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PROFIT HARBOUR INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands with limited liability)

MANDATORY UNCONDITIONAL CASH OFFER BY



SUN HUNG KAI INTERNATIONAL LIMITED

**ON BEHALF OF
PROFIT HARBOUR INVESTMENTS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF HK\$0.10 EACH
AND OUTSTANDING OPTIONS TO SUBSCRIBE FOR SHARES IN
SHANGHAI MERCHANTS HOLDINGS LIMITED
OTHER THAN THOSE ALREADY ACQUIRED BY PROFIT HARBOUR
INVESTMENTS LIMITED
AND
PARTIES ACTING IN CONCERT WITH IT**

On 26 August 2003, the Offeror entered into the Sale and Purchase Agreement with the Vendor to acquire from the Vendor 260,986,000 Shares, representing approximately 63.19 per cent. of the issued share capital of the Company and of the voting rights which may be exercised at the general meeting of the Company as at the date of the Sale and Purchase Agreement, at a total consideration of HK\$11,500,000, or approximately HK\$0.0441 per Share. The Sale and Purchase Agreement was completed on the same date. The 260,986,000 Shares represent the entire shareholding held by the Vendor in the Company immediately before the completion of Sale and Purchase Agreement.

Under Rule 26 of the Code, upon Completion, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares other than those already owned by the Offeror or parties acting in concert with it at HK\$0.0441 per Share. Sun Hung Kai will make the Offers on behalf of the Offeror.

The Offeror will dispatch the Offer Document within 21 days from the date of this announcement or such later date as may be agreed by the Executive. The Offer Document will set out the terms and other details of the Offers. The acceptance and transfer forms will be dispatched together with the Offer Document.

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on 2 June 2003 and will remain suspended until further notice.

INTRODUCTION

On 26 August 2003, the Offeror entered into the Sale and Purchase Agreement with the Vendor to acquire from the Vendor 260,986,000 Shares, representing approximately 63.19 per cent. of the issued share capital of the Company and of the voting rights which may be exercised at the general meeting of the Company as at the date of the Sale and Purchase Agreement, at a total consideration of HK\$11,500,000, or approximately HK\$0.0441 per Share. The Sale and Purchase Agreement was completed on the same date. The 260,986,000 Shares represent the entire shareholding held by the Vendor in the Company immediately before the completion of Sale and Purchase Agreement.

Under Rule 26 of the Code, upon Completion, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares other than those already owned by the Offeror or parties acting in concert with it at HK\$0.0441 per Share. The terms of the Offers are set out under section headed “MANDATORY UNCONDITIONAL CASH OFFER”.

THE SALE AND PURCHASE AGREEMENT

Date: 26 August 2003

Parties: Vendor: Angel Field Limited
(Angel Field Limited had a shareholding interest of approximately 63.19 per cent. in and is a substantial shareholder of the Company prior to Completion and is beneficially wholly-owned by Mr. Chau Ching Ngai)

Purchaser: The Offeror
(The Offeror is beneficially wholly-owned by Mr. Yue)

Shares Acquired

The Offeror acquired 260,986,000 Shares, representing approximately 63.19 per cent. of the issued share capital of the Company and of the voting rights which may be exercised at a general meeting of the Company as at the date of the Sale and Purchase Agreement. The Vendor is the legal and beneficial owner of the 260,986,000 Shares and have the right to sell the 260,986,000 Shares to the Offeror free from all claims, liens, charges and encumbrances, without the consent of any third party (save and except the share mortgage executed by the Vendor in favour of Sun Hung Kai Investment Services Limited dated 17 April 2003 as disclosed by the Vendor to the Offeror which consent had been obtained by the Vendor from Sun Hung Kai Investment Services Limited regarding the sale of 260,986,000 Shares).

