



CREATIVE ENERGY SOLUTIONS HOLDINGS LTD.

科瑞控股有限公司



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FIRST
QUARTERLY
REPORT
2002/03

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

HIGHLIGHTS

- For the three months ended 30th September, 2002, the Group's turnover increased by approximately 60% over the corresponding period last year to approximately RMB28,759,000.
- Profit attributable to shareholders slightly decreased by approximately 5.8% over the corresponding period last year to approximately RMB10,009,000 for the three months ended 30th September, 2002.
- Earnings per share was RMB2.41 cents representing approximately 32% decrease compared to that of the corresponding period last year.
- The directors do not declare any dividend for the three months ended 30th September, 2002.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH SEPTEMBER, 2002

The Board of Directors (the "Board") of Creative Energy Solutions Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30th September, 2002 together with the comparative unaudited consolidated figures for the corresponding period in 2001, as set out below:

		For the three months ended 30th September, 2002 2001	
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	28,759	17,999
Cost of services		<u>(10,009)</u>	<u>(4,415)</u>
Gross profit		18,750	13,584
Other revenue		81	10
Distribution costs		(3,248)	(1,247)
General and Administrative expenses		<u>(5,364)</u>	<u>(1,684)</u>
PROFIT FROM OPERATING ACTIVITIES		10,219	10,663
Finance costs		<u>–</u>	<u>(39)</u>
PROFIT BEFORE TAXATION	3	10,219	10,624
Taxation	4	<u>(210)</u>	<u>0</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		10,009	10,624
Dividends		<u>–</u>	<u>–</u>
Earnings per share	5		
Basic (in RMB)		<u>2.41 cents</u>	<u>3.54 cents</u>

Notes:

1. Group reorganisation and basis of presentation

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

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

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

The measurement basis used in the preparation of the unaudited consolidated results is historical cost.

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

2. Turnover

The Group's turnover represented revenue generated from the provision of system design and integration services, after deducting 5% PRC business tax, 6% PRC value added tax (applicable only to Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd, a PRC subsidiary) and the 0.119% government surcharges which was no longer levied commencing from 1st January, 2002.

An analysis of turnover and revenue is as follows:

	For the three months ended 30th September,	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Fees for system design and integration services	28,759	17,999
Other revenue		
Bank interest income	81	10
	<u>28,840</u>	<u>18,009</u>

3. Profit before taxation

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

	For the three months ended 30th September,	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of fixed assets	<u>752</u>	<u>468</u>
Amortisation of intangible assets	<u>607</u>	<u>375</u>
Interest cost from bank borrowings	<u>0</u>	<u>39</u>

4. Taxation

	For the three months ended 30th September,	
	2002 RMB'000	2001 RMB'000
PRC enterprise income tax (see note (iii) below)	<u>210</u>	<u>—</u>
Taxation	<u><u>210</u></u>	<u><u>—</u></u>

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 in the accounts as the Group had no assessable profits arising in or derived from Hong Kong for the three months ended 30th September, 2002.

(iii) *PRC enterprise income tax*

All 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, they are exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior's years' tax losses, followed by a 50% reduction for the subsequent three years.

Fujian Traving Science & Technology of Saving Development Co., Ltd ("Fujian Traving"), a PRC subsidiary, was profitable for the three months ended 30th September, 2002 and, accordingly, was chargeable to PRC enterprise income tax at a rate of 7.5%.

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

No provision for PRC enterprise income tax has been made in respect of the profit arising from Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd ("Beijing Creative"), a PRC subsidiary, as its profit during the period was offsetting prior year's loss. In consequence, it was not chargeable to PRC enterprise income tax during the period.

No provision for PRC enterprise income tax has been made in the account of Creative Eternal Well Science & Technology of Saving Development (Shenzhen) Co., Ltd ("Shenzhen Creative"), a PRC subsidiary incorporated on 20th August, 2002, as this subsidiary sustained a loss during the period under review.

5. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders for the three months ended 30th September, 2002 of approximately RMB10,009,000 (2001: RMB10,624,000) with the weighted average number of 415,000,000 shares (2001: 300,000,000 shares prior to the public offer but after adjusting the effect of the capitalisation issue) in issue.

No diluted earnings per share for the three months ended 30th September, 2002 and 30th September, 2001 is presented as there were no dilutive ordinary shares in existence during the periods.

