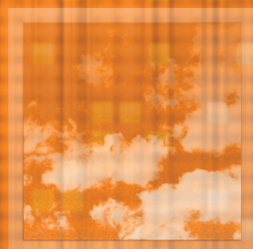




CREATIVE ENERGY SOLUTIONS HOLDINGS LTD.
科瑞控股有限公司



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ANNUAL
REPORT
2002

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.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM – listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Creative Energy Solutions Holdings Limited (“Creative Energy” or 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to Creative Energy. 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.

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CORPORATE INFORMATION

Executive Directors

SHUM Fong Chung (*Chairman*)
LI Han Chun
Lin Rong Ying

Independent Non-executive Directors

SHI Jian Hui
HON Wa Fai

Company Secretary

KAM Ying Fai, AHKSA, FCCA

Compliance Officer

SHUM Fong Chung

Qualified Accountant

KAM Ying Fai, AHKSA, FCCA

Audit Committee

SHI Jian Hui
HON Wa Fai

Authorised Representatives

SHUM Fong Chung
KAM Ying Fai

Sponsor

JS Cresvale International Limited
7th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Auditor

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road, Causeway Bay
Hong Kong

Legal Advisers

Hong Kong Law:
Siao, Wen and Leung
15th Floor, Hang Seng Building
77 Des Voeux Road
Central
Hong Kong

The PRC Law:
Jun He Law Offices
20th Floor, China Resources Building
8 Jianguomenbei Avenue
Beijing
The PRC

Bermuda Law:
Conyers Dill & Pearman
Room 2901, One Exchange Square
8 Connaught Place, Central
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Sun Hung Kai Centre Branch
Rooms 101 to 103
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

Agricultural Bank of China
Gulou Branch
Xin Tian Di Building
157 Wu Si Road
Fuzhou
Fujian
The PRC

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
65 Front Street
Hamilton
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Room 3407, China Resources Building
26 Harbour Road, Wanchai
Hong Kong

Principal Places of Business in The PRC

8th Floor, Wu Jin Building
72 Wu Yi North Road
Fuzhou
Fujian
The PRC

4th Floor, Changxin Building
39 An Ding Road
Chaoyang District
Beijing
The PRC

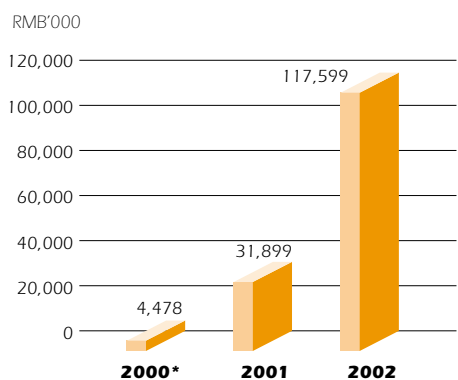
GEM Stock Code

8109

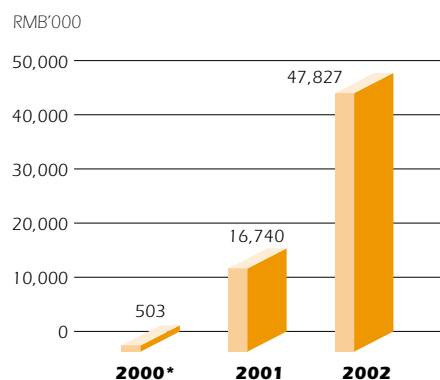
FINANCIAL HIGHLIGHTS

	Period from	For the year ended 30th June,	
	20th April, 1999 to 30th June, 2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4,478	31,899	117,599
Profit before taxation	503	16,740	49,277
Profit attributable to the shareholders	503	16,740	47,827
Earnings per share (basic)	RMB0.17 cents	RMB5.58 cents	RMB13.74 cents

Turnover

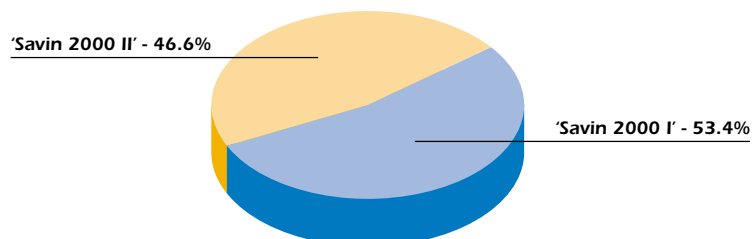


Profit attributable to shareholders



* Period from 20th April, 1999 to 30th June, 2000

2002 Turnover breakdown by products



CHAIRMAN'S STATEMENT



Chairman – Mr. Shum Fong Chung

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Creative Energy Solutions Holdings Limited ("Creative Energy" or the "Company") and its subsidiaries (collectively the "Group") for the year ended 30th June, 2002. This is the first annual report for the Group since our listing on the GEM of the Stock Exchange in January 2002. The Group's performance this year has been even more promising and encouraging than the previous year.

Creative Energy is one of the leading providers of Energy Management Systems ("EMS") solutions in the People's Republic of China ("the PRC"). It is principally engaged in the design, management and implementation of EMS solutions with professional consultancy services, focusing on the central air-condition and public district heating systems retrofit project to reduce energy consumption

in various sectors, including existing commercial buildings, public district heating systems and industrial water circulation systems.

RESULTS

For the year ended 30th June, 2002, the Group recorded encouraging results with a consolidated turnover of approximately RMB117,599,000 (2001: RMB31,899,000) and a consolidated profit attributable to shareholders of approximately RMB47,827,000 (2001: RMB16,740,000), representing a growth of 269% and 186% respectively. The Group's gross profit margin was 68%, representing a slight decrease by 7% from the previous year. Earning per share was RMB13.74 cents.

DIVIDEND

The Board has recommend the payment of a final dividend of HK\$0.022 (approximately equivalent to RMB0.023) per share for the year ended 30th June, 2002, subject to shareholders' approval at the forthcoming annual general meeting to be held on 25th October, 2002, to the shareholders whose names appear on the Register of Members of the Company on 25th October, 2002 and payable on around 7th November, 2002. No interim dividend was declared for the six months ended 31st December, 2001 (2000: Nil).

CHAIRMAN'S STATEMENT

LISTING ON THE GEM

With the continuous support from investors and efforts of our entire staff, the Group was successfully listed on the GEM of the Stock Exchange on 31st January, 2002. The initial public offering of the Group was well received and recorded a over subscription rate of approximately 2.5 times. I would like to take this opportunity to express my sincere gratitude to all our investors.

BUSINESS REVIEW

The financial year 2002 was a year of substantial development for the Group. The Group achieved the profit estimates for the year ended 30th June, 2002 as set out in the prospectus of the Group dated 24th January, 2002 ("Prospectus").

During the period under review, the Group implemented strategic geographical solutions. The Group focused on promoting its flagship EMS solution product, 'Savin 2000 I' by targeting the long hours of air-conditioner usage in the southern part of the PRC. With the effort the Group invested in the previous year, Creative Energy successfully expanded to new markets in Chongqing, Zhejiang, Anhui, Nanjing, Hainan and Fujian. In addition, our products are also applicable to different building sectors including hotels, hospitals and offices etc.

During the period under review, the Group launched a new flagship product, 'Savin 2000 II' which focuses on the public district heating systems market and the sales of 'Savin 2000 II' was approximately RMB54,800,000, which accounted for 46.6% of the total turnover.

The introduction of 'Savin 2000 II' in the period, was mainly enhanced by the effort and efficiency of our research and development ("R&D") department. Also, 'Savin 2000 III', tailor-made for industrial water circulation systems, has been put into trial commission in a petrochemical factory located in Fujian with impressive results.

CHAIRMAN'S STATEMENT

AWARDS AND PATENT

The Group takes pride of its flagship products, 'Savin 2000' series and accomplishments because it has been highly recognised by both the public and experts in reputable organisations. The Group was accredited as 高新技術企業 (New and Advanced Technology Enterprise) in Beijing. During the period under review, the Group started the ISO 9001-2000 accreditation and expects to obtain it within this year. Moreover, 'Savin 2000 I' obtained the accreditation from 北京市節能產品認證委員會 ("Beijing Energy Conservation Product Certification Committee"), proving the excellent quality of the Group's products.

FUTURE PROSPECTS

With our professionalism and creativity, the Group has maintained the leading position in the PRC energy saving market after its listing. As the global awareness of energy saving and environmental protection rises, particularly in the PRC, we could foresee an increased demand for our EMS solution product.

The Group will make continuous efforts to invest resources into R&D. The Group will improve new value-added features on 'Savin 2000 I' and 'Savin 2000 II'. In addition, the Group plans to launch "Savin 2000 III" for EMS of industrial water circulation system and an original environmental friendly lighting source products along with other energy efficient goods in order to broaden our product range.

In relation to marketing, the Group will focus on introducing the energy saving technology to potential customers on commercial side such as hotels, real estate management, and relevant government departments through conferences. As for public district heating systems, the Group continues to install the 'Savin 2000 II' system for energy savings projects in Beijing. We will also promote our successful product installation experience to energy savings offices in other areas, in an attempt to obtain more energy savings projects in the northern cities. The Group will also expand overseas, focusing Hong Kong and the Southeast Asia as its initial target markets. The Group is prepared to undertake energy saving projects in the target markets through setting up district offices. We are presently in discussion with a few real estate and real estate management firms in Hong Kong.

Looking ahead, with our clear strategies and direction, outstanding R&D, comprehensive module library, solid customer base, effective revenue model and leading position in the industry, we will further enlarge our existing client base, market share and reputation as well as bringing fruitful returns for our shareholders.

CHAIRMAN'S STATEMENT

A NOTE OF APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our appreciation to the management and staff for their dedication and contribution to the Group's encouraging performance throughout the year. I also take this opportunity to express our sincere thanks to our shareholders, investors and customers for their continued encouragement and support.

