



CREATIVE ENERGY SOLUTIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)



2003

Annual Report

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 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.

	<i>Pages</i>
Corporate Information	2
Financial Highlights	3
Chairman’s Statement	4
Management Discussion and Analysis	6
Comparison of Business Objectives with Actual Business Progress	16
Biographical Information of Directors and Senior Management	19
Report of the Directors	21
Auditors’ Report	30
Consolidated Income Statement	31
Consolidated Balance Sheet	32
Balance Sheet	33
Consolidated Statement of Changes in Equity	34
Consolidated Cash Flow Statement	35
Notes to the Financial Statements	36
Financial Summary	72
Notice of Annual General Meeting	73

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

SHUM Fong Chung (*Chairman*)
LIN Rong Ying

INDEPENDENT NON-EXECUTIVE DIRECTORS

HON Wa Fai
SHI Jian Hui

COMPANY SECRETARY

KAM Ying Fai, *AHKSA, FCCA*

COMPLIANCE OFFICER

SHUM Fong Chung

QUALIFIED ACCOUNTANT

KAM Ying Fai, *AHKSA, FCCA*

AUDIT COMMITTEE

HON Wa Fai
SHI Jian Hui

AUTHORISED REPRESENTATIVES

SHUM Fong Chung
KAM Ying Fai

SPONSOR

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

AUDITORS

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:
Coudert Brothers
Gloucester Tower
The Landmark
11 Pedder Street, 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

DBS Bank (Hong Kong) Limited
139 Queen's Road Central,
Hong Kong

The Development Bank of Singapore Limited
Beijing Branch
Suite 1009-1018, China World Tower
1 Jian Guo Men Wai Avenue,
Beijing
The PRC

Fuzhou Commercial Bank
Fuxin Branch
23 Fuxin Road
Gulou District
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

150 West Street
Xincheng District
Beijing
The PRC

Room 4401, Building A, United Plaza
5022 Binhe Road,
Futian District
Shenzhen
The PRC

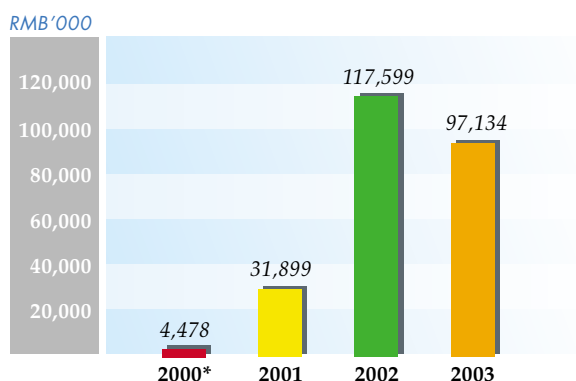
GEM STOCK CODE

8109

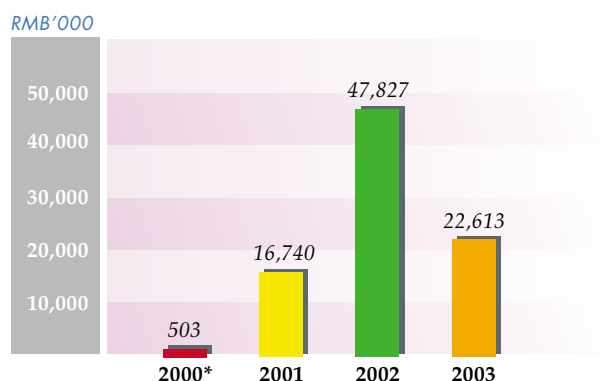
HIGHLIGHTS

- For the year ended 30th June, 2003, turnover of the Group reached approximately RMB97,134,000, representing an approximately 17.4% decrease as compared with last year.
- Profit attributable to shareholders decreased to approximately RMB22,613,000, representing an approximately 52.7% decrease as compared with last year.
- Earnings per share decreased approximately 60.3% as compared with last year to RMB5.45 cents.
- The ratio of current assets to current liabilities was more than 3.8 as at 30th June, 2003.
- The Board has resolved not to recommend final dividend for the year ended 30th June, 2003.