Purchase Price

The consideration of HK\$11,500,000 for the 260,986,000 Shares was determined after arm's length negotiations and represents a price of approximately HK\$0.0441 per Share. The price of approximately HK\$0.0441 per Share represents a discount of approximately 83 per cent. to the closing price of the Shares on the Stock Exchange of HK\$0.26 on 30 May 2003, the last trading date immediately prior to the suspension of the trading in the Shares on the Stock Exchange and a discount of approximately 84 per cent. to the average closing price of Shares on the Stock Exchange of approximately HK\$0.27 per share for the 10 trading days immediately prior to the suspension in trading on 30 May 2003.

Payment Terms

The full amount of the consideration was paid in cash upon Completion.

Completion

The Sale and Purchase Agreement was completed on 26 August 2003.

MANDATORY UNCONDITIONAL CASH OFFER

The Offeror and parties acting in concert with it are interested in 260,986,000 Shares representing approximately 63.19 per cent. of the issued share capital of the Company and of the voting rights which may be exercised at a general meeting of the Company. Under Rule 26 of the Code, the Offeror is required to make a mandatory unconditional cash offer for all the issued Shares not already beneficially owned by the Offeror and parties acting in concert with it. Sun Hung Kai, on behalf of the Offeror, makes the Share Offer on the following basis:

For each ShareHK\$0.0441 in cash

The offer price represents:

- (a) a discount of approximately 83 per cent. to the closing price of the Shares on the Stock Exchange of HK\$0.26 on 30 May 2003, the last trading date immediately prior to the suspension of the trading in the Shares on the Stock Exchange;
- (b) a discount of approximately 84 per cent. to the average closing price of Shares on the Stock Exchange of approximately HK\$0.27 per share for the 10 trading days immediately prior to the suspension in trading on 30 May 2003; and
- (c) a discount of approximately 83 per cent. to the Group's pro forma adjusted consolidated net asset value of approximately HK\$0.26 per Share after subscription pursuant to the subscription agreement dated 6 March 2003 (based on the Group's audited net asset value of approximately HK\$56,695,000 as at 31 December 2002 which is adjusted by the net proceeds of HK\$49.9 million from the said subscription as stated in the Company's circular dated 18 March 2003 and 413,000,000 Shares outstanding after the said subscription).

Save as disclosed below, the Company has no outstanding equity securities (including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital other than options under the Company's share option scheme) in issue as at the date of this announcement.

Based on the 2002 annual report of the Company dated 7 April 2003, a total of 9,840,000 Options granted to the directors and employees of the Company for subscription of the Company's shares at a subscription price of HK\$0.556 each were outstanding. Sun Hung Kai, on behalf of the Offeror, will make the Option Offer to all the Optionholders for the surrender of their Options for cancellation at the offer price of HK\$0.0001 for each of the outstanding Option.

During the six month period preceding the date of this announcement, the highest closing price of the Shares on the Stock Exchange was HK\$0.38 per share on 3 March 2003, and the lowest closing price of the Shares on the Stock Exchange was HK\$0.23 per share on 9 May 2003.

Based on the total number of 413,000,000 Shares in issue as at the date hereof, the Share Offer would value the total issued share of the Company at approximately HK\$18,213,300.

On the basis of the offer price of HK\$0.0001 for each of the outstanding Option, the Option Offer would value the outstanding Options at approximately HK\$984.

Sun Hung Kai is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offers.

The Offeror will not exercise the power of compulsory acquisition.

Sellers' ad valorem stamp duty at the rate of HK\$1.00 for every HK\$1,000 or part thereof of the consideration arising in connection with acceptance of the Share Offer will be payable by those shareholders of the Company who accept the Share Offer and will be deducted from the consideration due to such person on acceptance of the Share Offer.

Acceptance of the Offers by any person(s) will be deemed to constitute a warranty by such person(s) that any Shares and Options acquired pursuant to the Offers are sold by such person(s) free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including (without limitation) the right to receive dividends and distributions declared, made or paid, if any, on or after the date hereof.

Neither the Offeror nor any other parties acting in concert with it owns any Shares or any other securities, including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital of the Company. Neither the Offeror nor any parties acting in concert with it has dealt in any Shares or any securities, including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital of the Company during the six months prior to this announcement.

