Shanghai Merchants Holdings Limited

(Stock Code: 1104)

06 Interim Report

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Yue Jialin
Lau Yau Cheung

Independent Non-Executive Directors:

Wong Wing Kuen, Albert
Tsui Robert Che Kwong
Yang Weiming
(appointed on 8 August 2006)
Wu Guo Jian
(resigned on 8 August 2006)

AUDIT COMMITTEE

Wong Wing Kuen, Albert
Tsui Robert Che Kwong
Yang Weiming

LEGAL ADVISERS

P.C. Woo & Co
Conyers Dill & Pearman

AUDITORS

Graham H.Y. Chan & Co

COMPANY SECRETARY

Ng Kwok Ping

STOCK CODE

1104

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 2808-10, 28th Floor
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
26/F Tesbury Centre
28 Queen's Road East
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 2006. 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 2006

		Six months ended 30 June	
	Notes	**2006 HK$'000 (unaudited)**	2005 HK$'000 (unaudited)
Revenue	6	**5,788**	41,055
Cost of sales		**(5,774)**	(39,298)
Gross profit		**14**	1,757
Other income		**183**	30
Credit arising from a scheme of arrangement with creditors		**—**	15,421
Distribution costs		**—**	(762)
Administrative expenses	7	**(5,331)**	(4,927)
Finance costs		**(958)**	(841)
(Loss)/profit before taxation		**(6,092)**	10,678
Taxation	8	**(2)**	(146)
(Loss)/profit for the period		**(6,094)**	10,532
(Loss)/earnings per share – Basic	9	**(1.48)cents**	2.55 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	30 June 2006 HK$'000 (unaudited)	31 December 2005 HK$'000 (audited)
Non-current assets			
Available-for-sale investment	10	—	—
Current assets			
Trade and other receivables	11	**748**	37,526
Pledged bank deposits	17	**2,014**	4,012
Bank balances and cash		**20,426**	1,465
		23,188	43,003
Current liabilities			
Trade and other payables	12	**7,367**	6,053
Secured other loans		—	15,000
Tax payable		**34**	69
		7,401	21,122
Net current assets		**15,787**	21,881
Total assets less current liabilities		**15,787**	21,881
Capital and reserves			
Share capital	13	**41,300**	41,300
Reserves		**(25,513)**	(19,419)
Equity attributable to equity holders of the parent		**15,787**	21,881

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	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
At 1 January 2006	41,300	106,957	(14,980)	(111,396)	21,881
Loss for the period	—	—	—	(6,094)	(6,094)
At 30 June 2006	**41,300**	**106,957**	**(14,980)**	**(117,490)**	**15,787**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net Cash From/(Used In) Operating Activities	**31,780**	(2,093)
Net Cash From/(Used In) Investing Activities	**2,181**	(17)
Net Cash Used In Financing Activities	**(15,000)**	—
Net Increase/(Decrease) in Cash and Cash Equivalents	**18,961**	(2,110)
Cash and Cash Equivalents at 1 January	**1,465**	6,929
Cash and Cash Equivalents at 30 June	**20,426**	4,819
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**20,426**	4,819

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors regard Profit Harbour Investments Limited ("Profit Harbour"), a company incorporated in the British Virgin Islands, to be the parent and ultimate parent company of the Company. The address of its registered office is Clarendon House, 2 Church street, Hamilton HM11, Bermuda and the address of its principal office in Hong Kong is Rooms 2808-10, 28/F., Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company and its subsidiaries (collectively referred to as "the Group") are principally engaged in the trading of base metals and fabric products and other merchandises.

These condensed consolidated interim financial statements ("Interim Financial Statements") are presented in Hong Kong dollars ("HK$"), which is the Company's functional and presentation currency. These Interim Financial Statements have been approved for issue by the Board of Directors on 8 September, 2006.

2. Basis of Preparation and Accounting Policies

These unaudited Interim Financial Statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These Interim Financial Statements should be read in conjunction with the 2005 annual report.