Pursuant to two Subscription Agreements signed on 27th August, 2002 and 26th August, 2002, the Company is in the progress of placing a Coupon Bonds with Warrants attached and the details of which could be referred to Announcements dated 30th August, 2002 and 16th September, 2002 respectively and the Discloseable Transaction Circular dated 5th September, 2002. Assuming full exercise of the Warrants and based on an initial Subscription Price of HK\$1.50 per Share, subject to adjustment, the Company will issue 24,000,000 new Subscription Shares, representing approximately 5.78% of the Company's total existing issued share capital and approximately 5.47% of the Company's issued share capital as enlarged by the issue of Subscription Shares upon full exercise of the Warrants.

6. Reserves

Movement of reserves are:

	Share Premium RMB'000	Merger reserve RMB'000	General reserve RMB'000	Enterprise expansion reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1st July, 2001	0	0	1,724	1,724	13,795	17,243
Profit for the period	0	0	0	0	10,624	10,624
Transfer from retained profit to reserve	0	0	1,062	1,062	(2,124)	0
At 30th September, 2001	<u>0</u>	<u>0</u>	<u>2,786</u>	<u>2,786</u>	<u>22,295</u>	<u>27,867</u>
At 1st July, 2002	47,299	10,440	6,009	7,580	51,481	122,809
Profit for the period	0	0	0	0	10,009	10,009
Transfer from retained profit to reserve	0	0	612	1,379	(1,991)	0
At 30th September, 2002	<u>47,299</u>	<u>10,440</u>	<u>6,621</u>	<u>8,959</u>	<u>59,499</u>	<u>132,818</u>

Notes:

(i) Merger reserve

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.

(ii) General reserve fund

PRC laws and regulations require wholly-owned foreign enterprises to provide for general reserve fund which is appropriated from profit after taxation but before dividend distributions. Fujian Traving and Hainan Creative, the subsidiaries, are required to allocate at least 10% of its profit after taxation to the fund until the balance of such fund has reached 50% of its registered capital. The fund can only be utilised, upon approval by the relevant PRC authority, to offset accumulated losses or be authorised to increase capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase. No general reserve fund was required for transfer in the accounts of Beijing Creative and Shenzhen Creative, the subsidiaries, as they were in the loss position until the period under review.

(iii) Enterprise expansion reserve fund

According to PRC relevant rules and regulations and the PRC subsidiary's articles of association, each of the subsidiary may appropriate a portion of its after-tax profit (after offsetting prior's years' losses), based on the statutory financial statements of the PRC subsidiary, to an enterprise expansion reserve fund for the collective welfare and benefits of staff and workers 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 period under review.

The directors of Beijing Creative and Shenzhen Creative determined not to make any transfer to the enterprise expansion reserve fund as they were under loss position as at 30th September, 2002.

DIVIDEND

The Board has resolved not to recommend the payment of any dividend for the three months ended 30th September, 2002 (2001: Nil).

BUSINESS REVIEW

Creative Energy Solutions Holdings Limited is one of the leading Energy Service Company (“ESCo”) specialising in Energy Management Systems (“EMS”) solutions in the PRC.

For the three months ended 30th September, 2002, the Group recorded encouraging results with a consolidated turnover of RMB28,759,000 (2001: RMB17,999,000) representing a growth of approximately 60%. The increase in turnover is due to the continued growing sales of “Savin 2000 I” and “Savin 2000 II”. The Group’s gross profit was RMB18,750,000 representing a slight decrease on the gross profit margin ratio to 65% from 75% in the same corresponding period last year. Earnings per share during the period under review was RMB2.41 cents (2001: RMB3.54 cents).

During the period under review, the Group implemented strategic geographical solutions. With the effort being put in the previous year, the Group successfully expanded into new markets such as Chongqing, Anhui, Zhejiang, Hainan, Nanjing and Fujian.

Targeting the high usage of air-conditioner in the southern PRC, the Group has introduced a concentrated and direct sales target to introduce the competitive advantages of the “Savin 2000” product series during the two conferences, in April and July, 2002, organised for 國家經濟貿易委員會 (“National Economic and Trade Committee”). The response was encouraging and preliminary discussion with several customers on-site was conducted.

In March 2002, an agreement was entered into between the Group and Public Heating Committee of Beijing Property Association. After the completion of phase 1 project on 30th June, 2002, which consist of 40 units, phase 2 projects have been commenced on 1st July, 2002 to 30th June, 2003, consisting of 120 units. As of 30th September, 2002, the total number of completed units for phase 1 and phase 2 under this agreement are 86.

