

Chairman's Statement

On behalf of the present board of directors (the "Directors") of Shanghai Merchants Holdings Limited (the "Company"), I have pleasure to present to the shareholders the results of the Company and its subsidiaries (the "Group") and report on the operations of the Group for the year ended 31 December 2003.

DISCLAIMER OF LIABILITIES

In preparing this annual report for the year ended 31 December 2003 in collaboration with the auditors, the Directors have taken all reasonable steps and used their best endeavours to ensure the sufficiency of disclosure regarding the same in accordance with the pertinent requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Owing to the onset of receivership proceedings, the change in management and the continued investigations by the authorities into the affairs of the Company, all of which had precluded the full access of the books and records of the Group, this annual report has been prepared on the basis of the financial information prepared and payment records for the relevant period maintained by the former receivers and managers of the Company who were appointed on 17 June 2003 and discharged on 2 July 2004 (the "Receivers"). As such, the Directors are unable to give representation on the accuracy and completeness of the financial statements contained herein or whether the same are free from material misstatement. In particular, the Directors are unable to give representation that all transactions affecting the Group for the year ended 31 December 2003 have been included in the financial statements herein or such information presents a true and fair view of the Group's operations and the cash flows for the year ended 31 December 2003 and financial position as at 31 December 2003.

For reasons of the foregoing and the reasons stated under the section headed "INCOMPLETE BOOKS AND RECORDS" in the Directors' report hereof, the Directors have at a meeting held on 16 August 2004 resolved to disclaim any and all liabilities in respect of the release of the financial results of the Group for the year ended 31 December 2003.

FINANCIAL RESULTS

The net asset value of the Group decreased by HK\$5 million to HK\$51.7 million as at 31 December 2003 (2002: HK\$56.7 million).

The Group's turnover dropped from HK\$403.7 million in 2002 to HK\$62.2 million in current year. The reduction in turnover was primarily due to the inactivity of the Group in the year.

Loss attributable to shareholders increased 9.8% from HK\$50.0 million to HK\$54.9 million, mainly due to the provisions of bad and doubtful debts, Receivers' and legal expenses incurred during the year.

Chairman's Statement *(Continued)*

CHANGE OF CONTROLLING SHAREHOLDER

On or about August 2003, the Company's then substantial shareholders disposed of their entire shareholdings in the Company to Profit Harbour Investments Limited ("Profit Harbour"). Mr. Chau Ching Ngai and his associates were at the time formerly interested in 260,986,000 shares in the ordinary issued share capital of the Company (the "Shares"), and disposal of such 260,986,000 Shares was completed on 26 August 2003.

Pursuant to such disposal and Profit Harbour's acquisition of the Shares, Profit Harbour was required under the Hong Kong Code on Takeovers and Mergers to and did make a mandatory general offer to acquire all the Shares in the Company that it and its concert parties did not already own. Following the close of such mandatory general offer, Profit Harbour's holdings was topped up to 262,602,000 Shares, or approximately a 63.58% interest in the entire issued share capital of the Company.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Trading in base metals

Turnover decreased by 84% to HK\$53.8 million in the year when compared with HK\$346.1 million attained in 2002. Operating loss for the year was HK\$7.5 million, against a profit of HK\$4.5 million in 2002.

Trading in fabric

Turnover decreased by 84% in the year to HK\$8.4 million when compared with HK\$52.6 million attained in 2002. Operating profit for the year was HK\$0.1 million, against a loss of HK\$11.4 million in 2002.

Business Outlook

As the Company was under the control of the Receivers from 17 June 2003 to 2 July 2004 prior to the discharge of receivership proceedings, as such had been lacking in a structured long term plan for its operations, the Directors consider it a priority in formulating all feasible options to maximize the value of the Company for the benefit of its shareholders.

Chairman's Statement *(Continued)*

CAPITAL STRUCTURE

Pursuant to a subscription agreement dated 6 March 2003 entered into between the Company and Angel Field Limited ("Angel Field"), the former substantial shareholder of the Company, Angel Field had subscribed for 125,000,000 new shares in the capital of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the capital base of the Company has been enlarged. Additional funding of approximately HK\$49.9 million was obtained by the Company through the allotment and issue of new shares.

As at 31 December 2003, the Group had no outstanding bank borrowings (2002: HK\$12.9 million) and bank balances and cash were at HK\$16.8 million (2002: HK\$26.1 million).

FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payments made to suppliers are either made in Hong Kong Dollars, US Dollars, or Renminbi, no use of financial instruments for hedging purposes is considered necessary.

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.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2003, the Group was under the control of the Receivers since their respective appointment on 17 June 2003. Accordingly, the Group had no full time managerial, administrative and production staff in Hong Kong and the PRC.

During the year ended 31 December 2003, the Group remunerates its employees largely based on the prevailing industry practice.

On behalf of the Directors

Yue Jialin

Chairman

Hong Kong, 16 August 2004