

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, 2005.

RESULTS

Turnover of the Group for the year amounted to approximately HK\$66,036,000, representing a decrease of 4.58% over the last financial year. The net loss for the year amounted to approximately HK\$15,963,000.

DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any dividend for the year ended 30th June, 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 21st November, 2005 to 25th November, 2005, 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

There is keen competition in the market of computer consumer products and the Group has actively engaged in the sales and promotion of computers and related products with higher gross profits, so as to improve the profit margin as a whole. The gross profit margin has increase from 2.65% to 3.51% compared to last financial year.

The Group will continue its existing business which focus on the computer consumer products, including 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.

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 its office property in Kowloon Bay for a cash consideration of HK\$2,850,000. The disposal was completed on 31st October, 2004.

The Group will continue to seek opportunities to diversify the business of the Group in order to broaden the revenue base.

**CHAIRMAN'S
STATEMENT****FINANCIAL AND CAPITAL STRUCTURE**

During the year under review, the Company had reduced the nominal value of all issued shares of HK\$0.10 each to HK\$0.005, and then every 20 issued shares of HK\$0.005 each in the capital of the Company were consolidated into one consolidated shares of HK\$0.10. Consequently, the number of ordinary shares of the Company was reduced from 1,110,472,663 to 55,523,633. As at 30th June, 2005, the bank and cash balances were totaling approximately HK\$27,363,000. The current ratio was about 11 times with the net current assets amounting to approximately HK\$33,285,000. Basically, its own liquid resources financed all business activities of the Company. The gearing ratio has remained almost at zero for the past three 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 Renminbi. Exchange rates between these currencies were relatively stable during the year. At 30th June, 2005, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions. In addition, other than bank deposits of approximately HK\$75,000 were pledged to secure general banking facilities granted to a subsidiary, none of Group's assets was charged or subject to encumbrance.

SUBSEQUENT EVENTS

On 22nd August, 2005, the Company raised net proceeds of approximately HK\$2.6 million by an open offer of 27,761,816 offers shares at HK\$0.10 per share on the basis of one offer share for every two shares held ("Open Offer") to provide additional working capital for the Group. Upon completion of the Open Offer, the number of ordinary shares issued and fully paid of the Company was increased from 55,523,633 to 83,285,449.

EMPLOYEE AND REMUNERATION POLICIES

Including the directors of the Group, as at 30th June, 2005, the Group employed a total of approximately 23 staffs. 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. All of the share options were lapsed at 30th June, 2003 and during the year, no share option has been 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.

REVIEW OF FINAL RESULTS

The audited financial statements of the Group for the year ended 30th June, 2005 have been reviewed by the Audit Committee of the Company.

CODE OF BEST PRACTICE AND MODEL CODE

The Company has complied with 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 "Listing Rules") throughout the year ended 30th June, 2005, 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.

The Code of Best Practice was replaced by the Code on Corporate Governance Practices (the "Code") which are applicable to the Company for the financial year commencing 1st July, 2005. The Company has proceeded to take measures to comply with the Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry of all directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

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.

On behalf of the Board

Zhou Liping

Chairman

12th October, 2005, Hong Kong