



**Creative Energy Solution Holdings Limited**

( Incorporated in Bermuda with limited liability )

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

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This report, for which the directors of Creative Energy Solutions Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.

**SUMMARY**

Revenue achieved approximately RMB52,896,000 for the six months ended 31st December, 2002, representing an increase of approximately 4.6% when compared with the same period in 2001.

Profit attributable to shareholders for the six months ended 31st December, 2002 amounted to approximately RMB12,974,000 representing a decrease of 43% when compared with the same period in 2001.

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2002.

Basic earnings per share was RMB3.13 cents for the six months ended 31st December, 2002.

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2002**

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

**CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

	Notes	Three months ended		Six months ended	
		31st December,		31st December,	
		2002	2001	2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER, net	2	<b>24,137</b>	32,554	<b>52,896</b>	50,553
Cost of services		<b>(8,614)</b>	(12,193)	<b>(18,623)</b>	(16,608)
Gross profit		<b>15,523</b>	20,361	<b>34,273</b>	33,945
Other revenue		<b>97</b>	10	<b>178</b>	16
Distribution costs		<b>(2,791)</b>	(2,020)	<b>(6,040)</b>	(3,268)
General and Administrative expenses		<b>(6,518)</b>	(6,054)	<b>(11,880)</b>	(7,844)
PROFIT FROM OPERATING ACTIVITIES		<b>6,311</b>	12,297	<b>16,531</b>	22,849
Finance costs		<b>(3,263)</b>	(44)	<b>(3,263)</b>	(79)
PROFIT BEFORE TAXATION	3	<b>3,048</b>	12,253	<b>13,268</b>	22,770
Taxation	4	<b>(84)</b>	—	<b>(294)</b>	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>2,964</b>	12,253	<b>12,974</b>	22,770
Earnings per share					
Basic (in RMB)	5	<b>0.71 cents</b>	4.08 cents	<b>3.13 cents</b>	7.59 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>31st December, 2002 (Unaudited) RMB'000</b>	30th June, 2002 (Audited) RMB'000
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets			
Fixed assets		<b>6,120</b>	7,380
Intangible assets		<b>18,045</b>	18,278
Other investment	6	<b>21,200</b>	—
Deposit for acquisition of a subsidiary		<b>—</b>	21,200
Trade receivables — non current portion	7	<b>25,546</b>	19,432
		<b>70,911</b>	66,290
Current assets			
Inventories		<b>2,592</b>	118
Trade receivables — current portion	7	<b>37,356</b>	32,482
Prepayments, deposits and other receivables		<b>5,681</b>	5,230
Loan receivables		<b>12,932</b>	9,752
Cash & bank balance		<b>81,256</b>	56,835
		<b>139,817</b>	104,417
<b>LIABILITIES</b>			
Current liabilities			
Trade payables	8	<b>815</b>	394
Other payables & accruals		<b>2,027</b>	2,178
Receipts in advance		<b>258</b>	—
Taxation Payable		<b>327</b>	1,336
Coupon bonds — current portion	9	<b>7,441</b>	—
		<b>10,868</b>	3,908
Net current assets		<b>128,949</b>	100,509
<b>Total assets less current liabilities</b>		<b>199,860</b>	166,799
<b>Non-current liabilities</b>			
Coupon bonds — non current portion	9	<b>29,765</b>	—
<b>NET ASSETS</b>		<b>170,095</b>	166,799
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>43,990</b>	43,990
Reserves	10	<b>126,105</b>	122,809
		<b>170,095</b>	166,799

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR  
THE SIX MONTHS ENDED 31ST DECEMBER, 2002**

