ANNUAL REPORT 2007

上华控股

SHANG HUA HOLDINGS

Shang Hua Holdings Limited

(Incorporated in Bermeda with limited liability) Stock code : 371

CONTENTS

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE:

Mr. Flynn Xuxian Huang *(Chairman)*
Ms. Guan Mei *(Deputy Chairman)*
Mr. Chase J Wong *(Chief Executive Officer)*
(appointed on 5 June 2007)
Ms. Zhou Liping (resigned on 5 June 2007)

INDEPENDENT NON-EXECUTIVE:

Mr. Shea Chun Lok, Quadrant
Mr. Chan Wai Kwong, Peter
Mr. So Kwok Keung
(appointed on 1 August 2007)
Mr. Ngai Chi Yung
(resigned on 27 August 2007)

AUDIT COMMITTEE

Mr. Shea Chun Lok, Quadrant *(Chairman)*
Mr. Chan Wai Kwong, Peter
Mr. So Kwok Keung (appointed on 1 August 2007)
Mr. Ngai Chi Yung (resigned on 27 August 2007)

REMUNERATION COMMITTEE

Mr. Chan Wai Kwong, Peter *(Chairman)*
Mr. Shea Chun Lok, Quadrant
Mr. So Kwok Keung (appointed on 1 August 2007)
Mr. Ngai Chi Yung (resigned on 27 August 2007)

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Poon Kwok Hing, Albert

AUDITORS

HLM & Co.
Certified Public Accountants
Room 305, 3rd Floor,
Arion Commercial Centre,
2-12 Queen's Road West,
Hong Kong

STOCK CODE

371

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

United 1601, 16/F., Cosco Tower
183 Queen's Road Central,
Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Ltd.
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F Tesbury Centre,
28 Queen's Road East,
Hong Kong

CHAIRMAN STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to present to the Shareholders the audited consolidated result of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2007 for their consideration.

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of approximately HK$19,899,000, representing a 44.39% decrease as compared to the last year (2006: HK$35,786,000). Loss for the year ended 30 June 2007 was approximately HK$2,567,000, representing a 19.48% decrease year-on-year (2006: HK$3,188,000). Basic loss per share for the year ended 30 June 2007 was HK$0.0308, decreased by 21.63% due to effective costs controls during the financial year. However, the gross profit margin for the year ended 30 June 2007 decreased from 2.45% to 1.03% or approximately reduced by 57.96%, as a result of the keen competition in the computer consumer products market.

MARKET OVERVIEW AND PROSPECTS

For the year ended 30 June 2007, the competition in computer consumer products market was keen, and the Group believes that prospects in this market will not be exciting in the near term future. As such, the Group has revamped its business strategy by diversifying its focus and resources to new business.

On 12 April 2007, the Company entered into a subscription agreement with the major shareholder, Pioneer Wealth Limited, in which the Company contemplated to issue convertible bonds to Pioneer Wealth Limited in the aggregate amount of HK$200 million. The new funding is primarily for development of the new business in financial service sector in next few years.

Saved as mentioned above, the Group will continue to identify and actively seek prospective business in areas of high growth, so as to diversify its existing business.

OPERATION OVERVIEW

Faced with the intense competition and ever-changing market demand in the computer consumer product market, the turnover and gross margin were decreased by 44.39% and 57.96% respectively for the year ended 30 June 2007. The Board considered diversifying the existing business into financial services sector.

At the same time, the Group had achieved cost saving as a result of additional measures adopted during the year under review, the administrative costs decreased by approximately 13.99% to HK$4,186,000 for the year ended 30 June 2007. (2006: HK$4,867,000).

REVIEW OF FINAL RESULTS

The audited financial statements of the Group for the year ended 30 June 2007 have been reviewed by the Audit Committee of the Company.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our shareholders and customers for their continuous support and to our fellow directors and staff of the Group for their dedication and contribution towards the successful performance of the Group. We will make our best effort in developing our business to produce good results and maximize return for our shareholders in the years to come.

On behalf of the Board
Flynn Xuxian Huang
Chairman

Hong Kong, 18 October 2007

FINANCIAL REVIEW

Results

For the year ended 30 June 2007, the Group recorded a turnover of approximately HK$19,899,000, representing a decrease of approximately 44.39% as compared to the last year (2006: HK$35,786,000). This significant contraction in business during the financial year is a result of keen competition in the computer consumer products market during the year.

The Group's gross profit margin was approximately 1.03% for the year ended 30 June 2007 as compared to approximately 2.45% in 2006. Other revenue earned by the Group for the year ended 30 June 2007 was approximately HK$1,362,000, representing an increase of approximately 57.82% as compared to the last year (2006: HK$863,000).

The Group's administrative expense was approximately HK$4,186,000 for the year ended 30 June 2007, representing a decrease of approximately 13.99% as compared to the last year (2006: HK$4,867,000).

