 2004 or such other date as the Company and Ko Bee may agree in writing, the Loan Capitalisation Agreement will lapse and be of no further effect.

Reason for the Loan Capitalisation

The Loan Capitalisation will enable the Group to:

- (i) partially repay the principal amount of loan (with accrued interest) due to Ko Bee by HK\$43,350,000 as at the date of the Loan Capitalisation Agreement without affecting working capital of the Company;
- (ii) lower its gearing ratio from 198% to 181%; and
- (iii) reduce its interest expenses of approximately HK\$200,000 per month.

Henceforth, the Board considers that the Loan Capitalisation is in the best interest of the Company and its shareholders as a whole.

CONNECTED TRANSACTION

As Ko Bee is substantial shareholder of the Company, the Loan Capitalisation constitutes a connected transaction for the Company under Rule 14A.11(1) of the Listing Rules and will be subject to the approval by the Independent Shareholders at the SGM. Ko Bee and its associates (as defined under the Listing Rules) will abstain from voting on the resolutions approving the Loan Capitalisation at the SGM. An independent board committee will be formed to consider the terms of the Loan Capitalisation and Hantec Capital Limited, being an independent financial adviser, has been appointed to advise the independent board committee in this regard.

RANKING AND RIGHT OF LOAN CAPITALISATION SHARES

The Loan Capitalisation Shares will rank pari passu in all respects amongst themselves and with all other Shares in issue or to be issued by the Company on or prior to completion of the Loan Capitalisation including the rights to all dividends and other distributions declared, made or paid at any time after the date of issue and allotment.

LETTER FROM THE BOARD

3. CHANGES TO THE SHAREHOLDING AS A RESULT OF THE LOAN CAPITALISATION

The effect of the Loan Capitalisation on the shareholding structure of the Company is as follows:

	Immediately before the Loan Capitalization		Immediately after the completion of Loan Capitalization	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Ko Bee	50,902,088	60.40	67,902,088	67.05
Mrs. Chan	80,000	0.09	80,000	0.08
Mr. Tse	5,603	0.01	5,603	0.01
COSCO	6,614,720	7.85	6,614,720	6.53
Public	<u>26,666,493</u>	<u>31.65</u>	<u>26,666,493</u>	<u>26.33</u>
Total	<u>84,268,904</u>	<u>100.00</u>	<u>101,268,904</u>	<u>100.00</u>

4. SGM

The notice for the SGM is set out on pages 23 to 24 of this document. The SGM will be held at 10:00 a.m., Wednesday on 5th May 2004 at Room 02, 30th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong at which resolutions will be proposed to consider and approve the Loan Capitalisation at the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting in person, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company at 21st Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the SGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM should you so desire.

5. GENERAL INFORMATION

The principal activities of the Group are property development, property leasing and provision of building management services.

The Company has submitted an application to the Stock Exchange for the listing of, and permission to deal in, the Loan Capitalisation Shares pursuant to the Loan Capitalisation Agreement.

An independent board committee, comprising Wong Tak Leung Charles and Yuen Hing Man, has been formed to consider the terms of the Loan Capitalisation. Hantec Capital Limited, being an independent financial adviser has been appointed to advise the independent board committee in this regard.

6. RECOMMENDATIONS

The Board considers that the terms of the Loan Capitalisation are fair and reasonable so far as the Shareholders are concerned and the entering into of the Loan Capitalisation is in the interest of the Company and the Shareholders. Accordingly, the Board has recommended the Shareholders to vote in favour of the resolutions in respect of the Loan Capitalisation to be proposed at the SGM.

LETTER FROM THE BOARD

The independent board committee, having considered the advice from Hantec Capital Limited, considers that the terms of the Loan Capitalisation are fair and reasonable so far as the Independent Shareholders are concerned and the Loan Capitalisation is in the interest of the Company and the Independent Shareholders. Accordingly, the independent board committee has recommended the Independent Shareholders to vote in favour of the resolutions in respect of the Loan Capitalisation to be proposed in the SGM.

The text of the letter from Hantec Capital Limited, containing its opinion and the principal factors and reasons taken into account in arriving at its opinion as regards the Loan Capitalisation, is set out on pages 10 to 16 of this document.