TURNOVER

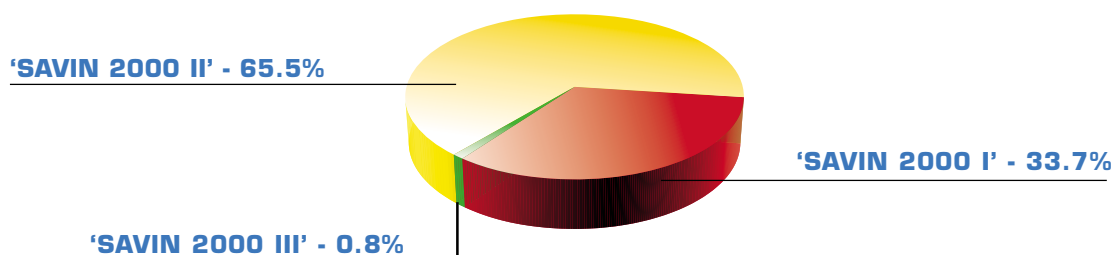


PROFIT ATTRIBUTABLE TO SHAREHOLDERS



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

2003 TURNOVER BREAKDOWN BY PRODUCTS



CHAIRMAN'S STATEMENT

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, 2003.



Chairman — Mr. Shum Fong Chung

RESULTS

For the year ended 30th June, 2003, the Group recorded results with a consolidated turnover of approximately RMB97,134,000 (2002: approximately RMB117,599,000) and a consolidated profit attributable to shareholders of approximately RMB22,613,000 (2002: approximately RMB47,827,000), representing a decrease of 17.4% and 52.7% respectively. Earnings per share was RMB5.45 cents (2002: RMB13.74 cents).

DIVIDEND

The Board has resolved not to recommend final dividend for the year ended 30th June, 2003 (2002: HK\$0.022 per share (approximately equivalent to RMB0.023 per share)). No interim dividend was declared for the six months ended 31st December, 2002 (2001: Nil).

BUSINESS REVIEW

Owing to the outbreak of Severe Acute Respiratory Syndrome ("SARS"), the Group's turnover for the year ended 30th June, 2003 amounted to approximately RMB97,134,000, representing a decrease of approximately 17.4% when compared with 2002. The overall profit reached approximately RMB22,613,000, representing a decrease of approximately 52.7% when compared with 2002.

During the year under review, through effective sales and marketing strategies, Creative Energy successfully promoted the EMS Solutions of "SAVIN 2000 I" to new markets such as Chengdu, Haikou, Taizhou, Shijiazhuang, Shenzhen, Guangzhou, etc. upon consolidation of markets in Fuzhou, Chongqing, Hefei, Nanjing, Hangzhou, Tianjin, Beijing and Qingdao. On the other hand, the Group consolidated the Beijing market for "SAVIN 2000 II" and satisfactory turnover was recorded. The Group intended to further explore markets in cities in the Northern region, such as Taiyuan. Owing to the supreme quality of the Group's products, overwhelming response was received in the PRC and Hong Kong as well. In Hong Kong, the testing result of applying the SAVIN 2000 intelligent EMS in China Resources Building was encouraging which laid down the foundation of the Group's first project outside the PRC market. Creative Energy will actively expand its business coverage in the future and has started to conduct research and business negotiation with clients in Southeast Asia cities such as Indonesia, apart from the development in Hong Kong.

During the year under review, the Group launched the industrial water circulation EMS, "SAVIN 2000 III", and received encouraging market response. The turnover of "SAVIN 2000 III" amounted to RMB742,000, representing 0.8% of the Group's total turnover. The major turnover of "SAVIN 2000 III" was generated from a Fujian based food plant which achieved satisfactory energy-saving results upon installation of the systems.

The Group dedicated to strengthen its research & development ("R&D"), sales and promotion of various products during the year, so as to provide our customers with more comprehensive and supreme quality of EMS, meanwhile enhancing the brand awareness of the Group and enlarge its market coverage. During the year under review, the Group dispensed 5.0% and 5.9% of the turnover for R&D and market promotion respectively.

FUTURE PROSPECTS

Along with the containment of SARS, the global economy and various industries are reviving steadily. The global demand and concern towards energy saving and environmental protection heightened, in which the Group will continue to develop and explore more products on EMS solutions.

The Group will further improve and enhance the techniques, quality and value-added services of "SAVIN 2000" series. In the meantime, we will also actively explore more energy efficient goods, and broaden our product range, in order to enlarge our potential client base as well as expanding our market share.

With regard to marketing and promotion aspects, the Group will focus on introducing the energy saving technology to potential clients. Besides, the Group will actively promote new types of energy saving techniques through setting up wholly-owned subsidiaries or joint venture companies in the PRC, Hong Kong and other Southeast Asia countries. The Group will endeavor to enhance market penetration and open up more potential markets.

