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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors (the "Board") of Shanghai Merchants Holdings Limited (the "Company") announces that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 were as follows:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	**2005** *HK$'000*	2004 *HK$'000*
Turnover	*2*	**68,393**	22,305
Cost of sales		**(66,113)**	(21,369)
Gross profit		**2,280**	936
Other income		**474**	13
Credit arising from a scheme of arrangement with creditors	*3*	**15,421**	–
Distribution costs		**(1,353)**	(429)
Administrative expenses	*4*	**(8,539)**	(8,455)
Allowance for bad and doubtful debts		**–**	(14,816)
Profit/(loss) from operations		**8,283**	(22,751)
Finance costs – interest on other loans		**(1,744)**	(335)
Allowance for advance to an investee company		**–**	(24,806)
Gain on de-consolidation of a subsidiary		**–**	11,624
Profit/(loss) before taxation		**6,539**	(36,268)
Income tax expense	*5*	**(38)**	(31)
Profit/(loss) for the year		**6,501**	(36,299)
Earnings/(loss) per share – Basic	*6*	**1.57 cents**	(8.79) cents

CONSOLIDATED BALANCE STATEMENT
AT 31 DECEMBER 2005

	Notes	**2005** **HK$'000**	2004 *HK$'000*
Non-current assets			
Property, plant and equipment		**–**	23
Investment in security		**–**	–
Available-for-sale investment		**–**	–
		–	23
Current assets			
Trade and other receivables	*7*	**37,526**	42,576
Pledged bank deposits		**4,012**	8,000
Bank balances and cash		**1,465**	6,929
		43,003	57,505
Current liabilities			
Trade and other payables	*8*	**6,053**	27,093
Secured other loans		**15,000**	15,000
Taxation payable		**69**	55
		21,122	42,148
Net current assets		**21,881**	15,357
Total assets less current liabilities		**21,881**	15,380
Capital and reserves			
Share capital		**41,300**	41,300
Reserves		**(19,419)**	(25,920)
Equity attributable to equity holders of the parent		**21,881**	15,380

1. IMPACT OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") AND HONG KONG ACCOUNTING STANDARDS ("HKAS")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new HKFRSs, HKASs and interpretations that are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the relevant new HKFRSs and HKASs and there has had no material impact on the Group's accounting policies and methods of computation, presentation and disclosure in the Group's financial statements.

2. SEGMENTAL INFORMATION

Analysis of the Group's business segmental information is as follows:

2005

	Continuing operations		Discontinued operation	
	Trading in base metals *HK$'000*	**Trading in fabric products and other merchandises** *HK$'000*	**Fabric processing** *HK$'000*	**Consolidated** *HK$'000*
Turnover				
External sales	**44,937**	**23,456**	**–**	**68,393**
Results				
Segment profit	**110**	**966**	**–**	**1,076**
Unallocated corporate expenses				**(8,214)**
Credit arising from a scheme of arrangement with creditors				**15,421**
Finance costs – interest on other loans				**(1,744)**
Profit before taxation				**6,539**
Income tax expense				**(38)**
Profit for the year				**6,501**

2004

	Continuing operations		Discontinued operation	
	Trading in base metals *HK$'000*	Trading in fabric products and other merchandises *HK$'000*	Fabric processing *HK$'000*	Consolidated *HK$'000*
Turnover				
External sales	13,522	8,783	–	22,305
Results				
Segment profit	121	393	–	514
Allowance for advance to an investee company	–	–	(24,806)	(24,806)
Gain on de-consolidation of a subsidiary	–	–	11,624	11,624
Unallocated corporate expenses				(23,265)
Finance costs – interest on other loans				(335)
Loss before taxation				(36,268)
Income tax expense				(31)
Loss for the year				(36,299)

3. CREDIT ARISING FROM A SCHEME OF ARRANGEMENT WITH CREDITORS

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

4. ADMINISTRATIVE EXPENSES

	2005	2004
	HK$'000	*HK$'000*
Administrative expenses include the following:		
Auditors' remuneration	**250**	430
Depreciation and amortisation	**7**	17
Legal and professional fees	**4,760**	5,093
Loss on disposal of property, plant and equipment	**16**	112
Retirement benefits scheme contributions, net of nil (2004: Nil) forfeited contributions	**55**	15
Staff costs, including directors' emoluments	**1,513**	496

5. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 17.5% of the assessable profit for the year.

6. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit for the year of HK$6,501,000 (2004: loss of HK$36,299,000) and on 413,000,000 (2004: 413,000,000) shares in issue during the year.

Diluted loss per share has not been presented for the years ended 31 December 2005 and 2004 as there were no potential dilutive shares outstanding during both years.