Shum Fong Chung

Chairman

Hong Kong, 20th September, 2002

MANAGEMENT DISCUSSION AND ANALYSIS



▲ *Nanjing Hotel*

< *Xiamen Lushan Hotel*

> *Chongqing Jin Li Hotel*

INDUSTRY OVERVIEW

Energy saving and environmental protection has become a global issue. Especially in the PRC, energy consumption is a major issue. Nowadays, the PRC is the second largest energy consumer. Consumption is expected to double by 2050. On the other hand, the energy consumption of the gross domestic product is expected to decrease by more than 10 times by 2050, which mainly contributed by huge increase of energy efficiency. The PRC Government actively encourages energy saving policy. Apart from introducing the "National Energy Conservation Law" to formulate energy conservation policies and promote energy efficiency in the PRC, "Building Efficiency Zone" was set up to encourage the introduction of efficient building technologies.

The potential of the energy saving market in the PRC is enormous. Over 50,000 commercial buildings including hotels, integrated offices, shopping malls, train stations, airports and hospitals were installed central air-conditioning systems. The energy consumption of central air-conditioning systems accounted for 60%-70% of the total energy consumed in buildings which revealing the huge needs for energy savings improvement. With the PRC's entry into World Trade Organisation and hosting Olympic 2008 in Beijing, it is expected that the investment in infrastructure projects will increase tremendously, and the number of high-level commercial buildings and luxury hotels will also increase. This reflects that there will be an increase in demand for EMS solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

Energy efficiency in public district heating systems is another growing sector in great demand. There are currently 286 cities in 21 provinces installed with public district heating systems in the PRC. Beijing has approximately 900 sets of public district heating systems. Among those, there are around 250 systems managed by Beijing provincial government and 650 managed by other independent organisations. Other Northern cities like Tianjin, Dalian and Qingdao also present enormous opportunities in energy efficiency on public district heating projects.

BUSINESS REVIEW



As the Group was successfully listed on the GEM of the Stock Exchange in January this year, its market recognition keeps rising constantly. With the appropriate use of proceeds, strong R&D capability, strengthened marketing force, extensive sales network and diversified product and service categories, the Group achieved outstanding result performance during the period under review. Sales of 'Savin 2000 I' and 'Savin 2000 II' recorded significant increases.

Targeting long hours of air-conditioner usage due to the tropical climate in the southern part of the PRC, the sales of 'Savin 2000 I' was satisfactory. During the period under review, the Group successfully expanded to new markets such as Chongqing, Anhui, Nanjing and Fujian. In addition, our products are applicable to different building sectors including hotels, hospitals and offices etc. The Group organised a conference with restaurants and hotels in Beijing for 國家經濟貿易委員會 ("National Economic & Trade

Committee"). We introduced the unique characteristics of 'Savin 2000' product series and answered the technical enquiries from the customers during the conference. The Group signed contracts with several well known hotels and restaurants on-site. During the period under review, the sales of 'Savin 2000 I' was approximately RMB62,800,000, representing an increase of 97% over 2001.

During the period under review, the Group launched its new flagship product, 'Savin 2000 II' which focuses on public district heating systems market. The Group was appointed by Public Heating Committee of Beijing Property Association as its exclusive technology consultant. In addition, the Group engaged into two retrofit energy projects for public district heating systems, respectively in Tianjin and Beijing. Customers were satisfied with the results, which recorded approximately 65% energy savings. During the period under review, the sales of 'Savin 2000 II' was approximately RMB54,800,000, which accounted for 46.6% of the total turnover, becoming another important profit generator.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, greater sales and marketing efforts were devoted for expanding the Group's market shares in northern cities. The number of staff of the sales and marketing team increased to 54. In order to achieve the best results, the team focused on targeted clientele with more concentrated and direct sales activities.



FUTURE PROSPECTS

Looking ahead, the Group will take advantage of the business opportunities in China to further consolidate its market foundation. The Group aims at reaching overseas markets to capture the tremendous potentials in Hong Kong and the Southeast Asia region.

On the commercial side, the Group will improve 'Savin 2000 I', including R&D on new value-added energy efficiency features. As for public district heating systems, the Group will continue to install 'Savin 2000 II' for the public district heating systems in Beijing. At the same time, we will also explore the markets in the northeastern part of China. The Group has already entered into an agreement with energy saving office in Jilin, to have a 200,000 sq meters district area as a testing point. The Group expects that the success of the testing could significantly promote the product. On the industrial side, the Group started the R&D on the energy retrofit projects in the manufacturing process. Some manufacturers in the northeastern China have already agreed to cooperate with the Group on several projects.

MANAGEMENT DISCUSSION AND ANALYSIS

In order to provide better after-sale services to our customers, the Group successfully launched the Operation Monitoring System in the joint laboratory with Tsinghua University. Upon completion of the Operation Monitoring System, it will enable the Group to get on-line information and react promptly to any problems occurred on products in clients' location.

Targeting at the increasing demand of the environmental lighting market in the PRC, the Group will launch patented Environmental Energy Saving Lighting products. The wide application of this new product includes home lighting, commercial lighting and neon lights for city decoration. Its energy-saving advantage, durability and environmental protection characteristic perfectly match the market demand for environmental lighting. Its sales is therefore expected to achieve a promising result.

Establishing a solid foundation in the PRC, the Group is going to expand overseas, focusing Hong Kong and the Southeast Asia as its target markets. For a better preparation of the development in the enormous Hong Kong markets, the Group has already completed the internal restructuring of Creative Eternal Well Science & Technology of Saving (Shenzhen) Co., Ltd. A group of experienced management and technicians were re-allocated to design a tailor-made sales and marketing strategies for Hong Kong market. The Group recently has completed feasibility studies on one commercial building and one hotel as a starting point to step into the Hong Kong market. With our product quality, excellent service and efficient energy savings results to Hong Kong users, Hong Kong market will become a new profit generator to the Group.

As the PRC becomes more concerned on the energy saving and environmental protection, we can foresee a prosperous future on the growth of the Group.

FINANCIAL REVIEW

Result & Turnover

The Company is principally engaged in the design, management and implementation of EMS solutions which includes the provision of consultancy services for a variety of central air-conditioning retrofit projects including commercial buildings and public district heating systems in the PRC. Turnover of the Group for 2002 amounted to RMB117,599,000, representing an increase of approximately 2.69 times compared to 2001. The main reason was the successful market development achieved in the public district heating systems market by the well-received market response of 'Savin 2000 II' which contributed about 46.6% of the Group's total sales. The sales on 'Savin 2000 I' remained steady growth in 2002 almost doubling last year's figure to approximately RMB62,821,000 representing 53.4% of the Group's total sales.

The audited profit attributable to shareholders of the Group and earnings per share for the year ended 30th June, 2002 were approximately RMB47,827,000 (2001: RMB16,740,000) and RMB13.74 cents (2001: RMB5.58 cents) respectively. In comparison to the corresponding year ended 30th June, 2001, the substantial increase in the profit attributable to shareholders and earnings per share of 1.86 times and 1.46 times was reflected respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

The gross profit of the Group surged up by approximately 2.35 times from approximately RMB23,962,000 in 2001 to approximately RMB80,381,000 in 2002. The gross profit ratio decreased to 68% in 2002 from 75% in 2001, owing to the relative lower gross profit ratio of the Group's newly introduced flagship product 'Savin 2000 II'.

Segment Information

During the period under review, the Group operates mainly in the PRC with one core business and no business and geographical segment information is presented.

Distribution Costs

Distribution costs increased to approximately RMB11,219,000 in 2002 in comparing to approximately RMB2,130,000 in 2001. The reason for such increase was mainly in advertising, promotion and market research of approximately RMB6,455,000 (2001: RMB775,000), entertainment of approximately RMB1,035,000 (2001: RMB122,000) and travelling expenses of approximately RMB1,777,000 (2001: RMB251,000). They were expended by the rationale of generating sales growth and identifying market potential for future growth of the Group.

Administrative and Other Operating Expenses

Administrative expenses and other operating expenses increased to approximately RMB19,889,000 in 2002 compared to approximately RMB5,067,000 in 2001.

Administrative expenses and other operating expenses included mainly R&D costs, operating lease rentals, staff salaries, depreciation & amortisation and travelling expenses. The R&D costs amounted to approximately RMB4,574,000 (2001: RMB808,000); operating lease rentals of buildings to approximately RMB975,000 (2001: RMB139,000); staff salaries to approximately RMB2,429,000 (2001: RMB449,000); depreciation and amortisation to approximately RMB4,220,000 (2001: RMB2,404,000) and travelling expenses to approximately RMB342,000 (2001: RMB92,000).

Due to the increase in the number of staff by the establishment of operation subsidiaries in Beijing and Hainan in order to have a better market coverage for the business development, the establishment of Hong Kong subsidiary in preparing for the listing of the Group on 31st January, 2002, and the compliance with the listing requirement as well as better managing the expansion of the Group after listing, it led the administrative expenses increasing at the rate higher than the increase of gross profit for 2002. The Directors noticed an importance of keeping the expenses spending in a most efficient manner and shall exercise all the necessary stringent cost control measures accordingly.

To maintain the competitive edge and become the market leader in the industry, it was the Group's objective to allocate adequate resources in R&D this year to be in line with its sales growth.

Staff

A breakdown of the number of staff of the Group by functions as at 30th June, 2002 and 2001 is set out below:

	Number of staff				2002	2001
	Beijing	Fuzhou	Hainan	Hong Kong	Total	Total
Sales & marketing	18	11	25	0	54	25
Professional services and technical support	21	14	30	0	65	49
Research & development	2	1	8	0	11	9
Finance & administration	30	12	18	5	65	43
	71	38	81	5	195	126

Remuneration Policies and Labour Policies

The Group recognises that our staff is among the Group's most important assets. With the overall objective of providing competitive salary packages, the employees' salary level will be remunerated and adjusted in closed association with the individual's performance, qualification and experience as well as the labour market conditions. In addition to the regular remuneration, discretionary bonus and share options may be rewarded to eligible employees by the assessment of individual's performance and by reference to the Group's performance.

The Group has maintained good labour relations and does not encounter any serious labour disputes which leads to the interruption of the Group's operation. In addition to the regular remuneration, the Group also provides fringe benefits including contributions to retirement scheme, medical and unemployment insurance scheme, staff training and housing funds to eligible employee.