Apart from the provision of EMS solutions and services to China Resources Building in April 2003, the Group has also entered into four contracts with Chinachem Group, a large-scaled property development company in Hong Kong to install EMS to three commercial buildings and a shopping arcade. In view of the popularity of the energy saving concept amongst property developers, the Group continues to seek for business opportunities with other property developers in order to enhance brand awareness and extend business coverage.

Looking ahead, the Group will proactively enhance and upgrade the efficiency of our management and staff, strengthen the techniques of R&D, as well as the efforts in promotional and sale aspects. On the other hand, the Group will also search for potential target clients to enlarge the market coverage. Leveraging on our proactive attitude, the Group is dedicated to become the top EMS provider in the PRC.

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 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, 19th September, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

In recent years, the greenhouse effect has threatened the global weather condition that becomes increasingly abnormal. As a result, attention was drawn from all over the world to the issues of energy saving and environmental protection. Increased investment in energy saving to reduce the ejection of greenhouse gas becomes a crucial concern. Developing countries such as the People's Republic of China (the "PRC"), India and Brazil have enormous potential for energy saving development. Public utilities, the government and international organisations are investing in the energy saving projects in these countries, including large-scale investment projects in energy management systems ("EMS"). The PRC Government had introduced 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 as well.

The PRC's enterprise sector is an enormous market for energy saving development. It is estimated that the market for energy saving technique services will be amounted to RMB300 billion. Currently, energy and raw materials accounts for 75% of the total production cost in the PRC, but the energy utilisation rate is only between 32% to 34%, representing a discrepancy of approximately 10% when compared with foreign countries. The energy utilisation rate of public district heating systems reached only about 30%, which is merely half of that of the developed countries.

The demand for energy efficiency in public district heating systems is escalating. Support from countries and various state governments is one of the major reasons contributing to the increase. It is estimated that the coverage of public district heating systems in 2015 will increase to over 40% (currently at around 25%).

Business Review

During the year under review, with the outbreak of Severe Acute Respiratory Syndrome ("SARS"), business trips and conferences were interfered by strict segregation policies, and this directly affected the business expansion and overseas development plans of the Group. Besides, most of the sales and promotion plans, installation projects for clients had to be postponed. Since March 2003, the Group's business development and turnover were seriously undermined and negative impact was posted to the Group's results during the year. In response to the attack of SARS, the Group was committed to reduce the operating expenditure and implement effective cost control policies. During the year under review, the Group's turnover and profit decreased when compared with last year. Besides, as the investment in expanding the markets in Shenzhen, Hong Kong and Beijing increased, the overall profit was thus decreased.



"SAVIN 2000 I" series with specific intellectual property rights

MANAGEMENT DISCUSSION AND ANALYSIS

With respect to research & development (“R&D”), the Group was endeavored to upgrade the quality and value-added services of “SAVIN 2000” series, and developed different kinds of energy efficiency applications. The Group had developed “SAVIN 2000 I”, “Standardised Software Operation System” (軟體標準化作業系統) and “SAVIN 2000 I” “Remote Control Security System”. In addition, the Group completed the “Terminal VAV System”(末端變風量系統) project and recorded satisfactory results from project examination. “SAVIN 2000 III” was successfully introduced to the market, favorable market response was received from the industrial sector.

During the year, the sales of EMS “SAVIN 2000 I” and “SAVIN 2000 II” amounted to RMB32,748,000 and RMB63,644,000 respectively, representing a decrease of 47.9% and an increase of 16.1% respectively when compared with last year, and accounted for approximately 33.7% and 65.5% respectively of the total turnover. The introduction of new EMS solutions for industrial water circulation system “SAVIN 2000 III” during the year received satisfactory market response and recorded turnover of approximately RMB742,000, which accounted for approximately 0.8% of the Group’s total turnover. The Group had completed 175 projects for the year ended 30th June, 2003 and the remaining contract value from various projects was amounted to RMB86,450,000.



China Resources Building, Hong Kong

Apart from developing and consolidating the foundation in the PRC, the Group also was expanding its business into Hong Kong and Indonesia with satisfactory results received. Since the beginning of 2003, Creative Energy provided EMS solutions for China Resources Building and successfully saved approximately HK\$300,000 electricity cost. The EMS was under trial run at the end of February 2003. The initial testing procedures of applying the SAVIN 2000 intelligent energy management system in the water pumps of the central air-conditioning system were completed in April 2003. Significant energy saving results was recorded. These included 61% energy saving effect on the chill water pump system and a 10% reduction in the running current of the refrigerant machine as well as substantial reductions in the noise level on the water pump and its equipment maintenance cost.

