

The directors submit herewith their annual report together with the audited financial statements of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2004.

## **CHANGE OF COMPANY'S NAME**

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 14 January 2005, the name of the Company was changed from Central China Enterprises Limited to China Sciences Conservational Power Limited and the Chinese name of the Company was changed from 中洲控股有限公司 to 中科環保電力有限公司.

## **CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES**

The Company is a public company incorporated in Hong Kong with limited liability.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 15 to the financial statements.

The analysis of the principal activities and geographical locations of operations of the Group during the financial year are set out in note 5 to the financial statements.

## **RESULTS**

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 30.

The directors do not recommend the payment of a dividend for the year ended 31 December 2004.

## **RESERVES**

Details of movements in the reserves of the Group and of the Company during the year are set out in note 27 to the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2004, the Company did not have any reserves available for distribution to shareholders as calculated in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance. In addition, the Company's share premium account, in the amount of approximately HK\$236,593,000, may be distributed in the form of fully paid bonus shares.

# Directors' Report

## **FINANCIAL SUMMARY**

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 81. This summary does not form part of the audited financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the financial statements.

## **SHARE CAPITAL**

Details of movements in the share capital of the Company are set out in note 25 to the financial statements.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **BANK BORROWINGS**

Particulars of the Group's bank borrowings are set out in note 23 to the financial statements. No interest was capitalised by the Group during the year.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

### Executive directors

Hon Ming Kong ( <i>Chairman</i> )	(appointed on 20 September 2004)
Wong King King ( <i>Vice-Chairman</i> )	(appointed on 27 October 2004)
Chan Tat Chee	
Chow Ho Tung, Anthony	(appointed on 10 February 2004)
Hon Yik Kwong	(appointed on 1 December 2004)
Kwong Cheung Tim, Jimmy	(resigned on 28 April 2005)
Tang Yuk Chee, Josephine	(appointed on 10 February 2004 and resigned on 1 December 2004)
Chung Chi Shing	(resigned on 10 February 2004)
Lin Hoi Kwong	(resigned on 10 February 2004)

### Non-executive directors

His Royal Highness Prince Idris Abdallah Al-Senussi	(appointed on 18 January 2005)
Alan Grant Quasha	(appointed on 18 January 2005)
Lo Wing Yat, Kelvin	(appointed on 9 March 2005)
John Douglas Kuhns	(appointed on 28 April 2005)

### Independent non-executive directors

Cham Yiu Keung	(appointed on 10 February 2004)
Chan Chi Yuen	(appointed on 30 September 2004)
Cheng Kin Chow, Tony	(appointed on 27 October 2004)
Lee Yu Leung	(resigned on 9 March 2005)
Lo Ka Lok, Steve	(resigned on 10 February 2004)

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company. In accordance with Article 92 of the Company's Articles of Association, Mr. Hon Ming Kong, Ms. Wong King King, Mr. Hon Yik Kwong, His Royal Highness Prince Idris Abdallah Al-Senussi, Mr. Alan Grant Quasha, Mr. Lo Wing Yat, Kelvin, Mr. John Douglas Kuhns, Mr. Chan Chi Yuen and Mr. Cheng Kin Chow, Tony shall hold office only until the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election. In accordance with Article 101A and 101B of the Company's Articles of Association, Mr. Chan Tat Chee, retires by rotation and, being eligible, offers himself for re-election.

None of the directors 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.

# Directors' Report

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to 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 the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company

Name of the Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of shareholding
Hon Ming Kong (Note 1)	Interest of a controlled corporation	—	—	295,000,000	—	295,000,000	36.29%
Chan Tat Chee (Note 1)	Interest of a controlled corporation and beneficial owner	1,800,000	—	295,000,000	—	296,800,000	36.51%
Kwong Cheung Tim, Jimmy	Beneficial owner	15,000,000	—	—	—	15,000,000	1.85%
Chow Ho Tung, Anthony	Beneficial owner	2,800,000	—	—	—	2,800,000	0.34%
Cheng Kin Chow, Tony	Beneficial owner	8,000,000	—	—	—	8,000,000	0.98%

#### Note:

1. By virtue of SFO, Mr. Hon and Mr. Chan deemed to be interested in 295,000,000 Shares held by Aimstar, a company which is owned as to 38% by Mr. Hon, as to 50% by Mr. Chan and as to 12% by Ms. Tang Yuk Chee, Josephine, spouse of Mr. Chan.

Save as disclosed above, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

The interests of the directors in the share options of the Company are separately disclosed under the section “Share options” below.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **SHARE OPTIONS**

### **1992 Share Option Scheme**

In accordance with the Company's share option scheme, which was adopted pursuant to a resolution passed on 24 July 1992 and was subsequently terminated on 27 May 2002 (the “1992 Share Option Scheme”), the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares of the Company in order to recognise the significant contributions of the eligible employees to the Group.