	Share capital	Share premium	Enterprise			Retained profit	Total
			Merger reserve	General reserve	expansion reserve		
	RMB'000	RMB'000	(note 10(i)) RMB'000	(note 10(ii)) RMB'000	(note 10(iii)) RMB'000	RMB'000	RMB'000
At 1st July, 2001	10,959	0	0	1,724	1,724	13,795	28,202
Profit for the period	0	0	0	0	0	22,770	22,770
Transfer from retained profit to reserve	0	0	0	2,277	2,277	(4,554)	0
At 31st December, 2001	<u>10,959</u>	<u>0</u>	<u>0</u>	<u>4,001</u>	<u>4,001</u>	<u>32,011</u>	<u>50,972</u>
At 1st July, 2002	43,990	47,299	10,440	6,009	7,580	51,481	166,799
Profit for the period	0	0	0	0	0	12,974	12,974
2001 final dividend paid	0	0	0	0	0	(9,678)	(9,678)
Transfer from retained profit to reserve	0	0	0	715	2,669	(3,384)	0
At 31st December, 2002	<u>43,990</u>	<u>47,299</u>	<u>10,440</u>	<u>6,724</u>	<u>10,249</u>	<u>51,393</u>	<u>170,095</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	Six months ended 31st December,			
	2002		2001	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Operating activities</b>				
Profit from ordinary activities before taxation	<b>13,268</b>		22,770	
Adjustments for:				
Depreciation of fixed assets	<b>1,491</b>		1,137	
Amortisation of intangible assets	<b>1,234</b>		750	
Finance costs	<b>3,263</b>		79	
Interest income	<b>(178)</b>		(16)	
	<hr/>		<hr/>	
<b>Operating profit before changes in working capital</b>	<b>19,078</b>		24,720	
Increase in inventories	<b>(2,474)</b>		(1,436)	
Increase in debtors, deposits and prepayments	<b>(11,440)</b>		(21,542)	
Increase in creditors and accrued charges	<b>529</b>		1,765	
Decrease in other tax payables	<b>(799)</b>		(1,236)	
	<hr/>		<hr/>	
<b>Cash generated from operations</b>	<b>4,894</b>		2,271	
Tax paid				
PRC enterprise income tax paid	<b>(505)</b>		—	
	<hr/>		<hr/>	
<b>Net cash from operating activities</b>		<b>4,389</b>		2,271
<b>Investing activities</b>				
Payment for purchase of fixed assets	<b>(231)</b>		(1,912)	
Payment for purchase of intangible assets	<b>(1,000)</b>		—	
New loan raised	<b>(3,180)</b>		—	
Interest received	<b>178</b>		16	
	<hr/>		<hr/>	
<b>Net cash used in investing activities</b>		<b>(4,233)</b>		(1,896)
<b>Financing activities</b>				
Proceeds from issuance of coupon bonds	<b>37,206</b>		—	
Payment for coupon bonds issuance expenses	<b>(3,108)</b>		—	
Dividends paid	<b>(9,678)</b>		—	
Interest paid	<b>(155)</b>		(79)	
	<hr/>		<hr/>	

	Six months ended			
	2002		2001	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Net cash from/(used in) financing activities</b>		<b>24,265</b>		(79)
<b>Net increase in cash and cash equivalents</b>		<b>24,421</b>		296
<b>Cash and cash equivalents at 1st July,</b>		<b>56,835</b>		6,370
<b>Cash and cash equivalents at 31st December,</b>		<b>81,256</b>		6,666
<b>Analysis of the balances of cash and cash equivalents at 31st December:</b>				
Cash at banks and in hand		<b>81,256</b>		6,666

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 condensed consolidated accounts 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 condensed consolidated accounts.

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



The unaudited condensed consolidated accounts of the Group have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” 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. The accounting policies are consistent with those followed in the preparation of the Group’s latest financial statements dated 20th September, 2002.

## 2. Turnover and segment information

The consolidated turnover of the Group 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:

	Three months ended		Six months ended	
	31st December, 2002	2001	31st December, 2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
fees for system design and integration services*	<b>24,137</b>	32,554	<b>52,896</b>	50,553
Other revenue				
Bank interest income	<b>97</b>	10	<b>178</b>	16
	<b>24,234</b>	32,564	<b>53,074</b>	50,569

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

### 3. Profit before taxation

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

	Three months ended		Six months ended	
	31st December, 2002	2001	31st December, 2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of fixed assets	<b>739</b>	669	<b>1,491</b>	1,137
Amortisation of intangible assets	<b>627</b>	375	<b>1,234</b>	750
Interest cost from bank borrowings	—	44	—	79
Interest cost from coupon bonds	<b>155</b>	—	<b>155</b>	—

### 4. Taxation

	Three months ended		Six months ended	
	31st December, 2002	2001	31st December, 2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
PRC enterprise income tax	<b>84</b>	—	<b>294</b>	—
Taxation	<b>84</b>	—	<b>294</b>	—

(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 Hong Kong profits tax was provided for as the Group did not generate any assessable profits arising in or derived from Hong Kong for the period ended 31st December, 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 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 six months ended 31st December, 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 under review.