In August 2002, the Group entered into two Subscription Agreements with two professional investors based in Switzerland and Germany to issue an aggregate principal amount of US\$4,500,000 (HK\$36,000,000) 2.5% Coupon Bonds with Warrants attached. The issue has been in progress. With the net proceeds derived from the above issue, it would be the Group's intention to finance the working capital needs for the "Savin 2000 II" project.

In order to capture the tremendous business opportunities in Southeast Asia and Hong Kong, the Group has already completed the internal restructuring in forming Creative Eternal Well Science & Technology of Saving (Shenzhen) Co., Ltd with all of its expertises aimed at serving the overseas market. Three feasibility studies on one commercial building and two hotels have completed as a starting point to step into the Hong Kong market. The Directors are confident that Hong Kong will be a new revenue centre of the Group.

In July, 2002, the Group acquired 14% interest in Golden Name International Ltd in order to launch an original environmental friendly lighting source product alongside other energy efficient goods in order to broaden its product range.

During the period under review, the Group started the ISO 9001-2000 accreditation and this accreditation is expected to finalise before December, 2002. 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"), proofing the excellent quality of the Group's products.

FINANCIAL PERFORMANCE

With the Group's tremendous effort being engaged for sales and marketing, the Group's turnover for the period ended 30th September, 2002 reached 60% increase over last year's corresponding figure to RMB28,759,000. The profit attributable to the shareholders for the period under review was in turn to be RMB10,009,000 representing slight decrease of 5.8% from last year's corresponding figure.

The reason for the decrease could be attributed to three main areas:

- i) Firstly, the turnover mix between "Savin 2000 II" and "Savin 2000 I" for the three months ended 30th September, 2002 was 65 % and 35% respectively and each of their profit margin are 61% and 75% respectively. As a result, the overall gross profit margin ratio averaged at 65% comparing to 75% gross profit margin ratio with turnover full of "Savin 2000 I" for the same corresponding period in last year.

- ii) The second area lay on the sharp increase on the advertising and promotion expenses by around RMB1,060,000 for the period under review in order to comply the marketing strategy of the Group as disclosed in the Prospectus dated 24th January, 2002.
- iii) Since the Group has been listed on GEM on 31st January, 2002, it is the Group's intention to better manage its expansion coupled with full compliance with the listing requirement. It shall inevitably incur legal and professional charges amounting to approximately RMB1,400,000 (2001: nil) for the three months ended 30th September, 2002 to fulfill the compliance requirements.

Future Prospects

The Group will make continuous efforts to invest into Research & Development ("R&D"). As the Group aims to better meet market demand, it will improve "Savin 2000 I" and "Savin 2000 II", including R&D on new value-added energy efficiency technologies as well as on the industrial water circulation system for "Savin 2000 III". As the sales performance of both "Savin 2000 I" and "Savin 2000 II" are satisfactory, the Group plans to officially launch "Savin 2000 III" when the market becomes more mature.

For business development, the Group will operate with an efficient sales and marketing strategy by aiming specific potential customers. On the commercial side, the Group will focus on introducing the energy saving technology to potential customers 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 eco projects in Beijing and will also promote its successful product installation experience to eco offices in other areas in attempt to obtain more eco projects in the northern cities.

For overseas expansion, the Group is focusing on 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 as well as employing and redistributing technical consultants and engineers. Primary project discussions with many of them have been undergoing and have directed these projects to internal departments for follow-up.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2002, according to the register kept by the Company 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:

The Company

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 3rd January, 2002, the Company had conditionally adopted a Share Option Scheme pursuant to which 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, may be granted option to subscribe for shares of the Company. During the three months ended 30th September, 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the three months ended 30th September, 2002 was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SDI Ordinance or to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the three months ended 30th September, 2002, none of the directors or the management shareholder of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th September, 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 percent or more of the nominal value of the issued share capital of the Company.

SHARE OPTION SCHEME

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

During the three months ended 30th September, 2002, no option was granted by the Company under the Share Option Scheme.

INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, JS Cresvale International Limited ("JS Cresvale"), as at 30th September, 2002, neither JS Cresvale nor its directors, employees and associates had any interest in the share capital of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the 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 sponsorship agreement is terminated upon the terms and conditions as set out therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 30th September, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 are to review and to supervise the financial reporting process and internal control procedures of the Group and to provide advice and comments to the directors of the Company.

The audit committee comprises two independent non-executive directors, namely, Mr. Shi Jian Hui and Mr. Hon Wa Fai. The audit committee had met four times since its formation.

On behalf of the Board
Creative Energy Solutions Holdings Limited
Shum Fong Chung
Chairman

Hong Kong, 13th November, 2002