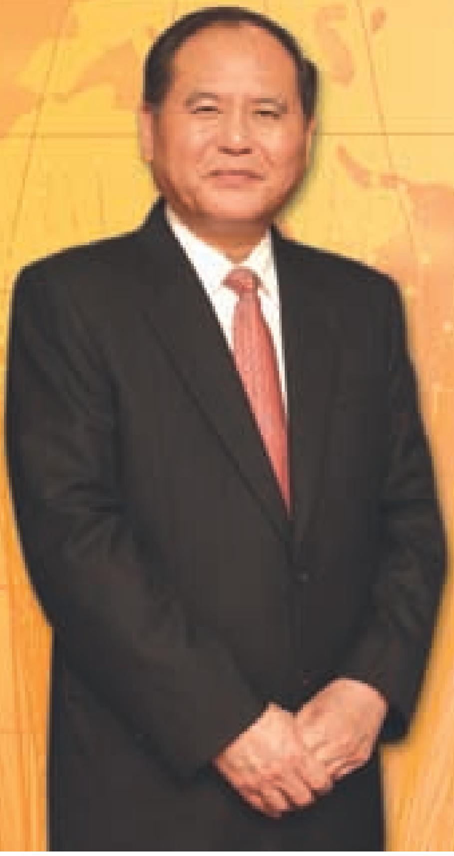


It is my pleasure to report to the shareholders that the audited consolidated profit after taxation and minority interests of the Group for the year ended 31 December 2004 increased by 56% to HK$1,075,000,000. Earning per share was HK$0.171. The total shareholders' funds increased by 29% to HK$10.43 billion, net asset per share was HK$1.64, an increase of 10.1% from 2003, and return on equity achieved 10.3%. The Board recommends the payment of a final dividend of HK$0.04 per share.

Sun Wen Jie
Chairman

REVIEW OF OPERATIONS

The economy of a number of regions and countries in the world strongly recovered in 2004. Growth of global economy was at its new height in the current cycle. With the macro-economic control measures in the PRC strengthened and improved, there was continuously new impetus to its economic development, with a growth rate of 9.5%, much better than expectations in the market. The role played by and contribution from China in the global economy became more outstanding and important. The PRC itself is an important element to Asian as well as global economy. Benefited from the global economic development, Closer Economic Partnership Agreement (CEPA) duly becoming effective, official introduction of Renminbi business by banks in Hong Kong, deregulation on visa application for PRC citizens on travelling to Hong Kong and Macau for tourist purpose, further cooperation between Guangdong and Hong Kong, cooperation within Pan Pearl River Delta commenced in full swing as well as various measures adopted by the SAR government to tackle rapid changes in the environment first witnessed their effect. The economy of Hong Kong evidenced strong and comprehensive recovery. In 2004, Hong Kong recorded a 7.5% growth for its economy, which was the best in the past seven years.

The Group recorded satisfactory results from its businesses during 2004, which was an important and essential testimony on the Board for its adaptation to the change in market and successes in consolidating strategic management. The composition of the Group's business became more balanced and reasonable, and laid a good foundation for its rapid and sustainable development in future.

REVIEW OF OPERATIONS *(cont'd)*

I. Property development

As the "Leading Brand in the Real Estate Industry in the PRC" and the real estate developer with highest brand value in the PRC, the Group has adequate land resources and effective sales and marketing channels. By consistently adopting a stable and flexible financial management strategy, its competitive edge was fully capitalized in an environment of market competition that is becoming standardized and fair. Enormous room was created for the Group in terms of scale of operation and brand.

1. Results from property sales

During 2004, without taking into account its attributable interests in syndicated projects, the gross property sales of the Group was about HK$5.4 billion, representing an increase of 26% from 2003. Gross floor area ("**GFA**") of properties sold was 863,000 sq.m., representing an increase of 26% from the previous year. The sales contracted in Hong Kong increased significantly to HK$190 million, which mainly came from the sales of Ellery Terrace.

The Group's turnover in respect of property sales in the PRC was about HK$5.19 billion, representing an enormous increase of 62% from 2003. The corresponding GFA was 860,000 sq.m., an increase of 62%.

2. Properties completed for occupation during the year

PRC:

There are 11 projects completed for occupation during the year, including Phase II and Phase III of Sunny Palm in Shenzhen, Phase III of Elegant Town, Phase IIA of Cannes Garden in Guangzhou, Phase II and Phase III of Hai Yue Garden in Shanghai, Zhonghai Kaixuan in Beijing, Phase I and Phase II of Villa Marbella in Changchun and Phase II and Phase III of Grandeur Vista in Chengdu. Total GFA for these projects amounted to 777,000 sq.m., 90% of which has been sold by the end of 2004, with an area of 697,000 sq.m, raising HK$4.46 billion.