Due to the increase in number of employees, total remuneration including basic salaries, bonus allowances and fringe benefits for the year ended 30th June, 2002 rose to approximately RMB4,630,000 (2001: RMB2,030,000), of which approximately RMB919,000 (2001: RMB32,000) relating to directors remuneration. The Company has not granted any share option to any of its directors and employees for the year ended 30th June, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group has maintained a sound financial record in this year. During the year, the Group's primary sources of fund was generated from its operating activities as well as cash proceeds of approximately HK\$85,632,000 (equivalent to RMB90,770,000) from the Initial Public Offering in January 2002. As at 30th June, 2002, the Group had bank and cash balances of approximately RMB56,800,000 (2001: RMB6,400,000). The currencies in which cash and cash equivalent held by the Group were mainly Renminbi, US dollars and Hong Kong dollars. The bank borrowing of RMB2,000,000 was fully repaid in April, 2002 and the Group does not hold any short-term borrowings for the year ended 30th June, 2002. As at 30th June, 2002, the Group had total assets of approximately RMB170,707,000 (2001: RMB33,644,000) which were financed by current liabilities of approximately RMB3,908,000 (2001: RMB5,442,000) and shareholder's equity of approximately RMB166,799,000 (2001: RMB28,202,000). The ratio of current assets to current liabilities reached 26.7 (2001: 2.6) showing a very high liquidity of the Group's asset in meeting its short-term obligations and repayments once due. The Directors believe that the Group has sufficient financial resources to discharge its debts and satisfy its commitments and working capital requirements. There has been no change in the Company's share capital since listing on 31st January, 2002 to the year ended 30th June, 2002.

Save as disclosed in the Company's prospectus dated 24th January, 2002 under the section headed "Business Objectives and Future Prospectus", there has been no material change in the Group's future plans for material investments or capital assets.

Foreign Exchange Exposure

Most of the assets and liabilities of the Group were denominated in Renminbi as the major operating activities of the Group were in the PRC. During the period under review, the Group did not conclude any forward foreign contracts aimed at hedging against exposure on adverse fluctuations in foreign currency exchange rates. The Directors consider that the potential exposure to foreign exchange risks of the Group is limited but the Group will constantly review the situation and if appropriate, carry out appropriate measures to mitigate the negative financial impacts when encountering adverse fluctuations.

Trade Receivables

During the period under review, the trade receivables net of provision amounted to approximately RMB51,914,000 in 2002 (2001: RMB3,317,000). The ageing analysis of 2002 and 2001 are set out below:

	%	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Within 30 days	22.4	12,246	268
31 to 60 days	20.7	11,290	1,187
61 to 90 days	11.8	6,448	924
91 to 180 days	14.6	7,974	572
181 to 360 days	30.1	16,483	366
Over 360 days	0.4	205	—
Gross receivables		54,646	3,317
Less: General provision		(2,732)	—
	100	51,914	3,317

The successful penetration into the market of public district heating system with the Group's one of the flagship product 'Savin 2000 II' accompanied by the increase of trade receivables in 2002. The normal payment terms of the 'Savin 2000 II' was arranged for an initial deposit of about 30% on the contract sum. After the signing of acceptance certificate by the customer, the balance would be repaid by installments upon the success of the system in achieving the energy savings results. It has been a practice for a public district heating system to shut down for retrofit or maintenance in Spring and Summer and resume operation in Autumn and Winter, which creating a seasonal time lap of around seven months in our Group's debt collection leading to rather higher trade receivables in results.

In spite of the above payment practice, the Group indeed enforced an effective credit control procedure in reviewing each of the proposed contract regarding the payment terms against the customer credibility and assessing the possibility of default in payment by our finance personnel. The sales and marketing personnel and management also reviewed the credibility of all customers before concluding the sales contract. The Group will continue to strengthen the present credit control policy aiming at minimizing the possibility of incurring bad debts.

Although the Group did not encounter a significant collection problem during the period under review, it took a prudent view to provide approximately RMB2,732,000 for provision representing around 5% of the total gross trade receivables as of 30th June, 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

The gearing ratio was stated on the basis of long-term borrowings over the total assets. Since no long-term borrowings were engaged by the Group as of 30th June, 2002 and 30th June, 2001, the Group did not consider the gearing ratio to be applicable for the periods under review.

Charges on Group Assets and Contingent Liabilities

As of 30th June, 2002, none of the Group's assets were pledged as security for loans and banking facilities and the Group had no material contingent liabilities.

Significant Investment

On 14th June, 2002, the Group entered into a sale and purchase agreement with an independent third party for the acquisition of 100% equity interest in Rising Dragon International Limited for a consideration of HK\$20,000,000 (equivalent to RMB21,200,000) and the transaction of which was completed on 17th July, 2002. After the completion of the transaction, the Group had an effective 14% interest in Golden Name Lighting Technical Limited ("Golden Name"), a wholly-owned foreign enterprise established in Beijing, PRC and treated as long-term investment. The primary business of Golden Name is engaged in the production of long lived energy savings lighting products with its patented technology and the design of indoor and outdoor environmental lighting projects. Golden Name was effectively certified as 高新技術企業 (New and Advanced Technology Enterprise) by PRC authorities and its sales growth was on the management expectation.

Save as disclosed above, there was no material acquisition and disposal of subsidiaries and affiliated companies for the year ended 30th June, 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The actual progress of the Group's business objectives for the year ended 30th June, 2002, as set out in the prospectus of the Company dated 24th January, 2002, (the "Prospectus"), is as follows:

Business objectives for the year ended 30th June, 2002 disclosed in the Prospectus

Actual business progress for the year ended 30th June, 2002

Research and development:

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Improve the Group's energy efficiency control technologies applied in 'Savin 2000 I', such as enhancing the system's sensitivity to changes in temperature, anti-interference, faster reaction time and internet diagnostic control functions. | <p><i>Completed in June 2002.</i></p> |
| <ul style="list-style-type: none"> ▪ Complete the development of technologies with Tsinghua University for integrating 'Savin 2000 I' with the existing building management systems to form an integrated building control system with automated energy management functions and enjoy a wider customer base of building automation systems. | <p><i>Rescheduled the expected completion date to the end of 2002.</i></p> |
| <ul style="list-style-type: none"> ▪ Cooperate with Tsinghua University and continue the overall planning and design of control technologies for VAV systems. | <p><i>The task is undergoing with encouraging progress.</i></p> |
| <ul style="list-style-type: none"> ▪ Develop integrated energy efficient control system for commercial buildings by integrating various value-added energy saving technologies developed by the Group to become one comprehensive energy efficient control system for central air-conditioning systems in commercial buildings. | <p><i>The development task is expected to commence in early 2003.</i></p> |
| <ul style="list-style-type: none"> ▪ Further improve the automation and control technologies adopted in the Group's 'Savin 2000 II', which is designed for the public district heating systems in northern PRC cities. The Directors believe that there are significant market potentials, especially in Beijing, for providing energy efficiency services for public district heating operators in the PRC. | <p><i>With the proven success in the development of 'Savin 2000 II' and its distinguished market recognition (signing of exclusive consultancy agreement with Public Heating Committee of Beijing Property Association in March 2002), the Group would certainly strive to improve the existing technologies to better serving the market demand. The progress of the project is undergoing satisfactorily.</i></p> |
| <ul style="list-style-type: none"> ▪ Extend the applications of the Group's products and service by launching 'Savin 2000 III' targeting at various industries such as steel, chemical, textile and printing. This system helps deploy optimum control of factory floor temperatures and control on the temperature of the water used in industrial cooling systems in a manufacturing environment. | <p><i>A trial commission of 'Savin 2000 III' has been put through in a petrochemical factory located in Fujian province and the trial period is expected to be completed by the end of 2002. The testing results remains satisfactory up to the latest practicable date.</i></p> |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year ended 30th June, 2002 disclosed in the Prospectus

Actual business progress for the year ended 30th June, 2002

Research and development: (continued)

- Commence the overall planning and development of 無壓縮機家用空調 (domestic compressor-free air conditioners) with Tsinghua University. The target customers for the product are mainly household users in the PRC. The Group intends to focus on the research and development of the technologies and the design of compressor-free air-conditioner and to license the design to domestic air-conditioner producers. The manufacturing and distribution part of the new products will be carried out by a partner who has established brand name and distribution network in the domestic air-conditioner market. The Group will share sales revenue or charge a royalty fee for its products.

The Company reviewed the current business strategy with the consideration of existing market condition of domestic air conditioner which appearing to be in the keen competition among the existing market participants. The Company considered the risk of trying to penetrate into the domestic air conditioner market to be unjustified in view of substantial financial and human resources to be tied up for a rather dim outlook of the existing market. The plan of commencing the overall planning and development of 無壓縮機家用空調 (domestic compressor-free air conditioners) shall be deferred and will be re-considered when market opportunities emerge.

Sales and marketing:

- Further expand the sales network by engaging regional distributors in each of the major cities in the 25 targeted provinces including Heilongjiang, Liaoning, Jilin, Inner Mongolia, Beijing City, Tianjin City, Henan, Hebei, Shandong, Shanxi, Shanghai City, Jiangsu, Anhui, Zhejiang, Chongqing City, Sichuan, Hunan, Hubei, Shanxi and Guizhou in the PRC. The Group's five wholly-owned subsidiaries to be established will be responsible for providing technical supports to these distributors.
- Continue to promote awareness of the Group's EMS solutions which include consultancy services in the new construction and retrofit market by organising product presentation seminars in various provincial cities and advertisements with media.

Seven representative offices were set up in Qingdao, Tianjin, Hefei, Hangzhou, Nanjing, Chongqing and Guangzhou. In addition, the establishment of Beijing and Hainan subsidiaries was strategically operated in supporting the distributors in Heilongjiang, Liaoning, Jilin, Beijing City, Tianjin City, Hebei, Shandong, Shanxi, Jiangsu, Anhui, Zhejiang, Chongqing City, Sichuan, Hunan and Hubei with the Group's strong technical backup.

A product presentation seminar was organised in Beijing for 國家經濟貿易委員會 ("National Economic & Trade Committee") in April 2002 in Beijing for 'Savin 2000 I' and the seminar received impressive feedback by soliciting immediate order of about RMB2,200,000. The Group also commenced media activity in March 2002 with some local PRC television stations to enhance the 'Savin 2000' brand awareness.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year ended 30th June, 2002 disclosed in the Prospectus

Actual business progress for the year ended 30th June, 2002

Sales and marketing: (continued)

- Maintain close relationship with governmental energy efficiency departments and increase cooperation with industry associations so as to obtain government supports and customer referrals.

