

**GRAHAM H.Y. CHAN & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

**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 17 to 46 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 Hong Kong Standards on Auditing 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.

Included in the consolidated balance sheet at 31 December 2005, there was available-for-sale investment. Such investment 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 31 December 2005 is free from material misstatement and also whether the full allowance against the amount due from Chaoyang Hua Loong is appropriate. Any adjustment found to be necessary to the value of the available-for-sale investment and the amount due from Chaoyang Hua Loong would affect the profit of the Group for the year ended 31 December 2005 and its net assets 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 2005 and of the profit 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 were unable to determine whether proper books of account had been kept.

### **Graham H. Y. Chan & Co.**

*Certified Public Accountants (Practising)*

Hong Kong  
24 April 2006