Sales of properties held for sale was satisfactory. 103,000 sq.m. were sold at an amount of about HK$960 million. As at the end of 2004, the total area of properties held by the Group for sale was 248,000 sq.m., of which about 111,000 sq.m. were residential units, with 36,000 sq.m. completed for occupation but not sold before the end of 2004.

Hong Kong:

Sales of the Stanley Regalia Bay project, in which the Group has 30% interest, were very encouraging during the year. There were 139 units in Phase I that were completed for occupation in 2003, and 97 units were sold, with an area of 417,000 sq.ft. The amount contracted was HK$4.44 billion.

REVIEW OF OPERATIONS *(cont'd)*

I. Property development *(cont'd)*

3. *Properties due to be completed for occupation in 2005*

It is contemplated that 15 projects will be completed for occupation in 2005, which will include Phase I of Zhonghai Primrose Villa in Shenzhen, Sunchina Aloha, Phase II of Peace Garden and Phase I of Jade Laguna in Shanghai, Phase III of Cannes Garden, Saphire Cove, Phase IV of Elegant Town, Phase I of Zhonghai Golf Garden and Zhonghai Faery Villa in Beijing, Greenwich Village in Chengdu, Phase III of Geyayuan in Changchun, Phase I and Phase II of Fairyland in Zhongshan, Phase I of Zhonghai Classic Palalis in Xian and A Zone of Seine Elysee in Nanjing, with saleable area of 1,530,000 sq.m. in total, of which pre-sale for 8 projects had commenced. GFA of 375,000 sq.m. were sold at the end of 2004, with corresponding sales amount of HK$2.08 billion.

4. *Land reserve*

During 2004, the Group acquired 12 pieces of land in the major cities of the PRC for development in the near future, which added GFA of 5,550,000 sq.m. for development into units mainly for residential purpose. As at the end of 2004, without taking into accounts 12 projects completed for occupation last year, the GFA of properties owned by the Group to be developed in near future and under development amounted to 9,340,000 sq.m., which may be utilized for development in the next 4 to 5 years.

City	Name of Project	Percentage of interest attributable to the Group	Total GFA ('000 sq.m.)
Shenzhen	Xiangmihu	50%	156
Shenzhen	Shiyatou	100%	93
Shenzhen	Yuelang Yuan	100%	97
Guangzhou	GZ New City of Zhujiang	100%	195
Foshan	Qiandenghu Project	100%	743
Foshan	Huangqi Project	100%	1,301
Beijing	Xiao Hong Men	100%	530
Suzhou	Lot 1, Jinjihu Project	100%	283
Suzhou	Lot 7, Jinjidun Project	100%	67
Nanjing	Seine Elysee	100%	202
Changchun	Phase III of Villa Marbella	100%	483
Chengdu	Guojishequ Project	80%	1,398
		Total	5,548

The Group has implemented its fundamental land reserve acquisition strategy for combining short, medium and long term development purpose. At present, we have entered into agreements or letters of intent for the long term development of various piece of land. Certain projects have commenced their land requisition stage. In the event that these projects were finalized, several million sq.m of land will then be available for development. Of which, the project in Changchun was finalized in February 2005, with 210,000 sq.m. of land use right being acquired from the government. 1,000,000 sq.m. of land have been made available for development under this project, which will be utilized in the next 5 years.

REVIEW OF OPERATIONS *(cont'd)*

II. Infrastructure Investments

The Board believed that, infrastructure investment has been one of the Group's businesses that can generate long term and stable income, and has been very important in diversifying the risk arising from real estate development. The Group entered into equity transfer agreement with Nanjing Transport Construction Company on 28 December 2004, and acquired 65% interests in Yangtze No. 2 Bridge Company with an investment of HK$890 million. The company is principally engaged in the operation and management of the bridge, with a term of operation until 25 March 2031. The acquisition will expand the Group's assets base and increase steady profit stream.

During the year, infrastructure investments contributed HK$29 million to operating profit, a decrease of 41.2% from 2003.

In 2004, the Group invested HK$220 million and acquired a port project at Laizhou Port, Shandong Peninsula, the PRC. The acquisition of port business consolidated the Group's logistics business portfolio, which will be beneficial to enhancing the brand equity of Zhonghai Logistics and capitalizing on the synergy effect, and will provide long term and steady contribution to the growth of earnings for the Group.

III. Construction and Contracting

During 2004, the Group was awarded 24 new projects with a total contract sum of HK$5.07 billion. Of which, the Group was awarded 12 new projects with total contract sum of HK$1.6 billion. 12 projects were management contracts for China State Construction Engineering Corporation and China State Construction Engineering (Hong Kong) Limited with total contract sum of HK$3.47 billion. The new projects included Cyberport Residential Development Phase RIII and RIVa, Disney Fantasyland, reconstruction of podium for Ho Tung Building, expansion of Asia Airfreight Terminal Ltd. at the airport, and superstructure 398 in Tsuen Wan.