The application of 'Savin 2000 I' was submitted for the certification on the National Standard of GB/T15320 in achieving 節能產品評價準則 ("Standard of Energy Conservation Product") by 北京市節能產品認證委員會 ("Beijing Energy Conservation Product Certification Committee") in early June 2002 and the certification is awarded in early July 2002.

- Obtain industry standard and quality accreditations such as ISO 9001 for the Group's products and services.

Initial submission of the ISO 9001-2000 application by Beijing subsidiary was in May 2002 and the approval for the certification of ISO 9001-2000 will be expected by the end of 2002.

- Develop the Group's own website and sponsor other popular industry websites to advertise the Group's brand name.

The management was inclined to develop its own website with a view of promoting the Group's brand name more effectively at the least possible cost instead of sponsoring other popular industry websites.

The Group's website was successfully developed in April 2002 and its internet homepage address is <http://www.creative-holdings.com.cn>

- Establish training centres in Beijing and Fuzhou in the PRC to provide training to the Group's engineering and sales staff as well as acting as training centres for the customer's operation staff.

A training center was set up in Beijing in consideration for its strategic location in the northern part of the PRC serving convenience for the customer's operation staff attending the trainings. Beijing is also the major operating center of the Group which is much more convenient for the Group's staff receiving trainings in the training center. The setting up of training center in Fuzhou which covering the southern part of the PRC is under the preparation stage.

- Conduct market research through the professional marketing research firm engaged by the Group to provide market information to the Group for the development of future sales and marketing strategies.

The Group entered an agreement with a local PRC market consulting firm in April 2002 regarding a market research report conducted through market survey at the eleven major cities of the PRC such as Beijing, Dalian, Qingdao, Tianjin, Hefei, Hangzhou, Nanjing, Chongqing, Shanghai, Hainan and Guangzhou for identifying market potential with the formulation of suitable market strategy for 'Savin 2000' products.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year ended 30th June, 2002 disclosed in the Prospectus

Actual business progress for the year ended 30th June, 2002

Geographical expansion:

- Improve the Group's distribution capacity by setting up five regional wholly-owned subsidiaries in Dalian, Chongqing, Beijing, Shanghai and Guangzhou to cover the northeastern, central, northern, eastern and southern regions of the PRC respectively. Each wholly-owned subsidiary will have comprehensive operating functions including sales and marketing, equipment installation, after-sales supports, technical support, training to internal staff as well as to the Group's customers in their respective regions.

Establishment of wholly-owned subsidiary in Beijing (Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd) in January 2002 for the coverage of northeastern, central and northern regions of the PRC.

Establishment of wholly-owned subsidiary in Hainan (Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd) in April 2002 for the coverage of eastern and southern regions of the PRC.

Details of staff number with their functions in each subsidiary could be referred to the Staff Number of the Financial Review under the section of Management Discussion & Analysis of this report.

- Establish a sales team with after-sales support capability in Hong Kong which signifies the Group's first step in developing the overseas markets.

The Group's has undergone some discussions with commercial buildings and hotels in Hong Kong. The sales activity in Hong Kong was coordinated by the personnel from the Group's subsidiaries in the PRC. The plan of establishing a sales team with after-sales support capability in Hong Kong would be postponed until the early 2003.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

USE OF PROCEEDS

The Company raised gross proceeds of HK\$103,500,000 (equivalent to RMB109,710,000) by the way of placing of the Company's shares being listed on the GEM of the Stock Exchange on 31st January, 2002. After the deduction of the listing expenses, the net proceeds amounted to approximately HK\$85,632,000 (equivalent to RMB90,770,000).

	Originally Planned up to 30th June, 2002* RMB\$'000	Amount Utilised up to 30th June, 2002 RMB\$'000
RESEARCH & DEVELOPMENT		
'Savin 2000 I' and related technology upgrades, 'Savin 2000 I' integrating technologies with building management systems, Integrated energy efficient control system for commercial buildings, VAV system, 'Savin 2000 II' for public district heating systems	7,950	6,298
'Savin 2000 III' for industrial water circulation system	2,120	1,060
Development of domestic compressor-free air conditioner	4,240	0
SALES & MARKETING		
Marketing and promotional activities	3,180	5,563
Development of the Group's website and sponsoring other industry websites	1,060	48
Establishment of training centres	4,240	411
Professional market research	1,060	1,340
GEOGRAPHICAL EXPANSION		
Setting up subsidiaries in the PRC	5,300	4,504
Set up a sales office and a sales team in Hong Kong	3,180	0
	32,330	19,224

* Amounts are extracted from the Company's prospectus dated 24th January, 2002 but amounts will be reclassified for comparison purpose at the exchange rate of HK\$1.00 = RMB1.06.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. SHUM Fong Chung (沈方中), aged 46, is the chairman and a founding member of the Company. He is responsible for formulating the overall business strategies and plans of the Group. Mr. Shum has more than 20 years' experience in electronic engineering business. Prior to founding the Group in 1999, Mr. Shum worked as an engineer and focused on electronic engineering research in 南京九五工程研究所 (Nanjing the Ninth Five Year Plan Engineering Research Institute) and was the general manager of 中國惠通集團 (the China Vintong Group), a stated-owned electronic trading company in Guangzhou. Mr. Shum graduated with a bachelor's degree in 無線電工程 (Wireless Engineering) from Fuzhou University (福州大學) and he also studied business management in 廈門大學 (Xiamen University).

Mr. LI Han Chun (李寒春), aged 27, is the managing director and one of the founders of the Company. He is responsible for overseeing the business development of the Group. Mr. Li graduated from Tsinghua University with a bachelor's degree in 熱能工程 (thermal energy engineering), specialising in HVAC (供熱通風與空氣調節工程) and a second bachelor's degree in business administration. Mr. Li, on behalf of the Group, applied for registration of the patent on 中央空調水泵變頻控制系統 ("Variable Frequency Control System for The Water Pump System in central air conditioning system") (which was transferred to the Group on 31st August, 2001), and which was eventually developed into the Group's 'Savin 2000 I'. Prior to founding the Group, Mr. Li gained marketing and management experience while working as an account manager in Procter and Gamble (China) Company Limited.

Ms. LIN Rong Ying (林榮英), aged 49, is the financial controller of the Company. She graduated with a bachelor's degree in accountancy from 江西大學 (Jiangxi University). Ms. Lin is a qualified accountant in the PRC and has 14 years of experience in financial and accounting management.

Independent Non-executive Directors

Mr. SHI Jian Hui (石建輝), aged 45, is an independent non-executive director of the Company. Mr. Shi has served as the officer and vice president of the financial division of 福建省人大常委會 (the Standing Committee of the Provisional People's Congress of Fujian Province) for more than 10 years.

Mr. HON Wa Fai (韓華輝), aged 42, is an independent non-executive director of the Company. Mr. Hon is a Certified Public Accountant and has more than 16 years of experience in accounting field. Mr. Hon is a fellow of The Chartered Association of Certified Accountants and an associate of The Hong Kong Society of Accountants. He is also an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LI Han Jin (李寒璉), aged 41, is the assistant general manager and head of sales division of the Company. Mr. Li has more than 16 years of experience in management and economic research.

Mr. QIU Chun Song (邱春松), aged 37, is the assistant general manager and head of production division of the Company. He graduated from 天津商學院 (Tianjin University of Commerce) with a bachelor's degree in electrical 機械電子工程 (mechanical and electronic engineering). Mr. Qiu has over 10 years of experience with various private industrial enterprises and the Fujian provincial government in the PRC prior to joining the Group in May 1999.

Mr. YANG Li (楊力), aged 39, is the chief operation officer of the Company. He is primarily responsible for overseeing the operations and human resources departments of the Group. Mr. Yang graduated with a bachelor's degree in 政教系 (political science) from 江西大學 (Jiangxi University).

Dr. MA Jun (馬駿), aged 31, is the head of research and development team of the Company and has extensive research experience in thermal energy and computer engineering. Dr. Ma holds a doctorate degree in 熱能工程 (thermal energy engineering), specialising in HVAC (供熱通風與空氣調節工程) and a bachelor degree in computer 計算機技術與應用工程 (technology and application engineering) from Tsinghua University. Dr. Ma joined the Group in June 2000.

Mr. WANG Peng Fei (王鵬飛), aged 30, is the director of research and development of the Company and has extensive research experience in thermal energy and computer engineering. Mr. Wang holds a master and a bachelor's degree in 熱能工程 (thermal energy engineering), specialising in HVAC (供熱通風與空氣調節工程) from Tsinghua University.

Mr. ZHANG Guo Li (張國立), aged 33, is the sales manager and senior engineer of the Company. Mr. Zhang graduated with a bachelor's degree in 熱能工程 (thermal energy engineering) from Tsinghua University. He joined the Group in May 1999.

QUALIFIED ACCOUNTANT

Mr. KAM Ying Fai (甘英輝), aged 33, is the chief financial controller and company secretary of the Company. He has over ten years of experience in finance, accounting, taxation and auditing. Mr. Kam is a qualified accountant with a fellow membership of the Association of Chartered Certified Accountants and an associate member of Hong Kong Society of Accountants.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited financial statements of Creative Energy Solutions Holdings Limited (the "Company") and its subsidiaries (together "the Group") for the year ended 30th June, 2002.

GROUP REORGANISATION AND LISTING ON THE HONG KONG GROWTH ENTERPRISE MARKET

The Company was incorporated in Bermuda on 29th August, 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation completed on 3rd January, 2002 to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares were listed on the GEM on 31st January, 2002.

Details of the group reorganisation scheme and the basis of presentation of the financial statements are set out in Note 1 to the financial statement and in the Company's prospectus dated 24th January, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, management and implementation of energy management system solutions which include the provision of consultancy services for a variety of central air-conditioning retrofit projects including commercial buildings and public district heating systems in the Peoples Republic of China (the "PRC").

The Group's turnover for the year is principally attributable to the provision of system design and integration services. An analysis of turnover from the principal activities during the year are set out in note 3 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	14.45%	
Five largest customers in aggregate	46.90%	
The largest supplier		31.04%
Five largest suppliers in aggregate		78.79%

At no time during the year have the Directors, their associates (as defined in the GEM Listing Rules) or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and suppliers of the Group.

