

On behalf of the board of directors ("Board") of Shanghai Merchants Holdings Limited (the "Company"), I am pleased to present to the shareholders the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004.

Management Discussion and Analysis

Business Review

Turnover of the Group during the year was HK\$22,305,000, a decrease of 64% as compared with 2003. As the Group was under receivership during the period of January 2004 to July 2004, its business operations were suspended during that time. The directors were appointed to the Company as a result of a special general meeting held on 26 April 2004 and took control of the Company in July 2004 subsequent to the discharge of the former receivers. In September and December 2004, the Group resumed its fabric products and other merchandises trading business and base metals trading business respectively. Gross profit has returned to positive region to HK\$936,000 (a loss of HK\$7,428,000 in 2003). Loss attributable to shareholders has also reduced to HK\$36,299,000 from HK\$54,935,000 in 2003.

Trading in base metals

Turnover for this sector reached HK\$13,522,000 in the year. It represented a decrease of 75% when compared with HK\$53,827,000 attained in 2003. The decrease is because of business inactivity for the period of January to July 2004 when the Group was under the control of former receivers. The Board has endeavored to realign the overall business operation in order to resume the base metals trading business. The base metals trading business segment contributed HK\$121,000 to the Group's operating profits as compared to a loss of HK\$7,509,000 in 2003.

Trading in fabric products and other merchandises

Turnover for the Group's fabric products and other merchandises trading business segment reached HK\$8,783,000 during the year (2003: HK\$8,371,000), a slight increase of about 5% as compared with 2003. Segment profit attributable to the Group during the year amounted to HK\$393,000 (2003: HK\$81,000), an increase of 385% as compared with 2003. Such operating result was achieved notwithstanding the Group's operation was only resumed in September 2004. Since the Board took control of the Company, it has been taking active steps to revive the existing operations of the Group. The Board has conducted a business and operational review of the Group with a view to formulating business strategies to revive business and expand the long term growth of the business.

Business Outlook

On 19 April 2005, the Company entered into a heads of terms with the shareholders of an acquisition target ("Target") in the PRC which is also engaged in the trading business to acquire their interests in the entire issued share capital of the Target at a consideration of HK\$4.5 million, which will be settled by issuance of convertible bonds by the Company. The parties have agreed that a sale & purchase agreement will be entered into upon The Stock Exchange of Hong Kong Limited ("Stock Exchange") granting resumption of trading in the share of the Company. The Board considers that the proposed acquisition will keep itself abreast with the lucrative growth opportunities that the PRC market presents and strengthen its ability to meet the rising demand from its customers.

The Board also proposes to conduct a rights issue of HK\$82.6 million immediately after the resumption ("Rights Issue"). Sun Hung Kai International Limited has indicated its interest to the Company that it will fully underwrite the Rights Issue, only conditional upon the Stock Exchange granting the resumption approval and Profit Harbor Investments Limited, the existing controlling shareholder, has undertaken to take up all its entitlement under the Rights Issue. The Board is convinced that the Company will be able to embark on business opportunities with a strengthened financial position after the Rights Issue. The Board also considers that the Rights Issue will enlarge the capital base of the Company and provided an equal opportunity to the shareholders to benefit from the growth of the Company.

The Group will continue to focus on pursuing its core business in the field of trading in fabric products and general merchandises, and base metals. The Group will also evaluate and explore other viable business opportunities made available to the Group, which could be of long-term interest and to the benefit of the Group and its shareholders as a whole. Further, the Board has been leveraging on the extensive experience and business networks of the directors to explore other viable business opportunities to create long term potential for the Company and its shareholders.

Dividend

The Directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

Liquidity and Financial Resources

As at 31 December 2004, the Group had secured borrowings of HK\$15 million (2003: Nil), and bank balances and cash were at approximately HK\$14,929,000 (2003: HK\$16,831,000).

Litigation and Contingent Liabilities

Details of the material litigation and contingent liabilities are set out in note 22 to the financial statements.

Pledge of Assets

Details of the pledge of assets are set out in note 23 to the financial statements.

Foreign Exchange Exposure

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

Employees and Remuneration Policy

As at 31 December 2004, the Group had 5 managerial, trading and administrative staffs in Hong Kong.

The Group remunerates its employees largely based on the prevailing industry practice.

Appreciation

The operating result of the Group is achieved due to the support of our shareholders and business partners, the commitment of the directors and the dedication of all our staff members. On behalf of the Board, I would like to take this opportunity to extend my sincere appreciation for their contributions and endeavor.

On behalf of the Board

Yue Jialin
Chairman

Hong Kong, 26 April 2005