No provision for PRC enterprise income tax has been made in the account of Shenzhen Creative Eternal Well Science & Technology of Saving Development Co., Ltd (“Shenzhen Creative”), a PRC subsidiary incorporated on 20th August, 2002, as this subsidiary sustained a tax 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 of approximately RMB2,964,000 (2001: RMB12,253,000) for the three months ended 31st December, 2002 and of approximately RMB12,974,000 (2001: RMB22,770,000) for the six months ended 31st December, 2002 divided by 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 capitalization issue) in issue.

Diluted earning per share is not presented as the exercise of the potential ordinary shares of the Company would be anti-dilutive during the period under review.

## 6. Other investment

In June 2002, the Company had entered into a sale and purchase agreement (“Agreement”) with an independent third party to acquire 100% equity interest in Rising Dragon International Limited (“Rising Dragon”) at a consideration of HK\$20,000,000 (equivalent to RMB21,200,000). Pursuant to the Agreement, Rising Dragon is to own 14% equity interest in Golden Name Lighting Technical Limited (“Golden Name”) with a cost of investment at RMB21,200,000. Golden Name is a wholly-owned foreign enterprise, and is engaging in the business of manufacture and sale of energy-saving lightings product in the PRC. The Agreement was completed on 17th July, 2002. Deposit for the acquisition of the subsidiary, Rising Dragon, amounted to RMB21,200,000 as at 30th June, 2002 has been reclassified as a long-term investment of the Company upon the completion of the Agreement.

## 7. Trade receivables

The trade receivables shall be recoverable as follows:

	<b>At 31st December,</b> <b>2002</b> <b>RMB'000</b>	At 30th June, 2002 RMB'000
Within 1 year	<b>37,356</b>	32,482
After 1 year but within 5 years	<b>28,115</b>	22,001
After 5 years	<b>163</b>	163
	<b>65,634</b>	54,646
Less: General provision	<b>(2,732)</b>	(2,732)
	<b>62,902</b>	51,914
Less: Current portion of trade receivables	<b>(37,356)</b>	(32,482)
Non-current portion	<b>25,546</b>	19,432

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

An ageing analysis of gross trade receivables (consolidated) is as follows:

	<b>At 31st December,</b> <b>2002</b> <b>RMB'000</b>	At 30th June, 2002 RMB'000
Within 1 month	<b>4,741</b>	12,246
1 to 3 months	<b>8,420</b>	17,738
More than 3 months but less than 12 months	<b>40,532</b>	24,457
More than 12 months	<b>11,941</b>	205
	<b>65,634</b>	54,646

## 8. Trade payables

An ageing analysis of trade payables (consolidated) is as follows:

	<b>At 31st December, 2002 RMB'000</b>	At 30th June, 2002 RMB'000
Due within 1 month or on demand	<b>815</b>	394

## 9. Coupon bonds

Pursuant to two subscription agreements dated 26th August, 2002 and 27th August, 2002 respectively in respect of the placement of 2.5% coupon bonds due on 1st November, 2007 with warrants attached, having an aggregate principal amount of US\$4,500,000 (equivalent to RMB37,206,000). The first repayment of the principal amount will be due on 1st November, 2003 in the amount of US\$900,000 (equivalent to RMB7,441,200) and the balance of US\$3,600,000 (equivalent to RMB29,764,800) will be yearly repaid evenly until November 2007. Bondholders can exercise the subscription rights attaching to the warrants, expiring on 1st November, 2007, to subscribe for subscription shares of the Company at an initial subscription price of HK\$1.50 per share, subject to adjustment. Assuming full exercise of the warrants, the Company will issue 24,000,000 new subscription shares. The bonds and the warrants are not listed on the Exchange or any other stock markets.

## 10. Reserves

### (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 period ended 31st December, 2002 were prepared on the basis that the Company was the holding company of the Group for the entire period, 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.

### (iii) General reserve funds

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 subsidiary, 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 utilized, upon approval by the relevant PRC authority, to offset accumulated losses or be authorized 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 is required for transfer in the accounts of Beijing Creative and Shenzhen Creative as they were in the loss position until the period under review.

*(iii) Enterprise expansion reserve funds*

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 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 31st December, 2002.