RESULTS

Details of the Group's results for the year ended 30th June, 2002 are set out in the consolidated income statement on page 33 of this annual report.

DIVIDEND

The Directors has recommended the payment of a final dividend of HK\$0.022 (approximately equivalent to RMB0.023) per share for the year ended 30th June, 2002, subject to shareholders' approval at the forthcoming annual general meeting to be held on 25th October, 2002, to the shareholders whose names appear on the Register of Members of the Company on 25th October, 2002 and payable on around 7th November, 2002. No interim dividend was declared for the six months ended 31st December, 2001 (2000: Nil).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 20 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the date of listing since 31st January, 2002 up to the year ended 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws of Bermuda.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 30th June, 2002 are set out in note 14 to the financial statements.

FIXED ASSETS

Details of the movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

INTANGIBLE ASSETS

Details of the movements in the intangible assets of the Group during the year are set out in note 13 to the financial statements.

COMMITMENTS

Particulars of the commitments of the Group as at 30th June, 2002 are set out in note 24 to the financial statements.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme"), was adopted pursuant to a resolution passed on 3rd January, 2002 for the primary purpose of providing incentives to eligible person (as defined in the Share Option Scheme), and will expire on 2nd January, 2012. Under the Share Option Scheme, the Company may grant options to any person who is a director (including the independent non-executive directors of the Company) or employee, whether full-time or part-time, of the Company or any of its subsidiaries to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue as at the date of approval of the Share Option Scheme. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible person in any 12-month period shall not exceed 1% of the shares of the Company in issue. Any further grant of options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 21 days from the offer date, upon payment of HK\$1.00 per option. Options shall be exercised after one year from the offer date of the share option to a period to be notified by the Board of Directors to each grantee at the time of making such offer, and shall expire on the earlier of the last day of (i) a 10 year period from the date of such grant and (ii) 10 years from 3rd January, 2002. The subscription price is determined by the Board of Directors in its absolute discretion which, in any event, shall not be less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of that option, which must be a business day; (b) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of that option. If the Company is listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing; and (c) the nominal value for the time being of each share.

During the year ended 30th June, 2002, no option was granted under the Share Option Scheme.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30th June, 2002 are set out in note 23 to the financial statements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Before the listing of the Company's shares on GEM, the Company had entered into the following agreements with Mr. Li Han Chun ("Mr. Li"), the Executive Director of the Company:—

- (1) an agreement dated 10th December, 1999 by which Mr. Li as assignor assigned and transferred the energy-saving technologies used in commercial buildings in the PRC at a consideration of RMB7,000,000 to the Group;
- (2) an agreement dated 15th June, 2000 by which Mr. Li as assignor assigned and transferred the technologies in relation to energy-saving for industrial water circulation system at a consideration of RMB8,000,000 to the Group (together with RMB7,000,000 stated in (1) above, the "aggregate consideration"); and
- (3) an assignment dated 31st August, 2001 by which Mr. Li as assignor assigned and transferred to the Group the application right under the utility model patent application in relation to the variable frequency control systems for water pump system in central air-conditioning system for nil consideration.

Mr. Li and the Group confirmed that the aggregate considerations involved in (1) and (2) above were settled in cash and were determined by the Directors on the basis of nominal value of future cash flows.

These connected transactions were completed and therefore will not constitute continuing connected transaction of the Company under the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules") upon the listing of the Company's shares on 31st January, 2002.

DIRECTORS

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

Executive Directors

Mr. Shum Fong Chung	(Appointed on 26th September, 2001)
Mr. Li Han Chun	(Appointed on 26th September, 2001)
Ms. Lin Rong Ying	(Appointed on 26th September, 2001)

Independent Non-executive Directors

Mr. Shi Jian Hui	(Appointed on 26th September, 2001)
Ms. Tsang Hiu Fung	(Appointed on 26th September, 2001 and Resigned on 19th August, 2002)
Mr. Hon Wa Fai	(Appointed on 19th August, 2002)

In accordance with bye-laws 86 and 87 of the Company's Bye-Laws, Mr. Li Han Chun and Mr. Hon Wa Fai will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors has entered into a service agreement with the Company for an initial term of three years commencing on 31st January, 2002 and shall continue thereafter unless and until terminated by either party giving the other not less than three months prior written notice.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for a term of three year commencing on 3rd January, 2002 and 19th August, 2002 respectively and shall continue thereafter unless and until terminated by either party giving the other not less than three months prior written notice.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2002, according to the register to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Company's directors, chief executives and their associates in the securities of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

Name of Director	Number of shares				Total	Percentage of Interests
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Shum Fong Chung	243,000,000	–	–	–	243,000,000	58.55%

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June, 2002, so far as are known to the Directors, Mr. Shum Fong Chung (as disclosed in the heading "Directors' Interests in Securities" above) is the only person recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the nominal value of the issued share capital of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Pursuant to the Company's Share Option Scheme (as disclosed in the heading "Share Option Scheme" above), the Company may grant options to any person who is a director (including the independent non-executive directors of the Company) or employee, whether full-time or part-time, of the Company or any of its subsidiaries to subscribe for shares in the Company. During the year ended 30th June, 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, as at 30th June, 2002, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associate corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company (including their spouses or children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either 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 or the management shareholder of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

INTEREST OF SPONSORS

As updated and notified by the Company's sponsor, JS Cresvale International Limited ("JS Cresvale"), neither JS Cresvale nor its directors, employees or associates had any interest in the share capital of the Company as at 30th June, 2002 pursuant to Rules 6.35 and 18.45 of the GEM Listing Rules.

The Company had entered into a sponsorship agreement with Celestial Capital Limited ("Celestial") on 24th January, 2002 appointing Celestial as the sponsor of the Company for the provision of services as stipulated in the sponsorship agreement dated 24th January, 2002. Celestial had ceased to be the Company's sponsor on 31st March, 2002.

Pursuant to the new sponsorship agreement entered into between the Company and 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 new sponsorship agreement is terminated upon the terms and conditions as set out therein.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 68 of the annual report.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 31st January, 2002.

AUDIT COMMITTEE

The Company has established an audit committee on 3rd January, 2002 with written terms of reference which deal clearly with its authority and duties. The primary duties of the audit committee include reviewing the Company's annual report and accounts, half-year report and quarterly reports and providing advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures of the Group.

On 19th August, 2002, Ms. Tsang Hiu Fung resigned as the Independent Non-executive Director of the Company on her own accord. On the same day, Mr. Hon Wa Fai was appointed as the Independent Non-executive Director of the Company. Henceforth, the members of the audit committee comprises Mr. Shi Jian Hui and Mr. Hon Wa Fai. The audit committee had met two times during the year to review and discuss the interim results for the six months ended 31st December, 2001 and the third quarterly results for the nine months ended 31st March, 2002. Also, the audit committee had met once to review the audited final results for the year ended 30th June, 2002.

AUDITORS

The financial statements for the year were audited by Charles Chan, Ip & Fung CPA Ltd. who retire at the conclusion of the forthcoming annual general meeting, and being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Ltd. as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Shum Fong Chung

Chairman

Hong Kong, 20th September, 2002

AUDITORS' REPORT



Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF CREATIVE ENERGY SOLUTIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30th June, 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.

Certified Public Accountants

Hong Kong

20th September, 2002

Chan Wai Dune, Charles

Practising Certificate Number P00712

CONSOLIDATED INCOME STATEMENT

For the year ended 30th June, 2002
(Expressed in Renminbi)

ANNUAL REPORT 2002

	Note	2002 RMB'000	2001 RMB'000
Turnover	3	117,599	31,899
Cost of services		(37,218)	(7,937)
Gross profit		80,381	23,962
Other revenue	4	134	168
Distribution costs		(11,219)	(2,130)
Administrative expenses		(10,126)	(2,747)
Other operating expenses		(9,763)	(2,320)
Profit from operations		49,407	16,933
Finance costs		(130)	(193)
Profit from ordinary activities before taxation	5	49,277	16,740
Taxation	6(a)	(1,450)	–
Profit attributable to shareholders	9	47,827	16,740
Proposed final dividend	10	9,678	–
Earnings per share			
Basic	11(a)	RMB13.74 cents	RMB5.58 cents

No separate consolidated statement of recognised gains and losses has been prepared as the profit attributable to the shareholders would be the only component of this statement for both the current and prior years.

The notes on pages 38 to 67 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 30th June, 2002
(Expressed in Renminbi)

	Note	2002 RMB'000	2001 RMB'000
Non-current assets			
Fixed assets	12	7,380	6,299
Intangible assets	13	18,278	13,150
Deposit for acquisition of a subsidiary	15	21,200	–
Trade receivables	16	19,432	–
		66,290	19,449
Current assets			
Inventories	17	118	159
Trade and other receivables	18	47,464	7,666
Cash at banks and in hand		56,835	6,370
		104,417	14,195
Current liabilities			
Trade and other payables	19	2,572	1,472
Short-term bank loans		–	2,000
Taxation	6(b)	1,336	1,970
		3,908	5,442
Net current assets		100,509	8,753
Net assets		166,799	28,202
Capital and reserves			
Share capital	20	43,990	10,959
Reserves	22	122,809	17,243
		166,799	28,202

Approved and authorised for issue by the board of directors on 20th September, 2002

Shum Fong Chung
Director

Lin Rong Ying
Director

The notes on pages 38 to 67 form part of these financial statements.