7. ADDITIONAL INFORMATION

Please refer to the appendix to this document for additional information.

Yours faithfully,
For and on behalf of the Board
Soundwill Holdings Limited
Kwan Chai Ming
Executive Director



SOUNDWILL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

16th April 2004

To the Independent Shareholders

Dear Sirs,

**LOAN CAPITALISATION,
CONNECTED TRANSACTION**

We refer to the document of the Company dated 16th April 2004 (the “Document”) to the Shareholders, of which this letter forms part. The terms used in this letter shall have the same meanings as defined in the Document unless the context otherwise requires.

We have been appointed by the Board as members to constitute an independent board committee and to advise you in relation to the Loan Capitalisation.

Hantec Capital Limited has been appointed to advise the independent board committee as to whether the terms of the Loan Capitalisation are fair and reasonable so far as the Independent Shareholders are concerned. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 10 to 16 of the Document.

Your attention is also drawn to the letter from the Board set out on pages 4 to 8 of the Document and the additional information set out in the appendix of the Document.

Having considered the terms of the Loan Capitalisation and the advice of Hantec Capital Limited, we are of the opinion that the terms of the Loan Capitalisation are fair and reasonable so far as the Shareholders are concerned and that the entering into the Loan Capitalisation with Ko Bee Limited is in the interest of the Company and the Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Loan Capitalisation.

Yours faithfully,
Independent Board Committee of
Soundwill Holdings Limited
Wong Tak Leung Charles **Yuen Hing Man**
Independent *Independent*
Non-executive Director *Non-executive Director*

LETTER FROM HANTEC CAPITAL LIMITED

The following is the text of a letter from Hantec which has been prepared for the purpose of inclusion in this circular:



45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

16th April 2004

*To the Independent Board Committee of
Soundwill Holdings Limited*

Dear Sirs,

LOAN CAPITALISATION CONNECTED TRANSACTION

We refer to our appointment to advise the Independent Board Committee in respect of the Loan Capitalisation Agreement with Ko Bee, whereby Ko Bee conditionally agreed to subscribe 17,000,000 Shares at HK\$2.55 per Share, which represent approximately 20.17% of the existing issued share capital of the Company and approximately 16.79% of the enlarged share capital of the Company upon completion of the Loan Capitalisation. The consideration will be satisfied by capitalising part of the outstanding loans due by the Company to Ko Bee. Details of which are set out in the Letter from the Board contained in the circular of the Company dated 16th April 2004 (the “**Circular**”) of which this letter forms part. Terms used herein without definition shall have the same meanings in the Circular unless the context of this letter otherwise requires.

Ko Bee is the controlling shareholder of the Company holding approximately 60.40% of the Company's issued share capital and is a connected person of the Company as defined under Rule 14A11(1) of the Listing Rules. The Loan Capitalisation is therefore a connected transaction of the Company and will be subject to the approval by the Independent Shareholders at the SGM. An independent board committee comprising Mr. Wong Tak Leung Charles and Mr. Yuen Hing Man was formed to advise the Independent Shareholders on the terms of the Loan Capitalisation. Ko Bee and its associates (as defined under the Listing Rules) will abstain from voting on the resolutions approving the Loan Capitalisation at the SGM.

In arriving at our recommendation, we have relied on the information and facts including, but not limited to the Loan Capitalisation Agreement and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or

LETTER FROM HANTEC CAPITAL LIMITED

representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice to the Independent Board Committee in respect of the terms of the Loan Capitalisation, we have taken the following principal factors and reasons into consideration:

1. Reasons for the Loan Capitalisation

The Company is an investment holding company and the principal activities of the Group include property development, property leasing and provision of building management services in Hong Kong. As stated in the Company's annual report for the year ended 31st December 2002 (the "**2002 Annual Report**"), the Group recorded a turnover of approximately HK\$129.4 million, representing a significant decrease from the year earlier of approximately HK\$710.8 million. For the year ended 31st December 2002, the Group recorded a net loss attributable to shareholders of approximately HK\$411.8 million, down from a net loss attributable to shareholders of approximately HK\$237.8 million from the year earlier. As stated in the Company's interim report for the six months ended 30th June 2003 (the "**2003 Interim Report**"), the Group resumed profit in the first half of 2003, recorded an unaudited profit attributable to shareholders of approximately HK\$14.2 million. This significant improvement in the Group's performance, as stated in the management discussion and analysis of the 2003 Interim Report, 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.

