



SHANGHAI MERCHANTS HOLDINGS LIMITED

上海商貿控股有限公司

(incorporated in Bermuda with limited liability)
(Stock Code: 1104)

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of present directors (the “Directors”) of Shanghai Merchants Holdings Limited (the “Company”) announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004 together with comparative figures for the preceding period. These unaudited condensed interim financial statements have not been audited, but were reviewed by the Company’s audit committee and auditors of the Company.

		Unaudited Six months ended 30 June	
	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
Turnover	4	–	62,198
Cost of sales		–	(69,626)
Gross loss		–	(7,428)
Other operating income		2	35
Distribution costs		–	(266)
Administrative expenses		(3,505)	(4,306)
Other operating expenses		–	(29,013)
Loss from operations	5	(3,503)	(40,978)
Interest on bank borrowings wholly repayable within five years		–	(118)
Loss for the period		<u>(3,503)</u>	<u>(41,096)</u>
Loss per share	7	<u>(0.85) cents</u>	<u>(11.16) cents</u>

Notes:

1. DISCLAIMER OF LIABILITIES

In preparing this announcement and condensed consolidated financial statements for the six months ended 30 June 2004 in collaboration with the auditors, the Directors have taken all reasonable steps and used their best endeavours to ensure the sufficiency of disclosure regarding the same in accordance with the pertinent requirements of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Owing to the onset of receivership proceedings, the change in management and the continued investigations by the authorities into the affairs of the Company, all of which had precluded the full access of the books and records of the Group, this announcement has been prepared on the basis of the financial information prepared and the payment records for the relevant period maintained by the former receivers and managers of the Company (the “Receivers”) who were appointed on 17 June 2003 and discharged on 2 July 2004. As such, the Directors are unable to give representation on the accuracy and completeness of the financial statements contained herein or whether the same are free from material misstatement. In particular, the Directors are unable to give representation that all transactions affecting the Group for the six months ended 30 June 2004 have been included in the financial statements herein or whether such information presents a true and fair view of the Group’s operations and the cash flows for the six months ended 30 June 2004 and financial position as at 30 June 2004.

For reasons of the foregoing and reasons stated in the interim financial statements, the Directors have at a meeting held on 16 August 2004 resolved to disclaim any and all liabilities in respect of the release of the financial results of the Group for the six months ended 30 June 2004.

Shareholders and other investors are hereby advised to exercise caution when considering the information contained herein and should seek independent professional advice if in doubt.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

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. Accordingly, the interim financial report of the Group for the six months ended 30 June 2004 have been prepared on the following bases:

(A) Financial information provided by the Receivers

The interim financial statements have been prepared with reference to the management accounts prepared by the Receivers. The Receivers prepared the management accounts on the basis of the information available to them, i.e. unaudited management accounts of the Group as at 30 April 2003, vouchers prepared by the Group’s former employees as well as the Group’s books and records seized by Independent Commission Against Corruption on or about 1 June 2003 and subsequently made available to the Receivers. However, the Receivers were not in a position to verify the validity or authenticity of any of such information or records made available to them. In light of the above, the Receivers are unable to give representation that all transactions affecting the Group have been included in the management accounts and the management accounts present a true and fair view of the Group’s financial position as of the date presented. The Receivers therefore disclaim all liabilities in respect of the management accounts of the Group and in relation to the affairs of the Group as of the date presented.

In addition, the Receivers had only limited access to the books and records of certain of the Company’s subsidiaries, Park Well International Group Limited (“Park Well”) and its subsidiaries (the “Park Well Group”). Accordingly, the management accounts of Park Well Group as at 31 March 2003 were used in the preparation of the Group’s management accounts for the six months ended 30 June 2004 because Park Well Group’s management accounts for the period from 1 April 2003 to 30 June 2004 were not available to the Receivers.

(B) The disclosure of litigation as set out in note 8 is based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment.

(C) In the absence of complete books and records, the Directors are unable to quantify the effect and make appropriate disclosures in respect of deferred taxation in accordance with the requirements of Statement of Standard Accounting Practice No. 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants (“SSAP 12 (Revised)”).

- (D) Due to the limited access to the books and records of Park Well Group, the Directors are unable to quantify the depreciation and amortisation charge for Park Well Group's property, plant and equipment for the six months ended 30 June 2004 in accordance with the requirements of Statement of Standard Accounting Practice No. 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants ("SSAP 17").
- (E) The comparative figures for the condensed consolidated income statement, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity were extracted from the interim financial report of the Company for the six months ended 30 June 2003 and the comparative figures for the condensed consolidated balance sheet were extracted from the consolidated financial statements of the Company for the year ended 31 December 2003. The Directors do not represent that these figures are free from material misstatement.

