

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 31 December 2006.

Principal Activities

The Group is a reputable integrated property developer in Shanghai. The Group’s brand name “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 of properties in the People’s Republic of China.

Segmental Information

Details of the Group’s turnover and contribution by principal activity for the year ended 31 December 2006 are set out in note 5 to the financial statements.

Results and Appropriations

Details of the Group’s results for the year ended 31 December 2006 are set out in the consolidated profit and loss account on page 71. No interim dividend was recommended by the Board of Directors of the Company. The Board of Directors recommends a final dividend of HK\$0.02 per share for the year ended 31 December 2006.

Bank Loans, Overdrafts and Other Borrowings

Details of bank loans, overdrafts and other borrowings of the Group are set out in note 21 and note 22 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

Distributable Reserves

As computed in accordance with The Companies Act 1981 of Bermuda, the total amount of reserves of the Company available for cash distribution was approximately HK\$45 million (2005: approximately HK\$72 million) as of 31 December 2006. The share premium account with a balance of approximately HK\$1,657 million (2005: approximately HK\$708 million) 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 31 December 2006.

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 31 December 2006 are set out in note 43 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

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.

In accordance with Bye-laws 87(1) and 87(2) of the Bye-laws of the Company, Mr. Li Yao Min, Mr. Yu Hai Sheng, and Mr. Yeung Kwok Wing 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 33 to the financial statements.

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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' and Chief Executives' Interests in Equity or Debt Securities

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in Shares

Name of Director	Personal Interests	Family Interests	Corporate Interests	Total	Approximate Percentage of Shareholding
Shi Jian	2,076,798	2,131 (Note 1)	671,400,548 (Note 2)	673,479,477	31.40%
Li Yao Min	2,131			2,131	0.0001%
Yu Hai Sheng	1,065,898			1,065,898	0.05%
The Lord Killlearn	103,837			103,837	0.005%

Notes:

1. These shares were held by Ms. Si Xiao Dong, the wife of Mr. Shi Jian.
2. 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. Mr. Shi Jian and Mr. Li Yao Min, being executive Directors, are directors of Good Time Resources Limited. 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 31 December 2006, 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 2006, all directors had not been granted any options nor exercised any options.

Saved as disclosed above, at no time during the year 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 at 31 December 2006, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had an interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	No. of shares held	Approximate Percentage of Shareholding
Good Time Resources Limited (Note 1)	Beneficial owner	671,400,548	31.30%
Newton Investment Management Limited	Beneficial owner	214,182,000	11.38%
Cheah Cheng Hye	Interest in controlled corporation	117,286,000	6.15%
Value Partners Limited	Beneficial owner	117,286,000	6.15%
Henderson Global Investors Limited	Beneficial owner	124,034,000	5.74%

Note 1: Mr. Shi Jian and Mr. Li Yao Min, both being executive Directors, are directors of Good Time Resources Limited.

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.

Share Option Scheme

A share option scheme was approved in a special general meeting held on 23 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 become 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 11 November 2009, whichever is the earlier.

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

	Number of options 2006
Beginning of year	1,500,000
Granted during the year (i)	—
Exercise during the year (ii)	(1,500,000)
End of year	—

- (i) No share options were granted during the year under review.
- (ii) Share options exercised in 2006 resulted in the issuance of 500,000 shares and 1,000,000 shares at HK\$0.94 and HK\$0.83 per share respectively.

Major Customers and Suppliers

During the year, 40% of the Group's purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 14% of the Group's purchases. The Group's turnover attributable to the Group's five largest customers was less than 30%.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers disclosed above.

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

Public Float

According to the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirement under the Listing Rules.

Audit Committee

The Company established an audit committee on 12 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 31 December 2006 has been reviewed by the Audit Committee.

Pension Scheme

Details of the Group's pension schemes are set out in note 2.19 to the financial statements.

Auditors

The financial statements have been audited by PricewaterhouseCoopers.

Disclosure Pursuant to Rule 13.22 of the Listing Rules

At balance sheet date, the Group had given advance and guarantee to its associated companies as set out in note 43 to the financial statements. The summarised consolidated assets and liabilities of and the Group's attributable interest in these associated companies as of 31 December, 2006 are set out as follows:

Golden Luodian	Associated company's summarized assets and liabilities HK\$'000	The Group's Attributable interest HK\$'000
Assets		
Non-current assets	2,394,864	852,332
Current assets	2,230,393	793,797
	4,625,257	1,646,129
Equity and liabilities		
Capital and reserves	1,081,119	384,770
Minority interests	—	—
Non-current liabilities	2,743,293	976,338
Current liabilities	800,845	285,021
	4,625,257	1,646,129

Shuo Cheng	Associated company's summarized assets and liabilities HK\$'000	The Group's Attributable interest HK\$'000
Assets		
Non-current assets	64,712	28,816
Current assets	3,033,515	1,571,666
	3,098,227	1,600,482
Equity and liabilities		
Capital and reserves	424,990	410,090
Minority interests	112	50
Non-current liabilities	547,593	243,843
Current liabilities	2,125,532	946,499
	3,098,227	1,600,482

On behalf of the board

Shi Jian

Chairman

Hong Kong, 30 March 2007