The Group has no finance cost during the year ended 30 June 2007 as the Group incurred no borrowing for the year.

For the year ended 30 June 2007, the loss attributable to shareholders of the Group was amounted to HK$2,567,000, representing an improvement of approximately HK$621,000 or a decrease of approximately 19.48% as compared to the last year (2006: HK$3,188,000). This improvement was due to the effective control of the overall operating expenses of the Group.

Significant investments and acquisitions

The share capital of Shang Hua Capital Limited, a wholly-owned subsidiary of the Company, was increased from HK$200,000 to HK$10,000,000.

Saved as mentioned above, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 30 June 2007. (2006: Nil).

Capital commitments

As at 30 June 2007, the Group did not have any capital commitment (2006: Nil).

Contingent liabilities

As at 30 June 2007, the Group did not have any contingent liabilities (2006: Nil).

Charges on group assets

As at 30 June 2007, the Group pledged bank deposits of approximately HK$75,000 (2006: HK$75,000), which carry fixed interest rate of 3.75% to secure general banking facilities granted to a subsidiary.

Saved as mentioned above, the Group did not have any charges on the Group's assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbi. The Directors consider the impact of foreign exchange exposure of the Group is not significant as the terms of purchase and sales contracts dealt with foreigners will consider the foreign exchange effect and will not bear unforeseeable foreign currency exchange risk.

Liquidity and financial resources

The Group generally finances its operations with internally generated resources. As at 30 June 2007, the Group did not have any banking facilities.

As at 30 June 2007, there was a surplus in the shareholders' funds amounting to approximately HK$31,436,000 (2006: HK$33,352,000). Current assets amounted to approximately HK$32,044,000, of which approximately 91.4% or HK$29,287,000 was bank and cash balances. The Group's current liabilities amounted to approximately HK$679,000 which mainly was trade and other payables. The current ratio was about 47 with times (2006: 46 times). Basically, the Group's own liquid resources are sufficient to finance the existing business activities of the Company.

On 12 April 2007, the Company entered into a subscription agreement with the major shareholder, Pioneer Wealth Limited, in which the Company contemplated to issue convertible bonds to Pioneer Wealth Limited in the aggregate amount of HK$200 million. The new funding is primarily for development of the new business in financial service sector in next two years.

Furthermore, the Group has sufficient resources to enable the Company to participate into new business if and when suitable opportunity arises.

Gearing ratio

As at 30 June 2007, the Group's gearing ratio was almost zero as the Group has no borrowing.

Details of future plans for material investment or capital assets

The Directors currently do not have any future plans for material investment of capital assets.

Employees and Remuneration Policies

As at 30 June 2007, the Group had 18 employees (including the directors) (2006: 14) and staff costs (excluding directors' remuneration) amounted to approximately HK$2,503,000 (2006: HK$2,425,000) whilst the directors' remuneration amounted to approximately HK$764,000 (2006: HK$484,000). 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 on 30 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.

Mr. Flynn Xuxian Huang is the chairman of the Group, and he is mainly responsible for the Group's strategic expansion. The Chief Executive Officer, Mr. Chase J Wong, is responsible to manage the operations and promote the business of the Group.

The Group has continued and will continue to employ additional operational and business development personnel to strengthen the operation of the Group and to promote the Group's products.

BUSINESS REVIEW

In the year under review, the competition in computer consumer products was keen, and the turnover and gross profit margin were continued declining. This situation of intense competition is expected to continue and the Board believes that prospects in this market will not be exciting in the near term future.

The Group will continue to identify and actively seek prospective business to broaden its income sources.

On the other hand, the Group has imposed effective cost controls to reduce the administrative costs by approximately 13.99% for the year ended 30 June 2007.

PROSPECTS

Given the keen competition in the computer consumer products market in recent years, the Group is pessimistic about its future prospects. The Group has revamped its business strategy by diversifying its focus and resources to new business, and will continue to develop and introduce new profitable business. In time, the Group will continue to collaborate with local co-operative partners to seek prospective business in areas of high growth.

The Group believes its business prospects in the near future especially in view of the increasing attractions of financial markets in Hong Kong, Macau and China, as well as the increasing demand on environmental protection worldwide.

The Group is expecting to realize stronger and better business performance in the coming future.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Flynn Xuxian Huang ("Mr. Huang"), aged 37, was pointed as Executive Director of the Company in March 2002. Mr. Huang graduated from the University of Washington in USA with a Bachelor of Arts Degree in Business Administration / Accounting, and was awarded an International Master Degree in Business Administration by the University of Chicago Graduate School of Business. He is also a member of the American Institute of Certified Public Accountants and Washington CPA Society. He has over 12 years' experience in taxation, accounting and corporate finance. Mr. Huang was appointed by the Board as Chairman of the Company with effect on 5 June 2007.

