Shanghai Merchants Holdings Limited

Interim Report

2004

CORPORATE INFORMATION

Directors
Executive Directors:
Yue Jialin
(appointed on 26 April 2004)
Lau Yau Cheung, Brent
(appointed on 26 April 2004)
Mo Yuk Ping
(removed on 26 April 2004)
Gong Bei Ying
(removed on 26 April 2004)

Independent Non-Executive Directors:
Wong Wing Kuen, Albert
(appointed on 6 July 2004)
Tsui Robert Che Kwong
(appointed on 6 July 2004)
Wu Guo Jian
(appointed on 6 July 2004)

Audit Committee
Wong Wing Kuen, Albert
Tsui Robert Che Kwong
Wu Guo Jian

Legal Advisers as to Bermuda Law
Conyers Dill & Pearman
2901 Once Exchange Square
8 Connaught Place
Central
Hong Kong

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

Company Secretary
Li Wing Man
(appointed on 6 July 2004)
Ma Sau Kuen
(resigned on 26 April 2004)

Stock Code
1104

Registered Office
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business
67th Floor, The Center
99 Queen's Road Central
Hong Kong

Principal Share Registrar and Transfer Office
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Share Registrar and Transfer office
Secretaries Limited
28th Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

The present board of directors (the "Directors") of Shanghai Merchants Holdings Limited (the "Company") presents herewith the unaudited condensed interim financial report in respect of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004, together with comparative figures for the preceding period. These condensed interim financial statements have been reviewed by the Company's audit committee and auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

		Six months ended 30 June	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Turnover	*3*	**–**	62,198
Cost of sales		**–**	(69,626)
Gross loss		**–**	(7,428)
Other operating income		**2**	35
Distribution costs		**–**	(266)
Administrative expenses		**(3,505)**	(4,306)
Other operating expenses		**–**	(29,013)
Loss from operations	*4*	**(3,503)**	(40,978)
Interest on bank borrowings wholly repayable within five years		**–**	(118)
Loss for the period		**(3,503)**	(41,096)
Loss per share	*6*	**(0.85) cents**	(11.16) cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Notes	30 June 2004 HK$'000 (unaudited)	31 December 2003 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**23,861**	23,895
Current assets			
Other receivables	*7*	**35,937**	36,046
Bank balances and cash		**15,990**	16,831
		51,927	52,877
Current liabilities			
Trade and other payables	*8*	**17,542**	15,023
Taxation payable		**10,070**	10,070
		27,612	25,093
Net current assets		**24,315**	27,784
		48,176	51,679
Capital and reserves			
Share capital		**41,300**	41,300
Reserves		**6,876**	10,379
		48,176	51,679

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital	Capital reserve	Special reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2003	28,800	69,538	(14,980)	(26,663)	56,695
Shares issued at premium	12,500	37,500	–	–	50,000
Share issue expenses	–	(81)	–	–	(81)
Loss for the period	–	–	–	(41,096)	(41,096)
At 30 June 2003	41,300	106,957	(14,980)	(67,759)	65,518
Loss for the period	–	–	–	(13,839)	(13,839)
At 31 December 2003	41,300	106,957	(14,980)	(81,598)	51,679
Loss for the period	–	–	–	(3,503)	(3,503)
At 30 June 2004	**41,300**	**106,957**	**(14,980)**	**(85,101)**	**48,176**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(841)**	(43,886)
NET CASH FROM INVESTING ACTIVITIES	**–**	3,034
NET CASH FROM FINANCING ACTIVITIES	**–**	37,049
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(841)**	(3,803)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**16,831**	23,072
CASH AND CASH EQUIVALENTS AT END OF PERIOD, representing bank balances and cash	**15,990**	19,269

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As announced by the Company on 17 June 2003, following allegations about certain directors of the Company, two receivers were appointed by the High Court of Hong Kong ("High Court") on 17 June 2003 (the "Receivers") to assume the power to manage the affairs of the Company.

In August 2003, Profit Harbour Investment Investments Limited ("Profit Harbour") acquired 63.19% interest in the Company and became its ultimate holding company. On 26 April 2004, the present executive directors of the Company were appointed and on 2 July 2004, the powers to manage the affairs of the Company were returned to the Directors after the discharge of the Receivers.

Following the assumption of powers to manage the affairs of the Company on 2 July 2004, the Directors have found that the Group's accounting records and supporting vouchers for the six months ended 30 June 2004 were incomplete. Accordingly, the interim financial report of the Group for the six months ended 30 June 2004 have been prepared on the following bases:

(A) Financial information provided by the Receivers

The interim financial report has been prepared with reference to the management accounts prepared by the Receivers. The Receivers prepared the management accounts on the basis of the information available to them, i.e. unaudited 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.

1. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS** *(Continued)*

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 in the preparation of the Group's management accounts for the six months ended 30 June 2004 because Park Well Group's management accounts for the period from 1 April 2003 to 30 June 2004 were not available to the Receivers.

(B) The disclosure of litigation and contingent liabilities as set out in note 9 is based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment.

(C) In the absence of complete books and records, the Directors 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" ("SSAP 12 (Revised)") issued by the HKSA.

(D) Due to the limited access to the books and records of Park Well Group, the Directors are unable to quantify the depreciation and amortisation charge for Park Well Group's property, plant and equipment for the six months ended 30 June 2004 in accordance with the requirements of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the HKSA.

(E) The comparative figures for the condensed consolidated income statement, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity were extracted from the interim financial report of the Company for the six months ended 30 June 2003 and the comparative figures for the condensed consolidated balance sheet were extracted from the consolidated financial statements of the Company for the year ended 31 December 2003. The Directors do not represent that these figures are free from material misstatement.

Against the above background, the Directors are unable to satisfy themselves as to whether the interim financial report is free from material misstatement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two operating divisions – trading in base metals and trading in fabric. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Trading in base metals	–	trading in base metals
Trading in fabric	–	trading in fabric

Segment information about these businesses is presented below.

Six months ended 30 June 2003

	Trading in base metals	**Trading in fabric**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	53,827	8,371	62,198
RESULTS			
Segment (loss) profit	(7,509)	81	(7,428)
Unallocated corporate expenses			(33,550)
Interest on bank borrowings wholly repayable within five years			(118)
Loss for the period			(41,096)

No business segments analysis has been presented as other than the daily operating expenses incurred by the Group, no other transactions have been entered into by the Group during the six months ended 30 June 2004.

4. LOSS FROM OPERATIONS

	Six months ended 30 June	
	2004	2003
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Depreciation and amortisation	**34**	38
Allowance for bad and doubtful debts	**–**	29,013

5. TAXATION

No provision for Hong Kong Profits Tax and the People's Republic of China enterprise income tax has been made in the financial statements as the Company's subsidiaries had no assessable profit for the period.

As explained in note 1(C), in light of the incomplete books and records maintained by the Group for the six months ended 30 June 2004, the Directors are unable to quantify the effect and make appropriate disclosures in accordance with the requirements of SSAP 12 (Revised).

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of HK$3,503,000 (2003: HK$41,096,000) and on 413,000,000 (2003: a weighted average number of 368,110,497) shares in issue during the period.

Diluted loss per share has not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

7. OTHER RECEIVABLES

The balance at 30 June 2004 includes an amount of approximately HK$35.1 million receivable from Great Center Limited. Details of this debt, and related litigation, are set out in notes 9(A) and 9(B). The Group has no trade receivables at the respective balance sheet dates.

8. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2004	31 December 2003
	HK$'000	*HK$'000*
Trade payables – over 60 days	**1,287**	1,287
Other payables	**16,255**	13,736
	17,542	15,023

9. LITIGATION AND CONTINGENT LIABILITIES

As explained in note 1(A), in light of the incomplete books and records maintained by the Group for the six months ended 30th June 2004, the following information on the Group's litigation and contingent liabilities is prepared based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment. The Directors make no representation as to the completeness of the information disclosed.

(A) Having obtained legal advice, the Receivers commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center"), a company incorporated in the British Virgin Islands, for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank accounts of Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings (the "Great Center Action"). In order to prevent the dissipation of Great Center's assets, an injunction order was applied for, and successfully obtained on 30 June 2003, from the High Court to restrict Great Center from, inter alia, disposing of or otherwise dealing with or diminishing assets of Great Center up to the value of US$4.5 million (the "Injunction Order"). The relevant bank, the lawyers of Great Center and other relevant persons have been notified of the Injunction Order. The Injunction Order remained valid up to and including 11 July 2003 on which date the Injunction Order was continued until further order or final determination of the Great Center Action.

9. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

(B) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US$4.5 million was amended on 10 July 2003 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from the bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK$22.0 million remitted from the bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK$69.9 million (the "Great Center Claim"). The Amended Writ also includes a bank in Hong Kong, Modern Shine, certain former executive directors, officers and employees of the Group, and all directors or authorised signatories of Great Center and Modern Shine as defendants (the "Defendants") for the purposes of seeking orders against them for the disclosure of documents and/or information. An application was made on 10 July 2003 to the High Court for an order (the "Disclosure Order") that the Defendants disclose to the Company and Merchants HK all relevant information and documents relating to the transfers of the amounts comprising the Great Center Claim. The Disclosure Order was granted by the High Court on 18 July 2003.