As at 31st December 2002, the Group recorded interest bearing borrowings of approximately HK\$1,405.3 million, which increased to approximately HK\$1,439.3 million as at 30th June 2003. As at 17th March 2004, being the date of the Loan Capitalisation Agreement, the outstanding loan owed by the Company to Ko Bee was approximately HK\$187.7 million. The amount of consideration under the Loan Capitalisation is HK\$43,350,000 which will be satisfied by off-setting against part of the outstanding loan owed by the Company to Ko Bee. The Directors believe that the Loan Capitalisation is in the interest of the Company and its Shareholders as a whole since it will lower its gearing ratio from approximately 198% to approximately 181% and will reduce its interest payment of approximately HK\$200,000 per month. We concur with the Directors that it is in the interest of the Company and Shareholders as a whole to reduce the Company's debt burden by capitalising part (rather than the entire) of its loans due to Ko Bee and at the same time to maintain the minimum public float of the Shares as required by the Listing Rules and level the subscription price to the market price.

LETTER FROM HANTEC CAPITAL LIMITED

2. Terms of the Loan Capitalisation

We have reviewed the trading history of the Shares since 1st March 2003 (being the twelve months period prior to the month of the Loan Capitalisation) to the Latest Practicable Date which is as follows:

(i) *Subscription price*

Date	Highest trading price (HK\$)	Lowest trading price (HK\$)	Month-end closing price (HK\$)
2003			
March (<i>Note 1</i>)	1.45	1.1	1.45
April (<i>Note 1</i>)	1.45	1.3	1.43
May	1.5	1.33	1.41
June	1.54	1.35	1.50
July	1.52	1.46	1.51
August	1.53	1.3	1.40
September	2.425	1.45	1.90
October	2.4	1.55	1.72
November	2.3	1.8	2.00
December	2.025	1.77	1.74
2004			
January	2.5	1.75	2.00
February	3	1.85	2.925
March	2.85	2.3	2.50
April (<i>Note 2</i>)	2.5	2.35	2.40

Notes:

1. Trading price has been adjusted as a result of the capital reduction and share consolidation of 50 shares of HK\$0.01 each into 1 Share of HK\$0.10 each
2. Up to the Latest Practicable Date

The highest and the lowest trading prices of the Shares from 1st March 2003 to the Latest Practicable Date were HK\$3.0 and HK\$1.1 respectively.

The subscription price of HK\$2.55 per Share represents:

1. the same as the closing price of HK\$2.55 as quoted on the Stock Exchange on 17th March 2004, being the last trading day before suspension of trading of the Share on 18th March 2004;
2. a premium of approximately 0.29% to the average of the closing prices per Share as quoted on the Stock Exchange of approximately HK\$2.543 for the ten trading days up to and including 17th March 2004;
3. a premium of approximately 6.25% to the closing price of HK\$2.40 as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM HANTEC CAPITAL LIMITED

4. a discount of approximately 68.86% to the net asset value per Share immediately before completion of the Loan Capitalisation of approximately HK\$8.19; and
5. a discount of approximately 64.78% to the net asset value per Share immediately after the completion of the Loan Capitalisation of approximately HK\$7.24.

As stipulated in the announcement of the Company dated 13th February 2004, Ko Bee entered into an agreement with a placing agent and the Company in relation to the placement of 5,500,000 Shares to not less than 6 investors who are not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or an associate of any of them, at a placing price of HK\$2.20 per Share and the subscription of 13,939,688 new Shares at a subscription price of HK\$2.20 per Share. The then placing and subscription prices represented a discount of around 76.11% to the net asset value of approximately HK\$9.21 per Shares (calculated based on the then number of issued Shares of 69,958,443 Shares as shown in the announcement of the Company dated 13th February 2004 and the net asset value of approximately HK\$644,444,000 as stipulated in the 2003 Interim Report). Accordingly, issuing Share at a substantial discount to the net asset value of the Company should be acceptable given the prevailing market condition.