Mr. Chase J Wong ("Mr. Wong"), aged 42, was appointed as Chief Executive Officer and Executive Director of the Company in June 2007. Mr. Wong graduated from Guangzhou Teachers' College (now known as University of Guangzhou) in the PRC with a Bachelor Degree of Science. Mr. Wong has more than 17 years' experience in investment and general management.

Ms. Guan Mei ("Ms. Guan") aged 32, was appointed as Executive Director of the Company in April 2004 and as Deputy Chairman in December 2004. She has over 7 years' experience in relation to the securities investment and business acquisition.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shea Chun Lok, Quadrant ("Mr. Shea"), aged 40, was appointed as Independent Non-Executive Director and a member of both audit committee and remuneration committee of the Company in May 2002. He graduated from Monash University in Australia with a Bachelor Degree in Business. He is also a fellow member of CPA Australia and a CPA of the Hong Kong Institute of Certified Public Accountants. Mr. Shea currently serves as Financial Controller of United Metals Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong Main board listed companies for many years. He has substantial experience as a financial controller of listed companies. Mr. Shea currently serves as a volunteering member for the Hong Kong Trade and Industry Department Small and Medium Enterprises Membership Program.

Mr. Chan Wai Kwong, Peter ("Mr. Chan"), aged 54, was appointed as Independent Non-Executive Director and a member of both audit committee and remuneration committee of the Company in July 2006. He graduated from the University of Western Ontario, Canada in 1978 with Bachelor Degree in Social Science (Economics). He has over 24 years of experience in marketing and business development. Mr. Chan is also an executive director of Mobile Telecom Network (Holdings) Limited, China Solar Energy Holdings Limited and an independent non-executive director of China Golden Development Holdings Limited, all are listed companies in Hong Kong.

Mr. So Kwok Keung ("Mr. So"), aged 46, was appointed as Independent Non-Executive Director and a member of both audit committee and remuneration committee of the Company in August 2007. Mr. So graduated from Dalhousie University, Canada with Bachelor Degree of Commerce and was awarded a Master Degree of Corporate Finance by the Hong Kong Polytechnic University. He has over 12 years' experience in financial and securities industry with considerable knowledge in securities business management, corporate finance business, portfolio management and securities trading.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining the quality of corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules during the period under review, except for the certain deviation disclosed herein:

BOARD OF DIRECTORS

The Board of Directors of the Company currently consists of six members: three executive directors, namely, Mr. Chase J Wong, Ms. Guan Mei, Mr. Flynn Xuxian Huang; and three independent non-executive directors, namely, Mr. Chan Wai Kwong, Peter, Mr. So Kwok Keung and Mr. Shea Chun Lok, Quadrant, who has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, placing of shares and monitoring the financial performance of the Group in pursuit of its strategic goals. The chairmanship of the Board of the Company is elected at each Board meeting. Control and day to day operation of the Company is delegated to the Chief Executive Officer and the management of the Company.

There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. The Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considers the independence non-executive directors to be independent. According to the code provisions, the non-executive directors should be appointed for a specific term, subject to re-election. All directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles, and the terms of their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures are in place to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

Attendance of individual directors during the year:

Composition of the Board	Meetings Attended/Held
Ms Zhou Liping (Resigned on 5 June 2007)	18/18
Ms Guan Mei	7/18
Mr. Flynn Xuxian Huang	5/18
Mr Shea Chun Lok, Quadrant	16/18
Mr. Chase J Wong (Appointed on 5 June 2007)	2/18
Mr. Ngai Chi Yung (Resigned on 27 August 2007)	12/18
Mr. Chan Wai Kwong, Peter	14/18
Mr. So Kwok Keung (Appointed 1 August 2007)	

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code A.2.1 of CG Code provides, inter alia, that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not officially have a position of Chief Executive Officer. However, Ms. Zhou Liping took up the roles of both the Chairman and Chef Executive Officer of the Company during a period from 1 April 2006 to 5 June 2007. On 5 June 2007, Ms. Zhou Liping resigned as the Chairman and Chief Executive Officer of the Company and Mr. Flynn Xuxian Huang was appointed as Chairman and Mr. Chase J Wong as Chief Executive Officer as to comply with the CG Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Code A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the By-laws of the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Mode Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr. Chan Wai Kwong, Peter, and Mr. So Kwok Keung. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

Summary of work done in the year: Reviewed the financial statements for the year ended 30 Jun 2007 and for the six months ended 31 December 2006, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Group's results for the year ended 30 June 2007 have been reviewed by the Company's Audit Committee.

The Audit Committee held two meetings during the year with an attendance rate of 100%.

Remuneration Committee

The Company's Remuneration Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant, Mr. Chan Wai Kwong, Peter (Chairman of the Remuneration Committee) and Mr. So Kwok Keung. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the year: Reviewed and approved the remuneration of directors according to their respective responsibilities, expertise and performance. The Remuneration Committee held one meeting during the year with an attendance rate of 100%.

