Interim Report 2005

Shanghai Merchants Holdings Limited

CORPORATE INFORMATION

Directors
Executive Directors:
Yue Jialin *(Chairman)*
Lau Yau Cheung, Brent
(Chief Executive Officer)

Independent Non-Executive Directors:
Wong Wing Kuen, Albert
Tsui Robert Che Kwong
Wu Guo Jian

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

Legal Advisers
P.C. Woo & Co
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Conyers Dill & Pearman
2901 One 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

Stock Code
1104

Registered Office
Clarendon House
2 Church Street
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Bermuda

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Wing On House
71 Des Voeux Road Central
Hong Kong

Principal Share Registrar and Transfer Office
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM08
Bermuda

Hong Kong Branch Share Registrar and Transfer Office
Secretaries Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

The board of directors (the “Board”) 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 2005. These condensed interim financial statements have been reviewed by the Company’s audit committee and the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Six months ended 30 June	
		2005	2004
	Notes	***HK$’000***	*HK$’000*
		(unaudited)	(unaudited)
Revenue	*3*	**41,055**	–
Cost of sales		**(39,298)**	–
Gross profit		**1,757**	–
Other income		**30**	2
Credit arising from a scheme of arrangement with creditors	*4*	**15,421**	–
Distribution costs		**(762)**	–
Administrative expenses		**(4,927)**	(3,505)
Finance costs		**(841)**	–
Profit (loss) before taxation		**10,678**	(3,503)
Income tax expense	*5*	**(146)**	–
Profit (loss) for the period		**10,532**	(3,503)
Basic earnings (loss) per share	*7*	**2.55 cents**	(0.85) cent

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	Notes	30 June 2005 HK$'000 (unaudited)	31 December 2004 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**16**	23
Investment in security	*8*	**–**	–
Available-for-sale investment	*8*	**–**	–
		16	23
Current assets			
Trade and other receivables	*9*	**39,354**	42,576
Pledged bank deposit		**8,017**	8,000
Bank balances and cash		**4,819**	6,929
		52,190	57,505
Current liabilities			
Trade and other payables	*10*	**4,065**	27,093
Trust receipt loans		**7,028**	–
Secured other loans	*11*	**15,000**	15,000
Taxation payable		**201**	55
		26,294	42,148
Net current assets		**25,896**	15,357
Total assets less current liabilities		**25,912**	15,380
Capital and reserves			
Share capital		**41,300**	41,300
Reserves		**(15,388)**	(25,920)
Total equity		**25,912**	15,380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Share capital	Capital reserve	Special reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	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
Loss for the period	–	–	–	(32,796)	(32,796)
At 31 December 2004	41,300	106,957	(14,980)	(117,897)	15,380
Profit for the period	–	–	–	10,532	10,532
At 30 June 2005	**41,300**	**106,957**	**(14,980)**	**(107,365)**	**25,912**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(2,093)**	(841)
NET CASH USED IN INVESTING ACTIVITIES	**(17)**	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,110)**	(841)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**6,929**	16,831
CASH AND CASH EQUIVALENTS AT END OF PERIOD, representing bank balances and cash	**4,819**	15,990

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

As announced by the Company on 17 June 2003, following allegations about certain former 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 powers to manage the affairs of the 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 present directors (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 and efforts have been made by the Directors to recover and reconstruct the books and records of the Group. An independent professional accounting firm was appointed to perform an entry by entry review and reconstruct where necessary the financial information prepared by the Receivers for the period from 1 January 2004 to 1 July 2004.

Based on the work conducted as described above, the Directors are satisfied that the interim financial report for the six months ended 30 June 2004 are free from material omissions or misstatements except that the Directors had no access to the books and records of Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong") since 1 April 2003, a company established in the People's Republic of China with its entire equity interest held by the Group. Chaoyang Hua Loong was de-consolidated from the Group's consolidated financial statements with effect from 1 January 2004.

In light of the above, except for the reserves relating to Chaoyang Hua Loong, the Directors are satisfied that the opening reserves of the Group as at 1 January 2004 are free from material misstatement.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results are prepared and presented.