(C) As a result of the information provided to the Company and Merchants HK under the Disclosure Order, the Receivers have discovered that, together with certain funds out of the Great Center Claim, an aggregate amount of approximately HK$37 million was transferred, by a series of transfers, by Great Center and Modern Shine to Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong and Mr. Chau Ching Ngai and Ms. Mo Yuk Ping are the registered shareholders of 49% and 51%, respectively, of the issued share capital of Win Victory without apparent legitimate commercial reason. Having obtained legal advice, the Receivers commenced legal proceedings on 23 August 2003 against Win Victory (the "Win Victory Action") for the repayment of the HK$37 million, interest thereon, damages and costs of legal proceedings (the "Win Victory Claim"). It should be noted that should any of the amount claimed against Win Victory be recovered from Great Center and/or Modern Shine in the Great Center Claim such amounts will be taken into account in the Win Victory Action. In order to prevent the dissipation of Win Victory's assets, the Company applied for, and obtained on 22 August 2003, from the High Court an injunction order against Win Victory (the "Win Victory Injunction Order") to restrict Win Victory from, among other things, disposing of or otherwise dealing with or diminishing the value of its assets up to the value of HK$37 million. On 29 August 2003, the Win Victory Injunction Order was continued until further order or final determination of the Win Victory Action.

9. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

(D) Having obtained legal advice, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds that Win Victory is unable to pay its debts and/or it is just and equitable for Win Victory to be wound up and obtained an order from the High Court on 24 September 2003, among other things, appointing Messrs. Desmond Chung Seng Chiong and Roderick John Sutton of Ferrier Hodgson Limited of 14th Floor, Hong Kong Club Building, 3A Chater Road, Hong Kong as the provisional liquidators of Win Victory. In the first instance, this order would remain valid up to and including 7 October 2003, the matter will be heard again by the High Court.

(E) A sale and purchase agreement dated 12 April 2003 was entered into by the Company to dispose of the entire issued share capital of Park Well, a wholly owned subsidiary of the Company, to Show Goods Inc., a company incorporated in the British Virgin Islands, for a consideration of RMB15 million (the "Park Well Disposal Agreement"). Based on their own investigations, the Receivers are of the view that, despite the Park Well Disposal Agreement, the Company remains the beneficial owner of Park Well and therefore have taken steps to secure control over Park Well. Should Show Goods Inc. dispute the Receivers' view and actions, claims and losses to the Group may arise.

DISCLAIMER OF LIABILITIES

In preparing this interim financial report for the six months ended 30 June 2004 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 interim financial report has been prepared on the basis of the financial information prepared and payment records for the relevant period maintained by 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 six months ended 30 June 2004 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 six months ended 30 June 2004 and financial position as at 30 June 2004.

For reasons of the foregoing and the reasons stated in note 1(A) to the interim financial statements 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 six months ended 30 June 2004.

FINANCIAL RESULTS

For the period under review, the Group had recorded nil turnover, against HK$62.2 million for the same period last year. Loss attributable to shareholders decreased to HK$3.5 million from HK$41.1 million for the six months ended 30 June 2003. Loss per share was also decreased to 0.85 cents from 11.16 cents for the six months ended 30 June 2003.

BUSINESS REVIEW AND OUTLOOK

Trading in base metals

Turnover and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the Receivers during the period. Turnover and operating loss of trading in base metals for the six months ended 30 June 2003 were HK$53.8 million and HK$7.5 million respectively.

Trading in fabric

Turnover and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the Receivers during the period. Turnover and operating profit of trading in fabric for the six months ended 30 June 2003 were HK$8.4 million and HK$0.1 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had no outstanding bank borrowings (31 December 2003: Nil). Bank balances and cash were HK$16.0 million (31 December 2003: HK$16.8 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.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions held by the Directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Listing Rules, were as follows:

(a) Long positions in shares of the Company

Name of director	No. of ordinary shares	Capacity and nature of interest	% of issued share capital
Yue Jialin	262,602,000	Interest of controlled corporation in 262,602,000 shares *(Note)*	63.58%

Note: These shares are registered in the name of, and beneficially owned by, Profit Harbour, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Yue Jialin.

(b) Long positions in underlying shares and debentures and short positions in shares, underlying shares and debentures

There were no long positions in the underlying shares and debentures or any short positions in the shares, underlying shares and debentures of the Company and its associated corporations, which were recorded in the register as required to be kept under Section 352 of Part XV of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Save as disclosed therein, neither the Directors nor any of their associates had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004 as defined in Section 352 of the SFO.