AUDITORS' REMUNERATION

The Group was charged HK$166,185 for auditing services by the auditors of the Group in respect of the year ended 30 June 2007.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

The Company has engaged an independent consultant to perform internal controls designed assessment of certain systems and to prepare a report the "Report on Internal Control Related to Sales and Receipts Transactions and Trade Receivable" (the "Report")" to enable the management of the Company to evaluated and, where appropriate, carry out the recommended controls procedures of the Report. The Audit Committee has reviewed the Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs off the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 30 June 2007, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 22 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 30 June 2007 are set out in the consolidated income statement on page 23.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 30 June 2007.

The register of members will be closed from 12 November 2007 to 15 November 2007 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2007, the five largest customers of the Group together accounted for approximately 100% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers were 100%. The largest customer accounted for approximately 100% of the Group's revenue and the largest supplier accounted for 100% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 18 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At the balance sheet date, the Company had no reserves available for distribution to shareholders (2006: Nil)

DIRECTORS

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

Executive directors

Mr. Flynn Xuxian Huang *(Chairman)*	
Mr. Wong J Chase *(Chief Executive officer)*	(Appointed on 5 June 2007)
Ms. Guan Mei *(Deputy Chairman)*	
Ms. Zhou Liping	(Resigned on 5 June 2007)

Independent non-executive directors

Mr. Shea Chun Lok, Quadrant	
Mr. Ngai Chi Yung	(Resigned on 27 August 2007)
Mr. Chan Wai Kwong, Peter	
Mr. So Kwok Keung	(Appointed on 1 August 2007)

In accordance with Bye-law 99(B), Mr. Flynn Xuxian Huang and Mr. Shea Chun Lok, Quadrant will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-law 91, Mr. Wong J Chase and Mr. So Kwok Keung will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Chase J Wong has a service contract with the Company.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the above clauses.

DIRECTORS'S INTERESTS IN SHARES OR DEBENTURES

At 30 June 2007, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions

Ms. Guan Mei was interested in 13,957,000 shares of the Company, representing approximately 16.76% of the issued share capital of the Company as at 30 June 2007. These shares were held by Aster Well Limited, accompany incorporated in the British Virgin Islands and is beneficially owned by Ms. Guan Mei.

Mr. Chase J Wong was interested in 394,800 shares of the Company, representing approximately 0.47% of the issued share capital of the Company as at 30 June 2007. These shares were directly held by Mr. Chase J Wong as a beneficial owner.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares in, or debentures of, the company or any of its associated corporation as at 30 June 2007.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 21 to the consolidated financial statements.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company or 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 the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

AT 30 June 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital share capital of the Company.

Long positions

Name	**Number of shares**	**Percentage of issued share capital of the Company**
Pioneer Wealth Limited *(Note 1)*	20,297,875	24.37%
Aster Well Limited *(Note 2)*	13,957,000	16.76%

Note1: The entire share capital of Pioneer Wealth Limited is beneficially owned by Lucy Du and Helen Zhang, independent third parties and not connected persons of the Company.

Note2: The entire share capital of Aster Well Limited is beneficially owned by Ms. Guan Mei.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 30 June 2007.

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.

EMOLUMENT POLICY

The emolument policy of the employee of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 30 June, 2007.

CORPORATE GOVERNANCE

Information on Corporate Governance Practice adopted by the Company is set out in the Corporate Governance Report on pages 11 to 15 of the Annual Report.

AUDITORS

Messrs. Deloitte Touche Tohmatsu had been the auditors of the Company for the past three years until its resignation with effect from 29 November 2006, and since then HLM & Co. has succeeded as the auditor of the Company.

The reason for the change of the auditor is that the Group and Deloitte Touche Tohmatsu could not reach an agreement on the audit fee for the financial year ended 30 June 2007. The change of auditors could help to maintain the audit fee at a reasonable level. This is in line with the Company's policy to control and reduce the Company's expenses.

A resolution will be submitted to the Annual General Meeting to appoint Messrs. HLM & Co. as auditors of the Company.

On behalf of the Board

Flynn Xuxian Huang
CHAIRMAN

Hong Kong, 18 October 2007

恒健會計師行
HLM & Co.
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: hlm@hlm.biz.com.hk

TO THE MEMBERS OF SHANG HUA HOLDINGS LIMITED
上華控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shang Hua Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 53 which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants
Hong Kong, 18 October 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
Turnover	5	**19,899**	35,786
Cost of sales		**(19,695)**	(34,911)
Gross profit		**204**	875
Interest income		**1,067**	815
Other income		**295**	48
Distribution costs		**–**	(73)
Administrative expenses		**(4,186)**	(4,867)
Loss before taxation	6	**(2,620)**	(3,202)
Income tax credit	9	**53**	14
Loss for the year attributable to equity holders of the Company		**(2,567)**	(3,188)
Loss per share-basic	10	**(3.08 HK cents)**	(3.93 HK cents)

