

## RESULTS

Since the new management took over the office in April 2002, the Group has been able to identify opportunities to improve its business operations. For the period under review, the Group had attained a turnover of HK\$34.9 million, representing an increase of 111% over that of the same period last year. Loss attributable to shareholders was trimmed down to HK\$1.2 million, a substantial reduction of 90% from HK\$12.1 million in 2001. Loss per share was also reduced to 0.56 cents from 6.03 cents in 2001. The improved financial performance was benefited from an enlarged revenue base coupled with improved profit margin.

## CHANGE OF COMPANY NAME

On 7 June 2002, the name of the Company was changed from “Ying Wing Holdings Limited” to “Shanghai Merchants Holdings Limited” which emphasizes the development of international trading and market of consumer products, turns into a competitive international trading group.

## BUSINESS REVIEW AND OUTLOOK

### Fabric business

Despite the difficulties the Group has faced in last year, the new management has made efforts to pursue active business opportunities in the period.

The Group's fabric business had achieved a favourable result, with its turnover increased remarkably by 398% to HK\$30.7 million when compared with that attained in the same period of 2001. Leveraging the new management's solid experience in the industry, operating result for the fabric segment had swung back to a profit of HK\$0.6 million in the period from a loss of HK\$8.2 million last year.

Given the intense competition from state-owned enterprises in the PRC and the more stringent business environment, the Group had gradually scaled down its raw fabric processing operation during the period so as to redirect resources to other more promising trading business.

While the Group is actively exploring new business opportunities, it will continue with its prudence policies. In assessing new business opportunities, the management will exercise a prudent and cautious approach while maintaining flexibility in granting credit terms in capturing opportunities.

**Snack food business**

Following the disposal of its loss sustaining snack food business in the period, the Group will continue to take advantage of emerging opportunities and actively explore into new and quality food and beverage related manufacturing investment opportunities with good potential in profitability.

**Trading of base metals**

Eyeing the great potential of the PRC market in the consumption of base metals and looking forward to benefiting from the opening up of untapped markets arising from the accessing of the PRC into the World Trade Organization, the Group is very optimistic of its business opportunities in the trading of base metals. As such, the Group had started to develop its business to the trading of copper cathodes and operating profits attained from such business had amounted to HK\$1.5 million in the period.

**Business outlook**

China's foreign trade has witnessed continuous growth in 2002, with total imports and exports increasing by 12% to US\$270 billion in the first six months. As the main gate for import and export and the largest economic and trading center in China, Shanghai's imports and exports accounted for over 11% of the national total.

Leveraging on the robust economic growth of the PRC market and with Shanghai as its strategic base, the Group is very optimistic of its future development in the PRC market. This coupled with the new management's unrivaled expertise and experience in the PRC trading business environment, the Directors believed that the Group is very well positioned to secure a leadership role in the PRC market and to further expand its network in international business and trading.

To take advantage of this, the Group intends to continue its original business of fabric trading and at the same time, actively explore new business opportunities with existing business partners and to identify new strategic partners to extend its business reach to the trading of general commodities such as textile products, base metals, mechanic equipment, agricultural by-products, tea leaves, high-tech products and etc.

With future emphasis being placed in business rationalization and diversification, it is anticipated that these efforts would offer a route to business growth and help to restore a profit growth for the Group in the long run. The Group would then be in a better position to enhance the shareholder value going forward.

Given the healthy financial position of the Group, the Directors believe that the Group is able to leverage the available opportunities to maximize returns for its shareholders and its business is expected to continue strengthening in the second half of 2002.

### **Change of controlling shareholder**

On 22 January 2002, a sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between, amongst others, Feng Lin Holdings Limited ("Feng Lin") (the former controlling shareholder of the Company) and Angel Field Limited ("Angel Field") (the existing controlling shareholder of the Company), pursuant to which Feng Lin agreed to sell 148,000,000 shares in the Company ("Shares"), representing 74% of the then issued share capital of the Company, to Angel Field at a consideration of approximately HK\$0.418 per Share. Completion of the Sale and Purchase Agreement took place on 12 March 2002.