At the end of 2004, the Group had 50 projects in progress with a total contract sum of HK$23.9 billion (HK$9.4 billion to be completed). Among which, 20 projects with a total contract sum of HK$5.9 billion (HK$2.8 billion to be completed) were operated by the Group, which mainly included superstructure 398 in Tsuen Wan and superstructure at Hang Hau, Junk Bay. 30 projects with total contract sum of HK$18 billion (HK$6.6 billion to be completed) were management contracts, which mainly included projects at Disneyland.

Faced with the intense competition in the construction market in Hong Kong, the Construction and Contracting business contributed an operating profit of HK$166 million, an increase of 2.6% from 2003.

IV. Property Rentals and Management

Occupancy rate for the Group's properties in Hong Kong including The China Overseas Building and the shopping arcade of Horae Place remained high, whereas occupancy rate for Shanghai Plaza in Shanghai and Dongshan Square in Guangzhou were satisfactory. The Group's rental income for the year decreased 28.6% to HK$94.5 million, which was attributable to the slight fall in rental rate for leasehold properties in Hong Kong, and the disposal of certain property in 2004.

PROSPECTS

In 2005, global economy is expected to growth in its prevailing business cycle, with opportunities and challenges subsisting. Amidst certain uncertainties, such as oil prices staying high, budget and foreign trade deficit still prevailing for US, uncertainties for geopolitics in the Middle East, and uneven economic development in the PRC, regional development will be imbalanced. However, we believe that, the overall environment for economic development in the PRC will remain sound. The national economy will grow in a steady and rapid manner. As such, income per capita in the PRC will continue to increase. Complemented by an effective real estate policy, sustainable development will be evidenced for the real estate industry. This will in turn create more room of development for competent developers. The economic recovery in Hong Kong will be converted into the driving force for its growth. Together with the benefits continuously derived from cooperation and exchange with the PRC economy, the economy will further improve. It is expected that Hong Kong will achieve a growth rate of over 4% for its economy. Following the deregulation of the gambling industry in Macau, its economy continued to improve, and the momentum for the growth of the economy as a whole increased.

Looking forward into 2005, the Board is cautiously optimistic towards the future development of the Group and its business operations in the PRC, Hong Kong and Macau. The Group will review its operation on a quarterly basis, in accordance with its strategies and management requirements, thus achieving breakthrough in terms of efficiency and scale. A series of measures will also be adopted for changes in the market.

I. Business Operation

1. The Group will continue to leverage on pooled capital resources, management resources and technology resources, and expand in the real estate market in the PRC, with risk exposure contained to the minimum:

    1) The Group will consolidate its position in major cities, such as Shenzhen, Guangzhou, Beijing, Shanghai and Chengdu, enhance the market share, and expand its business and promote its brand in second tier cities with potential positively and appropriately. On the basis of cities now developed, it is expected the Group will tap into the real estate market for two to three cities, so as to establish itself as a national real estate developer.

    2) The Group will continue to adopt its land reserve acquisition strategy for combining short, medium and long term development purpose. Land reserve will be acquired through tender, auction, listing and agreement. It is expected that land reserve of 1,000,000 to 1,500,000 sq.m. will be acquired per annum.

    3) The Group will strengthen its sales and marketing efforts. More studies will be conducted to gain sufficient understanding as to the market and customer requirement. Emphasis will be placed on various segments under real estate development, such as market positioning, project design, management of construction works, sales and marketing planning, and properties management, with an aim to develop in the pipeline projects of high qualities in different cities targeting at different level of spending requirements.

2. Depending on the trend for the properties market in Hong Kong and Macau, the Group will accelerate the development of its properties projects on hand. Where appropriate, it will selectively participate in property investment projects of major consortiums in Hong Kong.

PROSPECTS *(cont'd)*

I. Business Operation *(cont'd)*

3. In considering the need to achieve an equilibrium between income and risk, the Group will seek to further invest in infrastructure projects of significance, scale and abundant cash flow pursuant to its strategic planning requirements. This will in turn create synergy effect and bring attractive return to our shareholders.

   The Group had entered into a letter of intent to acquire certain gold mine projects at the end of 2004. Depending on the progress, the acquisition will be completed in 2005.

4. In the course of active business development, the Group will further consolidate its internal resources, optimize management and business process, so as to leverage on the synergistic effect across different businesses, thereby reducing costs and enhancing efficiency.

5. The Group will use its best endeavors to improve its corporate governance standards. By complying with the information disclosure systems and requirements, information disclosure will be further standardized. A high standard of transparency is thus maintained. In order to strengthen the internal control systems, the Group will fully capitalize on the application systems such as ERP to enhance the level of management and control. Vertical or horizontal integration of operation will be promoted. Internal motivation and restrain mechanisms will be further improved.

