# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Directors"), I am pleased to present to the shareholders the results of Shanghai Merchants Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2002.

## RESULTS

Year 2002 has been a year of consolidation. Whilst the world's economy and business environment continue to present great challenges, the Group has been undergoing a revival since its new management took over the office in April 2002. With new opportunities being identified to improve business operations, the Group's turnover had surged substantially from HK$38.1 million in 2001 to HK$403.7 million in the year, representing a significant increase of 1,058% over that achieved in the year of 2001. The newly explored base metal trading business also started to contribute profits of HK$4.5 million.

Loss attributable to shareholders increased 9.70% from HK$45.6 million to HK$50.0 million, mainly aggravated by doubtful debt provisions and assets impairment losses recognised for the previous fabric trading and processing business. Loss per share was reduced to 20.74 cents this year from 22.78 cents in 2001.



## 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.

## 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, 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 per share. 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.

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## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil). No interim dividend was paid for the year (2001: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

### 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 which was beneficially interested in approximately 74.48% of the issued share capital of the Company, for a consideration of HK$24,600,000. As settlement of the consideration, Feng Lin would assume and repay certain liabilities and obligations, which were 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.

Following the disposal of its loss sustaining snack food business in the year, 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.

### Fabric Business

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

The Group's fabric trading business had achieved a favourable result, with its turnover increased by 288.00% to HK$52.6 million when compared with HK$13.5 million attained in the whole of 2001. Operating profit for the year before provision for doubtful debts was HK$0.9 million, against a loss of HK$2.6 million in 2001.

During the year, the Group is committed to implementing measures on stringent credit control and operating efficiency. Collection of trade receivable has been under well control for new trades generated during the year, though HK$12.4 million allowance for doubtful debt was nonetheless considered necessary for receivables built up a year ago.

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.

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On the other hand, given the intense competition from state-owned enterprises in the PRC and the harsher business environment, the Group had gradually scaled down its raw fabric processing operation during the year so as to redirect resources to other more promising business. Loss attributable to the raw fabric processing business had surged to HK$36.2 million in the year from HK$19.5 million in last year, due mainly to HK$29.6 million impairment losses being recognised on a number of impaired and technical obsolescent assets following a review of the Group's fabric processing operation.

### 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 accession 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 has started to develop its business to the trading of copper cathodes in the year and its efforts in this regard is expected to yield promising returns.

Turnover achieved in its initial year was HK$346.1 million, contributing to a segmental operating profits of HK$4.5 million in the year.

### Business Outlook

China's foreign trade has witnessed continuous growth in 2002, with total external trade increasing by 19.7% to US$500 billion in the first ten 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 10% of the national total.

While global growth is expected to remain modest in 2003, the expansion in world trade is expected to be more inspiring, as structural developments are underway to reinforce the growth in world trade. 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.

The Group will consolidate the result-oriented management philosophy and continue to adjust its business model to take advantage of emerging opportunities. It will also expedite the adjustments of both business structure and product mix. As such, the Group intends to maintain its profit-making base metals and fabric trading business and at the same time, actively explore new business opportunities with new strategic partners to extend its business reach to the trading of general commodities and consumer products.

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 year ahead.

## CAPITAL STRUCTURE

Pursuant to the subscription agreements dated 16 April 2002, 29 July 2002 and 6 March 2003 all entered into between the Company and Angel Field, Angel Field had subscribed for 33,800,000, 48,000,000 and 125,000,000 new shares respectively in the capital of the Company.

Pursuant to a placing 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 year.

During the year, 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$41.2 million was obtained by the Company through placements of new shares in the year.

As at 31 December 2002, the Group had total outstanding bank borrowings of HK$12.9 million (2001: HK$20 million), all of which were due within one year and were mainly utilized as working capital for the Group's business operations. Moreover, the Group operated with improved current ratio and debt-equity ratio of 1.8 (2001: 0.47) and 0.22 (2001: 0.3) respectively.

The Group has maintained a cash reserve of over HK$23.0 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.

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## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2002, the Group had 60 full time managerial, administrative and production staff in Hong Kong and the PRC.

The Group recruits and promotes individuals based on their competencies, merit and development potential and remunerates its employees largely based on the prevailing industry practice with rent-free quarters being provided to most of its employees in the PRC. Remuneration packages are structured to reward and motivate individual performance and contribution to the Group. Review of remuneration policies are conducted on a regular basis.

## APPRECIATION

I would like to take this opportunity to express my thanks to the Directors and all staff for their contributions to the Group and shareholders for their support of the Company. All your unwavering support will remain the principal propelling force in the growth of the Group.

On behalf of the Board
**Mo Yuk Ping**
*Chairman*

Hong Kong, 7 April 2003