## **11. Capital commitments**

As of 31st December, 2002, the Group had no material capital commitments which were not provided for in the condensed consolidated accounts of the Group.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2002 (2001: Nil)

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is one of the leading Energy Service Companies (“ESCO”), specializing in Energy Management Systems (“EMS”) solutions, in the PRC.

During the period under review, turnover of the Group for the six months ended 31st December, 2002 amounted to approximately RMB52,896,000 (2001:RMB50,553,000), representing an increase of 4.6% over the same period last year. Sales of “Savin 2000 I” contributed 29.2% to the Group’s turnover, and the remaining balance of 70.8% was derived from sales of “Savin 2000 II”. Gross profit for the Group was approximately RMB34,273,000 (2001:RMB33,945,000) and a gross profit margin of approximately 65% was about maintained. Profit attributable to shareholders decreased by 43% and amounted to approximately RMB12,974,000 for the six months ended 31st December, 2002. Basic earnings per share was RMB3.13 cents (2001: RMB7.59 cents).

“Savin 2000 I”, the Group’s flagship product, has successfully shown a proven track record in helping to achieve energy savings. Based on the immense product quality, a positive reception has been noted in the PRC, especially in new markets such as Chongqing, Anhui and Nanjing. During the period under review, 63 projects were completed, with a total contract size of approximately RMB15,415,000. The projects spanned office buildings, shopping malls and hotels, such as 北京飯店 (Beijing Hotel) and Hefei railway station. Through the installation of these projects, “Savin 2000 I” has effectively shown to save overall energy consumption by up to approximately 15%. In the present economic climate, the demand for energy saving tools is soaring, and an increase in demand for “Savin 2000 I” and its after-sale services is expected. Furthermore, it is expected that more projects will be completed in the second half of the year and this will boost the Group’s turnover.

During the period under review, the Group had completed approximately 72 installations of “Savin 2000 II”, a product targeted the public district heating market, for Public Heating Committee of Beijing Property Association in Beijing and the remaining 127 projects are to be completed by the end of June 2004. As the Directors had allocated more resources in exploring the market, the turnover generated from “Savin 2000 II” had increased by 61% from the corresponding period in 2001. In order to strengthen our solid foundation for future development, the Group has to place significant resources on the provision of professional consultancy and after-sale services to existing “Savin 2000 II” customers.

During the period under review, the Group has established a subsidiary in Shenzhen, capturing enormous business opportunities in Southeast Asia and Hong Kong. After the completion of feasibility studies on one Class A office building and two hotels in Hong Kong, the Group concluded the installation of “Savin 2000 I” in the Class A office building and has about finalised the testing stage. The two remaining hotel projects are undergoing review and evaluation stage. The contract size of the three projects ranged from HK\$ 1,000,000 to HK\$2,000,000. With our tremendous expertise in energy management solutions, the Group is highly confident that these projects will spearhead a successful entry into the Hong Kong market, and ensure continued cooperation with property developers.

Based on our robust foundation in energy management, the Group will forge ahead by broadening its quality product range and better utilizing its customer’s database. In July 2002, the Group acquired 14% interest in Golden Name, a company focused on developing the environmental-friendly lighting source products. Witnessing potent demand for such lighting products, the Group intends to increase its production capacity to one million pieces annually and the Group is highly confident that this shall prove to be a successful investment and profit contributor to the Group.

During the period under review, Beijing Creative obtained the ISO9001:2000 accreditation in November 2002 in recognition of its outstanding product quality. This accolade ensures enhanced confidence in our product quality.



## FINANCIAL REVIEW

### Segment information

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

### Expenses and Costs

General and administrative expenses increased to RMB11,880,000 for the six months ended 31st December, 2002 compared to RMB7,844,000 for the corresponding period in 2001.

The increase in the expenses was due to the increase in the number of staff and rental of additional office premises by the establishment of PRC operation subsidiaries in Beijing, Hainan and Shenzhen in having a better market coverage for the business development. In addition, by better managing the expansion of the Group after listing coupled with the compliance with the listing requirement, more expenses were incurred for seeking suitable legal and professional advices. The last major factor leading to the increase of the expenses was on the advertising and promotion which was set to comply with the Group's marketing strategy as disclosed in the prospectus of the Company dated 24th January, 2002, (the "Prospectus"). 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.

