

Report of the Directors

The directors have pleasure in submitting the annual report together with the audited financial statements of Shanghai Real Estate Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st December 2004.

Principal Activities

The Group is a reputable integrated property developer in Shanghai. The Group’s brandname “Oasis Garden” enjoys good reputation both at home and abroad.

Turnover and contribution to profit before taxation of the Group are derived mainly from sale and presale of properties in the People’s Republic of China.

Segmental Information

Details of the Group’s turnover and contribution by principal activity and geographical area for the year ended 31 December 2004 are set out in note 3 to the financial statements.

Major Customers and Suppliers

Approximately 4% (2003: 52%) of the Group’s turnover were attributable to the Group’s five largest customers. Sales of the largest customer accounted for 1% (2003: 30%) the Group’s turnover for the year.

Approximately 48% (2003:29%) of the Group’s purchases were attributable to the Group’s five largest suppliers. Purchases from the largest supplier accounted for 29% (2003:14%) of the Group’s purchases for the year.

Based on the knowledge of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company’s issued share capital had any interest at any time in the year in the Group’s five largest customers and suppliers.

Results and Appropriations

Details of the Group’s results for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 55. No interim dividend was recommended by the Board of Directors of the Company. The Board of Directors recommends a final dividend of HK\$0.033 per share for the year ended 31st December 2004 to those shareholders whose names appear on the Registers of Members on 20th May, 2005.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 24 to the financial statements.

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Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 23 to the financial statements.

Distributable Reserves

The total amount of reserves of the Company available for cash distribution was HK\$48,066,219 as of 31st December 2004 as computed in accordance with The Companies Act 1981 of Bermuda. In addition, the share premium account with a balance of HK\$595,858,105 as of 31st December 2004 may be distributed in the form of fully paid bonus shares.

Share Option Scheme

The Company adopted a share option scheme, under which it may grant options to subscribe for up to 10% of the issued share capital of the Company from time to time, to full-time employees of the Company and its subsidiaries (including executive Directors) to subscribe for shares in the Company.

Details of the movements of share options granted and exercised under the scheme during the year are set out in note 22 to the financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, Redemption and Sale of The Company's Listed Securities

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31st December 2004.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in Note 13 to the financial statements.

Related Party Transactions

Details of the Related Party Transactions of the Group for the year ended 31st December 2004 are set out in Note 30 to the financial statements.

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Directors

The directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Shi Jian

Mr. Li Yao Min

Mr. Yu Hai Sheng

Mr. Shi Jian Dong (resigned on 31st March, 2005)

Mr. Jiang Xu Dong

Mr. Qian Reng Hui (appointed on 31st March, 2005)

Non-executive Directors

Mr. Cheung Wing Yui

Mr. Wang Ru Li

Independent Non-executive Directors

Mr. Sang Rong Lin

Mr. Yeung Kwok Wing

The Lork Killearn

Mr. Geng Yu Xiu

Mr. E. Hock Yap

Directors' Emoluments

Details of directors' emoluments are set out in Note 12 to the financial statements.

Directors' Service Contracts

All the executive directors, except for Mr. Jiang Xu Dong and Mr. Qian Reng Hui, have entered into service contracts with the Company for terms of five years from 1st November 1999 and shall be renewable automatically for successive terms of one year.

None of the remaining directors has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation, other than statutory compensation.

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Directors' Interest in Shares

As of 31st December 2004, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO)(the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Company	Number of Director	Personal Interest	Family interest	Number of Shares held		Share capital of the Company as at 31st December 2004
				Corporate interest	Approximate Percentage of Aggregate long position in Shares to the issued	
Shanghai Real Estate Limited	Shi Jian	2,000,000 ⁽¹⁾	2,000 ⁽²⁾	771,304,000 ⁽³⁾	57.08%	
	Li Yao Min	1,000,000 ⁽¹⁾			0.07%	
	Yu Hai Sheng	1,000,000 ⁽¹⁾			0.07%	
	Shi Jian Dong	2,000 ⁽¹⁾			0.0002%	
	The Lord Killearn	100,000			0.007%	
GoodTime Resources Limited	Shi Jian	246,817,280	231,391,200		62% ⁽⁴⁾	

Notes:

- (1) These Shares are held by the Directors through the exercise of options on 3 December 2001 (which were granted on 24th December 1999).
- (2) These shares are held by Ms Si Xiao Dong, the wife of Mr Shi Jian.
- (3) These 771,304,000 Shares are held by GoodTime Resources Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Ms. Si Xiao Dong, together beneficially own 62%, of its issued share capital.
- (4) The remaining 38% interest in GoodTime Resources Limited are held by other management staff of the company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min, Mr. Jiang Xu Dong, Mr. Shi Jian Dong and Mr. Qian Reng Hui.

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Save as mentioned above, as at 31 December 2004, none of the Directors or chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares

In 2004, all directors had not granted any options nor exercised any options.

Saved as disclosed above, at no time during the period was the Company or 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 debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests

As of 31st December 2004, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Number of shares	Percentage of aggregate long position in shares to the issued share capital of the Company as at 31st December 2004
Good Times Resources Ltd	771,304,000	56.93%
J.P. Morgan Chase & Co.	83,985,060	6.20%

Save as disclosed above, there was no person, other than a Director or chief executive of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under Section 336 of the SFO.

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Corporate governance

The Directors are of the opinion that the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on Hong Kong Exchange and Clearing Limited (the "SEHK") throughout the year, except that non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

During the year, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31st December 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

The Board has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules, and considers the independent non-executive directors to be independent.

Audit Committee

The Company established an audit committee on 12th November 2001 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duty of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has four members comprising one non-executive Director and three independent non-executive Directors. Two meetings were held during the year.

Pension Scheme

Details of the Group's pension schemes are set out in Note 2 (I) to the financial statements.

Auditors

The financial statements have been audited by Pricewaterhousecoopers. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

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Disclosure Pursuant to Rule 13.22 of the Listing Rules

At balance sheet date, the Group had given advance and guarantee to its associated company as set out in Note 30 to the financial statements. The summarised consolidated assets and liabilities of and the Group's attributable interest in this associated company as of 31st December, 2004 are set out as follows:

	Associated company's summarised assets and liabilities	The Group's Attributable interest
	HK\$	HK\$
Non-current assets	1,014,377,368	459,107,197
Current assets	2,231,379,753	1,009,922,476
Current liabilities	(2,411,817,200)	(1,091,588,465)
Net Current assets	180,437,447	81,665,989
Total assets less current liabilities	833,939,921	377,441,208
Non-current liabilities	(210,095,835)	(95,089,375)
Net assets	623,844,086	282,351,833

On behalf of the board

Shi Jian

Chairman

Hong Kong,
20th April 2005