

Deloitte. 德勤

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 15 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

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 Institute of Certified Public 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.

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.

(i) Financial information of Chaoyang Hua Loong Textiles and Dyeing Limited

- (a) As explained in note 2 to the financial statements, despite the on-going legal actions taken by the management of the Company, the management had no access to the books and records of Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong"), a company established in the People's Republic of China with its entire equity interest held by the Group, for the period from 1 April 2003 to 31 December 2003. Accordingly, the management accounts of Chaoyang Hua Loong as at 31 March 2003 were used in the preparation of the Group's consolidated financial statements for the year ended 31 December 2003. Against the above background, the present directors are unable to satisfy themselves as to whether the opening reserves of the Company and the Group as at 1 January 2004 are free from material misstatement.

(b) As disclosed in note 13 to the financial statements, during the year the Group de-consolidated Chaoyang Hua Loong. The Group's interest in Chaoyang Hua Loong has been classified as an investment security and is stated in the consolidated balance sheet at 31 December 2004 at nil value. In addition, the Group made a full allowance against an amount of HK\$24,806,000 due from Chaoyang Hua Loong. In the absence of reliable current financial information relating to the assets and liabilities of Chaoyang Hua Loong, we are unable to satisfy ourselves as to whether the interest in Chaoyang Hua Loong at 31 December 2004 is free from material misstatement and also whether the full allowance against the amount due from Chaoyang Hua Loong is appropriate.

(ii) Recoverability of amount due from Great Center Limited

(a) Included in trade and other receivables at 31 December 2004 is an amount of approximately HK\$35.1 million due from Great Center Limited (the "Great Center Debt"). 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 22(i) to (iii) to the financial statements.

(b) The Great Center Debt was held by a wholly-owned subsidiary of the Company at 31 December 2004. Because of the matter referred to in (a) above, we are unable to satisfy ourselves as to whether any provision for impairment in value relating to the Company's interests in this subsidiary was necessary as at 31 December 2004.

Any adjustment found to be necessary to the above amounts would affect the loss of the Group for the year ended 31 December 2004 and the net assets of the Company and 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.

Qualified opinion arising from limitations of audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters referred to in the basis of opinion section of this report, in our opinion 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 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work set out in the basis of opinion section of this report:

- 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 for the entire year ended 31 December 2004.

Further, we draw attention to note 2 to the financial statements which explains that the comparative figures were extracted from the financial statements for the year ended 31 December 2003 and that the present directors do not represent that these figures are free from material misstatement.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
26 April 2005