7. TRADE AND OTHER RECEIVABLES

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

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

	2005	2004
	HK$'000	*HK$'000*
Trade receivables – 0 to 30 days	**2,151**	7,249
Other receivables	**35,375**	35,327
	37,526	42,576

8. TRADE AND OTHER PAYABLES

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

	2005	2004
	HK$'000	*HK$'000*
Trade payables		
0 to 30 days	**1,554**	3,069
Over 365 days	**–**	1,287
	1,554	4,356
Other payables	**4,499**	22,737
	6,053	27,093

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

FINANCIAL REVIEW

Litigation and Contingent Liabilities

At 31 December 2005, the Group had the following litigation and contingent liabilities:

(i) Having obtained legal advice, the Receivers commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center"), a company incorporated in the British Virgin Islands, for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank accounts of Merchants (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.

(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 Greater Centre was not ready to exchange its witness statements with the Company; and

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

The Company and Great Center have exchanged their lists of documents and solicitors for the Company have received copy 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.

(iv) As a result of the information provided to the Company and Merchants HK under the Disclosure Order, the Receivers have discovered that, together with certain funds out of the Great Center Claim, an aggregate amount of approximately HK$37 million was transferred, by a series of transfers, by Great Center and Modern Shine to Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong and Mr. Chau Ching Ngai, former substantial shareholder of the Company and the spouse of Ms. Mo Yuk Ping, and Ms. Mo Yuk Ping, former chairman of the Company, are the registered shareholders of 49% and 51%, respectively, of the issued share capital of Win Victory, without apparent legitimate commercial reason. Having obtained legal advice, the Receivers commenced legal proceedings on 23 August 2003 against Win Victory (the "Win Victory Action") for the repayment of the HK$37 million, interest thereon, damages and costs of legal proceedings (the "Win Victory Claim"). It should be noted that should any of the amount claimed against Win Victory be recovered from Great Center and/or Modern Shine in the Great Center Claim such amounts will be taken into account in the Win Victory Action. In order to prevent the dissipation of Win Victory's assets, the Company applied for, and obtained on 22 August 2003, from the High Court an injunction order against Win Victory (the "Win Victory Injunction Order") to restrict Win Victory from, among other things, disposing of or otherwise dealing with or diminishing the value of its assets up to the value of HK$37 million. On 29 August 2003, the Win Victory Injunction Order was continued until further order or final determination of the Win Victory Action.

(v) Having obtained legal advice, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds that Win Victory is unable to pay its debts and/or it is just and equitable for Win Victory to be wound up and obtained an order from the High Court on 24 September 2003, among other things, appointing Messrs. Desmond Chung Seng Chiong and Roderick John Sutton of Ferrier Hodgson Limited of 14th Floor, Hong Kong Club Building, 3A Chater Road, Hong Kong as the provisional liquidators of Win Victory. In the first instance, this order would remain valid up to and including 7 October 2003, on which date the matter would be heard again by the High Court.

(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 Petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. The Petition is being opposed by Mr. Chau Ching Ngai. Solicitors for the Company will continue with the Winding Up proceedings. In view of the application by the Provisional Liquidators, the official receiver made an application to restore the 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 on the petition of the Company.

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

Pledge of Assets

		2005	2004
		HK$'000	*HK$'000*
(a)	Banking facilities of HK$4 million (2004: HK$8 million) granted by a bank and secured by bank deposits of the Group	**4,012**	8,000
(b)	Other loan facilities of HK$15 million (2004: HK$15 million) granted by a financial institution and secured by floating charges over:		
	– Trade and other receivables	**1,864**	6,853
	– Bank balances and cash	**1,376**	6,917
		3,240	13,770
		7,252	21,770

In addition, the Company's interests in its subsidiaries had been pledged under floating charges to secure the other loan facilities granted by a financial institution to the Group.

Liquidity and Financial Resources

As at 31 December 2005, the Group had secured other loans of HK$15 million (2004: HK$15 million), and bank balances and cash were at approximately HK$5,477,000 (2004: HK$14,929,000).

Foreign Exchange Exposure

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

SUMMARY OF AUDITORS' QUALIFIED REPORT

The auditors' report on the Group's financial statements for the year ended 31 December 2005 contained a qualified opinion arising from limitation of audit scope. The followings are extracts from the auditors' report.

Basis of opinion

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

Included in the consolidated balance sheet at 31 December 2005, there was available-for-sale investment. Such investment represents the Group's 100% equity interest in Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong"), a company established in the People's Republic of China, and is stated at nil value. In addition, full allowance against an amount of HK$24,806,000 due from Chaoyang Hua Loong had been made by the Group in previous years. In the absence of reliable current financial information relating to the assets and liabilities of Chaoyang Hua Loong, we are unable to satisfy ourselves as to whether the interest in Chaoyang Hua Loong at 31 December 2005 is free from material misstatement and also whether the full allowance against the amount due from Chaoyang Hua Loong is appropriate. Any adjustment found to be necessary to the value of the available-for-sale investment and the amount due from Chaoyang Hua Loong would affect the profit of the Group for the year ended 31 December 2005 and its net assets as at that date.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from limitations of audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters referred to in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

BUSINESS REVIEW

Turnover of the Group for the year ended 31 December 2005 was approximately HK$68,393,000 (2004: HK$22,305,000), which was up 207% from that of last year.