3. Change In Accounting Policies

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations which are relevant to the Group's operations are mandatory for the financial year ending 31 December 2006.

— HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
— HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
— HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
— HKAS 39 (Amendment)	The Fair Value Option
— HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recogntion and Measurement and Insurance Contracts – Financial Guarantee Contracts
— HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease

The adoption of the above new/revised standards and interpretations did not result in substantial change to the Group's accounting policies.

The Group has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The Group has considered these standards and interpretations but does not expect that they will have a material effect on how the results of operation and financial position of the Group are prepared and presented.

— HKAS 1 (Amendment)	Capital Disclosures [1]
— HKFRS 7	Financial Instruments: Disclosures [1]
— HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
— HK(IFRIC) – INT 8	Scope of HKFRS 2 [3]
— HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives [4]

[1] Effective for the period beginning on or after 1 January 2007

[2] Effective for the period beginning on or after 1 March 2006

[3] Effective for periods beginning on or after 1 May 2006

[4] Effective for periods beginning on or after 1 June 2006.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There is no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next financial period.

There are no significant effects on amounts recognised in the financial statements arising from the judgment or estimates used by management.

5. Financial Risk Management

The Group's activities exposed it mainly to currency risk and credit risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance.

Currency risk

The Group operates internationally and certain trade receivables are denominated in foreign currencies, which is mainly in United Stated dollars that are pegged with Hong Kong dollars. Therefore, the Group does not have any significant exposure to currency risk.

Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. The Group only traded with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Bank balances are placed with high-credit-quality institutions and directors of the Company consider that the credit risk for such is minimal.

6. 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.

Six months ended 30 June 2006

	Trading in base metals	**Trading in fabric products and other merchandises**	**Consolidated**
	HK$'000	HK$'000	HK$'000
Revenue			
External sales	5,788	—	5,788
Results			
Segment profit	15	65	80
Unallocated corporate expenses			(5,214)
Finance costs – interest on other loans			(958)
Loss before taxation			(6,092)
Taxation			(2)
Loss for the period			(6,094)

6. **Segment Information** (continued)

Six months ended 30 June 2005

	Trading in base metals HK$'000	Trading in fabric products and other merchandises HK$'000	Consolidated 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
Finance costs – interest on other loans			(841)
Credit arising from a scheme of arrangement with creditors			15,421
Profit before taxation			10,678
Taxation			(146)
Profit for the period			10,532

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Hong Kong	**5,788**	27,713
Africa	—	13,342
	5,788	41,055

7. Administrative Expenses

	Six months ended 30 June	
	2006	2005
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Administrative expenses include the following:		
Depreciation and amortisation	**—**	7
Legal and professional fees	**3,133**	3,062
Retirement benefits scheme contributions	**37**	20
Staff costs, including directors' emoluments	**843**	575

8. Taxation

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the assessable profit for the period.

The Company had no significant unprovided deferred taxation at the balance sheet date.

9. (Loss)/Earnings Per Share

The calculation of the basic (loss)/earnings per share is based on the loss for the period of HK$6,094,000 (2005: profit of HK$10,532,000) and on 413,000,000 (2005: 413,000,000) shares in issue during the period.

Diluted (loss)/earnings per share has not been presented for the six months ended 30 June 2006 and 2005, as there were no potential dilutive shares outstanding during both periods.

