

Auditors' Report

Deloitte.

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TO THE SHAREHOLDERS OF SHANGHAI MERCHANTS HOLDINGS LIMITED

上海商貿控股有限公司

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. As explained in note 2(A) to the financial statements, the financial statements for the year ended 31 December 2003 have been prepared based on the management accounts prepared by the former receivers and managers of the Company, who were appointed on 17 June 2003 and discharged on 2 July 2004 (the "Receivers"). The Receivers prepared the management accounts on the basis of the information available to them, i.e. the management accounts of the Group as at 30 April 2003, vouchers prepared by the Group's former employees as well as the Group's books and records seized by Independent Commission Against Corruption on or about 1 June 2003 and subsequently made available to the Receivers. However, the Receivers were not in a position to verify the validity or authenticity of any of such information or records made available to them. In light of the above, the Receivers are unable to give representation that all transactions affecting the Group have been included in the management accounts and the management accounts present a true and fair view of the Group's financial position as of the date presented. The Receivers therefore disclaim all liabilities in respect of the management accounts of the Group and in relation to the affairs of the Group as of the date presented.

In addition, the Receivers had only limited access to the books and records of certain of the Company's subsidiaries, Park Well International Group Limited ("Park Well") and its subsidiaries (the "Park Well Group"). Accordingly, the management accounts of Park Well Group as at 31 March 2003 were used by the Receivers in the preparation of the Group's management accounts for the year ended 31 December 2003 because Park Well Group's management accounts for the period from 1 April 2003 to 31 December 2003 were not available to the Receivers.

Against the above background, the present directors are unable to satisfy themselves as to whether the financial statements are free from material misstatement. Accordingly, we are unable to satisfy ourselves as to whether the financial statements are free from material misstatement.

2. Included in the balance sheet at 31 December 2003 are property, plant and equipment of HK\$23,895,000. In the absence of information relating to their future usage, we are unable to satisfy ourselves as to whether any provision for impairment in value relating to these assets was necessary as at 31 December 2003.
3. We are unable to obtain sufficient documentary evidence to verify the ownership of the Group's leasehold land and buildings situated in the People's Republic of China and which are held under the ownership of the Park Well Group.
4. Included in trade and other receivables at 31 December 2003 is an amount of approximately HK\$35.1 million due from Great Center Limited. We are unable to obtain financial information of Great Center Limited so as to assess whether allowance for bad and doubtful debts is required in respect of this amount. Further details of this debt are set out in notes 23(i) and 23(ii) to the financial statements.

Auditors' Report *(Continued)*

BASIS OF OPINION *(Continued)*

5. Included in the balance sheet at 31 December 2003 is taxation payable of HK\$10,700,000. We are unable to ascertain the current status of this tax liability and are therefore unable to satisfy ourselves as to whether this provision was adequate or otherwise as at 31 December 2003.
6. As disclosed in note 23(v) to the financial statements, the Receivers have taken the view that, despite the Park Well Disposal Agreement, as defined in the note, the Company remains the beneficial owner of Park Well. In the absence of an independent legal opinion relating thereto, we are unable to satisfy ourselves as to whether any claims or losses will arise from the non-recognition of the Park Well Disposal Agreement.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustment found to be necessary would affect the results or cash flows of the Group for the year ended 31 December 2003 and/or the assets and liabilities of the Company or the Group as at that date.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFICATION ARISING FROM DISAGREEMENTS ABOUT ACCOUNTING TREATMENT AND EXTENT OF DISCLOSURE

1. As explained in note 2(C) to the financial statements, the present directors of the Company are unable to quantify the effect and make appropriate disclosures in respect of deferred taxation in accordance with the requirements of Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants. In light of the incomplete books and records maintained by the Group, it is not practicable to quantify the effects of departure from these requirements.
2. As explained in note 2(D) to the financial statements, due to the limited access to the books and records of Park Well Group, the present directors of the Company are unable to quantify the depreciation and amortisation charge for Park Well Group's property, plant and equipment for the year ended 31 December 2003 and make appropriate disclosures in accordance with the requirements of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants. It is not practicable to quantify the effects of departure from these requirements.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitation in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Auditors' Report *(Continued)*

DISCLAIMER OF OPINION *(Continued)*

In respect alone of the limitation on our work as set out above,

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we are unable to determine whether proper books of account have been kept.

Further, we draw attention to note 2(E) to the financial statements which explains that the comparative figures have been extracted from the financial statements for the year ended 31 December 2002. However, as disclosed in the Company's announcement dated 16 June 2003, the former executive directors of the Company indicated that (i) they required extra time to consider whether the recent events as defined in that announcement would affect the truth and fairness of the financial statements for the year ended 31 December 2002 and (ii) until such time as the effect of the recent events on the financial statements for the year ended 31 December 2002 could be determined, reliance should not be placed on such financial statements or on the auditors' report thereon. In addition, the financial statements for the year ended 31 December 2002 have not been adopted by members in general meeting.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 August 2004