As at 31 December 2003, the number of shares in respect of which options have been granted under the 1992 Share Option Scheme was 41,500,000, representing 1.56% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the 1992 Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares in respect of which options may be granted under the 1992 Share Option Scheme in any one financial year shall not exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The total number of shares in respect of which options may be granted to any eligible employee is not permitted to exceed 25% of the total number of shares in respect of which options may be granted under the 1992 Share Option Scheme, without prior approval from the Company's shareholders.

No consideration was payable on the grant of the options. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the closing prices of the shares of the Company on the five business days immediately preceding the date of grant.

# Directors' Report

The following table discloses the movements in the Company's share options under the 1992 Share Option Scheme during the year:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>	Number of share options		
				As at 1.1.2004	Lapsed during the year	As at 31.12.2004
<b>Former directors</b>						
Yiu Chiu Fai	26.1.2000	26.1.2001 to 25.1.2010	0.3300	9,000,000	9,000,000	—
Lam Kong Yin, Patrick	26.1.2000	26.1.2001 to 25.1.2010	0.3300	9,000,000	9,000,000	—
<b>Former employees</b>						
In aggregate	26.1.2000	26.1.2001 to 25.1.2010	0.3300	1,500,000	1,500,000	—
	3.2.2000	3.2.2001 to 2.2.2010	0.3648	10,000,000	10,000,000	—
	19.6.2000	19.6.2001 to 18.6.2010	0.3152	3,000,000	3,000,000	—
	28.7.2000	28.7.2001 to 27.7.2010	0.2784	9,000,000	9,000,000	—
				<u>41,500,000</u>	<u>(41,500,000)</u>	<u>—</u>

The share options were lapsed due to the resignation of the two former directors and the seven employees of the Group during the year. No option under the 1992 Share Option Scheme was granted, cancelled or exercised during the year.

## 2002 Share Option Scheme

On 27 May 2002, a new share option scheme (the "2002 Share Option Scheme") was adopted and the 1992 Share Option Scheme was simultaneously terminated by the shareholders of the Company. Accordingly, no further share options can be granted under the 1992 Share Option Scheme.

The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

# Directors' Report

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

The following table discloses the movements in the Company's share options under 2002 Share Option Scheme during the year:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Number of share options			As at 31.12.2004	Market value per share	
				Granted during the year	Exercised during the year	Lapsed during the year		At date of grant of share options HK\$	At date of exercise of share options HK\$
<b>Directors</b>									
Hon Ming Kong	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	8,000,000	0.4650	—
Wong King King	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	8,000,000	0.4650	—
Chow Ho Tung, Anthony	23.02.2004	23.02.2004 to 22.02.2014	0.2744	5,600,000	(1,400,000)	—	2,800,000	0.2500	0.6900
	27.10.2004	27.10.2004 to 26.10.2014	0.4700	2,400,000	—	—	2,400,000	0.4650	—
Hon Yik Kwong	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	8,000,000	0.6700	—

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Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>	Number of share options			As at 31.12.2004	Market value per share	
				Granted during the year	Exercised during the year	Lapsed during the year		At date of grant of share options <i>HK\$</i>	At date of exercise of share options <i>HK\$</i>
<b>Employees</b>									
In aggregate	23.02.2004	23.02.2004 to 22.02.2014	0.2744	5,400,000	—	(3,000,000)	300,000	0.2500	—
					(1,800,000)	—	—	—	0.6900
					(300,000)	—	—	—	0.6500
	12.08.2004	12.08.2004 to 11.08.2014	0.3850	32,930,000	—	—	32,930,000	0.3800	—
				<u>70,330,000</u>	<u>(4,900,000)</u>	<u>(3,000,000)</u>	<u>62,430,000</u>		

No option under the 2002 Share Option Scheme was cancelled during the year.

The options granted under the Company's share option schemes are not recognised in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of such options on the ground that there are limitations in the application of the Black-Scholes Option Pricing Model and the Binomial Model in the valuation of such options, especially given that the key assumption underlying these derivative valuation metrics — that the options valued can be sold in a secondary market transaction — is not valid because holders of such options may not sell such options, they may only exercise them. Accordingly, the directors believe that any valuation of such options would not be meaningful and may be misleading to the shareholders of the Company.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under sections "Directors' interests and short positions in shares and underlying shares and debentures" and "Share options" 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, and none of the directors, chief executive, or any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.



## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 21 to the financial statements, no contract of significance in relation to the Group's business to which the Company or 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.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors, as at 31 December 2004, the persons other than a director or chief executive of the Company who has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital, were as follows:

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
CITIC International Assets Management Limited ( <i>Note 1</i> )	Beneficial owner	111,116,666 ( <i>Note 2</i> )	13.67%
CITIC Capital Investment Holdings Limited ( <i>Note 1</i> )	Beneficial owner	74,140,000	9.12%
CITIC Capital Markets Holdings Limited ( <i>Note 1</i> )	Interest of a controlled corporation	74,140,000	9.12%
Forever Glory Holdings Ltd. ( <i>Note 1</i> )	Interest of a controlled corporation	74,140,000	9.12%
Golden Gateway Enterprises Inc. ( <i>Note 1</i> )	Interest of a controlled corporation	74,140,000	9.12%
CITIC Pacific Limited ( <i>Note 1</i> )	Interest of a controlled corporation	74,140,000	9.12%
CITIC International Financial Holdings Limited ( <i>Note 1</i> )	Interest of a controlled corporation	185,256,666	22.79%

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Name	Capacity	Number of Shares held	Approximate percentage of shareholding
CITIC Group ( <i>Note 1</i> )	Interest of a controlled corporation	185,256,666	22.79%
Hon Ming Kong ( <i>Note 3</i> )	Interest of a controlled corporation	295,000,000	36.29%
Chan Tat Chee ( <i>Notes 3 &amp; 7</i> )	Interest of a controlled corporation and beneficial owner	296,800,000	36.51%
Tang Yuk Chee, Josephine ( <i>Notes 3 &amp; 4</i> )	Interest of spouse	296,800,000	36.51%
Aimstar Holdings Limited ( <i>Note 3</i> )	Beneficial owner	295,000,000	36.29%
Kingston Finance Limited ( <i>Note 5</i> )	Beneficial owner	295,000,000	36.29%
Chu Yuet Wah ( <i>Notes 5 &amp; 6</i> )	Interest of a controlled corporation	295,000,000	36.29%
Ma Siu Fong ( <i>Notes 5 &amp; 6</i> )	Interest of a controlled corporation	295,000,000	36.29%

*Notes:*

- CITIC Group is interested in 53% of the issued share capital of CITIC International Financial Holdings Limited. CITIC International Financial Holdings Limited is interested in 100% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd.. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SFO: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 111,116,666 Shares held by CITIC International Assets Management Limited and the 74,140,000 Shares held by CITIC Capital Investment Holdings Limited; (ii) CITIC International Assets Management Limited is interested in 44,450,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 74,140,000 Shares held by CITIC Capital Investment Holdings Limited.

2. Out of the 111,116,666 Shares held by CITIC International Assets Management Limited, 66,666,666 Shares represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the Convertible Notes subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.
3. Aimstar is owned as to 50% by Mr. Chan, an executive Director, as to 12% by Ms. Tang Yuk Chee, Josephine, spouse of Mr. Chan, and as to 38% of Mr. Hon, an executive Director.
4. As Ms. Tang Yuk Chee, Josephine is the spouse of Mr. Chan, she is deemed to be interested in the 296,800,000 Shares held by Aimstar.
5. The 295,000,000 Shares held by Aimstar in which Mr. Chan and Mr. Hon, both of whom are executive Directors are deemed to be interested in, are pledged to Kingston Finance Limited.
6. Kingston Finance Limited is held as to 51% by Chu Yuet Wah and as to 49% by Ma Siu Fong. Accordingly, each of Chu Yuet Wah and Ma Siu Fong are deemed to be interested in the Shares held by Kingston Finance Limited.
7. The 296,800,000 Shares, comprise (i) 295,000,000 Shares held by Aimstar and (ii) 1,800,000 Shares held by Mr. Chan. As Aimstar is owned as to 50% by Mr. Chan, he is deemed to be interested in such 295,000,000 Shares held by Aimstar.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

## **CONNECTED TRANSACTIONS**

Details of the connected transactions are set out in note 31 to the financial statements.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## **POST BALANCE SHEET EVENTS**

Details of significant post balance sheets of the Group are set out in note 33 to the financial statements.

## **MAJOR SUPPLIERS AND CUSTOMERS**

The Group's largest supplier contributed 9% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 42% of the Group's total purchases.

# Directors' Report

The Group's largest customer accounted for 14% of the Group's turnover (excluding guaranteed return) and 42% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

## **CORPORATE GOVERNANCE**

In the opinion of the directors, the Company complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

## **MODEL CODE OF SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the annual report.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

## **AUDITORS**

Messrs. HLB Hodgson Impey Cheng were first appointed as auditors of the Company in 2002 upon the resignation of Messrs. Deloitte Touche Tohmatsu with effect from 15 October 2002. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

Messrs. HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Hon Ming Kong**

*Chairman*

Hong Kong, 28 April 2005