Against the above background, the Directors are unable to satisfy themselves as to whether the interim financial report is free from material misstatement.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

4. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into two operating divisions – trading in base metals and trading in fabric. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Trading in base metals – trading in base metals

Trading in fabric – trading in fabric

Segment information about these businesses is presented below:

Six months ended 30 June 2003

	Continuing operations Trading in base metals HK\$'000	Trading in fabric HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	<u>53,827</u>	<u>8,371</u>	<u>62,198</u>
RESULTS			
Segment profit (loss)	<u>(7,509)</u>	<u>81</u>	(7,428)
Unallocated corporate expenses			(33,550)
Interest on bank borrowings wholly repayable within five years			<u>(118)</u>
Loss for the period			<u>(41,096)</u>

No business segments analysis has been presented as other than the daily operating expenses incurred by the Group, no other transactions had been entered into by the Group during the six months ended 30 June 2004.

5. LOSS FROM OPERATIONS

Six months ended 30 June	
2004	2003
HK\$'000	HK\$'000

Loss from operations has been arrived at after charging:

Depreciation and amortisation	34	38
Allowance for bad and doubtful debts	<u>—</u>	<u>29,013</u>

6. TAXATION

No provision for Hong Kong Profits Tax and the People's Republic of China's ("PRC") enterprise income tax has been made in the financial statements as the Company's subsidiaries had no assessable profit for the period.

As explained in note 2(C), in light of the incomplete books and records maintained by the Group for the six months ended 30 June 2004, the Directors are unable to quantify the effect and make appropriate disclosures in respect of the adoption of SSAP 12 (Revised).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period of HK\$3,503,000 (2003: HK\$41,096,000) and on a weighted average number of 413,000,000 (2003: 368,110,497) shares in issue during the period.

Diluted loss per share has not been presented as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

8. LITIGATION

As explained in note 2(A), in light of the incomplete books and records maintained by the Group for the six months ended 30 June 2004, the following information on the Group's litigation is prepared based on press announcements and/or circulars made by the Company prior to the appointment of the Receivers and those made by the Receivers following their appointment. The Directors make no representation as to the completeness of the information disclosed.

- (a) 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 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 of Hong Kong ("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.
- (b) 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 the 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.

- (c) 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 and Ms. Mo Yuk Ping 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.
- (d) 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 will be heard again by the High Court.
- (e) A sale and purchase agreement dated 12 April 2003 was entered into by the Company to dispose the entire issued share capital of Park Well, a wholly owned subsidiary of the Company, to Show Goods Inc., a company incorporated in the British Virgin Islands, for a consideration of RMB15 million (the “Park Well Disposal Agreement”). Based on its investigations, the Receivers are of the view that despite the Park Well Disposal Agreement, the Company remains the beneficial owner of Park Well and therefore have taken steps to secure control over Park Well. Should Show Goods Inc. dispute the Receivers’ view and actions, claims and losses to the Group may arise.

INDEPENDENT REVIEW REPORT

The interim financial report has been reviewed by auditors of the Company. The review report on the Group’s interim financial report for the six months ended 30 June 2004 contained a disclaimed opinion arising from the limitation in evidence and the disagreements about accounting treatment and extent of disclosure. The followings are extracts from the review 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 Society of 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

1. As explained in note 2(A), the interim financial report for the six months ended 30 June 2004 have been prepared with reference to the management accounts prepared by the Receivers. The Receivers prepared the management accounts on the basis of the information available to them, i.e., the management accounts of the Group as at 30 April 2003, vouchers prepared by the Group's Former employees as well as the Group's books and records seized by Independent Commission Against Corruption on or about 1 June 2003 and subsequently made available to the Receivers. However, the Receivers were not in a position to verify the validity or authenticity of any of such information or records made available to them. In light of the above, the Receivers are unable to give representation that all transactions affecting the Group have been included in the management accounts and the management accounts present a true and fair view of the Group's financial position as of the date presented. The Receivers therefore disclaim all liabilities in respect of the management accounts of the Group in relation to the affairs of the Group for as of the date presented, if any.

In addition, the Receivers had only limited access to the books and records of certain of the Company's subsidiaries, Park Well Group. Accordingly, the management accounts of Park Well Group as at 31 March 2003 were used in the preparation of the Group's management accounts as at 30 June 2004 because Park Well Group's management accounts for the period from 1 April 2003 to 30 June 2004 were not available to the Receivers.

Against the above background, the directors are unable to satisfy themselves as to whether the interim financial report is free from material misstatement. Accordingly, we are unable to satisfy ourselves as to whether the interim financial report is free from material misstatement.