INFORMATION ON THE COMPANY

On the basis of the 2002 annual report of the Company dated 7 April 2003, the Company is an investment holding company and the activities of its principal subsidiaries are trading of base metals and fabrics.

According to the 2002 annual report of the Company dated 7 April 2003, the consolidated turnover of the Company for the year ended 31 December 2002 was approximately HK\$403.75 million and the loss for the year ended 31 December 2002 was approximately HK\$49.99 million. The consolidated net assets of the Company as at 31 December 2002 were approximately HK\$56.70 million.

Set out below is the audited losses recorded by the Company for each of the two years ended 31 December 2002:

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(50,069)	(47,049)
Taxation	(24)	52
Loss after taxation	(50,093)	(46,997)
Minority interests	99	1,439
Loss for the year	(49,994)	(45,558)

Based on public information and the information provided by the Vendor regarding its disposal of in aggregate 46,000,000 Shares on 25 and 26 August 2003, the Vendor had a shareholding interest of approximately 63.19 per cent. in the Company after the said disposal and prior to Completion. The following table sets out the shareholding structure of the Company before and immediately after Completion:

	Before Completion		After Completion	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Vendor	260,986,000	63.19	—	0.00
Offeror (and any parties acting in concert with it)	—	0.00	260,986,000	63.19
Public	152,014,000	36.81	152,014,000	36.81
Total	<u>413,000,000</u>	<u>100.00</u>	<u>413,000,000</u>	<u>100.00</u>

INFORMATION ON THE OFFEROR

The Offeror is a private company which was incorporated in the British Virgin Islands on 18 July, 2003 and is wholly-owned by Mr. Yue. The Offeror is a special purpose vehicle formed to hold the Shares. Mr. Yue is an independent third party who is not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules) other than the Offeror who is a connected person by virtue only of its substantial shareholding in the Company after Completion. Mr. Yue is the executive director of the Offeror. Other than the appointment of Sun Hung Kai as financial adviser to the Offeror, Mr. Yue or any of his close relatives or related trust or companies controlled by him has no other relationship, financial or otherwise, with Sun Hung Kai & Co. Limited or any party acting in concert with Sun Hung Kai & Co. Limited.

None of the shareholders of the Company has indicated to the Offeror nor any person acting in concert with it any irrevocable commitment to accept the Offers.

REASONS FOR THE OFFERS AND FUTURE PLANS AND PROSPECTS ON THE COMPANY

Upon Completion, the Offeror and parties acting in concert with it are required under Rule 26 of the Code to extend a mandatory unconditional cash offer for the Shares not already owned by the Offeror or parties acting in concert with it.

It is the intention of the Offeror to maintain the existing principal activities of the Company and the Offeror has no intention to inject any material assets or businesses into the Company or any of its subsidiaries immediately after the Offers. The Offeror has no intention to dispose of or re-deploy any material assets of the Company or any of its subsidiaries. The Offeror will also assist the board of the Company to review the business and operations of the Group with a view to rationalizing and increasing the business activities and performance of the Group.

Directors and Management of the Company

Existing directors of the Company will resign after closing of the Offers.

The Offeror intends to appoint a majority of the directors of the Company (“New Board”). The daily operation and management will be carried out by the New Board after the close of the Offers. As at the date of this announcement, the Offeror intends to nominate the following persons as executive directors to the New Board upon closing of the Offers.

Mr. Yue, aged 35, graduated at 深圳市司法學院 (Shenzhen College of Laws) in 1989. Mr. Yue was a magistrate of 深圳市羅湖區人民法院經濟審判庭 (Magistrates’ court for economic affairs of the people’s court of Luohu District, Shenzhen) from 1989 to 1993. Mr. Yue worked for the 深圳市人民政府貿易發展局 (Trade Development Council of the people’s government of Shenzhen) from January 1993 to December 1995. His major duty was to scrutinize the Shenzhen branch office of foreign investors. Mr. Yue is the director of 深圳市海佳華諮詢有限公司 (Shenzhen Hai Jia Hua Consulting Company Limited), which is principally engaged in trading, provision of consultancy service to state-owned enterprises and investment management in the PRC.