BALANCE SHEET

As at 30th June, 2002
(Expressed in Renminbi)

ANNUAL REPORT 2002

	Note	2002 RMB'000
Non-current assets		
Investments in subsidiaries	14	52,626
Deposit for the acquisition of a subsidiary	15	21,200
		73,826
Current assets		
Trade and other receivables	18	52,756
Cash at banks and in hand		14,427
		67,183
Current liabilities		
Trade and other payables	19	1,782
		65,401
Net current assets		
		139,227
Net assets		
Capital and reserves		
Share capital	20	43,990
Reserves	22	95,237
		139,227

Approved and authorised for issue by the board of directors on 20th September, 2002

Shum Fong Chung

Director

Lin Rong Ying

Director

The notes on pages 38 to 67 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2002
(Expressed in Renminbi)

	2002		2001	
	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit from ordinary activities before taxation	49,277		16,740	
Adjustments for:				
Depreciation of fixed assets	2,638		904	
Amortisation of intangible assets	1,596		1,500	
Finance costs	130		193	
Interest income	(134)		(35)	
Provision for bad and doubtful debts	2,732		–	
Operating profit before changes in working capital	56,239		19,302	
Decrease/(increase) in inventories	41		(46)	
Increase in debtors, deposits and prepayments	(52,210)		(3,621)	
Increase/(decrease) in creditors and accrued charges	1,100		(7,957)	
Decrease/(increase) in other tax payables	(929)		1,727	
Cash generated from operations	4,241		9,405	
Tax paid				
PRC enterprise income tax paid	(1,155)		–	
Net cash from operating activities		3,086		9,405
Investing activities				
Payment for purchase of fixed assets	(3,719)		(3,694)	
Payment for purchase of intangible assets	(6,724)		–	
Payment for deposit for the acquisition of a subsidiary	(21,200)		–	
New loan raised	(43,672)		–	
Loan repaid	33,920		–	
Interest received	134		35	
Net cash used in investing activities		(41,261)		(3,659)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2002
(Expressed in Renminbi)

ANNUAL REPORT 2002

	2002		2001	
	RMB'000	RMB'000	RMB'000	RMB'000
Financing activities				
Proceeds from issuance of share capital	109,710		–	
Payment for share issuance expenses	(18,940)		–	
Repayment of short-term bank loans	(2,000)		(600)	
Interest paid	(130)		(193)	
Net cash from/(used in) financing activities		88,640		(793)
Net increase in cash and cash equivalents		50,465		4,953
Cash and cash equivalents at 1st July		6,370		1,417
Cash and cash equivalents at 30th June		56,835		6,370
Analysis of the balances of cash and cash equivalents at 30th June:				
Cash at banks and in hand		56,835		6,370

The notes on pages 38 to 67 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1. Group Reorganisation and Basis of Presentation of Financial Statements

(a) Reorganisation

The Company was incorporated in Bermuda on 29th August, 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company became the holding company of the Group on 3rd January, 2002 through a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acquired by share exchange the entire share capital of Bell Investment Holdings (H.K.) Limited ("Bell Investment"), the then holding company of the subsidiaries included in the Reorganisation, and hereby became the holding company of the companies now comprising the Group.

Further details of the Reorganisation are set out in the prospectus dated 24th January, 2002 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 14 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 31st January, 2002.

(b) Basis of presentation of financial statements

On 3rd January, 2002, the Company became the holding company of the other companies comprising the Group pursuant to the Reorganisation involving companies under common control. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 30th June, 2002, rather than from the date on which the Reorganisation was completed, except for any acquisitions or disposals subsequent to the Reorganisation, which are accounted for under the acquisition basis of accounting. The comparative figures as at and for the year ended 30th June, 2001 have been presented on the same basis.

The Company was incorporated on 29th August, 2001. During the year ended 30th June, 2001, the Company had not yet set up and accordingly, no comparative figures is presented in respect of the Company's balance sheet at 30th June, 2001.

The measurement basis used in the preparation of the financial statements is historical cost.

2. Significant Accounting Policies**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the disclosure requirements of the Listing Rules of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 30th June each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

As explained in note 1, on 3rd January, 2002, the Company became the holding company of the Group. The Group has been treated as a continuing entity and accordingly the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the whole of the year ended 30th June, 2002, rather than from 3rd January, 2002. Accordingly, the results and cash flows of the Group for the year ended 30th June, 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1st July, 2001 or since their respective dates of incorporation, where this is a shorter period.

The figures as at and for the year ended 30th June, 2001 have been presented on the same basis.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

2. Significant Accounting Policies (continued)

(c) Subsidiaries (continued)

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(f)) and impairment losses (see note 2(g)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

2. Significant Accounting Policies *(continued)*

(e) Intangible assets

- (i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation (see note 2(f)) and impairment losses (see note 2(g)). Other development expenditure is recognised as an expense in the period in which it is incurred.

- (ii) Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (see note 2(f)) and impairment losses (see note 2(g)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.
- (iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

(f) Amortisation and depreciation

- (i) Depreciation is calculated to write off the cost less estimated residual value of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	shorter of useful lives or lease terms
Furniture and equipment	5 years
Motor vehicles	5 years

- (ii) Amortisation of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives of not exceeding ten years from the date when the assets are available for use.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

2. Significant Accounting Policies (continued)

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- investments in subsidiaries; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in-first-out basis of accounting and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

2. Significant Accounting Policies *(continued)***(h) Inventories** *(continued)*

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Service contracts

The accounting policy for the revenue derived from system design and integration services is set out in note 2(l)(i). When the outcome of a service contract can be estimated reliably, contract costs are recognised as expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a service contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Service contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability) as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

2. Significant Accounting Policies (continued)

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the income statement as follows:

(i) *System design and integration services*

Revenue arising from the provision of system design and integration services is recognised by reference to the stage of completion of the work at the balance sheet date. Stage of completion is generally determined by reference to the service performed to date as a proportion of total services. Revenue is usually recognised when the degree to the completion is around 80% of the total project work. Revenue is stated after deduction of PRC business and value added taxes and government surcharge.

(ii) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the interest rate applicable.

(m) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

2. Significant Accounting Policies *(continued)***(n) Translation of foreign currencies**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Renminbi. For the purpose of consolidation, the results and balance sheet items of subsidiaries with functional currencies other than Renminbi are translated into Renminbi at the applicable rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in the exchange reserve. There was no material exchange differences arising on translation during the years ended 30th June, 2002 and 2001.

(o) Retirement costs

The Group's contributions to the retirement benefit schemes are charged to the income statement when incurred.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

2. Significant Accounting Policies (continued)

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. Turnover

The Company acts as an investment holding company and the Group is principally engaged in the provision of system design and integration services in the People's Republic of China ("PRC").

Turnover represents revenue arising from the provision of system design and integration services, after deduction of 5% PRC business tax, 6% PRC value added tax and 0.119% government surcharges.

The Group's turnover and operating profit are entirely derived from the provision of system design and integration services in respect of energy management system ("EMS") solutions in the PRC. Accordingly, the directors consider that analysis by business and geographical segments are not required.

4. Other Revenue

	The Group	
	2002	2001
	RMB'000	RMB'000
Interest income from banks	134	35
Others	-	133
	134	168

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

ANNUAL REPORT 2002

5. Profit from Ordinary Activities before Taxation

Profit from ordinary activities before taxation is arrived at after charging:

	The Group	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Finance costs		
Interest on bank loans wholly repayable within five years	126	193
Interest on bank overdrafts	4	–
	<hr/>	<hr/>
Total borrowing costs	130	193
(b) Other items		
Cost of inventories	27,819	2,729
Staff costs (including directors' emoluments)	4,634	2,028
Depreciation of fixed assets	2,638	904
Amortisation of intangible assets	1,596	1,500
Operating lease rentals of premises	1,314	577
Research and development costs	4,574	808
Auditors' remuneration	461	641
Provision for bad and doubtful debts	2,732	–
Net exchange loss	118	–
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

6. Taxation

(a) Taxation in the consolidated income statement represents:

	The Group	
	2002	2001
	RMB'000	RMB'000
PRC enterprise income tax (see note (iii) below)	1,450	—

Notes:

(i) Overseas income tax

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not derive any income subject to Hong Kong profits tax during the years ended 30th June, 2002 and 2001.

(iii) PRC enterprise income tax

The Company's subsidiaries established in the PRC are wholly-owned foreign enterprises and subject to PRC enterprise income tax at a preferential rate of 15%. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction for the subsequent three years.

Fujian Traving Science & Technology of Saving Development Co., Ltd., a PRC subsidiary, became profitable after offsetting prior years' losses in the year of 2000 and, accordingly Fujian Traving Science & Technology of Saving Development Co., Ltd. was chargeable to PRC enterprise income tax at a rate of 7.5% for the year ended 30th June, 2002.

No provision for PRC enterprise income tax has been made in respect of the profit of Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd., a PRC subsidiary, as it was exempted from PRC enterprise income tax during the year.

No provision for PRC enterprise income tax has been made for the year in the accounts of Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd., a PRC subsidiary, as this subsidiary sustained loss for taxation purposes.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

6. Taxation (continued)

(a) Taxation in the consolidated income statement represents: (continued)

- (iv) PRC business tax, value added tax and government surcharges

Fujian Traving Science & Technology of Saving Development Co., Ltd. and Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd., PRC subsidiaries, are subject to PRC business tax at 5% of the revenue from system design and integration services. In addition, Fujian Traving Science & Technology of Saving Development Co., Ltd. is also subject to PRC government surcharges at 0.119% of the revenue from system design and integration services.

Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd., a PRC subsidiary, is subject to PRC value added tax ("VAT") at 6% of the revenue from system design and integration services.

- (v) Deferred taxation

No provision for deferred taxation for both years has been made as the effect of all timing differences is immaterial.

(b) Taxation in the consolidated balance sheet represents:

	The Group	
	2002	2001
	RMB'000	RMB'000
Provision for PRC enterprise income tax for the current year	1,450	—
PRC enterprise income tax paid	(1,155)	—
	295	—
Other tax payables	1,041	1,970
	1,336	1,970

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

7. Directors' Remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Fees	64	–
Salaries and other emoluments	836	26
Retirement scheme contributions	19	6
	919	32

Included in the directors' remuneration were fees of approximately RMB32,000 (2001: RMB Nil) and RMB32,000 (2001: RMB Nil) paid to the two independent non-executive directors respectively during the year.

During the year ended 30th June, 2002, the three executive directors received individual emoluments of approximately RMB396,000 (2001: RMB Nil), RMB240,000 (2001: RMB16,000) and RMB219,000 (2001: RMB16,000), respectively.

No directors waived any emoluments during the year. No incentive payments for joining the Group or compensation for loss of office was paid or is payable to any director for the year ended 30th June, 2002 (2001: RMB Nil).