Financial Instruments

HKAS 32 Financial Instruments: Disclosure and Presentation requires retrospective application. HKAS 39 Financial Instruments: Recognition and Measurement, which is effective for periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31 December 2004, the Group classified and measured its equity securities as investment securities, which are carried at cost less impairment losses (if any), in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA. From 1 January 2005 onwards, the Group classifies and measures its equity securities as "available-for-sale financial assets", which are carried at cost, as the equity securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured, in accordance with HKAS 39. No adjustment on the fair value of the equity securities has been required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following standards or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

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 products and other merchandises. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

3. SEGMENT INFORMATION *(Continued)*

Business segments

Six months ended 30 June 2005

RESULTS	**Trading in base metals**	**Trading in fabric products and other merchandises**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
REVENUE			
External sales	23,015	18,040	41,055
RESULTS			
Segment profit	83	768	851
Unallocated corporate expenses			(4,763)
Unallocated corporate income			10
Interest on bank and other borrowings wholly repayable within five years			(841)
Credit arising from a scheme of arrangement with creditors			15,421
Profit before taxation			10,678
Income tax expense			(146)
Profit for the period			10,532

No business segment analysis for the six months ended 30 June 2004 has been presented as, other than incurring daily operating expenses, the Group did not enter into any other transactions during that period.

4. CREDIT ARISING FROM A SCHEME OF ARRANGEMENT WITH CREDITORS

On 28 February 2005, Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, held a meeting with its creditors pursuant to the Order of The Honourable Deputy Justice Poon of 2 February 2005 authorising the convening of such meeting, at which a scheme of arrangement (the "Scheme") allowing Merchants HK to compromise its debts with its creditors was duly approved by the creditors present thereat. A petition hearing before the High Court took place on 19 April 2005 at which the Court also sanctioned the Scheme, the Order for which was duly filed with the Registrar of Companies in Hong Kong on the same date whereupon the Scheme has become fully effective with the effect of reducing the Group's liabilities by approximately HK$15,421,000.

5. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30 June 2005.

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2004 as the Group had no assessable profit for the period.

6. CONSOLIDATED REVENUE/EXPENSE FOR THE PERIOD

Consolidated profit/loss for the period has been arrived at after charging the following item:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Depreciation	**7**	34

7. BASIC EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit for the period of HK$10,532,000 (2004: loss of HK$3,503,000) and on 413,000,000 (2004: 413,000,000) shares in issue during the period.

8. AVAILABLE-FOR-SALE INVESTMENT/INVESTMENT IN SECURITY

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Overseas unlisted investment	**–**	–
Advance to an investee company	**24,806**	24,806
Less: Allowance	**(24,806)**	(24,806)
	–	–

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

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

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Trade receivables		
– 0 to 30 days	**2,939**	7,249
– 31 to 60 days	**1,076**	–
	4,015	7,249
Other receivables	**35,339**	35,327
	39,354	42,576

The balance at the balance sheet date includes an amount of approximately HK$35.1 million (2004: HK$35.1 million) receivable from Great Center Limited. Details of this debt, and related litigation, are set out in notes 12(i) to 12(iii).

10. TRADE AND OTHER PAYABLES

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

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Trade payables		
– 0 to 30 days	**–**	3,069
– over 365 days	**–**	1,287
	–	4,356
Other payables	**4,065**	22,737
	4,065	27,093

11. SECURED OTHER LOANS

At the balance sheet date, the other loans are secured, bear interest at Hong Kong Prime Rate plus 5% per annum (2004: 12% per annum) and are wholly repayable on 28 April 2006 (2004: 28 February 2005). Subsequent to 30 June 2005, the Group's existing loans had been extended for another six months until 30 October 2006. Details of this are set out in note 13.

12. LITIGATION AND CONTINGENT LIABILITIES

At 30 June 2005, the Group had the following litigation and contingent liabilities.

(i) 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 HK, 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.

(ii) 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 a 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.

12. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

(iii) Solicitors instructed by the Directors have pursued the claim against Great Center and Modern Shine further and obtained the following directions from the court:

(a) The Company do file and serve its list of documents by 21 March 2005;

(b) Great Center and Modern Shine do file and serve their lists of documents by 28 March 2005;

(c) There be inspection of documents by 11 April 2005;

(d) The parties do exchange signed witness statements of facts within 25 April 2005;

(e) The application for leave to set the case down for trial be adjourned to 25 April 2005 at 10:00 a.m. before the Listing Clerk for fixing an appointment before the Listing Master;

(f) The application to set down was adjourned by the court to a date to be fixed as Great Center was not ready to exchange its witness statements with the Company; and

(g) The date to exchange witness statements was postponed to 14 September 2005. The Company will apply to set down for trial after the exchange of witness statements.

The Company and Great Center have exchanged their lists of documents and solicitors for the Company have received copy of documents from Great Center's solicitors for inspection. Modern Shine has failed to comply with the direction to file and serve its list of documents. Solicitors for the Company have taken out an application against Modern Shine for an order that it must serve and file its list of documents within 7 days of the order, failing which solicitors for the Company will further apply for an order that unless Modern Shine do comply with the direction of the court within 14 days, judgment be entered against it for the full amount claimed. After that it will be for the Company to trace the assets of Modern Shine in order to recover the judgment sum. As Modern Shine has failed to file its list of documents within the time limit imposed by the court, solicitors for the Company have issued an application to be heard on 9 September 2005 for an order that unless Modern Shine do comply with the order within 14 days, the Company be at liberty to enter judgment against it. Solicitors for the Company anticipate that judgment against Modern Shine could be entered by end of October 2005.

12. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

(iv) 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, former substantial shareholder of the Company and the spouse of Ms. Mo Yuk Ping, and Ms. Mo Yuk Ping, former chairman of the Company, 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.

(v) 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, on which date the matter would be heard again by the High Court.

The appointment of Provisional Liquidators is continued by an order of the court made by Madam Justice Kwan on 7 October 2003 until the determination of the Winding Up Petition, which has been adjourned. Due to the lack of funds in Win Victory, the Provisional Liquidators have not undertaken an extensive investigation. The continuation of the Petition will enable a more thorough investigation of the flow of funds in and out of Win Victory. The Petition is being opposed by Mr. Chau Ching Ngai. Solicitors for the Company will continue with the Winding Up proceedings.

12. LITIGATION AND CONTINGENT LIABILITIES *(Continued)*

(vi) Solicitors for the Company issued a writ of Summons on 17 December 2004 against Mr. Tsoi Hon Chung and his son Mr. Tsoi Chun Bun for the return of all statutory books, records and documents of certain of the Company's subsidiaries, Park Well International Group Limited ("Park Well") and its subsidiaries (the "Park Well Group") on the basis that on 15 July 2003, those documents were sent by Secretaries Limited, the company secretary of Park Well, to Mr. Tsoi Chun Bun as the agent of Mr. Tsoi Hon Chung, who was at the material times the sole director of Park Well. The Company has a copy of the signed receipt by Mr. Tsoi Chun Bun for the above documents. Both Mr. Tsoi Hon Chung and Mr. Tsoi Chun Bun deny that the statutory books, records and documents were sent to Mr. Tsoi Chun Bun and they filed their Defence in February 2005. Solicitors for the Company have taken out a Summons for Directions for the exchange of lists of documents and witness statements in order to set the case down for trial. The court made an order for Directions on 27 April 2005 and the Company has exchanged list of documents with Mr. Tsoi Hon Chung and Mr. Tsoi Chun Bun. Mr. Tsoi Hon Chung has filed his witness statements denying knowledge of the whereabouts of the statutory books, records and documents of the Park Well Group. Mr. Tsoi Chun Bun has exchanged his witness statement with the Company on 20 August 2005.