Mr. Lau Yau Cheung, Brent, aged 42, graduated from the University of Toronto in Canada with a bachelor’s degree in commerce. Mr. Lau has over 18 years’ experience in securities industry.

The Offeror intends that there will not be any material changes to the employees of the Company and of its subsidiaries following completion of the Offers.

Continuation of Listing of the Company

It is the intention of the Offeror that the listing of the Shares on the Stock Exchange should be maintained. Accordingly, the Offeror will take appropriate steps as soon as possible following the close of the Offers to ensure the trading of the Shares on the Stock Exchange is resumed and that such number of Shares as may be required by the Stock Exchange are held by the public.

The Stock Exchange has stated that, in the event that less than 25 per cent. of the Shares are in public hands following the closing of the Offers or if the Stock Exchange believes that a false market exists or may exist in the Shares or that there are insufficient Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares.

The Stock Exchange has stated that, if the Company remains a public company listed on the Stock Exchange, any acquisitions or disposals of assets by the Company will be subject to the provisions of the Listing Rules. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to its shareholders where acquisition or disposal by the Company is proposed, irrespective of the size of such acquisition or disposal and in particular where such acquisition or disposal represents a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by the Company and any such acquisitions or disposals may, in any event, result in the Company being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

GENERAL

The Offeror will dispatch the Offer Document within 21 days from the date of this announcement or such later date as may be agreed by the Executive. The Offer Document will set out the terms and other details of the Offers. The acceptance and transfer forms will be dispatched together with the Offer Document.

Trading in the Shares has been suspended at the request of the Company with effect from 9:30 a.m. on 2 June 2003 and will remain suspended until further notice.

DEFINITIONS

“Code”	The Hong Kong Code on Takeovers and Mergers
“Company”	Shanghai Merchants Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of 260,986,000 Shares pursuant to the Sale and Purchase Agreement
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Yue”	岳家霖先生 (Mr. Yue Jialin), who wholly-owns and is the executive director of the Offeror
“Offer Document”	the Offer document to be dispatched to the holders of the Share(s) in relation to the Offers
“Offeror”	Profit Harbour Investments Limited, a company incorporated in the British Virgin Islands with limited liability
“Offers”	the Share Offer and the Option Offer
“Option(s)”	the outstanding option(s) granted by the Company to directors and employees of the Company to subscribe for the Shares, pursuant to the share option scheme of the Company adopted on 7 June 2002
“Option Offer”	the mandatory unconditional cash offer made by Sun Hung Kai, on behalf of the Offeror, in accordance with the Code to all the Optionholders to surrender their Options for cancellation at HK\$0.0001 for each outstanding Option
“Optionholder(s)”	holder(s) of the Option(s)

“Sale and Purchase Agreement”	the sale and purchase agreement dated 26 August 2003 made between the Vendor and the Offeror relating to the sale and purchase of 260,986,000 Shares
“SFC”	The Securities and Futures Commission
“Share(s)”	Share(s) of HK\$0.10 each in the issued share capital of the Company
“Share Offer”	the mandatory unconditional cash offer to be made by Sun Hung Kai on behalf of the Offeror to acquire all the Shares other than those already acquired by the Offeror and parties acting in concert with it
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Hung Kai”	Sun Hung Kai International Limited, an investment adviser and a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Vendor”	Angel Field Limited, which had a shareholding interest of approximately 63.19 per cent. in and is a substantial shareholder of the Company prior to Completion and is beneficially wholly-owned by Mr. Chau Ching Ngai
“HK\$”	Hong Kong dollars(s), the lawful currency of Hong Kong

By Order of the Board of
Profit Harbour Investments Limited
Mr. Yue Jialin
Director

Hong Kong, 3 September 2003

The director of the Offeror accepts full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and that there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.

“Please also refer to the published version of this announcement in The Standard”