The remuneration of the directors is within the following bands:

	The Group	
	Number of directors 2002	Number of directors 2001
RMB Nil – RMB1,060,000 (approximately equivalent to HK\$Nil – HK\$1,000,000)	5	3

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

8. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, three (2001: Nil) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2001: five) individuals are as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Salaries and other emoluments	572	81
Retirement scheme contributions	19	17
	<u>591</u>	<u>98</u>

During the year ended 30th June, 2002, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2001: RMB Nil).

The emoluments of the two (2001: five) individuals with the highest emoluments are within the following bands:

	The Group	
	Number of individuals 2002	Number of individuals 2001
RMB Nil – RMB1,060,000 (approximately equivalent to HK\$Nil to HK\$1,000,000)	<u>2</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

9. Profit Attributable to Shareholders

The consolidated profit attributable to shareholders includes a loss of approximately RMB2,515,000 (2001: RMB Nil) which has been dealt with in the financial statements of the Company.

10. Proposed Final Dividend

	2002	2001
	RMB'000	RMB'000
Proposed final dividend of HK\$0.022 (approximately equivalent to RMB0.023) per ordinary share (2001: RMB Nil)	9,678	–

11. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB47,827,000 (2001: RMB16,740,000) and the weighted average of 348,000,000 ordinary shares (2001: 300,000,000 ordinary shares prior to the public offer but after adjusting the effect of the capitalisation issue) in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence during the years ended 30th June, 2002 and 2001.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

12. Fixed Assets

	The Group			Total
	Leasehold improvements	Furniture and equipment	Motor vehicles	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost				
At 1st July, 2001	–	3,337	4,080	7,417
Additions	1,976	1,169	574	3,719
At 30th June, 2002	1,976	4,506	4,654	11,136
Accumulated depreciation				
At 1st July, 2001	–	318	800	1,118
Charge for the year	1,059	733	846	2,638
At 30th June, 2002	1,059	1,051	1,646	3,756
Net book value				
At 30th June, 2002	917	3,455	3,008	7,380
At 30th June, 2001	–	3,019	3,280	6,299

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

13. Intangible Assets

	Energy saving technologies for 'Savin 2000'
	<i>RMB'000</i>
Cost	
At 1st July, 2001	15,000
Additions	<u>6,724</u>
At 30th June, 2002	<u>21,724</u>
Accumulated amortisation	
At 1st July, 2001	1,850
Charge for the year	<u>1,596</u>
At 30th June, 2002	<u>3,446</u>
Net book value	
At 30th June, 2002	<u>18,278</u>
At 30th June, 2001	<u>13,150</u>

The amortisation charge for the year is included in "other operating expenses" in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

14. Investments in Subsidiaries

	2002
	RMB'000
Unlisted shares, at cost	52,626

The underlying value of the subsidiaries is, in the opinion of the Company's directors, not less than the carrying value as at 30th June, 2002.

Details of the subsidiaries as at 30th June, 2002 were as follows:

Name	Place of incorporation/ operations	Particulars of issued and paid-up share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	held by the Company	held by subsidiary	
Bell Investment Holdings (H.K.) Limited ("Bell Investment")	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US\$1 each	100%	100%	–	Investment holding
Wealth Field Investment Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US\$1 each	100%	100%	–	Investment holding
Easy Union Holdings Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US\$1 each	100%	100%	–	Investment holding
Creative Management (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	–	Provision of administrative services to the Group
Fujian Traving Science & Technology of Saving Development Co., Ltd. ("Fujian Traving")	The People's Republic of China	HK\$10,000,000	100%	–	100%	Provision of energy efficiency solutions and engineering consulting services

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

14. Investments in Subsidiaries (continued)

Name	Place of incorporation/ operations	Particulars of issued and paid-up share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	held by the Company	held by subsidiary	
Beijing Creative Easy Union Science & Technology of Saving Development Co. Ltd. ("Beijing Creative")	The People's Republic of China	HK\$31,000,000	100%	–	100%	Provision of energy efficiency solutions and engineering consulting services
Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd. ("Hainan Creative")	The People's Republic of China	HK\$1,000,000	100%	–	100%	Provision of energy efficiency solutions and engineering consulting services
Eternal Well Limited	British Virgin Islands	50,000 ordinary shares of US\$1 each	100%	100%	–	Not yet commenced business
Success Field Limited	British Virgin Islands	50,000 ordinary shares of US\$1 each	100%	100%	–	Not yet commenced business

None of the subsidiaries had any loan capital in issued at any time during the years ended 30th June, 2002 and 2001.

15. Deposit for Acquisition of a Subsidiary

In June 2002, the Company entered into a sale and purchase agreement with an independent third party to acquire 100% of the equity interest in Rising Dragon International Limited ("Rising Dragon") at a consideration of HK\$20,000,000 (equivalent to RMB21,200,000) on the condition that Rising Dragon holds 14% of the equity interest in a company engaging in the business of the manufacture and sale of energy-saving lighting products in the PRC. This transaction was completed on 17th July, 2002. As at 30th June, 2002, the amount of RMB21,200,000 was recorded as deposit for acquisition of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

16. Trade Receivables

At 30th June, 2002, the trade receivables were recoverable as follows:

	The Group	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	32,482	3,317
After 1 year but within 5 years	22,001	–
After 5 years	163	–
	54,646	3,317
Less: General provision	(2,732)	–
	51,914	3,317
Less: Current portion of trade receivables (note 18)	(32,482)	(3,317)
Non-current portion	19,432	–

The repayment of the trade receivable is according to the payment terms specified in each of the contracts.

An ageing analysis of gross trade receivables is as follows:

	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	12,246	268
1 to 3 months	17,738	2,111
More than 3 months but less than 12 months	24,457	938
More than 12 months	205	–
	54,646	3,317

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

17. Inventories

	The Group	
	2002	2001
	RMB'000	RMB'000
Consumable stores	118	159

As at 30th June, 2002 and 2001, none of inventories was stated at the estimated net realisable value.

18. Trade and Other Receivables

	The Group		The Company
	2002	2001	2002
	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	–	–	42,642
Rental and other deposits	1,433	1,260	–
Trade receivables (note 16)	32,482	3,317	–
Loan receivable	9,752	–	9,752
Other receivables	526	389	212
Prepayments	3,271	2,700	150
	47,464	7,666	52,756

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayments.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

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19. Trade and Other Payables

	The Group	The Company
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
	2002	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	394	–
Other payables and accruals	2,178	1,292
Receipts in advance	–	180
Amounts due to subsidiaries	–	–
	2,572	1,472
	1,782	

Amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis:

	The Group
	2002
	<i>RMB'000</i>
	2001
	<i>RMB'000</i>
Due within 1 month or on demand	394
	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

20. Share Capital

	The Group and the Company 2002	
	Number of shares	RMB,000
Authorised – Ordinary shares of HK\$0.10 (equivalent to RMB0.106) each:		
Upon incorporation of the Company <i>(note (a))</i>	100,000	106
Subdivision of shares into HK\$0.10 each <i>(note (b))</i>	900,000	–
Increase in authorised share capital <i>(note (c))</i>	999,000,000	105,894
	1,000,000,000	106,000
Issued and fully paid – Ordinary shares of HK\$0.10 (equivalent to RMB0.106) each:		
Issue of shares upon incorporation <i>(note (a))</i>	100,000	106
Subdivision of shares into HK\$0.10 each <i>(note (b))</i>	900,000	–
Issue of shares arising from the Reorganisation <i>(note (c))</i>	3,900,000	413
Issue of shares on initial public offering <i>(note (d))</i>	115,000,000	12,190
Capitalisation issue of shares <i>(note (e))</i>	295,100,000	31,281
At 30th June	415,000,000	43,990

The comparative share capital of the Group as at 30th June, 2001 shown on the consolidated balance sheet represented the issued share capital and share premium of Bell Investment at that date.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

20. Share Capital *(continued)*

Notes:

- (a) On 29th August, 2001, the Company was incorporated with an authorised share capital of HK\$100,000 (equivalent to RMB106,000), divided into 100,000 ordinary shares of HK\$1.00 each, all of which were issued at par, nil paid.
- (b) Pursuant to the written resolution passed by all the shareholders on 3rd January, 2002, by means of a sub-division of share capital, the par value to the ordinary shares of the Company was reduced from HK\$1.00 each to HK\$0.10 each, and each of the issued ordinary share of HK\$1.00 each in the capital was sub-divided into ten shares.
- (c) Pursuant to the written resolution passed by the shareholders on 3rd January, 2002, the authorised share capital of the Company was increased from HK\$100,000 (equivalent to RMB106,000) to HK\$100,000,000 (equivalent to RMB106,000,000) by the creation of an additional 999,000,000 ordinary shares of HK\$0.10 each ranking pari passu with the then existing ordinary shares in all respects.

On the same day, 3,900,000 ordinary shares of HK\$0.10 each were issued at par and credited as fully paid in connection with the Reorganisation referred to in Note 1 (a).

- (d) On 29th January, 2002, 115,000,000 ordinary shares of HK\$0.10 each were issued and offered for subscription at a price of HK\$0.90 (equivalent to RMB0.954) per ordinary share upon listing of the Company's shares on the GEM of the Stock Exchange, resulting in cash proceeds (net of share issuance expenses) of approximately HK\$85,632,000 (equivalent to RMB90,770,000).
- (e) On 29th January, 2002, share premium of HK\$29,510,000 (equivalent to RMB31,281,000) was capitalised for the issuance of 295,100,000 ordinary shares on a pro-rata basis to the Company's shareholders immediately before the initial public offering described in note (d) above.