As illustrated in the above table, the Shares were traded at material time under the subscription price of HK\$2.55. We concur with the Directors' view that the determination of the subscription price was made with reference to the historical performance of the Shares. Further, the subscription price represents a slight premium to the average of the closing prices of the Shares for the ten trading days up to the date of Loan Capitalisation Agreement, and is the same as the closing price of the date of Loan Capitalisation Agreement. We are of the view that the subscription price is fair and reasonable to the Shareholders since it leveled the prevailing market price.

(ii) *Trading volume*

Date	Total number of Shares in issue	Average daily trading volume (Shares)	Percentage of Shares traded to the total number of Shares in issue (%)
2003			
March (<i>Note 1</i>)	62,328,043	39,149	0.06
April (<i>Note 1</i>)	62,328,043	5,020	0.01
May	62,328,043	9,176	0.01
June	62,328,043	19,632	0.03
July	62,328,043	5,553	0.01
August	62,328,043	13,711	0.02
September	62,328,043	66,179	0.11
October	62,328,043	22,638	0.04
November	62,328,043	38,082	0.06
December	69,698,443	23,341	0.03
2004			
January	69,958,443	53,755	0.08
February	83,998,131	616,516	0.73
March	84,268,904	138,472	0.16
April (<i>Note 2</i>)	84,268,904	101,020	0.12

LETTER FROM HANTEC CAPITAL LIMITED

Notes:

1. The number of shares have been adjusted as a result of the capital reduction and share consolidation of 50 shares of HK\$0.01 each into 1 Share of HK\$0.10 each
2. Up to the Latest Practicable Date

As shown in the above table, the trading volume remained thin throughout the corresponding period. In view of the thin liquidity of the Shares in the open market, the Company may encounter difficulties in obtaining alternative equity (such as by means of rights issues and open offer) to retire its loan due to Ko Bee without offering a substantial discount to the market price of the Shares. We consider that the Loan Capitalisation enables the Group to discharge part of its loan due to its controlling shareholder and is in the interests of the Company and its Shareholders as a whole.

3. Financial impact to the Company

(i) *Earnings*

The Loan Capitalisation will reduce the Group's current liabilities by HK\$43,350,000 upon completion which will significantly reduce the Group's interest expenses which in turn will increase the earnings to the Group. As mentioned in the Letter from the Board of the Circular, the Directors believe that the Loan Capitalisation will enable the Group to reduce its interest expenses of approximately HK\$200,000 per month. To reduce an annual interest expense of approximately HK\$2,400,000 represents approximately 2.5% and 7.9% of finance costs of the Group for the year ended 31st December 2002 and the six months ended 30th June 2003, respectively. Accordingly, we consider the Loan Capitalisation is in the interest of the Independent Shareholders.

(ii) *Net asset value*

The table below sets out the pro forma consolidated net assets of the Group, illustrating the effects of the Loan Capitalisation:

	<i>HK\$'000</i>
Unaudited consolidated net assets of the Group as at 30th June 2003 with reference to the 2003 Interim Report	644,444
Add: Proceed from placing of Shares as announced in February 2004	30,670
Add: Proceed from exercise of warrants of the Company	14,740
Pro forma unaudited adjusted consolidated net assets of the Group immediately before completion of the Loan Capitalisation	689,854
Add: Loan Capitalisation	43,350
Pro forma unaudited adjusted consolidated net assets of the Group immediately after completion of the Loan Capitalisation	733,204

LETTER FROM HANTEC CAPITAL LIMITED

HK\$'000

Pro forma unaudited adjusted consolidated net assets per Share of the Group immediately before completion of the Loan Capitalisation HK\$8.19

Pro forma unaudited adjusted consolidated net assets per Share of the Group immediately after completion of the Loan Capitalisation HK\$7.24

The Group's net assets per Share is expected to decrease from approximately HK\$8.19 immediately before completion of the Loan Capitalisation to approximately HK\$7.24 immediately after completion of the Loan Capitalisation. The initial reason for such decline is that the subscription price of HK\$2.55 is substantially lower than the Group's net assets per Share of HK\$8.19 before the Loan Capitalisation, which we consider acceptable in the given prevailing market conditions as stated in "Terms of the Loan Capitalisation" in section 2 above. We are therefore of the view that the decrease in the Group's net assets per Share is acceptable since the Group's earnings and gearing ratio will both be improved by the Loan Capitalisation.

