

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Group and the Company for the year ended 31 December 2002.

CHANGE OF NAME

Pursuant to a special resolution passed at the annual general meeting held on 7 June 2002, the name of the Company was changed from Ying Wing Holdings Limited to Shanghai Merchants Holdings Limited.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 31 to the financial statements.

During the year, the Group discontinued its snack food operation and was in the process of discontinuing its fabric processing business. The Group plans to focus on its trading business.

SEGMENTAL INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 90% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 45% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year comprised approximately 96% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 41% of the Group's total purchases.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 17.

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

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mo Yuk Ping (<i>Chairman</i>)	(appointed on 12 April 2002)
Shi Zhi Hong	(appointed on 14 March 2002)
Shan Zhenglin	(appointed on 12 April 2002)
Gong Bei Ying	(appointed on 12 April 2002)
Tsoi Hon Chung	(resigned on 12 April 2002)
Cai Han Peng	(resigned on 12 April 2002)
Tsoi Chun Bun	(resigned on 12 April 2002)
Tsoi Chun Hung	(resigned on 12 April 2002)
Cheung Chun Ying	(resigned on 12 April 2002)

Independent non-executive directors:

Lau Siu	(appointed on 12 April 2002)
Gordon Ng	(appointed on 12 April 2002)
Wong Wing Hon, Clint	(resigned on 12 April 2002)
Wong Yiu Kwong, Eric	(resigned on 12 April 2002)

In accordance with Clauses 86 and 87 of the Company's bye-laws, Messrs. Shi Zhi Hong and Shan Zhenglin will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All of the remaining directors continue in office.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors in the securities 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(A) SHARES

Name of Director	Nature of interest	Number of ordinary shares held
Mo Yuk Ping	Corporate (Note)	181,986,000

Note:

Ms. Mo Yuk Ping is the spouse of Mr. Chau Ching Ngai who is deemed to be interested in 181,986,000 shares in the issued share capital of the Company. The 181,986,000 shares mentioned above are held in the name of Angel Field Limited ("Angel Field")

(B) SHARE OPTIONS

Name of Director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Balance as at 31 December 2002
				Balance as at 1 January 2002	Granted during the year	Exercised during the year	
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 year.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following persons having an interest of 10% or more of the issued share capital of the Company:

Name of Shareholder	Number of issued ordinary shares held	Percentage of the total share capital of the Company
Angel Field	181,986,000	63.18%
Mr. Chau Ching Ngai (<i>Note</i>)	181,986,000	63.18%

Note:

As at 31 December 2002, Mr. Chau Ching Ngai was deemed under Sections 8(2), (3) and (4) of the SDI Ordinance to be interested in the 181,986,000 shares of the Company held by Angel Field in which he can exercise one-third or more of its voting rights by virtue of his beneficial holding of the entire issued share capital of Angel Field.

Save as disclosed above and those interests disclosed under the heading "Directors' Interests in Securities", the Company had not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31 December 2002.

SHARE OPTION SCHEMES

A share option scheme was adopted by the Company pursuant to a resolution passed on 10 December 1998 and was subsequently terminated by shareholders of the Company on 7 June 2002.

The Company adopted a new Share Option Scheme (the "Scheme") that was approved by the shareholders on 7 June 2002 for the purpose to provide incentives or rewards to participants thereunder for their contribution or would-be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which any member of the Group holds any entity interest. A total of 9,840,000 share options ("Options") to subscribe for the Company's shares at a subscription

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price of HK\$0.556 each were granted to the directors and employees pursuant to the Scheme. Particulars of Options granted to the directors and employees are as follows:–

	No. of Options held as at 1 January 2002	No. of Options granted during the year	Exercise price per share HK\$	No. of Options exercised during the year	No. of Options held as at 31 December 2002
Total number of Options granted to directors	–	7,440,000	0.556	–	7,440,000
Total number of Options granted to employees	–	2,400,000	0.556	–	2,400,000

All Options were granted on 28 June 2002. Each of the holders of the Options (the "Optionholder") is entitled to exercise the Options he is entitled at the subscription price of HK\$0.556 per share during the period from 2 July 2002 to 1 July 2007.

