



CREATIVE ENERGY SOLUTIONS HOLDINGS LIMITED

科瑞控股有限公司\*

*(incorporated in Bermuda with limited liability)*



Third Quarterly Report 2002

\* For identification purpose only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of Creative Energy Solutions Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **HIGHLIGHTS**

- For the nine months ended 31st March, 2002, the Group's turnover increased by approximately 3.2 times over the corresponding period last year to approximately RMB76.2 million.
- Profit attributable to shareholders increased substantially by approximately 2.7 times over the corresponding period last year to approximately RMB34.2 million for the nine months ended 31st March, 2002.
- Earnings per share reached approximately RMB10.5 cents surging approximately 2.4 times as compared to that of the corresponding period last year.
- Entering into an agreement with Public Heating Committee of Beijing Property Association to become the Committee's exclusive technology consultant in providing energy efficiency retrofitting services to 250 public heating stations managed by the Committee. This project will secure the turnover of Savin 2000 II not less than RMB100 million for the future periods.
- The directors do not declare any dividend for the nine months ended 31st March, 2002.

## **QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST MARCH, 2002**

The board of directors (the "Board") of Creative Energy Solutions Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 31st March, 2002, together with the comparative unaudited consolidated figures for the corresponding periods in 2001, as set out below:

	Notes	Three months ended 31st March,		Nine months ended 31st March,	
		2002 Unaudited RMB'000	2001 Unaudited RMB'000	2002 Unaudited RMB'000	2001 Unaudited RMB'000
Turnover	2	25,639	10,473	76,191	17,933
Cost of services		<u>(6,942)</u>	<u>(2,662)</u>	<u>(23,550)</u>	<u>(4,527)</u>
Gross profit		18,697	7,811	52,641	13,406
Other revenue		32	11	32	18
Selling & Distribution costs		(1,958)	(688)	(5,225)	(1,101)
General & Administrative expenses		<u>(4,166)</u>	<u>(976)</u>	<u>(12,009)</u>	<u>(2,963)</u>
PROFIT FROM OPERATING ACTIVITIES		12,605	6,158	35,439	9,360
Finance costs		<u>(47)</u>	<u>(50)</u>	<u>(111)</u>	<u>(151)</u>
PROFIT BEFORE TAXATION	3	12,558	6,108	35,328	9,209
Taxation	4	<u>(1,155)</u>	<u>(-)</u>	<u>(1,155)</u>	<u>(-)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>11,403</u>	<u>6,108</u>	<u>34,173</u>	<u>9,209</u>
Dividends		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Earnings per share	5				
Basic (in RMB)		<u>3.02 cents</u>	<u>2.04 cents</u>	<u>10.48 cents</u>	<u>3.07 cents</u>

Notes:

## 1. Group reorganisation and basis of presentation

The Company was incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda on 29th August, 2001.

The Group was formed pursuant to a group reorganisation on 3rd January, 2002 (the "Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the GEM in January 2002. Further details of the Reorganisation are set out in the Prospectus of the Company dated 24th January, 2002. The Shares have been listed on the GEM since 31st January, 2002.

The unaudited consolidated results of the Group have been prepared on a merger basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

The unaudited consolidated results of the Group have been prepared in accordance with Statement of Standard Accounting Practice as issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and also in compliance with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange.

## 2. Turnover

The Group's turnover represented revenue generated from the provision of system design and integration services, after deducting 5% PRC business tax and 0.119% government surcharges. However, the 0.119% government surcharges was no longer levied commencing from 1st January, 2002.

An analysis of turnover and revenue is as follows:

	Three months ended		Nine months ended	
	31st March, 2002	2001	31st March, 2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Fees for system design and integration services	25,639	10,473	76,191	17,933
Other revenue				
Bank interest income	32	11	32	18
	<u>25,671</u>	<u>10,484</u>	<u>76,223</u>	<u>17,951</u>

### 3. Profit before taxation

Profit before taxation is arrived at after charging the following items:

	Three months ended 31st March,		Nine months ended 31st March,	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Depreciation of fixed assets	<u>384</u>	<u>227</u>	<u>1,126</u>	<u>626</u>
Amortisation of intangible assets	<u>375</u>	<u>375</u>	<u>1,125</u>	<u>1,125</u>
Interest cost from bank borrowings	<u>47</u>	<u>50</u>	<u>111</u>	<u>151</u>

### 4. Taxation

	Three months ended 31st March,		Nine months ended 31st March,	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Hong Kong profits tax	-	-	-	-
PRC enterprise income tax	<u>1,155</u>	<u>-</u>	<u>1,155</u>	<u>-</u>
Taxation	<u>1,155</u>	<u>-</u>	<u>1,155</u>	<u>-</u>

#### (i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made in the accounts as the Group had no assessable profits arising in or derived from Hong Kong for the nine months ended 31st March, 2002.

#### (ii) PRC enterprise income tax

Fujian Traving Science & Technology of Saving Development Co., Ltd (“Traving Science”), a wholly-owned subsidiary of the Group, is a wholly-owned foreign enterprise incorporated in the PRC and is subject to PRC enterprise income tax at a preferential rate of 15%. Traving Science was exempted from PRC enterprise income tax for two years commencing from the first profit-making year after offsetting prior year's incurred losses. The full exemption period for PRC enterprise income tax of Traving Science expired on 31st December, 2001 and is entitled to 50% reduction in the income tax rate (i.e. 7.5%) for the next three years until 31st December, 2004.

Creative Easy Union Science & Technology of Saving Development Co., Ltd is a wholly-owned foreign enterprise (a wholly-owned subsidiary of the Group) incorporated in the PRC on 23rd January, 2002. This subsidiary is subject to PRC enterprise income tax at a preferential rate of 15% but is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction in the tax rate for the next three years.

## **5. Earnings per share**

The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders for the three months and nine months ended 31st March, 2002 of approximately RMB11,403,215 and RMB34,173,386 (2001: RMB6,109,113 and RMB9,210,041) respectively with the weighted average number of approximately 377,903,226 and 325,967,742 shares respectively (2001: 300,000,000 shares which were deemed to have been issued and as if had been outstanding throughout the periods of three months and nine months ended 31st March, 2001 on the assumption that the Reorganisation had been completed on 1st July, 2000).

No diluted earnings per share for the three months and nine months ended 31st March, 2002 and 31st March, 2001 is presented as there were no dilutive ordinary shares in existence during the periods.

## 6. Reserves

Movement of reserves are:

	Share Premium RMB'000	Statutory reserve funds RMB'000	Statutory public benefit funds RMB'000	Retained profit RMB'000	Total RMB'000
At 1st July, 2000	0	50	50	403	503
Transfer from retained profit to funds	0	310	310	(620)	0
Profit for the period	0	0	0	3,101	3,101
At 31st December, 2000	0	360	360	2,884	3,604
Transfer from retained profit to funds	0	611	611	(1,222)	0
Profit for the period	0	0	0	6,109	6,109
At 31st March, 2001	<u>0</u>	<u>971</u>	<u>971</u>	<u>7,771</u>	<u>9,713</u>
At 1st July, 2001	0	1,724	1,724	13,795	17,243
Transfer from retained profit to funds	0	2,277	2,277	(4,554)	0
Profit for the period	0	0	0	22,770	22,770
At 31st December, 2001	0	4,001	4,001	32,011	40,013
Transfer from retained profit to funds	0	1,545	1,545	(3,090)	0
Profit for the period	0	0	0	11,403	11,403
Issues of new shares pursuant to placement with exercise of the over-allotment option on 31st January, 2002	97,520	0	0	0	97,520
Capitalisation of the share premium account	(20,841)	0	0	0	(20,841)
Share issue expenses	(18,941)	0	0	0	(18,941)
At 31st March, 2002	<u>57,738</u>	<u>5,546</u>	<u>5,546</u>	<u>40,324</u>	<u>109,154</u>



(i) *Statutory reserve funds*

PRC laws and regulations require wholly-owned foreign enterprises to provide for statutory reserve fund which is appropriated from profit after taxation but before dividend distributions, Fujian Traving Science & Technology of Saving Development Co., Ltd. ("Traving Science"), a subsidiary, is required to allocate at least 10% of its profit after taxation to the fund until the balance of such fund has reached 50% of its registered capital. The fund can only be utilized, upon approval by the relevant PRC authority, to offset accumulated losses or to increase capital.