(iii) *Gearing ratio*

As stated in the 2002 Annual Report, the Group had current portion of borrowings of approximately HK\$29.2 million and non-current borrowings of approximately HK\$1,376.1 million, making a total borrowing of approximately HK\$1,405.3 million. Meanwhile, the Group as at 31st December 2002 had shareholders' funds of approximately HK\$320.5 million. The Group's gearing ratio as at 31st December 2002 was therefore approximately 439%.

As stated in the 2003 Interim Report, the Group had current portion of borrowings of approximately HK\$32.1 million and non-current borrowings of approximately HK\$1,407.2 million, making a total borrowing of approximately HK\$1,439.3 million. Meanwhile, the Group as at 30th June 2003 had shareholders' funds of approximately HK\$644.4 million. The Group's gearing ratio as at 30th June 2003 was therefore approximately 223%.

Based on the figures as at 30th June 2003 and having taken into account (i) the repayment of loan due to ultimate holding company of approximately HK\$70,442,000; (ii) the proceeds from placing of Shares as announced in February 2004; and (iii) the proceeds from the exercise of warrants of the Company, the Group had a total borrowing of approximately HK\$1,368.9 million and a shareholders' funds of approximately HK\$689.9 million, with a gearing ratio of approximately 198%.

Upon completion of the Loan Capitalisation, the gearing ratio of the Group will be reduced to approximately 181% as a result of the reduced borrowings of HK\$43,350,000 and the increased shareholders' fund by the same amount. We consider the improvement in the Group's gearing ratio is in the interest of the Company and the Independent Shareholders as a whole.

LETTER FROM HANTEC CAPITAL LIMITED

4. Dilution effect to the Independent Shareholders

17,000,000 Shares will be issued to Ko Bee, which represent approximately 20.17% of the existing issued share capital of the Company and approximately 16.79% of the enlarged share capital of the Company upon completion thereof. The shareholding of Ko Bee, an existing substantial shareholder of the Company, will be further increased and the Independent Shareholders will be diluted as follows:

	Immediately before the completion of the Loan Capitalisation		Immediately after the completion of Loan Capitalisation	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Ko Bee	50,902,088	60.40	67,902,088	67.05
Mrs. Chan	80,000	0.09	80,000	0.08
Mr. Tse	5,603	0.01	5,603	0.01
COSCO	6,614,720	7.85	6,614,720	6.53
Public	<u>26,666,493</u>	<u>31.65</u>	<u>26,666,493</u>	<u>26.33</u>
Total	<u>84,268,904</u>	<u>100.00</u>	<u>101,268,904</u>	<u>100.00</u>

We note that the aggregate shareholding of the Independent Shareholders will decrease from approximately 31.65% to approximately 26.33%, we consider the dilution effect insignificant and acceptable as compared to the various favourable financial impacts on the Group, the immediate reduced liabilities of the Group and gearing ratio.

RECOMMENDATION

Notwithstanding the factor that the Loan Capitalisation may dilute the net asset value per Share, having taken into consideration of the above principal factors and reasons, amongst others, (i) the historical trading prices; (ii) the inherent thin trading volume; (iii) the improvement in the Company's earnings and gearing positions, we are of the view that the terms of the Loan Capitalisation are fair and reasonable so far as the Independent Shareholders are concerned and the Loan Capitalisation is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolutions relating to the Loan Capitalisation to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Hantec Capital Limited
Kinson Li
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accepts full responsibility for accuracy of the information contained in this circular concerning the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts concerning the Group the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company was HK\$8,426,890.40 comprising 84,268,904 Shares.

Subject to the passing of the ordinary resolutions as set out in the notice convening the SGM, and on the basis of 84,268,904 Shares are in issue and assuming no Shares are issued by the Company prior to the SGM, the issued share capital of the Company will be HK\$10,126,890.4 comprising 101,268,904 Shares after the Loan Capitalisation.

