Management Discussion and Analysis

RESULTS

For the year ended 31 December 2004, the Group's turnover reached approximately HK$338,140,000 (2003: approximately HK$91,996,000), representing an increase of 267.56% as compared with last year. During the year, gross profit from operations was approximately HK$2,681,000, representing a jump of 122% over last year's HK$1,209,000. Loss after taxation was approximately HK$6,584,000 (2003: Loss after taxation: approximately HK$58,859,000). Loss per share were (1.1) HK cents (2003: Loss per share: (22.1) HK cents).

The increase in turnover was attributable firstly to the Group's successful establishment of a branch specializing in trading and distribution of computer hardware, which became fully operational during the year, and also from the gain of approximately HK$38,826,000 at the disposal of a non-profitable associated company.

BUSINESS REVIEW

During the year under review, the Group identified waste incineration and processing as a unique environmental protection business with vast market potential. To accelerate the expansion of its business in the PRC, the Group proactively collaborated with its partners and acquired companies with promising potential. This move has enabled the Group to minimize cash investments and maximize returns. The Group's investment policy is strategically focused on four types of service areas including popular destination cities for tourists, industrial cities, areas near dirty coal sources and major cities.

The incineration method adopted by the Group to tackle the waste issue in PRC is the most environmental friendly than landfill and compost methods used by other industry players. Incineration is to burn waste — gasifying it in the furnace, with the heat discharged for power and steam generation. However, costing less and relatively simple to operation landfill is at present more widely adopted in the PRC as a treatment of waste. The major disadvantages of the method are it takes up scarce land and causes pollution to the environment including groundwater. As for compost, its by-products and the use of non-organic fertilizers in the process will harm both the soil and groundwater.

The Group started expanding the business first by establishing a Joint Venture ("JV") company, Guilin China Sciences Conservational Power Co., Ltd. in Guilin in September 2004. The JV is constructing an incinerator that can handle 900 metric tons of waste per day for power generation. It is scheduled to commence operations in February 2006.

To capture the market opportunities in the industrial areas, the Group entered into an agreement in December to acquire 39% equity interest in a joint venture in Dongguan, the PRC (the "Dongguan JV Company"). The Dongguan JV Company is mainly engaged in waste incineration and processing for power generation business in the PRC and will commence operations in June 2005.

During the year under review, the Group introduced to its Board a number of new directors with strong industry background and experience. They included Mr. Liu Hongru, who was appointed as the Group's Honorary Chairman, Mr. Hon Ming Kong, who was appointed as the Chairman and an Executive Director and Ms. Wong King King, who was appointed as the Vice Chairman and an Executive Director. The Group now has a stronger shareholder base and a fortified management team to help it grows.