(ii) *Statutory public benefit funds*

According to Traving Science's Articles of Association, it is required to transfer at least 10% of its profit after taxation to the fund. Such fund can only be utilized for the collective and facilities of the employees of Traving Science. Only employees are entitled to use the facilities; the title and ownership of the facilities will remain with Traving Science. The fund forms part of the shareholder's funds and is not distributable other than on liquidation. The transfer to the fund must be made before dividend distribution to shareholders.

## **7. Dividend**

The Board does not recommend the payment of any dividend for the nine months ended 31st March, 2002 (2001: Nil)

## **BUSINESS REVIEW & PROSPECTS**

### **Business Review**

One of the successes of the Group was the listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 31st January, 2002, through which HK\$103.5 million were raised. Those funds are intended mainly for existing product enhancement, new product development and new market exploration.

The Group reported a stable growth in its results for the nine months ended 31st March, 2002. Turnover soared to RMB76,191,197, which was 3.2 times over the previous corresponding figure. Increment in turnover was attributable to well-received market responses of Savin 2000 range of products and continued growing sales of Savin 2000 I targeted for commercial buildings. Savin 2000 II was also one of the major revenue contributors, representing about 35% of the total turnover for the Group starting from the second half of 2001. During the period under review, the Group's profit attributable to shareholders surged 2.7 times to RMB34,173,386. The Group maintained its overall gross profit margin at about 66%.

Heading towards 2002, the Group has been making great leaps in both sales performance and research and development (R&D). During the period under review, the Group has outnumbered 78 additional energy retrofit projects over last year's figure, with completion of a total of 112 projects for clients managing hotels, shopping malls, office buildings, hospital, heating stations and airports in the PRC. Sales of Savin 2000 I, one of the Group's leading products, between January and March 2002 posted an increase of 1.1 times over last year's corresponding figure by which sales income of RMB22,313,600 was contributed to the Group.

We are also proud of the encouraging performance of Savin 2000 II. In March 2002, an agreement was entered into between the Group and Public Heating Committee of Beijing Property Association ("the Committee"). Pursuant to which, the Group was appointed by the Committee on an exclusive basis as its technical consultant for providing 250 heating stations under the Committee with energy-saving technologies, which expecting to bring the heating stations an average energy saving of 50% and greater cost efficiencies. Collaboration between both parties is based on a three-stage plan. The initial project work for 40 heating stations with an aggregate value of about RMB22,400,000 commenced in March 2002. In addition, the Group's systems play an important role in easing air pollution problems in Beijing by effectively reducing dust, particle and sulphur dioxide in the air. The Group intends to take an active part in creating a fresh and clean environment for the 2008 Olympic Games. During the period, Savin 2000 I and Savin 2000 II enjoyed strong market acceptance as evidenced by sales income of RMB49,620,352 and RMB26,570,845 respectively.

As for industrial horizons, Savin 2000 III, tailor-made for industrial water circulation systems, has been put into trial commission in a petrochemical factory located in Fujian province with impressive results.

During the period under review, greater sales and marketing efforts were devoted for enhancing the Group's market share in northern cities. The Group has a dedicated team of 51 sales and marketing staff who has ample knowledge in Energy Management Systems (EMS).

## Prospects

Leveraging on the influx of business opportunities and promising prospects emerged from China's accession into the World Trade Organization, China is set to enjoy continued economic growth in 2002. Facing a booming economy, energy demand gathered strong momentum for further growth. Moreover, to keep abreast of global trends, many countries are now more conscious about environmental protection and energy conservation. Accordingly, in light of surging market demand for effective EMS solutions, the Group is well-positioned to capitalise on favourable market factors and national policies.

The Group, as one of the few providers of EMS solutions in the PRC, competes favourably by enjoying first mover advantages. Looking ahead, the Group will dedicate to broaden market share in four main aspects including commercial and public district heating systems as well as industrial and household applications to achieve higher profitability and shareholders' value.