Following completion of the Sale and Purchase Agreement, there was a mandatory general offer (the "General Offer") made by Kingsway SW Securities Limited on behalf of Angel Field to acquire all the issued shares of Ying Wing Holdings Limited (former name of the Company) other than those already held by Angel Field or parties acting in concert with it at the offer price of HK\$0.418. Upon closing of the General Offer on 12 April 2002, Angel Field has received valid acceptances in respect of 5,104,000 Shares under the General Offer which made Angel Field and parties acting in concert with it interested in 153,104,000 Shares, representing approximately 76.55% of the issued share capital of the Company as at the closing date. Details of the General Offer were set out in the Offeror Document dated 14 March 2002.

### **Disposal of snack food business**

Pursuant to a disposal agreement (the "Disposal Agreement"), the Group has conditionally agreed to dispose of its entire interest in certain of its indirect subsidiaries, namely Vastco (H.K.) Limited, Cai Yi Trading Limited, Transfit Garments Limited and Hanover VCL Trading Limited, which are principally engaged in the snack food business, to Feng Lin, a then substantial shareholder of the Company for a consideration of HK\$24,600,000. As settlement of the consideration, Feng Lin will assume and repay certain liabilities and obligations, which are in aggregate of HK\$24,600,000, in respect of certain subsidiaries to be remained in the Group upon completion of the Disposal Agreement. Details of the Disposal Agreement were set out in the circular of the Company dated 22 February 2002. The resolution in relation to the Disposal Agreement was unanimously passed by way of a poll at the special general meeting of the Company held on 11 March 2002. Completion of the Disposal Agreement took place on 12 March 2002.

### **CAPITAL STRUCTURE**

Pursuant to the subscription agreements dated 16 April 2002 and 29 July 2002 both entered into between the Company and Angel Field, Angel Field had subscribed for 33,800,000 and 48,000,000 new Shares respectively in the capital of the Company.

Pursuant to a subscription agreement dated 7 May 2002 entered into between the Company and the placing agent, 6,200,000 new Shares were issued to independent investors.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The financial position of the Group has improved substantially during the period.

During the period, the Group collected HK\$26.4 million from the sale proceeds of the disposal of certain subsidiaries principally engaged in the snack food business. The proceeds have wholly been applied in repaying certain of the then outstanding bank borrowings and other liabilities of the Group.

To enlarge the capital base of the Company and to strengthen the financial resources of the Group, additional funding of approximately HK\$21,340,000 was obtained by the Company through placements of new Shares in the period.

As at 30 June 2002, the Group was free of bank borrowings and operated with a current ratio of 3.3 (31 December 2001: 0.47).

The Group has maintained a cash reserve of over HK\$22 million. Whilst managing the Group's finances very conservatively, the Directors will ensure that there will be sufficient cash to satisfy the Group's working capital needs for continuous business developments.

## FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payment made to suppliers are either made in Hong Kong Dollars, US Dollars or Renminbi, no use of financial instruments for hedging purposes is considered necessary.

## DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2002, the directors' interests in the issued share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### (A) SHARES

<b>Name of directors</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>
Mo Yuk Ping	Corporate ( <i>Note</i> )	133,986,000

*Note:* Ms. Mo Yuk Ping is the spouse of Mr. Chau Ching Ngai who is deemed to be interested in 133,986,000 Shares in the issued share capital of the Company.

**(B) SHARE OPTIONS**

Details of the movements in the share options to subscribe for shares in the Company granted by the Company to the directors of the Company during the year are as follows:

Name of directors	Date of grant	Exercisable period	Exercise price per Share HK\$	Balance at 1.1.2002	Granted during the period	Expired during the period	Balance at 30.6.2002
Mo Yuk Ping	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	240,000	–	240,000
Shi Zhi Hong	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	2,400,000	–	2,400,000
Shan Zhenglin	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	2,400,000	–	2,400,000
Gong Bei Ying	28.6.2002	2.7.2002 – 1.7.2007	0.556	–	2,400,000	–	2,400,000

Save as disclosed above, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.