SHARE OPTIONS

As explained in note 1(A) to the interim financial statements, in light of the incomplete books and records maintained by the Company, the Directors do not have sufficient information relating to the movements of the share options during the six months ended 30 June 2004. The following movements of the share options granted to the former directors and employees have been prepared based on the circular issued by the Company dated 7 October 2003 and an announcement made by Profit Harbour dated 21 October 2003. No options were granted to the Directors during the six months ended 30 June 2004 and no options were held by the Directors as at 30 June 2004.

				Number of share options			
Name or category of participant	**Date of grant**	**Exercisable period**	**Exercise price**	**Balance as at 1 January 2004**	**Granted during the period**	**Surrendered/ lapsed during the period**	**Balance as at 30 June 2004**
	(note i)	*(note ii)*	*HK$*				
Ex-directors							
Mo Yuk Ping	28.6.2002	2.7.2002-1.7.2007	0.556	240,000	–	–	240,000
Shi Zhi Hong	28.6.2002	2.7.2002-1.7.2007	0.556	2,400,000	–	–	2,400,000
Shan Zhenglin	28.6.2002	2.7.2002-1.7.2007	0.556	2,400,000	–	–	2,400,000
Gong Bei Ying	28.6.2002	2.7.2002-1.7.2007	0.556	2,400,000	–	–	2,400,000
Sub-total				7,440,000	–	–	7,440,000
Ex-employees							
In aggregate	28.6.2002	2.7.2002-1.7.2007	0.556	2,400,000	–	–	2,400,000
				9,840,000	–	–	9,840,000

Notes:

(i) The vesting period of share options is from the date of the grant until the commencement of the exercise period.

(ii) The exercise price of share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section headed "SHARE OPTIONS", at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the following shareholders were interested in more than 5% of the shares and underlying shares of the Company according to the register required to be kept under Section 336 of Part XV of the SFO were as follows:

Long positions in shares of the Company

Name of substantial shareholder	No. of ordinary shares	Capacity and nature of interest	% of issued share capital
Profit Harbour *(Note)*	262,602,000	Beneficial owner	63.58%
Yue Jialin	262,602,000	Interest of controlled corporation in 262,602,000 shares *(Note)*	63.58%

Note: The entire issued share capital of Profit Harbour is owned by Mr. Yue Jialin. Accordingly, Mr. Yue Jialin is deemed to be interested in all the shares in which Profit Harbour is interested pursuant to the SFO.

Save as disclosed herein, no other person had interests or short positions in the shares or underlying shares of the Company, which are recorded in the register to be maintained by the Company pursuant to Section 336 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

During the six months ended 30 June 2004, 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 period.

AUDIT COMMITTEE

The audit committee of the Company comprises three Independent Non-Executive Directors of the Company. The audit committee has reviewed this interim financial report and agreed with the inclusion of the statement of disclaimer by the Directors under the section headed "DISCLAIMER OF LIABILITIES".

CODE OF BEST PRACTICE

The Directors are unable to form an opinion as to whether the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2004.

By order of the Board
Yue Jialin
Chairman

Hong Kong, 16 August 2004

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
SHANGHAI MERCHANTS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have been instructed by Shanghai Merchants Holdings Limited (the "Company") to review the interim financial report set out on pages 2 to 12.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors of the Company.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited because

1. As explained in note 1(A) to the interim financial statements, the interim financial report for the six months ended 30 June 2004 has been prepared with reference to 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 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 in the preparation of the Group's management accounts for the six months ended 30 June 2004 because Park Well Group's management accounts for the period from 1 April 2003 to 30 June 2004 were not available to the Receivers.

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

2. Included in the balance sheet at 30 June 2004 are property, plant and equipment of HK$23,861,000. 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 30 June 2004.

3. We are unable to obtain sufficient documentary evidence which supports the existence of 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 other receivables at 30 June 2004 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 9(A) and 9(B) to the interim financial statements.

5. Included in the balance sheet at 30 June 2004 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 30 June 2004.

6. As disclosed in note 9(E) to the interim 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.

In these circumstances we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

MODIFIED REVIEW CONCLUSION ARISING FROM DISAGREEMENTS ABOUT ACCOUNTING TREATMENT AND EXTENT OF DISCLOSURE

1. As explained in note 1(C) to the interim 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 1(D) to the interim 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 six months ended 30 June 2004 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.

INABILITY TO REACH A REVIEW CONCLUSION

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2004.

Further, we draw attention to note 1(E) to the interim financial statements in which the present directors are unable to represent that the comparative figures for the condensed consolidated income statement, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the six months ended 30 June 2003 and the condensed consolidated balance sheet for the year ended 31 December 2003 are free from material misstatement.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 August 2004