On the commercial front, the Group will endeavour to upgrade Savin 2000 I through R&D of new value-added energy efficiency technologies. The Group collaborates with Tsinghua University for planning and designing variable air volume systems. As for public district heating systems, the Group successfully established solid foothold in Beijing, the PRC, a solid proof of our strength and technology advantage. Thus, we are well-positioned to expand into the market of public district heating systems. Moreover, project success in Beijing, a capital city of the PRC, will set a constructive model for other cities and provinces throughout the country. Further to Beijing's projects, the Group intends to gradually extend project development into Tianjin, Shenyang, Harbin and other cities along Yangtze River North.

The Group's existing energy-saving product series are expected to be enriched with the introduction of Savin 2000 III for industrial water circulation systems in the second half of 2002.

The Group fully understands that dedicated efforts in R&D are indispensable key to its continued success. In the coming days, the Group will advocate closer cooperation with Tsinghua University. A joint laboratory will be set up for R&D of compressor-free air conditioners, which are targeted for expansion into the market of household energy-saving appliances.

The management believes that the Group has positioned itself as one of the leading players among other industry counterparts by taking advantage of its market presence in the domestic EMS market. In the future, we will continue our efforts in product diversification and R&D. In addition to the PRC, other markets, such as Hong Kong and other Asian cities, will also be prudently explored for creating the greatest returns for our shareholders.

## **DIRECTORS' INTEREST IN SECURITIES**

As at 31st March, 2002, according to the register kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors, chief executives and their associates in the securities of the Company or any associated corporation (as defined in the SDI Ordinance) were as follows:

### **The Company**

Name of Director	Number of Shares				Total Interest
	Personal Interest	Family Interest	Corporate Interest	Other Interest	
Shum Fong Chung	243,000,000	-	-	-	243,000,000

Save as disclosed above, none of the directors, chief executives or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

On 3rd January, 2002, the Company had conditionally adopted a Share Option Scheme pursuant to which full-time and part-time employees and directors of the Company and its subsidiaries, may be granted option to subscribe for Shares. During the nine months ended 31st March, 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the nine months ended 31st March, 2002 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Company's director/chief executive, their respective spouse, or children under 18 years of age to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SDI Ordinance or to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### **COMPETING INTERESTS**

During the nine months ended 31st March, 2002, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

### **SUBSTANTIAL SHAREHOLDERS**

As at 31st March, 2002, other than the interests disclosed above in the section headed "Directors' Interest in Securities", no person was interested in 10 percent or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance.

### **SHARE OPTION SCHEME**

On 3rd January, 2002, the Company conditionally adopted the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 24th January, 2002.

During the nine months ended 31st March, 2002, no option has been granted by the Company under the Share Option Scheme.

### **INTEREST OF SPONSOR**

As updated and notified by the Company's sponsor, Celestial Capital Limited ("CCL"), as at 31st March, 2002, neither CCL nor its directors, employees and their associates had any interest in the shares of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the sponsor agreement entered with the Company by CCL, CCL has received and will receive fees for acting as the Company's ongoing sponsor for the period up to 31st March, 2002.

As at 1st April, 2002, JS Cresvale International Limited ("JS Cresvale") has been appointed as the Company's ongoing sponsor in place for CCL. Pursuant to the sponsor agreement entered with the Company by JS Cresvale, JS Cresvale will receive fees for acting as the Company's ongoing sponsor for the period commencing on 1st April, 2002 to 30th June, 2004 or until the termination of the sponsor agreement upon the terms and conditions as set out therein.

As updated and notified by JS Cresvale, as at 1st April, 2002, neither JS Cresvale nor its directors, employees and their associates had any interest in the shares of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

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

During the nine months ended 31st March, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

#### **AUDIT COMMITTEE**

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors of the Company.

The audit committee comprises two independent non-executive directors, namely, Ms. Tsang Hiu Fung and Mr. Shi Jian Hui. The audit committee has met two times since its establishment on 3rd January, 2002 and had reviewed the quarterly results for the nine months ended 31st March, 2002 of the Company.

On behalf of the Board  
**Shum Fong Chung**  
*Chairman*

Hong Kong, 13th May, 2002