Finance costs increased to RMB3,263,000 for the six months ended 31st December, 2002 compared to RMB79,000 for the corresponding period in 2001. The sharp increase could be solely attributed to the issue of 2.5% coupon bonds in the amount of US\$4,500,000 (equivalent to RMB37,206,000) on 1st November, 2002 by the Company with the related interest payment.

## Staff

A breakdown of the number of staff of the Group by functions as at 31st December, 2002 and 30th June, 2002 is set out below:

	Number of staff					At 31st	At 30th
	Beijing	Fuzhou	Hainan	Shenzhen	Hong Kong	December, 2002	June, 2002
						Total	Total
Sales & marketing	14	10	32	19	0	75	54
Professional services and technical support	16	18	39	4	0	77	65
Research & development	1	0	8	2	0	11	11
Finance & administration	17	13	12	9	5	56	65
	<u>48</u>	<u>41</u>	<u>91</u>	<u>34</u>	<u>5</u>	<u>219</u>	<u>195</u>

## Remuneration policies and labor policies

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

The Group has maintained good labor relations and does not encounter any serious labor 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 and housing funds to eligible employee.

Due to the continuing expansion of the Group, total remuneration including basic salaries and bonus allowances and fringe benefits for the period ended 31st December, 2002 rose to RMB3,896,024 (2001: RMB960,000). The Company has not granted any share option to any of its directors and employees for the period ended 31st December, 2002.

### **Liquidity and Financial Resources**

The Group has maintained a sound financial position for the six months ended 31st December, 2002. As at 31st December, 2002, the Group had bank and cash balances of RMB81,256,000 (30th June, 2002: RMB56,835,000). The currencies in which cash and cash equivalent held by the Group are mainly Renminbi, United States dollars and Hong Kong dollars. During the period, the Group's sources of fund were cash generated partly from its operating activities and the balance of cash proceeds from the Initial Public Offering in January 2002. In view of keeping pace with the Group's business expansion and better utilizing the Group's leverage position, a five-year term 2.5% coupon bonds in the amount of US\$4,500,000 (equivalent to RMB37,206,000) was placed by the Company on 1st November, 2002. Moreover, a short-term banking facility of US\$4,000,000 was arranged by our Beijing subsidiary in December 2002. The ratio of current assets to current liabilities was 12.9 (30th June, 2002: 26.7) which representing a high liquidity of the Group's asset to meet its short-term obligations and repayments once becoming due.

### **Foreign exchange exposure**

Although most of the assets of the Group were denominated in Renminbi as the major operating activities of the Group were in the PRC and the major liabilities were denominated in United States dollars which arose from the issue of coupon bonds, the movement between the two currencies was stable throughout the period under review. The Group's exposure to foreign currency fluctuation is thus minimal and no hedging is considering necessary against the potential exposure to foreign exchange risks 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**

The gross trade receivables of RMB65,634,000 (30th June, 2002: RMB54,646,000) still remained at a higher level as at 31st December, 2002. It was owing to the successful penetration into the market of public district heating system for "Savin 2000 II". The normal payment terms of the "Savin 2000 II" was arranged for an initial deposit of about 30% on the contracted sum. After acceptance certificate signed by customer, the balance would be repaid by installments upon the success of the system in achieving 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 then 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 currently enforced an effective credit control procedure in reviewing each of the proposed contract regarding the payment terms against the customer creditability and assessing the possibility of default in repayment by our finance personnel. The sales and marketing personnel and management also review the creditability of all customers before concluding the sales contracts. The Group will continue to strengthen the present credit control policy aiming at minimizing the possibility of incurring bad debts.

### **Gearing ratio**

The Group's gearing ratio, defined as the ratio between long-term borrowings and shareholders' equity, was 0.175 (30th June, 2002: N/A).

### **Charges on group assets and contingent liabilities**

As at 31st December, 2002, a bank deposit of RMB6,360,000 was pledged as security for a standby short term loan facility of RMB12,720,000 by Beijing Creative and there was no loan being drawn down as at 31st December, 2002. This banking facility is denominated in United States dollars and provided by a bank in the PRC with the pricing of 1.2% per annum above the 3-month or 6-month London Inter-Bank Offered Rate (LIBOR). The maximum loan amount under this facility is US\$4,000,000 and the Company is required to provide a corporate guarantee of the US\$4,000,000 with all the contingent sums under this facility due to the bank.

