

REPORT OF THE DIRECTORS

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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 2005.

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 2005 are set out in note 5 to the financial statements.

Results and Appropriations

Details of the Group's results for the year ended 31st December 2005 are set out in the consolidated profit and loss account on page 72. No interim dividend was recommended by the Board of Directors of the Company. The Board of Directors recommends a final dividend of HK\$0.043 per share for the year ended 31st December 2005 to those shareholders whose names appear on the Registers of Members on 4th May, 2006.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 19 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 18 to the financial statements.

Distributable Reserves

The total amount of reserves of the Company available for cash distribution was approximately HK\$72 million as of 31st December 2005 as computed in accordance with The Companies Act 1981 of Bermuda. In addition, the share premium account with a balance of approximately HK\$708 million as of 31st December 2005 may be distributed in the form of fully paid bonus shares.

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 2005.

Fixed Assets and Investment Properties

Details of the movement in fixed assets and investment properties of the Group are set out in Notes 6 and 7 respectively to the financial statements.

Related Party Transactions

Details of the Related Party Transactions of the Group for the year ended 31st December 2005 are set out in Note 37 to the financial statements.

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. 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 Lord Killearn
Mr. Geng Yu Xiu
Mr. E. Hock Yap

The Company had received confirmation from each of the independent non-executive directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange and considered all independent non-executive directors to be independent.

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In accordance with Bye-laws 87(1) and 87(2) of the Bye-laws of the Company, Mr. Cheung Wing Yui, Mr. Sang Rong Lin, The Lord Killearn and Mr. Geng Yu Xiu will retire at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Directors' Emoluments

Details of directors' emoluments are set out in Note 28 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.

Directors' Interest in Shares

As of 31st December 2005, the Directors who had interests or short positions in shares and underlying shares of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers were as follows:

Name of Company	Number of Director	Personal Interest	Number of Shares held		Corporate Interest	Approximate Percentage of Aggregate Long position in Shares to the issued share capital of the Company as at 31st Dec., 2005
			Family Interest			
Shanghai Real Estate Limited	Shi Jian	2,076,744 ⁽¹⁾		2,076 ⁽²⁾	800,900,548 ⁽³⁾	53.18%
	Li Yao Min	2,076 ⁽¹⁾				0.0001%
	Yu Hai Sheng	1,038,372 ⁽¹⁾				0.07%
	The Lord Killearn	103,837				0.007%
Good Time Resources Limited	Shi Jian	256,488,176		240,420,164		62% ⁽⁴⁾

Notes:

(1) These Shares were held by the Directors through the exercise of options on 3rd December 2001 (which were granted on 24th December 1999).

(2) These shares were held by Ms. Si Xiao Dong, the wife of Mr. Shi Jian.

- (3) These Shares were held by Good Times 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 Good Time Resources Limited were 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 and Mr. Qian Reng Hui.

Save as mentioned above, as at 31st December 2005, 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 2005, 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 2005, 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	Interest in shares of the Capacity (Long positions/ Short positions)	Percentage of aggregate long position in shares to the issued share capital of the Company as at 31st December 2005
Good Times Resources Ltd	801,400,548	54.67%
Morgan Stanley	114,796,218	7.83%

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.

Employees

As at 31st December 2005, the Group had 1,250 employees in Hong Kong and the PRC. The Group adopts its remuneration policies based on employees' performance and experience.

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23rd May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher price of (i) the nominal value of the shares of the Company (ii) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (iii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted becomes vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing on the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11th November 2009, whichever is the earlier.

A summary of the movements of share options granted under the scheme during the period is as follows:

	Number of options 2005
Beginning of period	51,000,000
Granted during the period (i)	1,500,000
Exercised during the period (ii)	(51,000,000)
End of period	1,500,000

- (i) Share options for 500,000 shares and 1,000,000 shares were granted on 4 February 2005 and 27 May 2005 (2004: 1,000,000 shares) at the exercise price of HK\$0.94 and HK\$0.83 respectively per share (21 May 2004: HK\$0.53 per share).
- (ii) Share options exercised in 2005 resulted in the issuance of 50,000,000 shares and 1,000,000 shares (2004: 170,000 shares) at HK\$0.43 and HK\$0.53 per share respectively (2004: HK\$0.45 per share).

Directors' Compliance with the Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made of all Directors, who have confirmed that they complied with required standard set out in the Model Code

Corporate Governance

In April 2005 the Company adopted its own code on corporate governance practices which incorporates all the code provisions and a majority of the recommended best practices in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14.

Public Float

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Audit Committee

The Company established an audit committee on 12th November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has seven members comprising the two non-executive Directors and the five independent non-executive Directors. The audited annual financial report for the year ended 31st December 2005 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in Note 2.18 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.

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 37 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, 2005 are set out as follows:

	Associated company's summarised assets and liabilities HK\$	The Group's Attributable interest HK\$
Assets		
Non-current assets	3,281,340	1,485,134
Current assets	1,754,215,366	793,957,875
	1,757,496,706	795,443,009
Equity and liabilities		
Capital and reserves	43,701,188	19,779,158
Minority interests	172,274	77,971
Non-current liabilities	951,552,437	430,672,633
Current liabilities	762,070,807	344,913,247
	1,757,496,706	795,443,009

On behalf of the board

Shi Jian

Chairman

Hong Kong, 23rd March 2006