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTES	**2007** **HK$'000**	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**71**	97
Goodwill	12	**–**	–
		71	97
CURRENT ASSETS			
Trade receivables, deposits and prepayment	13	**2,251**	154
Investments held-for-trading	14	**431**	1,682
Pledged bank deposits	15	**75**	75
Bank balances and cash	16	**29,287**	32,088
		32,044	33,999
CURRENT LIABILITY			
Trade and other payables	17	**679**	744
NET CURRENT ASSETS		**31,365**	33,255
		31,436	33,352
CAPITAL AND RESERVES			
Share capital	18	**8,328**	8,328
Reserves		**23,108**	25,024
		31,436	33,352

The consolidated financial statements on pages 23 to 53 were approved and authorized for issue by the Board of Directors on 18 October 2007 and are signed on its behalf by:

DIRECTOR	*DIRECTOR*
Flynn Xuxian Huang	**Chase J Wong**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Share capital HK$'000	Capital reserve HK$'000 *(note)*	Translation reserve HK$'000	Accumulated (losses)/ retained profits HK$'000	Total HK$'000
At 1 July 2005	5,552	(400)	–	28,289	33,441
Exchange differences arising on translation of foreign operations directly recognized in equity	–	–	323	–	323
Loss for the year	–	–	–	(3,188)	(3,188)
Total recognized income (expenses) for the year	–	–	323	(3,188)	(2,865)
Issue of shares	2,776	–	–	–	2,776
At 30 June 2006 and 1 July 2006	8,328	(400)	323	25,101	33,352
Exchange differences arising on translation of foreign operations directly recognized in equity	–	–	651	–	651
Loss for the year	–	–	–	(2,567)	(2,567)
Total recognized income (expenses) for the year	–	–	651	(2,567)	(1,916)
At 30 June 2007	8,328	(400)	974	22,534	31,436

Note: The capital reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiaries pursuant to the group reorganization in March 1993.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(2,620)**	(3,202)
Adjustments for:		
Loss/(gain) on disposal of property, plant and equipment	**13**	(26)
Depreciation of property, plant and equipment	**40**	61
(Gain)/loss on change in fair value of investments held-for-trading	**(25)**	25
Write-back of bad debts	**–**	(6)
Interest income	**(1,067)**	(815)
Operating cash flows before movements in working capital	**(3,659)**	(3,963)
(Increase) decrease in trade receivables, deposits and prepayments	**(2,044)**	6,922
Increase in investments held-for-trading	**–**	454
Decrease in trade and other payables	**(65)**	(2,466)
Cash (used in) generated from operations	**(5,768)**	947
PRC enterprise income tax refunded	**–**	14
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(5,768)**	961
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(27)**	(2)
Proceeds on disposal of investment securities	**1,276**	–
Proceeds from disposal of property, plant and equipment	**–**	26
Interest received	**1,067**	815
NET CASH GENERATED FROM INVESTING ACTIVITIES	**2,316**	839

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
Issue of shares	–	2,776
CASH GENERATED FROM FINANCING ACTIVITIES	–	2,776
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,452)	4,576
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	651	224
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	32,088	27,288
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29,287	32,088
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	29,287	32,088

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Group are the trading of computers and related products.

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 22 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2006, 1 May 2006 or 1 June 2006. The adoption of the new HKFRSs has no material effect on the results and the financial position for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments in and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the result and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosure[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – *continued*

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 November 2006

[4] Effective for annual periods beginning on or after 1 March 2007

[5] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less amortization and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Goodwill – *continued*

For previously capitalized goodwill arising on acquisitions, the Group has discontinued amortisation from 1 July 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Sales of goods are recognized when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, on a straight line basis, at the following rates per annum:

Leasehold land and building	2%-5%
Leasehold improvements	Over the term of the lease
Furniture and fixtures	20%
Office equipment and computers	20%
Motor vehicles	30%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is dereognised.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment losses

At each balance sheet date, the Group reviews the varying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the varying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated balance sheet when an entity of the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables and deposits, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities of trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Derecognition – *continued*

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognized in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-sponsored pension plan are charged as expenses as they fall due.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables and deposits, investments held-for-trading, pledged bank deposits, bank balances and cash and other payables Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

Credit risk – *continued*

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Price risk

The Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

5. SEGMENTAL INFORMATION

Revenue

Revenue represents the net amounts received and receivable for goods sold, less returns and allowance, to outside customers during the year.

Business segments

Revenue and contribution to operating results and assets and liabilities by business segments have not been prepared as the Group's revenue was solely derived from the trading of computers and related products.