Save as disclosed above, the Group had no other contingent liabilities and charges on assets as at 31st December, 2002.

### **Acquisition and disposal**

Except for an acquisition of 14% effective interest in Golden Name for a consideration of RMB21,200,000 in June 2002, of which the transaction was completed on 17th July, 2002 and was treated as a long-term investment for the period ended 31st December, 2002, there were no other material acquisition and disposal during the six months ended 31st December, 2002.



## FUTURE PROSPECTS

With the escalating demand for EMS solutions and the accelerating trend for cost-effective objectives, the Group is immensely confident that the market will maintain its growth momentum in the coming future. It is certain that this operating environment will enable the Group to secure more contracts in the second half of the year. In order to solidify our market presence, the Group will leverage on our first mover advantages and unrivalled research and development capabilities, commit more efforts and resources into the new value-added energy efficiency technologies in our existing products for office buildings and hotels. Furthermore, as the market becomes more mature, the official launch of "Savin 2000 III" is anticipated soon.

In the sphere of product development, the Group will continue to strengthen its sales and marketing efforts to targeted potential customers. The Group will also continue to introduce new energy saving technologies and provide better after-sales services to our commercial and governmental customers.

With regard to "Savin 2000 II" for this public district heating systems, the Group will continue to install its system for eco-projects in Beijing and targets to complete the installation by June, 2004. With the Group's expertise and successful track record in energy management of public district heating systems, promotion plans for other northern cities have been already kicked off.

As for our original environmental-friendly lighting source products, the Group will boost its production capacity in order to address urgent market demand. Further, the Group will simultaneously initiate the cross-selling marketing strategy with Golden Name and our existing clientele in order to maximize the synergy effect.

In terms of geographical expansion, the Group will emphasis the focus on Hong Kong and southeast Asian markets, including Singapore, Malaysia and Thailand, by establishing at least one local joint venture with the local energy efficiency services providers in each of these countries. The management believes that these countries are concerned with energy saving and environmental protection and thus have enormous market potential. Experts of the Group will be sent to different regions to re-engineer "Savin 2000 I" and explore these potential markets.

It is ultimately our aim to become the leading energy management systems solution provider to offer comprehensive EMS solutions, and to this end the Group remain highly committed.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The actual progress of the Group's business objectives for the six months ended 31st December, 2002, as set out in the prospectus of the Company is as follows:

**Business objectives for the six months ended 31st December, 2002 disclosed in the Prospectus dated 24th January, 2002.**

**Actual business progress for the six months ended 31st December, 2002**

*Research and development:*

- Research and develop new value-added energy efficiency control technologies adding to the "Savin 2000 I" with Tsinghua University such as air quality control technology so that all air temperature and air quality parameters that could affect the energy consumption and air quality in a commercial building will be monitored and adjusted at an optimal level. The system aims at delivering better air quality and greater energy saving, greater system stability and enhanced safety features in a building. These technologies will enable the Group's "Savin 2000 I" to offer comprehensive energy efficiency technologies.

*The research and development works of these technologies was completed in October 2002 and test-running stage has been undergoing in one of the "Savin 2000 I" projects.*



- Complete the overall design and testing of control technologies for VAV systems.
- Complete the final testings of the 無壓縮機家用空調 (domestic compressor-free air conditioners).

*The VAV systems were under the same progress as the air quality control technology.*

*In reviewing the current market condition of domestic air conditioner which is under keen competition with focus on the pricing cutting strategy among the existing marketing participant, the outlook of the market is viewed as rather gloomy by the Group.*

*As mentioned in the section headed "Comparison of Business Objectives with Actual Business Progress" of our Group's annual report dated 20th September, 2002, the plan of commencing the overall planning and development of 無壓縮機家用空調 (domestic compressor-free air conditioners), has been deferred and may be re-considered when market opportunities emerge.*

*Sales and marketing:*

- Further establish the Group's distribution network by engaging distributors in various district level cities in the PRC. The sales and technical support will be provided jointly by the Group's regional wholly-owned subsidiaries and local distributors.