10. Available-For-Sale Investment

	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Advance to an investee company	**24,806**	24,806
Less: Allowance	**(24,806)**	(24,806)
	—	—

The investment represents a 100% equity interest in the registered capital of Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong"), a company established in the PRC which is engaged in fabric processing and manufacturing. On 12 April 2003, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of Park Well International Group Limited ("Park Well"), including the 100% equity interest in Chaoyang Hua Loong held by a wholly-owned subsidiary of Park Well, to Show Goods Inc., a company incorporated in the British Virgin Islands, (the "Park Well Disposal Agreement"). Based on the Receivers' investigations, they are of the view that despite the Park Well Disposal Agreement, the purported disposal of Park Well was rescinded and not completed and therefore the Company remains to be the beneficial owner of Park Well. The Receivers had since then taken steps to secure control over various companies comprising the Park Well Group. However, Chaoyang Hua Loong remains not under the control of the Company. Having obtained legal advice, in the opinion of the Directors, the Group is still unable to exercise control over the financial and operating decisions of Chaoyang Hua Loong. Accordingly, Chaoyang Hua Loong was not regarded as a subsidiary of the Company with effect from 1 January 2004 and was accounted for as an investment security and stated in the consolidated balance sheet at 31 December 2004 at nil value. The investment was reclassified as available-for-sale investment upon adoption of HKAS 39 in January 2005.

The advance to Chaoyang Hua Loong is unsecured, non-interest bearing and has no fixed terms of repayment. Despite the efforts placed by the Directors to secure control over Chaoyang Hua Loong and its related assets and in light of the events described above, the Directors have made full allowance against the advance to Chaoyang Hua Loong in the interests of prudence.

11. Trade and Other Receivables

The Group allows an average credit period of 60-90 days to its trade customers.

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

	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Trade receivables – 0 to 30 days	**545**	2,151
Other receivables	**203**	35,375
	748	37,526

The fair value of the trade and other receivables approximates its carrying amount.

The balance at 31 December 2005 included an amount of approximately HK$35.1 million receivable from Great Center Limited (the "Debt"). Details of the Debt, and related litigations, are set out in notes 24(i) to (iii) of the annual report for the year ended 31 December 2005. On 12 April 2006, the Company and its controlling shareholder, Profit Harbour Investments Limited ("Profit Harbour") entered into a deed of assignment, pursuant of which Profit Harbour has conditionally agreed to acquire from the Company the Debt at the consideration of US$4.5 million (equivalent to approximately HK$35.1 million) (the "Assignment of Debts"). The Assignment of Debts constitutes a connected transaction and a major transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and were approved by independent shareholders by way of poll on special general meeting of the Company held on 23 May 2006. On 26 May 2006, the amount was deposited into a bank account of the Company.

12. Trade and Other Payables

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

	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Trade payables – 0 to 30 days	**—**	1,554
Other payables	**7,367**	4,499
	7,367	6,053

The fair value of trade and other payables approximates its carrying amount.

13. Share Capital

	Number of ordinary shares of HK$0.10 each	**Amount** HK$'000
Authorised:		
At 1 January 2006	1,000,000,000	100,000
Increased during the period	1,000,000,000	100,000
At 30 June 2006	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2006 and 30 June 2006	413,000,000	41,300

Pursuant to a special resolution passed on 19 June 2006, the authorised share capital of the Company was increased to HK$200,000,000 by the creation of 1,000,000,000 shares of HK$0.1 each.

14. Share Options Schemes

The Company adopted the share option scheme (the "Scheme") on 22 September 2004, under which the board of directors of the Company may grant options to eligible persons, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The purpose of the Scheme is to provide incentives to directors and eligible employees. The Scheme will expire on 21 September 2014.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 September 2004, being the date of passing of the resolution regarding the Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the Scheme since its adoption.

15. Commitments

At the balance sheet date, the Group had commitments for future minimum lease payments under non- cancellable operating leases in respect of rented premises, which fall due as follows:

	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
Within one year	**335**	366
In the second to fifth year inclusive	**—**	153
	335	519

16. Litigation and Contingent Liabilities

At 30 June 2006, 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 (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.

(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 2004 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from a 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.

16. **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 at 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 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, the court entered judgment against Modern Shine on 7 November 2005 for the sum of HK$22,000,000 plus interest and damages for conversion and interest thereon.

Regarding the claim against Great Center, the Company is in negotiation with Great Center's liquidators for an amicable settlement.

16. **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.