6. The Group will leverage on its competitive edges over human resources, local and international experiences, creativity and impetus, and adequately capitalize on opportunities arising in the market, promote brand awareness and enhance its reputation.

II. Corporate Finance

1. The Group will actively conduct studies on its financial strategies. With the overall objective for achieving sustainable, rapid and steady development, investment return and risk management for every investment will be monitored with care. Projects under construction will be developed and sold as planned with the budget management requirements. Concern will be placed towards cash receipts of all businesses, so as to accelerate capital turnover.

2. The Group will continue to strengthen audit and financial review activities. Efforts will be devoted to standardize, and establish procedures and systems on management. This will in turn create an efficient, flat, effective organization structure and standardized decision procedures and management entities that adapts to market competition.

3. In order to accommodate its medium to long term business development requirement, the Group will actively conduct studies as to the change in credit policies within the PRC. We will access the capital markets in the PRC and Hong Kong, so as to expand new funding channels, adjust capital and debt structure, and pursue medium and long term development opportunities whilst maintaining a stable and sufficient source of capital resources for development purpose.

PROPERTIES PROJECTS

Occupied in 2004

Under Progress in 2004

Villa Marbella, Changchun

Zhonghai Primrose Villa, Shenzhen

Grandeur Vista Phase II & III, Chengdu

Fairyland, Zhongshan

Greenwich Village, Chengdu

Jade Laguna, Shanghai

CONSTRUCTION PROJECTS

Completed in 2004

Under Progress in 2004

Central Reclamation Works Phase III

Regalia Bay, Stanley

Asia Airfreight Terminal Phase II

Parc Palais, King's Park

La Costa, Ma On Shan

INFRASTRUCTURE AND INDUSTRIAL INVESTMENT PROJECTS

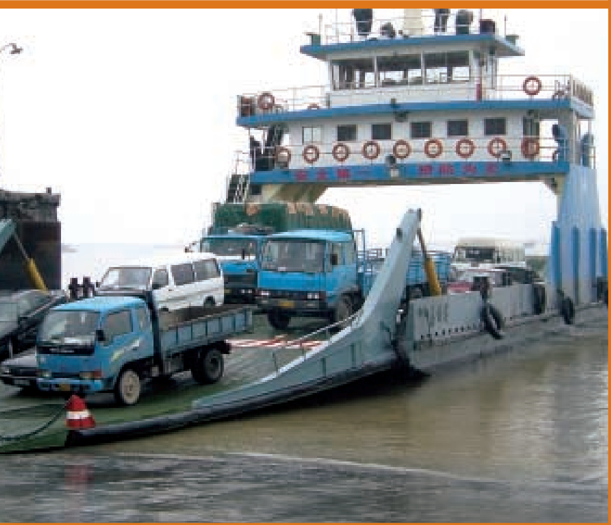
In Operation in 2004

Nanjing Changjiang Second Bridge

Laizhou Port

Qiwei Qidu Transportation

Shengyang Huang Gu Thermo Power Project



PROSPECTS *(cont'd)*

II. Corporate Finance *(cont'd)*

The Board would like to remind the shareholders of the Company that the asset restructuring for China Overseas Property Group Co., Ltd. ("**COP**"), which is held 79% by the Group, was completed and approved by its shareholders on 30 January 2004. The asset restructuring was conducted to fulfill the listing requirements as well as inspection and take over of assets upon the completion of pre-listing supervision period. The pre-listing supervision period for the listing of A Shares in the PRC had expired at the end of August 2004. Application was submitted to China Securities Regulatory Commission and was pending for approval. No advice was received from the commission. Upon the spin-off of COP for separate listing in the PRC, the Company will issue an announcement or seek the approval from its shareholders where appropriate separately at an appropriate timing.

In the announcement made by the Company on 19 January 2004, the Board confirmed our consideration to combine all or part of the Group's construction related businesses with those of China Overseas Holdings Limited, the controlling shareholder of the Company. The combined businesses will be put under a new company ("**NEWCO**") and it is intended that NEWCO will apply for listing by way of introduction to The Stock Exchange of Hong Kong Limited following by distribution of shares in NEWCO to the shareholders of the Company. The Board believes that the restructuring, if materialized, will benefit its existing shareholders and clarify the lines of business for the Group. Such restructuring proposal is actively in progress. When the application for the listing of NEWCO is approved, the Group will make further announcement and seek shareholders' approval in compliance with the Listing Rules.

On behalf of the Board, I would like to take this opportunity to express our gratitude for the support of the shareholders and our business partners and the contribution of our staff.

Sun Wen Jie
Chairman

Hong Kong, 21 March 2005