Beijing Minzu Hotel



Shenzhen SEG Plaza



Beijing Jingrui Building



Fujian Daily Building



Beijing Huarun Hotel



Beijing Hotel



Fujian Foreign Trade Center Hotel

In order to promote the Group’s supreme flagship products to overseas markets, and enhance the market share and status of the Group, joint venture companies might be established to expand its business to Southeast Asia. During the year, the Group negotiated with several enterprises in Indonesia to seek for business opportunities and satisfactory progress was received.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group dedicated efforts to strengthen the sale and marketing aspects, and focused on targeted clientele. Moreover, subsidiaries were established to extend the geographical coverage.



Future Prospects

As the living standard of people improved, the importance of energy saving becomes more well known to the public. Energy saving is regarded as the way to solve the energy resources problem and is thus crucial for the development of any society. Besides, it is a way to reduce the environmental pollution. As such, the PRC government widely promotes the technique of energy saving which will be the most direct and cost effective strategy to alleviate the shortage of energy resources in the PRC, improve the living and working quality of the people, assuage environmental pollution and accelerate sustainable development. In view of the potential expansion of energy saving industry in future and the establishment of the strategic partnership, together with the quality technique in energy saving, the Group will further expand its production base, enlarge its production scale and affirmatively devote in the R&D of energy saving, in order to bring benefits to the public.



Presently, the Group has already expanded its business to the cities along the coastal regions, the major provincial cities and the more economically developed regions in the PRC. Looking ahead, the Group will continue to enlarge its market share in the PRC. In the meantime, the Group will explore more overseas markets. Following the collaboration with China Resources Group, Creative Energy has recently entered into four contracts worth about HK\$4,800,000 with Chinachem Group ("Chinachem"), a property development company, to implement "SAVIN 2000 I" for a shopping arcade and three commercial buildings of Chinachem in Hong Kong. In view of the popularity of the energy saving concept amongst property developers, Creative Energy continues to seek for business opportunities with other property developers. Through strengthening the market in Hong Kong and exploring into the Southeast Asia markets, the Group aims at expanding its market share and paving the way for sustainable development. Through the establishment of joint venture companies, the Group plans to extend its business to overseas markets, such as Indonesia, Philippines, Thailand, etc.

Blue light-beam illumination in the Haidian Gymnasium



The Group is committed to upgrade the quality and value-added services of "SAVIN 2000" series and develop different kinds of energy efficiency techniques. In addition, the Group will increase its investment in R&D projects in order to improve the "SAVIN 2000" series and to achieve better energy saving result. The Group is also dedicated to expand the markets for "SAVIN 2000" series. Besides, the Group also endeavored to develop Cold Cathode Fluorescent Lamp ("CCFL") products on a series basis. Apart from the initial lighting projects for the adornment of cities, the Group

succeeded in developing the CCFL products into a series of energy saving light bulbs for domestic use. The Directors believe that by promoting and launching the newly developed CCFL series of energy saving light bulbs for domestic use into the markets will have synergy effects with the Group's EMS products.



The illumination in the Century Temple of China



Colour Ring lamps for the Guomao Bridge Beautifying Project

FINANCIAL REVIEW

Results & Turnover

The Group principally provides a comprehensive range of services for environmental energy saving (ESCO) including design, implementation of energy efficiency management solutions system and retrofit projects with energy performance contract (EPC) mechanism. The existing range of energy efficiency management system is "SAVIN 2000 I" for commercial building, "SAVIN 2000 II" for public district heating system and "SAVIN 2000 III" for industrial water circulation system and altogether generated the turnover for the Group for the year ended 30th June, 2003 in the amount of approximately RMB97,134,000, representing a decrease of approximately 17.4% as compared with 2002. Owing to the outbreak of SARS, the Group's sales performance was inevitably affected especially on the commercial sector in the last quarter of the financial year. Even the continuing out-performed sales on the public district heating systems market of "SAVIN 2000 II" which taking a growth of 16.1% from last year and contributing about 65.5% of the Group's total sales for the year ended 30th June, 2003 as well as the successful launch of "SAVIN 2000 III" for industrial market with turnover of RMB742,000 could not offset the decrease of sales for "SAVIN 2000 I" which was reduced by 47.9% as compared with last year and only contributing 33.7% of total sales for this financial year.

