

I am pleased to present to the Shareholders the Annual Report of Shang Hua Holdings Limited ("the Company") and its subsidiaries ("the Group") for the year ended 30th June, 2002.

RESULTS

Turnover of the Group for the year under review amounted to HK\$57,181,000, representing an increase of 50.4% over the last financial year. The net loss for the year amounted to HK\$9,215,000.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 30th June, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12th November, 2002 to 15th November, 2002, both days inclusive, for the purpose of establishing entitlements of the Shareholders to vote at the Annual General Meeting. During this period, no share transfer will be registered.

BUSINESS REVIEW AND PROSPECTS

Since 2000, the IT and telecom markets have been slowing down quite sharply all over the world, due to the turbulent competition and the sluggish demand. In fact, global economics development is not favorable at all in view of the lingering recession except the markets in PRC. The recovery in US Economy is not certain yet, on account of the issue of double dips. The economy in Hong Kong is quite disappointed with the negative trend of some indicators in the unemployment rate and deflationary pressure. Our business environment is not optimistic in general.

We have the principal place of business in Hong Kong. On one hand, we have endeavored to diversify our range of products and retrench our expense budget, for sake of business survival. On the other hand, we have invested in our new development into the potential marketplace of PRC. Last year, the Group was successful in establishing a subsidiary in Shanghai PRC, for the objects of trading our range of computer-related products. I am delighted to report that the subsidiary was able to generate profits during the last quarter ended 30th June, 2002. We shall continue our product and market development from our investments in Shanghai in the coming years.

Following PRC's entry into WTO, there are vast potential for investing and trading opportunities in such booming marketplace. The Group will build on the strength of our rapport in PRC. The Group will keep on its business research and will invest in some profitable projects when the right opportunity comes.

**FINANCIAL HIGHLIGHT**

In December 2001, the Company was successful in placing 128,745,000 new ordinary shares at the nominal value of HK\$0.10 each subscribed and issued at HK\$0.15 each, thus bringing in the net proceeds of HK\$18,862,000 after deducting the relevant expenses. Also, share options for a total of 3,000,000 new ordinary shares at the nominal value of HK\$0.10 each were exercised at a subscription price of HK\$0.1824 each; thus bringing in another new capital for the net proceeds of HK\$547,200.

As at 30th June, 2002, the bank and cash balances were totaling approximately HK\$19,785,000. The current ratio was about 7.6 times with the net current assets amounting to HK\$25,758,000. Basically, its own liquid resources financed all business activities of the Company. The gearing ratio has remained almost at zero, for the past two years.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Code"). It comprises the Independent Non-Executive Directors of the Company to review on matters regarding internal controls and financial reporting of the Group.

CODE OF BEST PRACTICE

The Board of Directors is of the opinion that throughout the accounting period covered by the annual report, the Company has complied with the Code as set out in Appendix 14 of the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our loyal staff for their contribution and their dedication, and to our shareholders, customers, suppliers and business associates for their continuing support.

On behalf of the Board

Zhou Hongwen

Chairman

Hong Kong, 20th September, 2002