2. Included in the balance sheet at 30 June 2004 are property, plant and equipment of HK\$23,861,000. In the absence of information relating to their future usage, we are unable to satisfy ourselves as to whether any provision for impairment in value relating to these assets was necessary as at 30 June 2004.
3. We are unable to obtain sufficient documentary evidence to verify the ownership of the Group's leasehold land and buildings situated in the People's Republic of China and which are held under the ownership of the Park Well Group.
4. Included in trade and other receivables at 30 June 2004 is an amount of approximately HK\$35.1 million due from Great Centre Limited. We are unable to obtain financial information of Great Centre 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 8(a) and 8(b).
5. Included in the balance sheet at 30 June 2004 is taxation payable of HK\$10,700,000. We are unable to ascertain the current status of this tax liability and are therefore unable to satisfy ourselves as to whether this provision was adequate or otherwise as at 30 June 2003.

6. As disclosed in note 8(e), the Receivers have taken the view that, despite the Park Well Disposal Agreement, as defined in the note, the Company remains the beneficial owner of Park Well. In the absence of an independent legal opinion relating thereto, we are unable to satisfy ourselves as to whether any claims or losses will arise from the non-recognition of the Park Well Disposal Agreement.

In these circumstances we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

Modified review conclusion arising from disagreement about accounting treatment and extent of disclosure

1. As explained in note 2(C), the Directors are unable to quantify the effect and make appropriate disclosures in respect of deferred taxation in accordance with the requirements of SSAP No. 12 (Revised). In light of the incomplete books and records maintained by the Group, it is not practicable to quantify the effects of departure from these requirements.
2. As explained in note 2(D), due to the limited access to the books and records of Park Well Group, the Directors are unable to quantify the depreciation and amortisation charge for Park Well Group's property, plant and equipment for the six months ended 30 June 2004 in accordance with the requirements of SSAP 17. It is not practicable to quantify the effects of departure from these requirements.

Inability to reach a review conclusion

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30 June 2004."

Further, we draw to your attention to note 2(E) in which the Directors are unable to represent that the comparative figures for the condensed consolidated income statement, the condensed consolidated cash flow statement and the condensed consolidated statement of changes in equity for the six months ended 30 June 2003 and the condensed consolidated balance sheet for the year ended 31 December 2003 are free from material misstatement.

FINANCIAL RESULTS

For the period under review, the Group had recorded nil turnover, against HK\$62.2 million for the same period last year. Loss attributable to shareholders decreased to HK\$3.5 million from HK\$41.1 million for the six months ended 30 June 2003. Loss per share was also decreased to 0.85 cents from 11.16 cents for the six months ended 30 June 2003.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

BUSINESS REVIEW AND OUTLOOK

Trading of base metals

Turnover and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the Receivers during the period. Turnover and operating loss of trading in base metals for the six months ended 30 June 2003 were HK\$53.8 million and HK\$7.5 million respectively.

Fabric Business

Turnover and operating result for the six months ended 30 June 2004 were nil, as the Group was under the control of the Receivers during the period. Turnover and operating profit of trading in fabric for the six months ended 30 June 2003 were HK\$8.4 million and HK\$0.1 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had no outstanding bank borrowings (31 December 2003: Nil). Bank balances and cash were HK\$16.0 million (31 December 2003: HK\$16.8 million).

FOREIGN EXCHANGE EXPOSURE

Since most business transactions conducted by the Group and payments 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.

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES AND REMUNERATION POLICY

During the six months ended 30 June 2004, the Group was under the control of the Receivers since their respective appointment on 17 June 2003. Accordingly, the Group had no full time managerial, administrative and production staff in Hong Kong and the PRC during the period.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors of the Company. The audit committee has reviewed the interim financial report and agreed with the inclusion of the statement of disclaimer by the Directors as contained above.

CODE OF BEST PRACTICE

The Directors are unable to form an opinion as to whether the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the current financial period.

SUSPENSION OF TRADING

Trading in shares of the Company has been suspended with effect from 9:30 a.m. on 2 June 2003 and remains suspended until further notice.

DIRECTORS

As at the date of this announcement, the Directors currently comprises of Mr. Yue Jialin and Mr. Lau Yau Cheung Brent, both of whom are executive Directors and Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Wu Guo Jian, all of them are independent non-executive Directors.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

All information of the Group's results for the period as required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited.

Should there be any inconsistencies between the English text and the Chinese text of this announcement, the English text of this announcement will prevail over the Chinese text.

On behalf of the Board
Yue Jialin
Chairman

Hong Kong, 16 August 2004

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