The profit attributable to shareholders of the Group and earnings per share for the year ended 30th June, 2003 were approximately RMB22,613,000 (2002: RMB47,827,000) and RMB5.45 cents (2002: RMB13.74 cents) respectively. Comparing with the corresponding year ended 30th June, 2002, the decreases in the profit attributable to shareholders and earnings per share of 52.7% and 60.3% respectively were reflected.

Gross Profit

The gross profit of the Group decreased by approximately 22.4% from approximately RMB80,381,000 in 2002 to RMB62,378,000 in 2003. The gross profit ratio decreased to 64.2% in 2003 from 68.4% in 2002, owing to the relatively lower profit margin of the "SAVIN 2000 II", which contributed about two-third of the Group's total sales for the year ended 30th June, 2003.

Segment Information

During the year under review, the Group operated mainly in the PRC with one core business and no geographical segmental information was presented.

Distribution Costs

Distribution costs slightly increased to approximately RMB12,123,000 in 2003 in comparing to approximately RMB11,219,000 in 2002. The major cost items as the advertising and promotion expenses of approximately RMB5,719,000 (2002: RMB6,455,000) and the travelling expenses of approximately RMB1,918,000 (2002: RMB1,777,000) remained relatively stable throughout the year except that there were certain increases in the Group's sales forces leading to the increase of staff costs and entertainment expenses from RMB1,928,000 last year to approximately RMB3,301,000 this year due to the expansion of various operation subsidiaries.

Administrative and Other Operating Expenses

Administrative expenses and other operating expenses increased to approximately RMB24,096,000 in 2003 compared to RMB19,889,000 in 2002. Administrative expenses and other operating expenses included mainly research & development costs, operating lease rentals, staff salaries, depreciation & amortisation, legal & professional fees and travelling expenses. The research & development costs amounted to approximately RMB32,000 (2002: RMB4,574,000); operating lease rentals of buildings to approximately RMB2,415,000 (2002: RMB975,000); staff salaries to approximately RMB4,850,000 (2002: RMB2,429,000); depreciation & amortisation to approximately RMB5,443,000 (2002: RMB4,220,000); legal & professional fees to RMB approximately 2,614,000 (2002: RMB173,000) and travelling expenses to approximately RMB484,000 (2002: RMB342,000).

The increase in the expenses was attributed to the increase in the number of staff and rental of additional office premises by the establishment of operation subsidiaries in Shenzhen and Hong Kong in having a better market coverage of the PRC market and penetrating into Hong Kong as well as overseas markets. Besides, the operation subsidiaries in Beijing and Hainan had become fully operational for the year ended 30th June, 2003. The sharp increase of legal & professional fee was mainly the result in the issue of five-year term 2.5% coupon bonds with warrants attached and the acquisition of Golden Name Lighting Technical Limited ("Golden Name"). 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.

Staff Number

A breakdown of the number of staff of the Group by functions as at the years ended 30th June, 2003 and 2002 is set out below:

	Number of staff					2003	2002
	Beijing	Fujian	Hainan	Shenzhen	Hong Kong	Total	Total
Sales & marketing	14	10	27	12	2	65	54
Professional services and technical support	17	14	41	9	0	81	65
Research & development	0	0	8	0	0	8	11
Finance & administration	14	11	13	10	5	53	65
	<u>45</u>	<u>35</u>	<u>89</u>	<u>31</u>	<u>7</u>	<u>207</u>	<u>195</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Remuneration Policies and Labor Policies

The Group treats staff as 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. Besides the basic remuneration, discretionary bonus may be rewarded to eligible employee by the assessment of individual's performance and by reference to the Group's performance. During the year ended 30th June, 2003, there were 14,732,000 share options granted by the Company under the Share Option Scheme adopted on 3rd January, 2002 to those eligible persons with outstanding performance to the Group.

The Group has maintained good labor relations and does not encounter any serious labor disputes that lead 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 employees.

Due to the continuing expansion of the Group, total remuneration including basic salaries and bonus allowances and fringe benefits for the year ended 30th June, 2003 rose to approximately RMB8,252,000 (2002: RMB4,630,000), of which approximately RMB1,592,000 (2002: RMB919,000) relating to directors' remuneration.