5. SEGMENTAL INFORMATION – *continued*

Geographical segments

For management purposes, the Group is currently organized into two major geographical segments based on the destination of shipment of products. These segments are the basis on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market irrespective of the origin of the goods:

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2007

	Hong Kong HK$'000	The People's Republic of China (the "PRC") other than Hong Kong HK$'000	Consolidated HK$'000
REVENUE			
External sales	17,775	2,124	19,899
RESULT			
Segment result	(2,265)	(385)	(2,650)
Interest income			1,067
Unallocated corporate incomes			295
Unallocated corporate expenses			(1,332)
Loss before taxation			(2,620)
Income tax credit	–	53	53
Loss for the year			(2,567)

5. SEGMENTAL INFORMATION – *continued*

Geographical segments – *continued*

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Hong Kong HK$'000	PRC other than Hong Kong HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	**2,931**	**12,099**	**15,030**
Unallocated corporate assets			**17,085**
Consolidated total assets			**32,115**
LIABILITIES			
Segment liabilities	**325**	**340**	**655**
Unallocated corporate liabilities			**14**
Consolidated total liabilities			**679**

OTHER INFORMATION

Year ended 30 June 2007

	Hong Kong HK$'000	PRC other than Hong Kong HK$'000	Consolidated HK$'000
Capital additions	**27**	**–**	**27**
Depreciation and amortisation of property, plant and equipment	**36**	**4**	**40**

5. SEGMENTAL INFORMATION – *continued*

Geographical segments – *continued*

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2006

	Hong Kong HK$'000	PRC other than Hong Kong HK$'000	Consolidated HK$'000
REVENUE			
External sales	35,405	381	35,786
RESULT			
Segment result	(1,924)	(583)	(2,507)
Interest income			815
Unallocated corporate expenses			(1,510)
Loss before taxation			(3,202)
Income tax credit	–	14	14
Loss for the year			(3,188)

5. SEGMENTAL INFORMATION – *continued*

Geographical segments – *continued*

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2006

	Hong Kong HK$'000	PRC other than Hong Kong HK$'000	Consolidated HK$'000
ASSETS			
Segment assets	194	57	251
Unallocated corporate assets			33,845
Consolidated total assets			34,096
LIABILITIES			
Segment liabilities	162	262	424
Unallocated corporate liabilities			320
Consolidated total liabilities			744

OTHER INFORMATION

Year ended 30 June 2006

	Hong Kong HK$'000	PRC other than Hong Kong HK$'000	Consolidated HK$'000
Capital additions	2	–	2
Depreciation and amortisation of property, plant and equipment	58	3	61
Write-back of bad debts	(6)	–	(6)

6. LOSS BEFORE TAXATION

	2007	2006
	HK$'000	HK$'000
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 7)*		
Fees	**718**	410
Other emoluments	**46**	74
Other staff costs		
Salaries	**1,695**	1,882
Retirement benefit scheme contributions	**44**	59
Total staff costs	**2,503**	2,425
Auditors' remuneration	**166**	371
Depreciation of property, plant and equipment	**41**	61
Loss on change in fair value of investments held-for-trading	**–**	25
Net foreign exchange losses	**–**	40
and after crediting:		
Gain on change in fair value of investments held-for-trading	**(25)**	–
Net foreign exchange gain	**(25)**	–
Write-back of bad debts	**–**	(6)
Gain on disposal of property, plant and equipment	**–**	(26)

7. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows.

			2007
Name of directors	**Fees**	**Other benefits**	**Total emoluments**
	HK$'000	HK$'000	HK$'000
Executive directors			
Ms. Zhou Liping	478	31	509
Ms. Guan Mei	–	–	–
Mr. Chase J Wong	52	15	67
Mr. Flynn Xuxian Huang	–	–	–
	530	46	576
Independent non-executive directors			
Mr. Shea Chun Lok, Quadrant	68	–	68
Mr. Ngai Chi Yung	60	–	60
Mr.Chan Wai Kwong, Peter	57	–	57
Mr.Chan Yiu Kwong	3	–	3
	188	–	188
Total emoluments	718	46	764

7. DIRECTORS' EMOLUMENTS – *continued*

			2006
Name of director	**Fees**	**Other benefits**	**Total emoluments**
	HK$'000	HK$'000	HK$'000
Executive directors			
Ms. Zhou Liping	214	74	288
Ms. Guan Mei	–	–	–
Mr. Flynn Xuxian Huang	–	–	–
	214	74	288
Independent non-executive directors			
Mr. Shea Chun Lok, Quadrant	68	–	68
Mr. Ngai Chi Yung	60	–	60
Mr. Chan Yiu Kwong	68	–	68
	196	–	196
Total emoluments	410	74	484

During the years ended 30 June 2007 and 2006, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in both years.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2006: one) was a director of the Company. Aggregate emoluments of the four (2006: four) other highest paid individuals were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,082**	1,172
Contributions to retirement benefits scheme	**29**	34
	1,111	1,206

Their emoluments were within the following band:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**4**	4

9. INCOME TAX CREDIT

	2007	2006
	HK$'000	HK$'000
The (credit) comprises:		
PRC Enterprise Income Tax		
Current year	**–**	–
Overprovision in prior years	**(53)**	(14)
	(53)	(14)

No provision was made for the PRC Enterprise Income Tax for the year ended 30 June 2006 and 2007 as the subsidiary incurred a loss for both years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong incurred tax losses for both years.