16. **Litigation and Contingent Liabilities** (continued)

(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 (the "Winding-Up Petition") 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 (the "Provisional Liquidators"). 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.

(vi) 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 Provisional Liquidators have recently made an application to the court for the discharge of their appointment and their application is fixed to be heard on 20 April 2006. The continuation of the Winding-Up Petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. In view of the application by the Provisional Liquidators, the Receivers made an application to restore the Winding-Up Petition, which has been adjourned to 24 April 2006 for hearing. The Court had on the hearing of 24 April 2006 ordered that Win Victory be wound-up. At the hearing on 6 September 2006, the Court had adjourned the Company's application for the costs of Provisional Liquidators to be paid out of the assets of Win Victory and gave leave for the Company to provide documentary proof regarding the Provisional Liquidators' fees.

17. Pledge of Assets

	30 June 2006 HK$'000 (Unaudited)	31 December 2005 HK$'000 (Audited)
(a) Banking facilities of HK$2 million (2005: HK$4 million) granted by a bank and secured by bank deposits of the Group	**2,014**	4,012
(b) Other loan facilities of Nil (2005: HK$15 million) granted by a financial institution and secured by floating charges over:		
– Trade and other receivables	**—**	1,864
– Bank balances and cash	**—**	1,376
	—	3,240
	2,014	7,252

18. Related Party Transactions

Key management personnel compensation:

	Six months ended 30 June	
	2006 HK$'000 (unaudited)	2005 HK$'000 (unaudited)
Basic salaries and other allowances	**300**	—
Bonuses	**25**	—
Retirement benefits scheme contributions	**15**	—
	340	—

19. Post Balance Sheet Events

(i) On 14 June 2006, Rise Cheer Limited (the "Purchaser"), a wholly owned subsidiary of the Company and the registered and beneficial owner (the "Vendor") of 60% issued equity interest of Chinaright Electronics Limited ("Chinaright"), entered into an acquisition agreement. Pursuant to the acquisition agreement, the Purchaser has agreed to purchase and the Vendor agreed to sell the Sales Interest and the Sales Loan at face value to the Purchaser. The Sales Interest, being the 60,001 shares of nominal value of HK$1.00 each (representing approximately 60.0% of the entire issued capital of Chinaright) in the issued capital of Chinaright and the Sales Loan amounted to approximately HK$1 million. The consideration amounted to HK$2.0 million and will be satisfied by the issuance of the convertible bond by the Company upon the completion of the acquisition agreement. The transaction was completed on 19 July 2006.

(ii) The Company completed a rights issue on 14 July 2006, which raised gross proceeds of HK$82.6 million by issuing 826 million rights shares at HK$0.1 each. After the rights issue, Mr. Yue, via Profit Harbour, owns 928,699,801 shares of the Company.

(iii) On 24 August 2006, the convertible bond of HK$2 million issued to the Vendor as mentioned in (i) above was converted into 20,000,000 new shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue of the Group for the six months ended 30 June 2006 was approximately HK$5,788,000, which was less than the revenue for the same period last year of approximately HK$41,055,000. Loss for the period under review was approximately HK$6,094,000, as compared to a profit of approximately HK$10,532,000 for the six months ended 30 June 2005. Loss and earnings per share for the two six-month periods ended 30 June 2006 and 2005 were HK$1.48 cents and HK$2.55 cents respectively.

On 26 May 2006, the Group completed the assignment of the debt due from Great Center Limited of approximately US$4.5 million for cash at face value to Profit Harbour Investments Limited ("Profit Harbour"), which is the major shareholder of the Company.

The Company completed a rights issue on 14 July 2006, which raised gross proceeds of HK$82.6 million by issuing 826 million rights shares at HK$0.1 each.

Following the completion of the above exercises and the implementation of the resumption proposal of the Company, trading in the shares of the Company on the Stock Exchange of Hong Kong Limited ("Stock Exchange") was resumed on 14 July 2006.