Liquidity and Financial Resources

The Group maintained a strong financial position for this year. During the year, the Group's source of funding was generated from its operating activities, the issue of five-year term 2.5% coupon bonds with warrants attached with its net proceeds of approximately US\$4,110,000 (equivalent to approximately RMB33,981,000) (2002: Nil) and the short-term bank loans of approximately RMB36,185,000 (2002: Nil). As at 30th June, 2003, the Group had bank and cash balances of approximately RMB138,426,000 (2002: RMB56,800,000) of which approximately RMB24,433,000 has been pledged with the banks with interest ranging from 0.7% to 0.9375% per annum. The currencies in which cash and cash equivalent held by the Group were mainly Renminbi and Hong Kong dollars. The bank borrowings of approximately RMB36,185,000 bearing interest ranging from 2.2% to 2.6375% per annum was arranged for the Group's operation subsidiaries in Beijing, Shenzhen and Hong Kong denominated in United States dollars, Renminbi and Hong Kong dollars respectively for the year ended 30th June, 2003 (2002: Nil). As at 30th June, 2003, the Group had total assets of approximately RMB257,307,000 (2002: RMB170,707,000) which were financed by current liabilities of approximately RMB47,808,000 (2002: RMB3,908,000), the non-current portion of the coupon bonds of approximately RMB29,765,000 (2002: Nil) and shareholder's equity of approximately RMB179,734,000 (2002: RMB166,799,000). The ratio of current assets to current liabilities was approximately 3.8 (2002: 26.7) that still revealed a relative high liquidity of the Group's asset in meeting its short-term obligations once becoming due. There was no change in the Company's share capital during the year ended 30th June, 2003.

Foreign Exchange Exposure

Although 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 and the major liabilities were denominated in United States dollars and Hong Kong dollars resulting from the issue of five-year term 2.5% coupon bonds with warrants attached and the arrangement of short-term bank loan, the movement among these three currencies remained relatively stable throughout the year and therefore a low foreign currency fluctuation risk exposure was considered by the Group. For the year ended 30th June, 2003, the Group did not conclude any forward foreign contracts aimed at hedging against exposure on adverse fluctuations in foreign currency exchange rates but appropriate measures would be taken to mitigate the possible negative financial impacts if the global financial environment showed the sign of adverse fluctuations.

Trade Receivables

During the year under review, the trade receivables net of provision of doubtful debts amounted to approximately RMB60,388,000 in 2003 (2002: RMB51,914,000). The aging analysis of 2003 is set out below:

	%	2003 RMB'000	2002 RMB'000
Within 30 days	3.9	2,473	12,246
31 to 60 days	1.8	1,123	11,290
61 to 90 days	5.0	3,204	6,448
91 to 180 days	25.5	16,226	7,974
181 to 360 days	29.6	18,839	16,483
Over 360 days	34.2	21,702	205
	<hr/>	<hr/>	<hr/>
Receivables (net of specific provision)	100%	63,567	54,646
Less: General provision		(3,179)	(2,732)
		<hr/> 60,388 <hr/>	<hr/> 51,914 <hr/>



MANAGEMENT DISCUSSION AND ANALYSIS

“SAVIN 2000 II” for the market of public district heating system became the Group’s largest profit contributor for the year ended 30th June, 2003. The normal payment terms of the “SAVIN 2000 II” were arranged for an initial deposit ranging from 10% to 30%. After acceptance certificate was signed by customer, the balance would be repaid by installments upon the running of the system which achieved the energy savings results. The repayment schedule of “SAVIN 2000 II” was contracted for three years and it was 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 six months in our Group’s debts collection process leading to higher trade receivables. For those “SAVIN 2000 II” projects completed in 2002, its related receivables were reflected as majority in the over 360 days category in the aging analysis. In summary, the receivables relating to the sales of “SAVIN 2000 II” were approximately 72.7% of the gross trade receivables for the year ended 30th June, 2003 and its repayments are all on schedule and realised according to the payment terms specified on each of the contracts.

For the projects of “SAVIN 2000 I” targeted for commercial buildings and hotels, its collection was indeed affected by the outbreak of SARS from March to June 2003 especially in Beijing, PRC as most of the commercial activities were getting halted throughout the period and the customers then could not generate sufficient energy savings as agreed to repay the Company.

In spite of an increase on the gross trade receivables by around 16.3% from last year, the Group indeed enforces an effective credit control procedure in reviewing each of the proposed contracts regarding the payment terms against the customers credibility and assessing the possibility of default in repayment by our finance personnel. The sales and marketing personnel and management also review the credibility 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.

