

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, 2006.

RESULTS

Revenue of the Group for the year amounted to approximately HK\$35,786,000, representing a decrease of 45.81% over the last financial year. The net loss for the year amounted to approximately HK\$3,188,000.

DIVIDEND

The board of Directors (the "Board") does not recommend the payment of any dividend for the year ended 30th June, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 27th November, 2006 to 29th November, 2006, 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. The gross profit margin has decreased from 2.94% to 2.45% 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.

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

FINANCIAL AND CAPITAL STRUCTURE

On 22nd August, 2005, the Company raised net proceeds of approximately HK\$2.6 million by an open offer of 27,761,816 offer shares at HK\$0.10 per share on the basis of one offer share for every two shares held (the "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 increase from 55,523,633 to 83,285,449. As at 30th June, 2006, the bank and cash balances were totalling approximately HK\$32,088,000. The current ratio was about 46 times with the net current assets amounting to approximately HK\$33,255,000. Basically, the Group's own liquid resources are sufficient to finance the existing business activities of the Company. The gearing ratio has remained almost at zero for the past

CHAIRMAN'S STATEMENT

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. At 30th June, 2006, 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.

EMPLOYEE AND REMUNERATION POLICIES

Including the directors of the Group, as at 30th June, 2006, the Group employed a total of approximately 14 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, 2006 have been reviewed by the Audit Committee of 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

23rd October, 2006, Hong Kong