3. DISCLOSURE OF INTERESTS

(a) Directors' interest in the Company

As at the Latest Practicable Date, 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 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 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	50,902,088 (Note)	60.40
Foo Kam Chu Grace	Beneficial owner	80,000	0.09
Mr. Tse	Interest of Spouse	5,000	0.01
Mr. Tse	Beneficial owner	603	0.00

Note: The 50,902,088 Shares are held by Ko Bee, 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):*

Name	Capacity	Number of Shares in the Option	Exercise Period	Price of Grant	Subscription Price per Share
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
Mr. Tse	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	08/01/2004 to 07/01/2009	HK\$1.00	HK\$1.50
Chan Wai Ling	Interest of Spouse	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	Beneficial owner	1 ordinary share	100%

(c) **Interest in assets and contracts of the Group**

As at the Latest Practicable Date,

- (i) Save as disclosed below, none of the Directors has any interest in any assets which have been, since 31st December 2002, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of or leased to any member of the Group, or are proposed to be acquired, disposed of or leased to any member of the Group:
- (aa) On 1st January 2003, a wholly owned subsidiary of the Company entered into an agreement with, inter alia, a related party in associate with the chairman and an executive director of the Company for the acquisition of the entire issued share capital of a company incorporated in the British Virgin Islands which holds a wholly foreign owned enterprise incorporated in the People's Republic of China ("PRC") in consideration of HK\$50,000.00. The transaction was completed on 31st August 2003;
- (bb) On 1st January 2003, a wholly owned subsidiary of the Company entered into a tenancy agreement (the "**Old Tenancy Agreement**") with a related party in associate with the chairman and an executive director of the Company for leasing an office premises situated in Guangzhou, PRC at monthly rental and management charge at HK\$73,912.36 for a term of 12 months from 1st January 2003 until 31st December 2003. The Old Tenancy Agreement was subsequently terminated on 30th November 2003 and immediately thereafter, the parties entered into a new tenancy agreement for the leasing of another office premises situated at the same building for a term of 12 months from 1st December 2003 until 30th November 2004 at a monthly rent of HK\$61,097.00;
- (cc) On 2nd October 2003, a vehicle owned by a wholly owned subsidiary of the Company was sold to a related party in associate with the chairman and an executive director of the Company at a price of HK\$300,000.00;
- (dd) On 6th October 2003, a wholly owned subsidiary of the Company entered into a vehicle lease agreement with a related party in associate with the chairman and an executive director of the Company for leasing a vehicle at monthly rent of HK\$8,500.00;
- (ii) none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group and which is significant in relation to the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, 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, or, who is expected, directly or indirectly, to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

(a) Long positions in the Shares

Name of Shareholder	Capacity	Number of Shares	Percentage of Shareholding
Ko Bee	Beneficial owner	50,902,088	60.40%
COSCO Investments Limited (<i>Note 1</i>)	Beneficial owner	3,705,920	4.40%
Graceful Nice Limited (<i>Note 1</i>)	Beneficial owner	2,908,800	3.45%

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

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

Note:

1. COSCO Investments Limited and Grace Nice Limited were both indirect subsidiaries of COSCO.
2. 741,184 and 581,760 units of warrant of the Company had been granted and remained unexercised.

5. CONSENT

Hantec Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its opinion or letter, as the case may be, and the references to its name, opinion or letter in the form and context in which it appears.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, save as the property-related proceeding relating to the purchase of certain properties in Yuen Long involving the deposit of HK\$65,000,000 which was paid by a subsidiary of the Company which is still under progress, neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened against the Company or any other member of the Group.

7. MATERIAL CONTRACTS

Save as disclosed below, neither the Company nor any other member of the Group has entered into any material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) after the date two years preceding the Latest Practicable Date.