In view of acting prudence against the possible post-SARS effect on debts collection, the Group provided approximately RMB3,179,000 for provision of doubtful debts (2002: RMB2,732,000) representing around 5% of the trade receivables after deducting specific provision of RMB2,245,000 for those receivables affected by the SARS as of 30th June, 2003.

Fixed Assets

As the Groups started adopting the “Shared-Saving” program as disclosed in the prospectus dated 24th January, 2002 of which the Group undertook to design, install, operate and maintain the system in return for a contractually specified amount of verified energy cost saving over an agreed period, the costs of completed contracts under the program with an amount of RMB3,754,000 were treated as the additions to fixed assets and subject to depreciation for the year ended 30th June, 2003 (2002: Nil).

Gearing Ratio

The Group’s gearing ratio, defined as the ratio between long-term borrowings and shareholder’s equity, was 0.165 for the year ended 30th June, 2003 (2002: N/A).

Charges on Group Assets and Contingent Liabilities

As at 30th June, 2003, a total of approximately RMB24,433,000 bank deposit was pledged as security for loans and banking facilities and the corporate guarantee to the extent of approximately RMB36,185,000 against the loans and banking facilities was also made by the Company. Save as disclosed above, the Group had no material contingent liabilities as at 30th June, 2003.

Significant Investment

Except for an acquisition of 14% effective interest in Golden Name for a consideration of HK\$20,000,000 (equivalent to approximately RMB21,200,000), of which the transaction was completed on 17th July, 2002 and was treated as a long-term investment by the Company for the year ended 30th June, 2003, there was no other material acquisition or disposal for the year ended 30th June, 2003. Golden Name was a profitable company as at 30th June, 2003 but no dividend was distributed to the Group during the year ended 30th June, 2003.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The actual progress of the Group's business objectives for the period of six months ended 30th June, 2003, as set out in the prospectus of the Company dated 24th January, 2002, (the "Prospectus"), is as follows:

Business objectives for the period of six months ended 30th June, 2003 disclosed in the Prospectus

Actual business progress for the period of six months ended 30th June, 2003

Research and development:

- Continue the research and development of control technology for indoor ventilation and air quality system.
The current indoor ventilation and air quality system in the PRC had met the architectural standard requirements. The Company intends to postpone the implementation of this R&D planning until such architectural standards advanced to a higher level.
- Research and development of personal temperature control and occupancy sensor-driven energy saving technology where independent control of temperature and air motion can be controlled by the system based on the room occupancy.
The personal temperature control and occupancy sensor control are currently in an advanced level in the PRC, yet with a price level not acceptable by the market. The Company intends to postpone the implementation of this R&D planning until market opportunities arise.
- Liaise with domestic air-conditioner producers which have established brand names in the PRC for the manufacturing and distribution activities of 無壓縮機家用空調 (domestic compressor-free air conditioners).
In view of the prevailing gloomy market outlook, the Company intends to postpone the implementation of the overall setup and R&D planning for domestic compressor-free air conditioners.
- Commence the research and development of district cooling systems for the upmarket residential communities.
In view of the lack of unified standard for residential communities in the PRC and the absence of government policy support, the development of the district cooling system would inevitably be at high cost which will directly increase property construction cost. As a result, the Company intends to postpone the development plan of this technology in considering the market risk involved.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Sales and marketing:

- Widen the sales coverage of its wholly-owned subsidiaries and distributors in the peripheral area of its major targeted cities by improving the localisation of sales capacity and support services to potential customers in these areas.

The Company has successfully achieved localisation of the sales team of its wholly owned subsidiaries and distributors. Moreover, the overall quality of the sales teams are enhanced by the training provided at the Beijing training center (in coordination with the cost control measures, the Company has cancelled the plan for an additional training center in Fuzhou). The Company has organised three different phases of training: at Beijing Millennium Hotel, Yanqing, Beijing in March 2003 and in Langfang, Hebei in April 2003. The Company aims at providing technical support services for its potential customers within the sales network in major cities and peripheral areas. With these efforts, the Company managed to expand sales of its subsidiaries and distributors at the major target cities and peripheral areas.

Geographical expansion:

- Strengthen the relationship with customers in Hong Kong and Southeast Asia countries through delivering competitive pricing, strict control in service quality and comprehensive after-sales support.