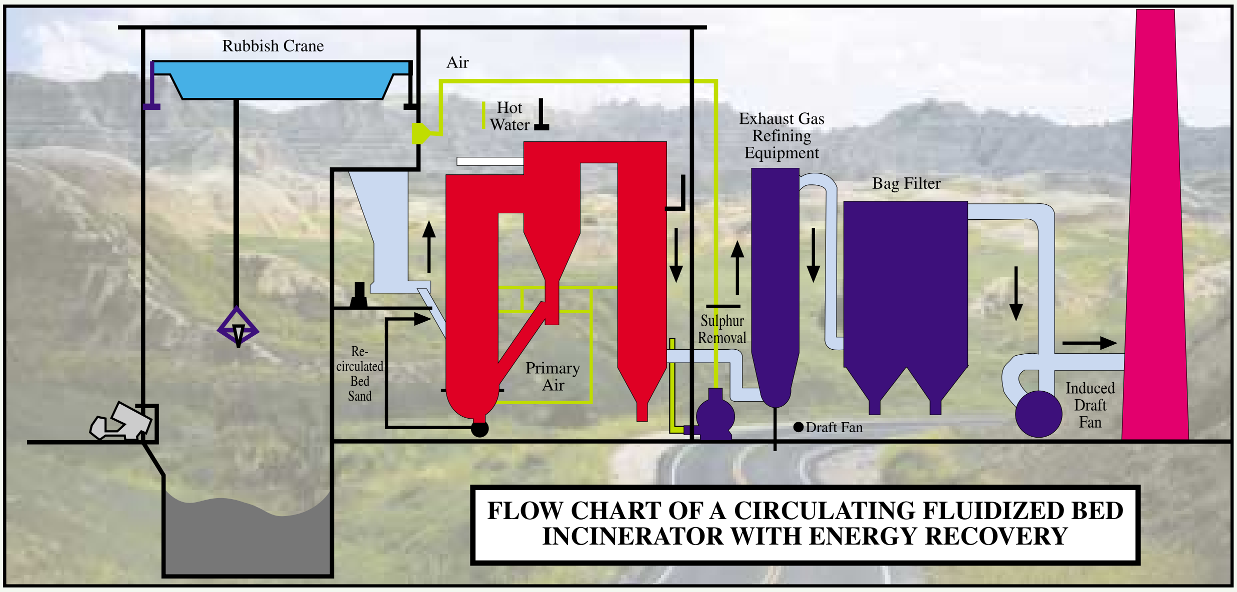
For the year ended 31 December 2004, business performance of Sharpo grew steadily. Sharpo offers retail management systems for retail chain store operators in the apparel, pharmaceutical, optical equipment and other general trading sectors in the PRC. Serving the Group as a stable and recurring income source, this traditional business will be maintained.

PROSPECTS

To reflect its new business direction, on 28 January 2005, the Group changed its name from "Central China Enterprises Limited" to "China Sciences Conservational Power Limited". The management believes the new company name is more pertinent to the Group's business focus. It also demonstrates the Group's commitment to becoming the market leader in the waste combustion electric power industry in the PRC.

China Sciences is committed to building the strongest management team. In January 2005, the Group appointed His Royal Highness Prince Idris Abdallah Al-Senussi ("Prince Idris") of Libya and Mr. Alan Grant Quasha ("Mr. Quasha") as non-executive directors. Prince Idris and Mr. Quasha's extensive experience in the energy sector and expertise in investment management and business consultation. Their international exposure and reputation are expected to help boost market recognition of the Group, cementing the foundation for its continuous growth.

In March 2005, the Group achieved a major milestone by proposing to acquire approximately 32.89% equity interest in Beijing China General Energy & Environment Co., Ltd. ("BCS General Energy & Environment"). BCS General Energy & Environment mainly engages in research and development of waste combustion electric power technology and owns 13 technology patents registered in the PRC. Capitalized on its mature and proven technology and the new acquisition, the Group is well positioned to increase its business values and efficiency as well as boost its R&D capability. The acquisition supported by the Chinese Academy of Sciences, is significant to the Group for it will facilitate China Sciences penetration of the waste incineration and processing industry in the PRC. Thus, the Group intends to increase its stake in BCS General Energy & Environment so as to speed up the expansion of the business segment.



FLOW CHART OF A CIRCULATING FLUIDIZED BED INCINERATOR WITH ENERGY RECOVERY

Based on "circulated fluidized bed" (CFB) boiler technology, BCS developed an incineration technology specifically used in solid municipal waste combustion. It also owns other associated patented technology such as outer superheater, air purification system, etc. Using BCS's technologies, solid municipal waste can be combusted effectively and economically, with the volume of solid waste reduced by 90% and discharge free of harmful chemicals including SOx and dioxine. Heat recovered from incineration will be used for steam and power generation, which will bring in considerable revenue for the Group.

Following the acquisition of equity interest in the Dongguan JV Company in March 2005, the Group took a further step in April 2005 to acquire 100% of Hong Tong Hai Investment Limited ("HTH"), whose principal asset is a 51% equity interest in the Dongguan JV Company. When the acquisition is completed, China Sciences will own 90% equity of the Dongguan JV Company. Phase II and phase III of the production plants are expected to operate in 2006. In full operation, the three plants can handle 3,000 tons of waste per day.