BUSINESS REVIEW

Trading in base metals

Turnover for the six months ended 30 June 2006 was approximately HK$5,788,000 (2005: HK$23,015,000), which represented a drop of 75% from the same period of last year. The performance of the Group's trading activities was affected by the uncertainties of the resumption process. The base metal trading business segment contributed a profit of HK$15,000 (2005: HK$83,000) to the Group's operating profits which represented a drop of 82%.

Trading in fabric products and other merchandises

The Group recorded nil revenue from fabric products and other merchandises trading business segment for the six months ended 30 June 2006 (2005: HK$18,040,000). Segmental profit of HK$65,000 (2005: HK$768,000) was recorded. Segmental profit for the period under review comprised bank interest income.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had no outstanding borrowings (31 December 2005: secured other loans of HK$15 million). Cash balance was approximately HK$22,440,000 (31 December 2005: HK$5,477,000).

FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payment 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 2006, the interests and short positions held by each director and chief executive of the Company and its subsidiaries in the shares, underlying shares and debentures of the Company or its associated corporations, if any, (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 ordinary shares of the Company (the "Shares")

Name of director	Number of ordinary shares	Capacity and nature	% of issued share capital
Yue Jialin ("Mr. Yue")	262,602,000	Interest of controlled corporation *(Note 1)*	63.58% *(Note 2)*

(b) Long position in Rights Shares *(Note 3)*

Name of director	Number of ordinary shares	Capacity and nature	% of issued share capital
Mr. Yue	826,000,000	Interest of controlled corporation *(Note 4)*	66.67% *(Note 5)*

Notes:

1. 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.

2. Such percentage holding is calculated on the basis of the Company's issued share capital of 413,000,000 Shares as at 30 June 2006.

3. Rights Shares refer to the 826,000,000 new Shares offered by the Company on the basis of two new Shares for every one Share held by its shareholders pursuant to the prospectus documents of the Company dated 20 June 2006 (the "Rights Issue").

4. These Shares when registered will be in the name of and beneficially owned by Profit Harbour.

5. Such percentage holding is calculated on the basis of the Company's issued share capital of 1,239,000,000 Shares as enlarged by the Rights Issue.

Save as disclosed above, none of the directors or chief executives of the Company or any of its subsidiaries had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2006, which is discloseable as per the above.

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 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "SHARE OPTIONS" and Note 19 to the condensed financial statements ("POST BALANCE SHEET EVENTS"), 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 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 2006, the following persons, other than a director or chief executive of the Company or any of its subsidiaries, were interested or had short positions in more than 5% of the shares and underlying shares of the Company or its subsidiaries according to the register required to be kept under section 336 of the SFO in the respective amounts as follows:-

(a) Long position in ordinary shares of the Company (the "Shares")

Name of shareholder	Capacity and nature	Number of ordinary shares	% of issued share capital
Profit Harbour *(Note 1)*	Beneficial owner	262,602,000	63.58% *(Note 2)*

(b) Long position in Right Shares *(Note 3)*

Name of Shareholders	Capacity and nature	Number of ordinary shares	% of issued share capital *(Note 4)*
Profit Harbour *(Note 1)*	Beneficial owner	826,000,000 *(Note 5)*	66.67%
Sun Hung Kai International Limited *(Note 5)*	Beneficial owner	300,796,000 *(Note 5)*	24.28%
Sun Hung Kai & Co. Limited *(Note 6)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Allied Properties (H.K.) Limited *(Note 7)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Allied Group Limited *(Note 8)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Lee & Lee Trust *(Note 9)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%

(c) Short position in Rights Shares *(Note 3)*

Name of Shareholders	Capacity and nature	Number of ordinary shares	% of issued share capital *(Note 4)*
Sun Hung Kai International Limited *(Note 5)*	Beneficial owner	300,796,000 *(Note 5)*	24.28%
Sun Hung Kai & Co. Limited *(Note 6)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Allied Properties (H.K.) Limited *(Note 7)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Allied Group Limited *(Note 8)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%
Lee & Lee Trust *(Note 9)*	Corporate Interests (interest of controlled corporation)	300,796,000 *(Note 10)*	24.28%