9. INCOME TAX CREDIT – *continued*

The tax credit for the year can be reconciled to the loss before taxation as follows:

	2007	2006
	HK$'000	HK$'000
Loss before taxation	**(2,620)**	(3,203)
Tax at Hong Kong Profits Tax rate of 17.5% (2006:17.5%)	**(458)**	(560)
Tax effect of expenses not deductible for tax purposes	**84**	166
Tax effect of income not taxable for tax purposes	**(187)**	(167)
Tax effect of deferred tax assets utilised	**(44)**	(16)
Tax effect of tax losses not recognized	**627**	520
Effect of different tax rates of a subsidiary operating in the PRC	**(22)**	57
Overprovision of taxation in prior years	**(53)**	(14)
Tax credit for the year	**(53)**	(14)

At 30 June 2007, the Group has deductible temporary differences and estimated unused tax losses of approximately HK$53,993 (2006: HK$272,000) and HK$78,963,892 (2006: HK$75,918,029) respectively available for offset against future profits. No deferred tax assets have been recognized in the consolidated financial statements due to the unpredictability of the future profits streams. The tax losses may be carried forward indefinitely.

10. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of approximately HK$2,567,000 (2006: HK$3,188,000) and on weighted average number of 83,285,449 (2006: 81,108,618) shares in issue throughout the year.

On 27 July 2007, the Company issued convertible bonds in the aggregated principal amount of HK$100,000,000. The convertible bonds are zero coupon-based and have maturity terms of three years until 27 July 2010. No diluted loss per share for the year ended 30 June 2007 is presented as the potential ordinary shares in respect of the convertible bonds are anti-dilutive.

No diluted loss per share ended 30 June 2006 is presented as no dilutive potential ordinary shares is in issue for the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office equipment and computers	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST					
At 1 July 2005	134	41	166	809	1,150
Additions	–	–	2	–	2
Disposals	–	–	(10)	(809)	(819)
At 30 June 2006	134	41	158	–	333
Additions	–	–	27	–	27
Disposals	–	–	(26)	–	(26)
At 30 June 2007	134	41	159	–	334
DEPRECIATION AND IMPAIRMENT					
At 1 July 2005	30	21	134	809	994
Provided for the year	44	8	9	–	61
Eliminated on disposals	–	–	(10)	(809)	(819)
At 30 June 2006	74	29	133	–	236
Provided for the year	27	4	9	–	40
Eliminated on disposals	–	–	(13)	–	(13)
At 30 June 2007	101	33	129	–	263
CARRYING VALUES					
At 30 June 2007	33	8	30	–	71
At 30 June 2006	60	12	25	–	97

12. GOODWILL

	HK$'000
COST	
At 1 July 2005 and 30 June 2006 and 2007	18,600
AMORTISATION	
At 1 July 2005 and 30 June 2006 and 2007	18,600
NET BOOK VALUE	
At 30 June 2007	–
At 30 June 2006	–

In previous year, goodwill arising from acquisition of a subsidiary was amortised on a straight-line basis over a period of 3 years. With effect from 1 July 2004, goodwill was amortised on a straight-line basis over a period of 1 year. This change in accounting estimates reflected the Group's best estimates of the remaining economic life of the goodwill.

13. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. An aged analysis of trade receivables is as follows:

	2007	2006
	HK$'000	HK$'000
Trade receivables		
0 – 30 days	**2,104**	–
31 – 60 days	**–**	–
Over 60 days	**–**	14
	2,104	14
Deposits and prepayments	**147**	140
	2,251	154

The fair value of the Group's trade receivables and deposits approximates the corresponding carrying amount.

14. INVESTMENTS HELD-FOR-TRADING

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Equity securities listed in Hong Kong	**431**	1,682

The fair value of the above investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

15. PLEDGE OF ASSETS

At 30 June 2007, the Group pledged bank deposits of approximately HK$75,000 (2006: HK$75,000), which carry fixed interest rate of 3.75% to secure general banking facilities granted to a subsidiary.

16. OTHER FINANCIAL ASSETS

Bank balances and cash

The Group's deposits carrying interest rate at prevailing bank saving deposits rate at average interest rate of 3.5% and mature within 3 months. The directors of the Company consider that the fair value of the Group's bank balances and cash approximates to the corresponding carrying amount.

17. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	2007	2006
	HK$'000	HK$'000
Trade payables		
0 – 30 days	**–**	–
31 – 60 days	**–**	–
Over 60 days	**313**	1
	313	1
Other payables and accrued charges	**366**	743
	679	744

The fair value of the Group's trade and other payables approximates the corresponding carrying amount.

18. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	**2007**	2006
			HK$'000	HK$'000
Authorised:				
At beginning and at end of year	**1,500,000,000**	1,500,000,000	**150,000**	150,000
Issued and fully paid:				
At beginning of the year	**83,285,449**	55,523,633	**8,328**	5,552
Issue of shares *(note i)*	**–**	27,761,816	**–**	2,776
At end of year	**83,285,449**	83,285,449	**8,328**	8,328

Notes:

(i) On 22 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 ("Open offer") to provide additional working capital for the Group. Upon the 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.

19. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Minimum lease payments paid under operating leases in respect of land and buildings	**321**	369

19. OPERATING LEASE COMMITMENTS – *continued*

The Group as lessee – *continued*

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Within one year	**237**	231
In the second to fifth year inclusive	**165**	39
	402	270

Operating lease payments represent rentals payable by the Group for staff quarters and office premises. Leases are negotiated for terms of one to three years.

20. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The total cost charged to the consolidated in come statement of HK$44,000 (2006: HK$59,000) represents contributions payable to the retirement benefits schemes by the Group in respect of the current year.

21. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 20 March 2002 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

All of the share options were lapsed at 30 June 2003 and no share option has been granted to the directors or employees of the Group during both years ended 30 June 2007 and 2006.

22. PARTICULARS OF PRINCIPAL SUBSIDIARIES

At 30 June 2007, the Company had interests in the following principal subsidiaries:

Name of subsidiary	Place of incorporation or registration/ operations	Paid-up issued/ registered ordinary share capital	Proportion of nominal value of issued share capital/Registered capital held by Company %	Proportion of nominal value of issued share capital/Registered capital held by Subsidiaries %	Principal activities
Carion Technology Limited 永裕科技 (香港) 有限公司	Hong Kong	HK$10,000	100	–	Trading of computer related products
Shanghai Classic Limited	British Virgin Islands	US$1	100	–	Investment holding
Wanon Industries Limited 運亮實業有限公司	Hong Kong	HK$500,000	100	–	Trading of computers and related products
Wanon Trading Limited 運亮貿易有限公司	Hong Kong	HK$2	–	100	Trading of computer and related products
Shanghai Jian Kai International Trading Company Limited* 上海建開國際貿易有限公司	PRC	HK$11,000,000	–	100	Trading of computer and related products

22. PARTICULARS OF PRINCIPAL SUBSIDIARIES – *continued*

Name of subsidiary	Place of incorporation or registration/ operations	Paid-up issued/ registered ordinary share capital	Proportion of nominal value of issued share capital/registered capital held by Company %	Subsidiaries %	Principal activities
Shang Hua Capital Limited 上華融資有限公司	Hong Kong	HK$200,000	100	–	Provision of financial services
Shang Hua Properties Limited 上華資產有限公司	Hong Kong	HK$2	100	–	Dormant

None of the subsidiaries had issued any debt securities at any time during the year or at the end of year.

* A wholly foreign owned enterprise.

23. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 HK$'000	2006 HK$'000
Short-term benefits	**1,191**	1,401
Post-employment benefits	**–**	22
	1,191	1,423

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

24. SUBSEQUENT EVENTS

On 27 July 2007, Shang Hua Holding Limited issued convertible bonds in the aggregate principal amount HK$100,000,000. These convertible bonds are zero coupon-based, have maturity term of three year until 27 July 2010 and are convertible into the Company's ordinary shares at a conversion price of HK$0.4 per share.

25. BALANCE SHEET OF THE COMPANY

	2007	2006
	HK$'000	HK$'000
Non-current asset		
Interests in subsidiaries	**202**	202
Current assets		
Bank balances and cash	**2,307**	2,610
Amounts due from subsidiaries	**30,697**	29,870
	33,004	32,480
Current liability		
Trade and other payables	**8**	8
Amounts due to a subsidiary	**1,700**	–
	1,708	8
Net current assets	**31,296**	32,472
	31,498	32,674
Capital and reserves		
Share capital	**8,328**	8,328
Reserves	**23,170**	24,346
	31,498	32,674

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	76,480	69,202	66,036	35,786	**19,899**
Loss before taxation	(4,388)	(11,144)	(15,915)	(3,202)	**(2,620)**
Income tax (expense)/ credit	(33)	–	(48)	14	**53**
Net loss for the year	(4,421)	(11,144)	(15,963)	(3,188)	**(2,567)**

ASSETS AND LIABILITIES

	At 30 June				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	50,487	53,147	36,750	34,096	**32,115**
Total liabilities	8,421	3,743	3,309	744	**679**
Shareholders' funds	42,066	49,404	33,441	33,352	**31,436**

Note:

Changes in accounting policies as described in note 2 have no financial impact to the consolidated financial statements for prior periods.