



Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2004 of the Company and its subsidiaries ("the Group").

CHANGE OF NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 27 February 2004, the name of the Company was changed from Hong Tong Holdings Limited (泓通控股有限公司) to China Conservational Power Holdings Limited (中國環保電力控股有限公司). The Company obtained the Certificate of Incorporation on Change of Name from the Registry of Companies in the Cayman Islands on 27 February 2004 and obtained the Certificate of Registration of Change of Name of Oversea Company from the Registrar of Companies in Hong Kong on 26 March 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 49 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 26 of the annual report.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 36 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



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RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 38 to the financial statements.

SHARE OPTION SCHEME

Details of the share option schemes of the Company are set out in note 37 to the financial statements.

As at the date of this report, the total number of securities available for issue under the existing share option scheme is 3,500,000 shares, representing 1.09% of the issued share capital of the Company.

The fair value of the options granted in the current year totalled approximately HK\$13,578,589.33. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 84.87%;
2. no annual dividend; and
3. the following Hong Kong Exchange Fund Note rates for the option category indicated and based on the estimated expected life indicated:

Option type	Exchange Fund Note Rate	Expected Life
2004A	3.17%	5 years
2004B	3.54%	5 years
2004C	2.70%	5 years

No adjustment has been made in respect of options expected to be forfeited.

No charge is recognised in the income statement in respect of the value of options granted in the year.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.



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A summary of the movements during the year in the Company's share options is as follows:

Option type	Outstanding at 1 April 2003	Number of share options			Outstanding at 31 March 2004	
		Granted during the year	Lapsed during the year	Exercised during the year		
Directors:						
Mr. Hon Ming Kong	2003D	2,000,000	–	–	–	2,000,000
	2004B	–	2,000,000	–	–	2,000,000
Mr. Hon Yik Kwong	2004A	–	2,000,000	–	–	2,000,000
Mr. Lee Yu Leung	2002A	2,000,000	–	–	–	2,000,000
	2004B	–	2,000,000	–	–	2,000,000
Mr. Zhang Dachun	2003B	2,000,000	–	(2,000,000)	–	–
Sub-total		6,000,000	6,000,000	(2,000,000)	–	10,000,000
Employees:						
	2003A	500,000	–	–	–	500,000
	2003C	2,000,000	–	–	–	2,000,000
	2004A	–	400,000	(200,000)	–	200,000
	2004B	–	6,600,000	–	–	6,600,000
	2004C	–	5,380,000	–	–	5,380,000
Sub-total		2,500,000	12,380,000	(200,000)	–	14,680,000
Total		8,500,000	18,380,000	(2,200,000)	–	24,680,000



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Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Closing price immediately before/on the date of grant HK\$	Exercise price per share HK\$
2002A	1 February 2002	1 September 2002 – 31 August 2007	1.520	1.4944
2003A	2 April 2002	3 October 2002 – 2 October 2007	3.000	3.0550
2003B	8 April 2002	9 October 2002 – 8 October 2007	3.300	3.3000
2003C	3 May 2002	3 November 2002 – 2 November 2007	4.530	4.6200
2003D	14 May 2002	14 November 2002 – 13 November 2007	4.950	4.9600
2004A	28 July 2003	28 July 2003 – 27 July 2008	1.350	1.3500
2004B	27 August 2003	27 August 2003 – 26 August 2008	1.170	1.3060
2004C	16 January 2004	16 January 2004 – 15 January 2009	0.840	0.8520



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DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Hon Ming Kong (*Chairman & Managing Director*)

Mr. Hon Yik Kwong

Mr. Lee Yu Leung

Mr. Chen Jun Nong

(appointed on 17 March 2004)

Mr. Ting Pascal

(appointed on 17 March 2004)

Mr. Zhang Dachun

(resigned on 14 April 2003)

Non-executive Director:

Mr. Li Yong, Alfa

(appointed on 13 May 2004)

Independent Non-executive Directors:

Mr. Fork Siu Lun, Tommy

Mr. Tsoi Wai Kwong

(appointed on 22 September 2003)

Mr. Lam Kwok Cheong

(resigned on 14 October 2003)

In accordance with Article 116 of the Company's Articles of Association, one-third of the directors except for Mr. Hon Ming Kong are subject to retirement by rotation at the annual general meeting of the Company. Mr. Lee Yu Leung retires and, being eligible, offers himself for re-election at the forthcoming annual general meeting. In accordance with Article 99 of the Company's Articles of Association, Mr. Chen Jun Nong, Mr. Ting Pascal, Mr. Tsoi Wai Kwong and Mr. Li Yong, Alfa retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for one year, commencing on their respective appointment dates. These contracts will continue thereafter until terminated by either party with three months' prior notice in writing.

The non-executive director was appointed for a period of one year commencing on the appointment date or the date of renewal. The contract will continue thereafter until terminated by either party with three months' prior notice in writing.

Each of the independent non-executive directors was appointed for a period of one year commencing on their respective appointment dates or the dates of renewal of the new contracts.



