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, 2003.

RESULTS

Turnover of the Group for the year under review amounted to approximately HK$76,480,000, representing an increase of 33.8% over the last financial year. The net loss for the year amounted to approximately HK$4,421,000, representing of decrement of loss of approximately HK$4,794,000 as compared to last year.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 30th June, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 18th November, 2003 to 21th November, 2003, 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 PROSPECTS

During this year, the business environment was not improved but became worse than before. The persistently high unemployment rate, which further weakened the local economy and consumer spending. In addition, the outbreak of severe atypical respiratory syndrome ("SARS") in Hong Kong and the People's Republic of China ("PRC") since March 2003 has stagnated the already weak Hong Kong local market, which in turn deepened the adversity over our operating environment.

Due to the intensified competition and poor prospects in telecom markets, the Group makes the decision to maintain the telephone business only, but no further development will be invested. The role was changed that all the manufacturing process will be outsourcing to sub-contractors and the Group only concentrates on the marketing. Therefore, the staff and related overhead will be further reduced in the coming year.

The IT was continually growing for the year under review. The consolidated turnover for the year was approximately HK$74 million, representing significant increment by 90% as compared to last year. Hong Kong is still our principal place of business, but we also focus on PRC market. Our subsidiary in Shanghai PRC almost stopped operation during the SARS outbreak. Thus, it suffered loss during this year. After the end of the SARS outbreak, the business is gradually recovered. It is optimistic that the business in PRC has a satisfactory performance in the future.

The business environment in the PRC will continue to improve after entry into WTO. There are many unprecedented opportunities and enormous potential in the PRC market. We keep on searching any investment or business to strengthen our Group.

FINANCIAL HIGHLIGHT

In November, 2002, the Company was successful in placing 150,000,000 new ordinary shares to Zest Zone Ltd at the nominal value of HK$0.10 each subscribed and issued at HK$0.10 each, thus bringing in the net proceeds of HK$14,947,500 after deducting the relevant expenses. These fund were used for our working capital.

As at 30th June 2003, the bank and cash balances were totaling approximately HK$30,130,000. The current ratio was about 5.4 times times with the net current assets amounting to approximately HK$37,459,000. 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. The Group has little exposure to foreign exchange fluctuations as most of its assets, receipts and payment are in Hong Kong dollars or Chinese Yuans. Exchange rates between these currencies were relatively stable during the period under review. At 30th June, 2003, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions. In addition, none of Group's assets was charged or subject to any encumbrance.

EMPLOYEE AND REMUNERATION POLICIES

Including the directors of the Group, as at 30th June, 2003, the Group employed a total of approximately 23 staff. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. During the year, no share option were granted or exercised.

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 year, the Company has complied with the guidelines for the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to thank sincerely for the diligent services of our staff members who are always working effectively and efficiently towards their respective task achievements. Also, our hearty gratitude should be expressed for the continuous support from our shareholders; customers; suppliers and business associates, particularly during the past few years of economics downturn.

On behalf of the Board

Zhou Liping
Chairman

Hong Kong, 17th October, 2003