# CHAIRMAN'S STATEMENT

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, 2004.

## RESULTS

Turnover of the Group for the year under review amounted to approximately HK$69,202,000, thus representing the decrease of 9.5% over the last financial year. The net loss for the year amounted to approximately HK$11,144,000.

## DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 30th June, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 7th December, 2004 to 10th December, 2004, 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

The Group continued to face a difficult time during this year under review. Our existing business was continuing to go downward because of the reduction of sales from most of our five largest customers that their sales accounted for approximately 79% of the Group's turnover for the year. The turnover of computer related products in Hong Kong, except Carion Technology Limited ("Carion") amounted to approximately HK$43,349,000 representing a decrease of 14.88% over the last financial year. Owing to the outbreak of the Severe Acute Respiratory Syndrome and the Chinese Government imposing macroeconomic measure, the turnover in PRC decreased by 60.3% and amounted to approximately HK$9,617,000 (2003: HK$24,230,000).

The Board concerned that the Group exposed to the risk of over reliance on few customers, so expanding the customer base is one of our focus during this year. Therefore, in November, 2003, the Group acquired the entire issued shares of Carion which is principally engaged in the trading of various types of computer products including wireless LAN, broadband router, Ethernet LAN, PCMCIA adapter, flash memory, card reader and various types of storage solution in Hong Kong. Taking into account the wide range of computer products being distributed by Carion, this acquisition is in line with the corporate strategy of the Group. During the year under review, the sales in Carion were approximately HK$16,236,000.

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During the year under review, the Group focus to step up developing and penetrating different industry sector using our existing products. In Hong Kong, the Group has an encouraging breakthrough to secure orders from a leading mobile phone supplier and several large chain stores of electrical appliances and will reflect the growth of the sales in the coming year. In PRC, the Group now cooperates with a giant retailer to retail our products. Its retail sales network in PRC would help our Group to boost up our sales in the retail sector in PRC. With those encouraging factors, it is expected that they may become the Group's growth driver in the coming future.

The Group is optimistic that the introduction of Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the Facilitated Individual Travel programme will create long-term benefits to Hong Kong and will provide opportunities for the Board to look exploit potential investments.

## FINANCIAL AND CAPITAL STRUCTURE

In November, 2003, the Company issued 185,000,000 new shares of HK$0.10 each at a price of HK$0.10 per share as a consideration to acquire the entire shares of Carion. As at 30th June 2004, the bank and cash balances were approximately HK$27,105,000. The current ratio was about 10.1 times with the net current assets amounting to approximately HK$34,008,000. 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 year under review. At 30th June, 2004, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions, and did not have any significant contingent liabilities. In addition, none of Group's assets was charged or subject to any encumbrance.

## SUBSEQUENT EVENTS

After the year end date, a capital reorganisation ("Capital Reorganisation") was proposed, and completed in July, 2004. Pursuant to the Capital Reorganisation, the nominal value of the issued share of HK$0.1 each was reduced by HK$0.095 to HK$0.005, and every 20 issued shares of HK$0.005 each be consolidated into 1 consolidated share with nominal value of HK$0.1 ("Consolidated Share") each by way of reduction of capital. Immediately following the Capital Reorganisation, the Company had 55,523,633 Consolidated Share of HK$0.1 each in issue, and the issued share capital of the Company was reduced from an amount of approximately HK$111 million to HK$5.5 million, and the credit balance of the contributed surplus account of approximately HK$105 million arising from the Capital Reduction was applied to against the accumulated losses of the Company. In addition, the share premium account of the Company had been cancelled and the credit arising therefrom was credited to the contributed surplus accounts of approximately HK$38 million to set off the accumulated losses.

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On 12th August, 2004, Wanon Industries Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, as the purchaser, for the disposal of leasehold land and building for a cash consideration of HK$2,850,000. The agreement is expected to be completed on 31st October, 2004 and the purchaser will pay the remaining balance of the purchase price of HK$2,565,000 in cash. Currently, the Group has received HK$285,000 in cash from the purchaser.

## EMPLOYEE AND REMUNERATION POLICIES

Including the directors of the Group, as at 30th June, 2004, the Group employed a total of approximately 25 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. The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC Government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits.

## 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 three members, all being Independent Non-Executive Directors of the Company to review on matters regarding internal controls and financial reporting of the Group. The Group's audited financial statements, including the supplementary consolidated financial information, for the year, have been reviewed by the Committee.

## 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, except that non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation at annual general meeting.

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## 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, 19th October, 2004