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Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than those disclosed under "Share Option Scheme" above, the Company had no outstanding convertible securities, options, warrants or similar rights as at 31 March 2004 and there has been no other issue or exercise of any convertible securities, options, warrants or similar rights during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the Directors of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

(i) Long position in the shares of the Company

Name of Director	Notes	Number of ordinary shares beneficially held and nature of interest		Approximate percentage of total shareholding %
		Personal	Corporate	
Hon Ming Kong	(a)	–	54,900,000	17.0353
Tsoi Wai Kwong	(b)	174,000	–	0.0540
Chen Jun Nong	(c)	120,000	–	0.0372

Notes:

- (a) These shares are owned by Highworth Venture Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Hon Ming Kong.
- (b) Mr. Tsoi Wai Kwong was appointed as an Independent Non-Executive Director of the Company on 22 September 2003.
- (c) Mr. Chen Jun Nong was appointed as an Executive Director of the Company on 17 March 2004.



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(ii) Long position in the underlying shares of the Company

Name of Director	Date of grant of share options	Share options in the Company		Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares
		Exercise period of share options				
Hon Ming Kong	14.5.2002	14.11.2002 - 13.11.2007		4.9600	2,000,000	4,000,000
	27.8.2003	27.8.2003 - 26.8.2008		1.3060	2,000,000	
Hon Yik Kwong	28.7.2003	28.7.2003 - 27.7.2008		1.3500	2,000,000	2,000,000
Lee Yu Leung	1.2.2002	1.9.2002 - 31.8.2007		1.4944	2,000,000	4,000,000
	27.8.2003	27.8.2003 - 26.8.2008		1.3060	2,000,000	

Other than as disclosed above and certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors, or their associates, had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than options granted under the Company's share option scheme mentioned above, at no time during the year was the Company, or any of 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 debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors of the Company is interested in any business apart from the Group's business, which compete or is likely to compete either directly or indirectly, with business of the Group.



CONNECTED TRANSACTIONS

- (a) The Stock Exchange has granted a conditional waiver to the Company from strict compliance with the requirements of the Listing Rules on the following recurring connected transactions for each of the three financial years ended 31 March 2004. Pursuant to the waiver, the Company is not required to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' approval. Details of such connected transactions during the year are as follows:

The Group sold goods comprising mainly of electrical parts and diesel generator sets, amounting to approximately HK\$834,000, to Hing Yip Electrical Engineering and Supplier Limited ("HYEESL").

HYEESL is 99.9% owned by Mr. Lai Yun Sang and 0.01% owned by his wife. Mr. Lai Yun Sang is the brother of Mr. Lai Sai Sang, a substantial shareholder of the Company.

The independent non-executive directors have reviewed the Group's sales to HYEESL ("the Transactions") and confirmed that:

- (i) the Transactions have been conducted on normal commercial terms and in the ordinary and usual course of the business of the Group and are fair and reasonable so far as the shareholders of the Company are concerned;
 - (ii) the Transactions have been carried out on terms no less favourable than terms available from independent third parties;
 - (iii) during the year ended 31 March 2004, sales to HYEESL amounted to approximately HK\$834,000 which has not exceeded the annual sales to HYEESL in respect of the year concerned as permitted under the said waiver from the Stock Exchange;
 - (iv) the Transactions have been conducted in accordance with the terms and conditions of the relevant supply agreement governing them; and
 - (v) the disclosure provided herein in respect of the details of the Transactions is in compliance with Rule 14A.45(1) to (5) of the Listing Rules.
- (b) During the year ended 31 March 2004, the Group paid approximately HK\$587,000 operating lease rental of premises and HK\$161,000 building management fees to Major Glory Enterprises Limited ("Major Glory"). Mr. Lai Sai Sang is the shareholder and director of Major Glory.



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SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2004, the register of substantial shareholders' interests in shares and short positions maintained under section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

Long position in the shares of the Company:

Name of shareholders	Number of ordinary shares held	Approximate percentage of total shareholding %
Highworth Venture Limited (Note a)	54,900,000	17.0353
YSH Investments Limited (Note b)	58,916,000	18.2815
AWH Fund Ltd. (Note c)	27,366,000	8.4916

Notes:

- (a) Highworth Venture Limited is a company beneficially wholly owned by Mr. Hon Ming Kong, Chairman and Executive Director of the Company and therefore Mr. Hon Ming Kong is deemed to be interested in the 54,900,000 shares held by Highworth Venture Limited by virtue of SFO.
- (b) Mr. Lai Sai Sang, the former Chairman of the Company, has a 90.4% beneficial interest in YSH Investments Limited and therefore Mr. Lai Sai Sang is deemed to be interested in the 58,916,000 shares held by YSH Investments Limited by virtue of SFO.
- (c) Based on the information provided by the Stock Exchange official website on 26 July 2004.

Except as disclosed above, to the best of the knowledge and belief of the Company, no other person, together with his/her associates, was beneficially interested in shares of the Company representing 5% or more of the issued share capital of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for about 64% of the turnover of the Group and the largest customer accounted for about 20% of the total turnover.

The five largest suppliers of the Group in aggregate accounted for about 44% of its purchases for the year. Purchases from the largest supplier accounted for about 15% of its purchases.

None of the directors, their respective associates, or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in any of the five largest customers and the five largest suppliers of the Group for the financial year ended 31 March 2004.



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RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Ordinance in making mandatory contributions for its staff.

POST BALANCE SHEET EVENTS

Details of significant events which occurred after the balance sheet date are set out in note 48 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

On behalf of the Board

Hon Ming Kong
CHAIRMAN

26 July 2004