Notes:

1. The entire issued share capital of Profit Harbour is owned by Mr. Yue.
2. Such percentage holding is calculated on the basis of the Company's issued share capital of 413,000,000 Shares as at 30 June 2006.
3. Rights Shares refer to the 826,000,000 new Shares offered by the Company on the basis of two new Shares for every one Share held by the Shareholders pursuant to the prospectus documents of the Company dated 20 June 2006 (the "Rights Issue").
4. Such percentage holding is calculated on the basis of the Company's issued share capital of 1,239,000,000 Shares as enlarged by the Rights Issue.
5. The interest of Sun Hung Kai International Limited ("SHKI"), the underwriter to the Rights Issue, was subunderwritten to the extent of 300,796,000 Rights Shares by Profit Harbour. In addition, Profit Harbour had undertaken to subscribe for its full entitlement under the Rights Issue which, together with its subunderwriting commitment, made up its interests in the 826,000,000 Rights Shares.

6. SHKI is a wholly owned subsidiary of Sun Hung Kai Securities Limited, which in turn is a wholly owned subsidiary of Sun Hung Kai & Co. Limited. Accordingly, both Sun Hung Kai Securities Limited and Sun Hung Kai & Co. Limited are deemed to have the same long position and short position as SHKI under the SFO.

7. Sun Hung Kai & Co. Limited is a non wholly-owned subsidiary of AP Emerald Limited ("APE"), APE is a wholly-owned subsidiary of AP Jade Limited which in turn is a wholly-owned subsidiary of Allied Properties (H.K.) Limited ("APL"). Accordingly, APL is deemed to have the same long position and short position as SHKI under the SFO.

8. APL is a non wholly-owned subsidiary of Allied Group Limited ("AGL"). Accordingly, AGL is deemed to have the same long and short position as SHKI under the SFO.

9. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of the Lee & Lee Trust ("LLTrust"), being a discretionary trust. LL Trust owned approximately 40.61% interest in the issued share capital of AGL as at 11 May 2006. Accordingly, LL Trust is deemed to have the same long position and short position as SHKI under the SFO.

10. The figure refers to the same interest of SHKI in the 300,769,000 Rights Shares.

Save as disclosed above, no other person had interest or short position in the shares and underlying shares of the Company or its subsidiaries, which are recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2006, which is discloseable as per the above.

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

During the six months ended 30 June 2006, 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 2006, the Group had 3 managerial, trading and administrative staffs in Hong Kong.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE HONG KONG STOCK EXCHANGE LIMITED

For the six months ended 30 June 2006, the Company had adopted practices which complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). At a special general meeting of the Company held on 23 May 2006, resolution had been passed to amend the Bye-Laws of the Company to ensure the stated requirements in the Bye-Laws fully comply with the principles of Appendix 14.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS OF THE COMPANY

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 (the "Code") for dealing in securities of the Company by the Directors and supervisors. Having made specific enquiry, the Company confirmed that all Directors and supervisors had complied with the required standard as set out in the Code for the six months ended 30 June 2006.

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. Yang Weiming. The committee meets not less than twice a year.

The Audit Committee has reviewed the Group's interim results.

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. Yang Weiming. The committee meets not less than once a year.

By order of the Board
Yue Jialin
Chairman

Hong Kong, 8 September 2006

INDEPENDENT REVIEW REPORT

事會陳
務計浩
所師賢

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

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)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 21.

Respective responsibilities of directors and auditors

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 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.

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 Accountant, except that the scope of our review was limited because available-for-sale investment at 30 June 2006 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 2006 is free from material misstatement and also whether the full allowance against the amount due from Chaoyang Hua Loong is appropriate.

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.

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 limitation 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 2006.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)

Hong Kong
8 September 2006