- (a) a memorandum of understanding dated 29th May 2002 entered into between Fujian Group Limited (“FGL”), Turbo Success Ventures Limited (“TSV”) and the Company pursuant to which TSV and the Company were granted an exclusive right to enter into certain investment agreement with FGL for the purpose of enabling, inter alia, TSV and the Company or their respective nominees to acquire at least 51% of the then issued share capital of FGL and of assisting FGL in the finalization of the terms of the debt restructuring agreement with the financial creditors of FGL;
- (b) a placing and subscription agreement dated 13th February 2004 entered into between Quam Securities Company Limited and Ko Bee in relation to the placement of 5,500,000 existing Shares at a placing price of HK\$2.20 per Share and the subscription of 13,939,688 new Shares at a subscription price of HK\$2.20 per Share; and
- (c) the Loan Capitalisation Agreement.

8. SERVICE AGREEMENTS

There is no existing or proposed service contract between any of the Directors and the Company or any of its members which is not terminable within one year without payment compensation (other than statutory compensation) and no service contract has been entered into or amended within six months before 18th March 2004, being the date of the Announcement.

9. MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

Save as disclosed below, the Directors are not aware of any circumstances or events that may give rise to a material change in the trading and financial position or prospect of the Group since 31st December 2002, being the date to which the latest published audited accounts of the Group were made up.

- (a) Issue of 12,465,608 units of bonus warrants, each of which entitling the holder to subscribe for one Share at the initial subscription price of HK\$2.00 (subject to adjustment) from 3rd September 2003 until 2nd March 2006. As at the Latest Practicable Date, proceeds of around HK\$14,740,000 have been received upon exercise of such bonus warrants.
- (b) Subscription for 13,939,688 Shares at HK\$2.20 per Share by Ko Bee on 13th February 2004. The consideration was satisfied partly by offsetting against part of the unsecured interest-bearing loan owed by the Company to Ko Bee for an amount of around HK\$18,570,000 and the balance of approximately HK\$12,100,000 by cash payment.

10. MISCELLANEOUS

As at the Latest Practicable Date, save for the Loan Capitalisation Agreement, there is no material contract or arrangement entered into by any of the Directors which any Director has a material personal interest.

11. EXPERT

The following is the qualifications of the expert who has given an opinion or advice which is contained or referred to in this circular:

Name	Qualification
Hantec Capital Limited	a licensed corporation under the SFO

As at the Latest Practicable Date, Hantec Capital Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since 31st December 2002 (the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

12. GENERAL

- (a) The company secretary of the Company is Kwan Chai Ming, a qualified solicitor in Hong Kong.
- (b) The Company's Hong Kong branch share registrar is Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (d) The registered office of Ko Bee is offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands.
- (e) The registered office of Hantec Capital Limited is 45th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong.
- (f) The English text of this document and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office of the Group at 21st Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong up to and including 4th May 2004:

- (a) the memorandum and bye-laws of the Company;
- (b) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (c) the letter from the independent board committee, the text of which is set out on page 9 of this document;
- (d) the letter of advice from independent financial adviser the text of which is set out on pages 10 to 16 of this document; and
- (e) the consent letter referred to under the section headed "Consent" in this appendix.



SOUNDWILL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that the special general meeting (the “Special General Meeting”) of Soundwill Holdings Limited (the “Company”) will be held at 10:00 a.m., Wednesday on 5th May 2004 at Room 02, 30th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong, for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**, the Loan Capitalisation Agreement (as defined in the document of the Company dated 16th April 2004 of which this notice of the Special General Meeting forms a part) (a copy of which has been produced to this meeting marked document “A” and signed by the Chairman of the meeting for identification purposes) entered into on 17th March 2004 between the Company of the one part and Ko Bee Limited of the other part and the transactions contemplated thereunder are hereby approved and confirmed; and that any one director of the Company be and is hereby authorised with full power to do all things and execute all documents which may in his or her opinion be necessary or desirable in connection with the Loan Capitalisation Agreement or any matters relating thereto.”
2. “**THAT**, the directors of the Company be and are authorised to allot, issue and deal with additional shares in the capital of the Company as contemplated under the Loan Capitalisation Agreement.”

By order of the Board
Kwan Chai Ming
Executive Director

Hong Kong, 16th April 2004

*Head office and principal place
of business in Hong Kong:*
21st Floor, Soundwill Plaza,
38 Russell Street,
Causeway Bay,
Hong Kong

NOTICE OF SGM

Notes:

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's head office at 21st Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time of the meeting. Delivering of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.