The Scheme provides that the subscription price of the Options shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share. The closing price of shares of the Company immediately before 28 June 2002, the date of grant of the Options, was HK\$0.54.

The total number of securities available for issue under the Scheme is 24,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of approval of the Scheme and representing approximately of 8.33% of the issued share capital as at the date of this annual report.

The maximum entitlement of each participant under the Scheme in any 12 months period must not exceed 1% of the Shares in issue.

The period within which the Options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the Option. The amount payable on acceptance of the Option is HK\$1.00. No Options may be granted under the Scheme after the tenth anniversary of 7 June 2002, the date of adoption of the Scheme.

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The directors do not consider it appropriate to disclose a theoretical value of the Options granted during the year to the directors and employees, because of the changes in management of the Company, the historical share prices do not reflect the current value of the Options, and in the absence of a readily available market value of the Options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these Options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Other than disclosed in the section "Directors' Interests in Securities" under the heading "Share Options" above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of 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.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 21 November 2002, a sub-tenancy agreement (the "Sub-tenancy Agreement") was entered into between Worldmark (Far East) Limited ("Worldmark"), a wholly-owned subsidiary of the Company, and Profitex Investments Limited ("Profitex"), a wholly-owned subsidiary of Shanghai Land Holdings Limited ("Shanghai Land"), in respect of the sub-leasing of 2,487 square feet of the office premises located at 67th Floor, The Center, 99 Queen's Road Central, Hong Kong by Profitex to Worldmark for a term commencing on 4 August 2002 and expiring on 19 June 2005 inclusive at the following rentals:–

Period	Monthly rent (approximately HK\$)
4 August 2002 – 31 May 2004	74,610
1 June 2004 – 30 June 2004	63,667
1 July 2004 – 31 May 2005	44,766
1 June 2005 – 19 June 2005	28,352

A rent free period (the "Rent Free Period") in total of 6 months by stages in an aggregate amount of HK\$447,660 had been granted by Profitex to Worldmark pursuant to a supplemental agreement to the Sub-tenancy Agreement dated 17 January 2003 (the "Supplemental Sub-tenancy Agreement"). The first 3 months of the Rent Free Period shall be granted and ratified for the period from 1 September 2002 to 30 November 2002 and the remaining 3 months of Rent Free Period shall be granted for the period from 1 June 2003 to 31 August 2003.

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The respective substantial shareholders (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) of Shanghai Land and the Company are New Nongkai Global Investments Limited (formerly known as Global Town Limited) and Angel Field, which are both 100% beneficially owned by Mr. Chau Ching Ngai, the chairman of Shanghai Land and the spouse of Ms. Mo Yuk Ping, chairman of the Company. Accordingly, the Sub-tenancy Agreement constitutes connected transaction under the Listing Rules.

The independent non-executive directors of the Company have reviewed the Sub-tenancy Agreement and confirmed that the transaction was entered into in the ordinary and usual course of business of the Company, on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company are concerned and in accordance with the terms of the Sub-tenancy Agreement.

Details of other connected transactions for the year are set out in note 29 to the financial statements.

Save as disclosed above, no contracts of significance subsisted at any time during the year to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, Ms. Mo Yuk Ping is a director and controlling shareholder of Zhen Zhou International Trading (Shanghai) Co., Ltd. (振洲國際貿易(上海)有限公司) which is engaged in the business of trading.

The above director is considered as having interests in business apart from the Group's business, which is likely to compete, directly or indirectly, with the Group's business under paragraph 8.10 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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AUDIT COMMITTEE

Upon completion of the General Offer, all the former Directors resigned on 12 April 2002 and the audit committee which comprised the former Directors was dismissed. Simultaneously, the current Directors were appointed and a new audit committee (the "New Audit Committee") was established on 12 April 2002, comprising two independent non-executive Directors of the Company. The New Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited annual financial statements for the year ended 31 December 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the bye-laws of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CHARITABLE DONATIONS

During the year, the Group had made charitable donations amounting to HK\$10,350 (2001: Nil).

POST BALANCE SHEET EVENT

Details of a post balance sheet event are set out in note 30 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Mo Yuk Ping

Chairman

Hong Kong, 7 April 2003