*The establishment of Beijing, Shenzhen and Hainan subsidiaries with their representative offices were strategically operated in supporting the distributors in Jilin, Beijing City, Tianjin City, Shanghai City, Henan, Hebei, Shandong, Shanxi, Shaanxi, Jiangsu, Anhui, Zhejiang, Chongqing City, Sichuan, Hunan, Hubei, Hainan, Shenzhen City and Guangdong in the PRC with the Group's strong technical backup.*



- Enhance the awareness of the Group's products by organising seminars and on-site demonstrations at a completed project site and system showroom arranged by the Group.
- Promote the Group's products and services to enterprise groups such as commercial banks who have a large number of subsidiaries.

*Geographical expansion:*

- Establish market presence in Hong Kong and expand to the southeast Asian countries, such as Singapore, Malaysia and Thailand, by establishing at least one local joint venture with the local energy efficiency services providers to capture local market share.

*In September 2002, a product seminar was organized by the Group in Beijing to invite potential customers and industry experts for on-site visit to three of the Group's projects with demonstrations by our research and development department of how our "Savin 2000's" technologies to be applied in achieving optimal energy savings effects.*

*The Group successfully solicited one project for "Savin 2000 I" with a local bank in Chongqing, PRC and negotiations with several other local banks in Shenzhen, Beijing, Hefei and Fuzhou, PRC has been closely followed up.*

*Having completed the feasibility study for one of the Class A office building in Hong Kong and started to commence its installation work in early January 2003, it showed a sign of the Group's presence in Hong Kong. At the time of completion of the project, it will certainly speed up the market exploitation of Hong Kong and the southeast Asian countries. In Hong Kong, the Group has commenced the initial negotiations with some of the potential joint venture partners and the location of suitable joint ventures for southeast Asian countries will take place in early 2003.*





## USE OF PROCEEDS

The net proceeds of the Company raised by way of placing of the Company's shares being listed on the GEM of the Stock Exchange on 31st January, 2002 has been applied in the following areas:

<b>For the six months up to 31st December, 2002</b>	<b>Originally planned</b>	<b>Amount utilised</b>
	<i>RMB'000</i>	<i>RMB'000</i>
RESEARCH & DEVELOPMENT		
Control technologies for indoor ventilation and air quality control	3,180	0
VAV system	1,060	0
"Savin 2000 III" for industrial water circulation system	0	1,060
SALES & MARKETING		
Marketing and promotional activities	2,120	412
Establishment of training centres	1,060	0
Professional market research	530	1,050
GEOGRAPHICAL EXPANSION		
Setting up subsidiaries in the PRC	1,060	382
Set up a sales office and a sales team in Hong Kong	2,120	36
Establish strategic sales and service partnership in southeast Asian countries	1,060	0
	<u>12,190</u>	<u>2,940</u>

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 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	246,360,000	—	—	—	246,360,000

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 six months ended 31st December, 2002, no option was granted under the Share Option Scheme.

Save as disclosed above, at no time during the six months ended 31st December, 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 associate 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 six months ended 31st December, 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 31st December, 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.

## **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 six months ended 31st December, 2002, no option was granted by the Company under the Share Option Scheme.

## **2.5% COUPON BONDS WITH WARRANTS**

Pursuant to two subscription agreements dated 26th August, 2002 and 27th August, 2002 respectively in respect of the placement of 2.5% coupon bonds due on 1st November, 2007 with warrants, having an aggregate principal amount of US\$4,500,000 (HK\$36,000,000). Bondholders can exercise the subscription rights attaching to the warrants, expiring on 1st November, 2007, to subscribe for subscription shares of the Company at an initial subscription price of HK\$1.50 per share, subject to adjustment. Assuming full exercise of the warrants, the Company will issue 24,000,000 new subscription shares. The bonds and the warrants are not listed on the Exchange or any other stock market.

During the six months ended 31st December, 2002, no warrant was exercised by the warrantholders.

## INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, JS Cresvale Securities International Limited ("JS Cresvale"), as at 31st December, 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 six months ended 31st December, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

During the six months ended 31st December, 2002, 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.

## 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.

The audit committee comprises two independent non-executive directors, namely, Mr. Shi Jian Hui and Mr. Hon Wa Fai. The audit committee has reviewed the interim results for the six months ended 31st December, 2002.

On behalf of the Board

**Creative Energy Solutions Holdings Limited**

**Shum Fong Chung**

*Chairman*

Hong Kong, 12th February, 2003