13. POST BALANCE SHEET EVENT

On 23 August 2005, the Company entered into a supplemental loan agreement with an independent financial institution, pursuant to which the Company's existing one year term loan facility commencing 28 April 2005 at an amount of HK$15 million had been extended for another six months to October 2006. The facility is secured by floating charges over all assets of the Company and one of its subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue of the Group was improved from nil for the same period last year to HK$41.1 million for the six months ended 30 June 2005. Profit for the period under review was HK$10.5 million, against loss of HK$3.5 million for the six months ended 30 June 2004. Earnings and loss per share for each of the six months ended 30 June 2005 and 2004 were HK2.55 cents and HK0.85 cent, respectively.

Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, held a meeting with its creditors on 28 February 2005, pursuant to the Order of The Honourable Deputy Justice Poon of 2 February 2005 authorising the convening of such meeting, at which a scheme of arrangement (the "Scheme") allowing Merchants HK to compromise its debts with its creditors was duly approved by the creditors present thereat. A petition hearing before the High Court took place on 19 April 2005 at which the Court also sanctioned the Scheme, the Order for which was duly filed with the Registrar of Companies in Hong Kong on the same date whereupon the Scheme has become fully effective with the effect of reducing the Group's liabilities by approximately HK$15 million.

BUSINESS REVIEW

Trading in base metals

Revenue and operating result of the division for the six months ended 30 June 2005 were HK$23.0 million and HK$0.1 million respectively. Revenue and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the former receivers and managers of the Company (the "Receivers") during that period.

Trading in fabric products and other merchandises

Revenue and operating result of the division for the six months ended 30 June 2005 were approximately HK$18.1 million and HK$0.8 million respectively. Revenue and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the Receivers during that period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group had outstanding secured bank borrowings of HK$7.0 million (31 December 2004: nil) and a term loan of HK$15 million (31 December 2004: HK$15 million). Cash balance was HK$12.8 million (31 December 2004: HK$14.9 million).

FOREIGN EXCHANGE EXPOSURE

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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, 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 of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("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 Investments Limited ("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 2005 as defined in Section 352 of the SFO.

SHARE OPTIONS

No options were granted to the directors during the period under review and no options were held by the directors as at 30 June 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed “SHARE OPTIONS”, at no time during the period under review was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company 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 2005, 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:

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%

Notes: 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 and underlying shares of the Company, which are recorded in the register to be maintained by the Company pursuant to Section 336 of the SFO.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2005, the Group had 5 managerial, trading and administrative staffs in Hong Kong.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except that, regard to the code provisions A.4.2 in respect of the rotation of directors.

Under the code provisions A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Bye-Law 87 of the Bye-Laws of the Company, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board and/or, the Managing Director of the Company shall not be subject to retirement by rotation. To comply with the code provision A.4.2 of the Code, the Company intends to propose to amend Bye-Law 87 of the Bye-Laws of the Company at the forthcoming annual general meeting of Company.

AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-Executive Directors, namely, Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Wu Guo Jian. The committee meets not less than twice a year.

The Audit Committee has reviewed the Group’s interim financial statements.

REMUNERATION COMMITTEE

The Remuneration Committee currently comprises three Independent Non-Executive Directors, namely, Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Wu Guo Jian. The committee meets not less than once a year.

COMPLIANCE WITH MODEL CODE

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Code”). Having made specific enquiry, the Company confirmed that all Directors had complied with the required standard as set out in the Code.

By order of the Board
Yue Jialin
Chairman

Hong Kong, 31 August 2005

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
SHANGHAI MERCHANTS HOLDINGS LIMITED
上海商貿控股有限公司
(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 15.

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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 Institute of Certified Public 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

(i) Available-for-sale investment at 30 June 2005 represents the Group's 100% equity interest in Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong"), a company established in the People's Republic of China, and is stated at nil value. In addition, full allowance against an amount of HK$24,806,000 due from Chaoyang Hua Loong had been made by the Group in previous years. 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 30 June 2005 is free from material misstatement and also whether the full allowance against the amount due from Chaoyang Hua Loong is appropriate.

(ii) Included in trade and other receivables at 30 June 2005 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 12(i) to 12(iii) to the interim financial statements.

MODIFIED REVIEW CONCLUSION ARISING FROM LIMITATIONS OF REVIEW SCOPE

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitations not existed, we are not aware of any material modifications that should have been made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 August 2005