In April 2005, the Group proposed to acquire 100% interest of Sino Profit International Limited ("Sino Profit"), which involved in the setting up of the Meizhou Joint Venture ("Meizhou JV") for the waste incineration and processing business in Xingning, Meizhou, the PRC. Upon completion of the acquisition, the Meizhou JV will become an 80% owned indirect subsidiary of China Sciences.

The strategic acquisitions of the **five production plants** allow the Group to capture fast growing market with its greatest potential. The management believes as the first phase of Dongguan production plants will commence operation in 2005, followed by another four plants to commence operation in 2006 whereby significant revenues will be recorded. The Group will continue to seek other business opportunities in waste incineration industry with promising prospects with the aim of bringing fruitful returns to its shareholders and investors in the future.

Liquidity and financial resources

The Group is mainly financed by resources from its equity capital base, internal cash flow generated by operations, proceeds from disposal of non-core assets and issue of convertible notes.

As at 31 December 2004, the Group had net current assets of approximately HK$115,338,000 (2003: net current liabilities of approximately HK$13,510,000) and shareholders' funds of approximately HK$119,941,000 (2003: approximately HK$34,290,000). The increase in net current assets and shareholders' funds were mainly attributable to the fund raising exercise as set out below.

As at 31 December 2004, the Group had outstanding borrowings in respect of HK$20,000,000 8.5 per cent. extendable convertible notes due 2006. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, is 0.17 (2003: 0.48).

During the year, the Group enlarged its shareholder base and strengthened its financial position through a number of new shares placements and fund raising exercises, including:

- On 30 June 2003, the Company entered into a subscription agreement with Aimstar Holdings Limited ("Aimstar") and Mr. Chan Tat Chee, a director of the Company, as guarantor in relation to the subscription of an aggregate of 295,000,000 new shares of HK$0.01 each in the Company by Aimstar for a total consideration of HK$18,000,000 (the "Subscription"). The Subscription was completed on 10 February 2004. The net proceeds from the Subscription were applied to repay a substantial portion of the bank loan.

- The Group entered into a placing agreement on 12 May 2004 (as amended by a supplemental agreement dated 28 May 2004) for the placing of up to 112,000,000 new shares at a price of HK$0.14 per placing share to not less than six independent individuals or institutional investors. The placement raised approximately HK$15 million.

- The Group issued convertible notes to CITIC International Assets Management Limited ("CIAM") on 24 June 2004 pursuant to which China Sciences agreed to issue and CIAM agreed to subscribe for a total of HK$20,000,000 8.5% extendable convertible notes due 2006 (the "Notes"). 66,666,666 conversion shares will fall to be allotted and issued upon full conversion of the Notes. The net proceeds from the subscription amounted to approximately HK$19 million.

- The Group entered into a placing agreement on 27 August 2004 (as amended by a supplemental agreement dated 8 September 2004) for the placing of 134,660,000 new shares at a price of HK$0.45 per placing share. The net proceeds from the placing was approximately HK$58.7 million.

- On 23 November 2004, the Group entered into a subscription agreement to issue and allot a total of 50,000,000 new shares at HK$0.54 per subscribing share. The net proceeds was approximately HK$26,900,000.

Significant investments, acquisitions and disposals

On 1 January 2004, the Group entered into a conditional sale and purchase agreement (as amended by a supplemental agreement dated 2 January 2004) in relation to the disposal of the 49% equity interest in Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司 at a consideration of RMB58,800,000 (equivalent to approximately HK$55,500,000). The aforesaid disposal was completed on 31 May 2004 and resulted in a net gain of approximately HK$38,826,000.

Saved as disclosed under headings "Business review" and "Prospects" above, the Group did not have significant new investments or acquisitions during the year ended 31 December 2004.

Contingent liabilities and capital commitments

As at 31 December 2004, the Group had outstanding capital commitments in respect of acquisition of property, plant and equipment of approximately HK$90,941,000.

The Group did not have any significant contingent liabilities as at 31 December 2004.

Pledge of assets

The Group had no significant pledge of assets as at 31 December 2004.