Profit of HK$6,501,000 was recorded for the current year, as compared to a loss of HK$36,299,000 in 2004.

Trading in base metals

Turnover for this sector for the year was approximately HK$44,937,000 (2004: HK$13,522,000). A growth of 232% was recorded as compared with last year. Following the resumption of the base metals trading business in last year, the Group has scaled up its operation in this sector in the year 2005. The base metals trading business segment contributed HK$110,000 (2004: HK$121,000) to the Group's operating profits which represented a drop of 9%.

Trading in fabric products and other merchandises

The Group's turnover for fabric products and other merchandises trading business segment reached HK$23,456,000 during the year (2004: HK$8,783,000), an increase of 167% over that of 2004. Segment profit attributable to the Group during the year amounted to HK$966,000 (2004: HK$393,000), an increase of 146% as compared with 2004. The Group's management has been taking active actions to expand the operations under the constraints of available working capital.

Employees and Remuneration policy

As at 31 December 2005, the Group had 3 (2004: 5) managerial, trading and administrative staffs in Hong Kong. The Group remunerates its employees largely based on the prevailing industry practice.

BUSINESS OUTLOOK

With a view to expanding the Group's business operations and enhancing its financial performance, the Group and its controlling shareholder, Profit Harbour Investments Limited ("Profit Harbour"), entered into a deed of assignment on 12 April 2006. Pursuant to which Profit Harbour has conditionally agreed to acquire from the Group its receivable due from Great Center Limited of US$4.5 million (approximately HK$35.1 million) in full at its face value. The assignment of debt is conditional upon the approval by the independent shareholders at the forthcoming special general meeting.

The Company proposes to raise approximately HK$82.6 million before expenses by way of a rights issue.

During the year ended 31 December 2005, the Company entered into a heads of terms with the shareholders of an acquisition target in the PRC, which is engaged in the trading of electronic component business, to acquire their interests in the entire issued share capital of the target at a consideration which will be settled by issuance of convertible bonds by the Company. The Board considers that the proposed acquisition will keep the Company abreast of the lucrative growth opportunities that the PRC market presents, thereby strengthening the Company's ability to meet the rising demand from its customers.

PROPOSED AMENDMENTS TO THE COMPANY'S BYE-LAWS

In order to ensure compliance with (i) the Code on Corporate Governance Practices (the "CG Code") as contained in Appendix 14 to the Listing Rules; and (ii) certain amendments to the Listing Rules that came into effect on 1 March 2006, and to align the Company's Bye-laws with the CG Code and the amended Listing Rules, it is proposed that certain amendments be made to the Company's Bye-laws. A special resolution to give effect to the proposed amendments to the Company's Bye-laws will be proposed at the forthcoming annual general meeting of the Company. Particulars of the proposed amendments will be set out in a circular to be despatched to the shareholders of the Company and in the notice of the aforementioned annual general meeting to be published in April 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the corporate governance practices of the Company and has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31 December 2005 except for certain deviations in respect of the service term and rotation of directors.

The non-executive directors of the Company had no fixed term of office prior to 1 June 2005, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to the Bye-laws, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation, provided that the Chairman of the Board and/or the Managing Director of the Company should not be subject to retirement by rotation. Further, any director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at that meeting.

To fully comply with code provision A.4.1 of the CG Code, all non-executive directors of the Company were appointed for a specific term on 1 June 2005 which shall continue until 31 December 2006, but subject to retirement by rotation and re-election by the shareholders of the Company. In addition, to ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Bye-laws of the Company will be proposed for approval by the shareholders of the Company at the forthcoming annual general meeting of the Company so that (i) any director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment; and (ii) every director shall be subject to retirement by rotation at least every three years.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all three independent non-executive directors of the Company. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2005.

PURCHASE, SALE AND REDEMPTION OF SHARES

For the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUSPENSION OF TRADING

Trading in the shares of the Company has been suspended since 9:30 a.m. on 2 June 2003 and remains suspended.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE WEBSITE

The Company's annual report 2005 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange.

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.

By Order of the Board
Yue Jialin
Chairman

Hong Kong, 24 April 2006

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Yue Jialin (Chairman) and Mr. Lau Yau Cheung (Chief Executive Officer) and three independent non-executive directors namely Mr. Wong Wing Kuen, Albert, Mr. Tsui Robert Che Kwong and Mr. Wu Guo Jian.

* *For identification purpose only*

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