21. Employee Share Options

The Company has an employee share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose, shares issued on exercise of options. The subscription price will be determined by the board of directors of the Company and will not be less than the highest of (i) the nominal value of the Company's shares, (ii) the average of the closing price of the shares quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the grant date and (iii) the closing price of the shares on the grant date. No options have been granted since the commencement of the share option scheme.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

22. Reserves

(a) The Group

	Share premium	Merger reserve (note (i))	General reserve (note (ii))	Enterprise expansion reserve (note (iii))	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st July, 2000	–	–	50	50	403	503
Profit attributable to shareholders	–	–	–	–	16,740	16,740
Transfer from retained profits	–	–	1,674	1,674	(3,348)	–
At 30th June, 2001 and 1st July, 2001	–	–	1,724	1,724	13,795	17,243
Effect of the Reorganisation (note 1(a))	–	10,440	–	–	–	10,440
Premium on issue of shares on initial public offering (note 20 (d))	97,520	–	–	–	–	97,520
Capitalisation issue of share (note 20 (e))	(31,281)	–	–	–	–	(31,281)
Share issuance expenses	(18,940)	–	–	–	–	(18,940)
Profit attributable to shareholders	–	–	–	–	47,827	47,827
Transfer from retained profits	–	–	4,285	5,856	(10,141)	–
At 30th June, 2002	47,299	10,440	6,009	7,580	51,481	122,809

Notes:

- (i) The Company was incorporated in Bermuda on 29th August, 2001 under the Companies Act 1981 of Bermuda and, through a group reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, became the holding company of the Group on 3rd January, 2002. The Group has been treated as a continuing entity and accordingly the consolidated financial statements for the year ended 30th June, 2002 were prepared on the basis that the Company was the holding company of the Group for the entire year, rather than from 3rd January, 2002. The merger reserve represents the excess value of the shares acquired over the nominal value of the shares issued in exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

22. Reserves (continued)

(a) The Group (continued)

Notes: (continued)

- (ii) According to the relevant rules and regulations in the PRC, each of the PRC subsidiaries is required to appropriate 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the fund reaches 50% of the PRC subsidiary's registered capital. Thereafter, any further appropriation can be made at the directors' discretion. The general reserve fund can be utilised to offset prior years' losses, or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Fujian Traving have proposed to transfer approximately RMB3,755,000 (2001: RMB1,674,000), 9% (2001: 10%) of the profit after taxation, to the general reserve fund for the year ended 30th June, 2002. Accordingly, the balance of such fund as at 30th June, 2002 has reached 50% of its registered capital.

The directors of Hainan Creative have proposed to transfer approximately RMB530,000 (2001: RMB Nil), 3% (2001: Nil) of the profit after taxation, to the general reserve fund for the year ended 30th June, 2002. Accordingly, the balance of such fund as at 30th June, 2002 has reached 50% of its registered capital.

The directors of Beijing Creative determined not to make any appropriation to the general reserve fund as this subsidiary has sustained loss for the year (2001: RMB Nil).

- (iii) According to the relevant rules and regulations in the PRC and the PRC subsidiary's articles of association. Each of PRC subsidiaries may appropriate a portion of its after-tax profit (after offsetting prior years' losses), based on the statutory financial statements of the PRC subsidiary, to an enterprise expansion reserve fund and a staff and workers' bonus and welfare fund at the directors' discretion.

Appropriation to staff and workers' bonus and welfare fund is charged to expenses as incurred. Such appropriations are determined at the discretion of the directors.

The directors of Fujian Traving and Hainan Creative have proposed to transfer 10% of the profit after taxation to the enterprise expansion reserve fund for the years ended 30th June, 2002 and 2001.

The directors of Beijing Creative determined not to make any appropriation to the enterprise expansion reserve fund as this subsidiary has sustained loss for the year ended 30th June, 2002.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

22. Reserves (continued)

(b) The Company

	Share premium	Contributed surplus	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st July, 2001	–	–	–	–
Arising on the acquisition of a subsidiary under the Reorganisation	–	50,453	–	50,453
Premium on issue of shares on initial public offering (note 20 (d))	97,520	–	–	97,520
Capitalisation of share premium (note 20 (e))	(31,281)	–	–	(31,281)
Share issuance expenses	(18,940)	–	–	(18,940)
Loss attributable to shareholders	–	–	(2,515)	(2,515)
At 30th June, 2002	47,299	50,453	(2,515)	95,237

The application of the share premium account is governed by the Companies Act 1981 of Bermuda ("Companies Act").

Pursuant to a group reorganisation during the year, the Company was incorporated on 29th August, 2001 and on 3rd January, 2002 the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.

As at 30th June, 2002, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately RMB47,938,000 subject to the restriction stated above.

The Company was incorporated on 29th August, 2001 and has not carried out any business since the date of its incorporation save for the transactions related to the Reorganisation. Accordingly, there was no reserve available for distribution to shareholders as at 30th June, 2001.

23. Retirement Benefits Schemes**Hong Kong**

Since 1st December, 2000, the Hong Kong subsidiary is required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Scheme Ordinance.

A new Mandatory Provident Fund scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme. Both the Group's and the employees' contributions are subject to a cap of HK\$1,000 per month and thereafter are voluntary. The Group's employer contributions vest fully with the employees when contributed to the scheme in accordance with the rules of the MPF Scheme. No forfeited contributions were utilised or available for the year.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employers' contributions vest fully once they are made.

Under the above scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

During the year ended 30th June, 2002, the aggregate amount of employers' contributions by the Group in respect of retirement benefits scheme dealt with in the consolidated income statement amounted to approximately RMB293,000 (2001: RMB315,000). As at 30th June, 2002, there was no forfeited contributions available to the Group to reduce contributions of staff retirement scheme in future years (2001: RMB Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

24. Commitments

- (a) Capital commitments outstanding at 30th June, 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	RMB'000	RMB'000
Contracted for		
– research and development projects	4,816	1,300
– acquisition of fixed assets	50	540
	<u>4,866</u>	<u>1,840</u>

- (b) At 30th June, 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company
	2002	2001	2002
	RMB'000	RMB'000	RMB'000
Within 1 year	2,182	196	96
After 1 year but within 5 years	369	471	32
	<u>2,551</u>	<u>667</u>	<u>128</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

25. Post Balance Sheet Events

- (a) Subsequent to the balance sheet date, the Company entered into two private placement subscription agreements on 26th August, 2002 and 27th August, 2002 in respect of the placement of 2.5% coupon bonds due on 31st August, 2007 with warrants attached, having an aggregate principal amount of US\$4,500,000 (equivalent to RMB37,000,000). Bondholders can exercise the subscription rights attaching to the warrants, in whole or in part, at any time commencing from 1st October, 2002 to 31st August, 2007 (both days inclusive) to subscribe for new shares of the Company at an initial subscription price of HK\$1.50 (equivalent to RMB1.59) per share, subject to adjustment. The net proceeds of approximately RMB35,000,000 were used to finance the working capital needs of 'Savin 2000 II' project.
- (b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

FINANCIAL SUMMARY

(Expressed in Renminbi)

	Years ended 30th June		Period from
	2002	2001	20/4/1999
	RMB'000	RMB'000	to 30/6/2000
			RMB'000
Results			
Turnover	117,599	31,899	4,478
Profit from operations	49,407	16,933	534
Finance costs	(130)	(193)	(31)
Profit from ordinary activities before taxation	49,277	16,740	503
Taxation	(1,450)	–	–
Profit attributable to shareholders	47,827	16,740	503
Dividends	9,678	–	–
Earnings per share			
– Basic	RMB13.74 cents	RMB5.58 cents	RMB0.17 cents
Assets and liabilities			
Fixed assets	7,380	6,299	
Other non-current assets	58,910	13,150	
Net current assets	100,509	8,753	
Net assets	166,799	28,202	
Share capital	43,990	10,959	
Reserves	122,809	17,243	
	166,799	28,202	

Note: The Reorganisation referred to note 1 to the financial statements has been reflected in the financial summary by treating the Company as having been the holding company of the Group for the earliest period presented.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Creative Energy Solutions Holdings Limited (the "Company") will be held at the Salon II, Ballroom Level, The Ritz-Carlton Hotel, Hong Kong, 3 Connaught Road Central, Hong Kong on Friday, 25th October, 2002 at 10:00 a.m. for the following purposes:

1. To receive and approve the audited consolidated financial statements and the reports of the directors and auditors of the Company (the "Directors" and the "Auditors", respectively) for the year ended 30th June, 2002;
2. To approve the final dividend for the year ended 30th June, 2002;
3. To re-elect the retiring Directors and to authorise the Board of Directors (the "Board") to fix the remuneration of the Directors;
4. To re-appoint Auditors and to authorise the Board to fix their remuneration; and

as special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions:

5A. **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares (each a "Share") of HK\$0.10 each in the capital of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase Shares at a price determined by the Directors;
- (c) the aggregate nominal amount of the Shares which are authorised to be purchased by the Directors pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said authority shall be limited accordingly;

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purposes of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s bye-laws, the Bermuda’s Companies Act or any other applicable law of Bermuda to be held; and
- (iii) the date upon which the authority set out in this resolution is revoked or varied by way of ordinary resolution of the Company in general meeting.”

5B. **“THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares (each a “Share”) in the capital of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval granted in paragraph (a), otherwise than pursuant to (i) a Rights Issue, or (ii) the share option scheme of the Company approved by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on Shares in accordance with the Company’s bye-laws, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution, and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purposes of this resolution:

“Relevant Period” shall have the same meaning as ascribed to it under resolution set out in paragraph 5A(d) of the notice convening this Meeting; and

“Rights Issue” means an offer of Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of the Shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange, in any territory outside Hong Kong).”

5C. **“THAT**:

conditional upon the passing of the resolutions set out in paragraphs 5A and 5B of the notice convening the Meeting, the general mandate granted to the Directors pursuant to the resolution set out in paragraph 5B of the notice convening the Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of share capital of the Company purchased by the Company under the authority granted pursuant to the resolution set out in paragraph 5A of the notice convening the Meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this resolution.”

6. To transact any other business.

By Order of the Board
Kam Ying Fai
Company Secretary

Hong Kong, 23rd September, 2002

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. The Register of Members of the Company will be closed from 18th October, 2002 (Friday) to 25th October, 2002 (Friday), both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, namely, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 17th October, 2002 (Thursday).
2. Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more separate proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
3. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's principal office in Hong Kong at Room 3407, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned Meeting.
4. With respect to the resolution set out in paragraph 5A of the notice, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to purchase shares of the Company.
5. With respect to the resolutions set out in paragraphs 5B and 5C of the notice, approval is being sought from shareholders of the Company for general mandates to be given to the Directors to allot, issue and deal with shares of the Company in accordance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.
6. An explanatory statement containing the information with respect to the resolutions set out in paragraphs 5A to 5C of the notice will be sent to the shareholders of the Company together with the Company's 2002 annual report.