Having achieved a 61% energy saving effect in the pumping system of central air conditioning system located in China Resources Building, Hong Kong and generated actual saving of approximately HK\$300,000 on electricity consumption since the completion of trial run on "SAVIN 2000 I", an encouraging response was received from the customer that they approach the Group with another energy saving retrofit project on the same building. It may serve as a solid proof on our Group's reliable service quality with reasonable pricing.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

USE OF PROCEEDS

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

For the period of twelve months up to 30th June, 2003	Originally* planned	Amount utilised
	<i>RMB'000</i>	<i>RMB'000</i>
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	0	3,816
Control technologies for indoor ventilation and air quality control	5,300	0
Personal temperature control and occupancy sensor control	2,120	0
VAV system	1,060	32
"SAVIN 2000 III" for industrial water circulation system	0	1,000
District cooling systems	1,060	0
SALES & MARKETING		
Marketing and promotional activities	4,240	3,463
Establishment of training centres	2,120	172
Professional market research	1,060	2,052
GEOGRAPHICAL EXPANSION		
Setting up subsidiaries in the PRC	2,120	382
Setting up a sales office and a sales team in Hong Kong	1,060	691
Establishing strategic sales and service partnership in Southeast Asia countries	4,240	21
	24,380	11,629

* Amounts are extracted from the Company's prospectus dated 24th January, 2002 but amounts will be reclassified for comparisons 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 48, 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 21 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).

Ms. LIN Rong Ying (林榮英), aged 49, is the deputy chairman of the Company. She graduated with a Bachelor's degree in accountancy from 江西大學 (Jiangxi University). Ms. Lin has 15 years of experience in financial and accounting management and is responsible for the overall financial operations of the Group.

Independent Non-executive Directors

Mr. HON Wa Fai (韓華輝), aged 43, is an independent non-executive director of the Company. Mr. Hon is a Certified Public Accountant and has more than 17 years of experience in accounting field. Mr. Hon is a fellow both of The Association of the Chartered Certified Accountants and The Hong Kong Society of Accountants and he is an associate both of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Mr. Hon also holds Master's degrees in Business Administration, Professional Accounting and Applied Finance.

Mr. SHI Jian Hui (石建輝), aged 47, 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 11 years.

SENIOR MANAGEMENT

Mr. QIU Chun Song (邱春松), aged 38, is the managing director of Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd. Mr. Qiu has over 11 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 40, is the managing director of Fujian Traving Science & Technology of Saving Development Co., Ltd. Mr. Yang graduated with a Bachelor's degree in 政教系 (political science) from 江西大學 (Jiangxi University) prior to joining the Group in May 1999.

Mr. LI Han Jin (李寒璉), aged 42, is the general manager of Fujian Traving Science & Technology of Saving Development Co., Ltd. and Hainan Creative Easy Union Science & Technology of Saving Development Co., Ltd. Mr. Li has more than 16 years of experience in management and economic research prior to joining the Group in May 1999.



BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Dr. MA Jun (馬俊), aged 28, is the technical controller of the Company who is in charge of the research and development team of the Group and he is also the general manager of Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd. He has extensive research experience in thermal energy and computer engineering. Dr. Ma holds a Doctorate degree's 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's in 計算機技術與應用工程 (computer technology and application engineering) from Tsinghua University prior to joining the Group in June 2000.

Mr. LU Guo Dong (路國棟), aged 39, is the general manager of Shenzhen Creative Eternal Well Science & Technology of Saving Development Co., Ltd. He graduated from 河北機電學院 (Hebei Mechanical Engineering College) with a Bachelor's degree in mechanical engineering. He has over 20 years of experience in factory management and trading business prior to joining the Group in July 2002.

QUALIFIED ACCOUNTANT

Mr. KAM Ying Fai (甘英輝), aged 34, is the financial controller and company secretary of the Company. He has over 10 years of experience in finance, accounting, taxation and auditing prior to joining the Group in October 2001. Mr. Kam is a qualified accountant with a fellow membership of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

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, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in providing a comprehensive range of services for environmental energy saving (ESCO) including design, implementation of energy efficiency management solutions system and retrofit projects with energy performance contract (EPC) mechanism.

The Group's turnover for the year is principally attributable to the provision of system design and integration and energy saving services. An analysis of turnover from the principal activities during the year is set out in note 4 to the financial statements.

SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries are set out in note 13 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 follow:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	34%	
Five largest customers in aggregate	66.9%	
The largest supplier		62.8%
Five largest suppliers in aggregate		89.8%

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, 2003 are set out in the consolidated income statement on page 31 of this annual report.

DIVIDEND

The Board of Directors has resolved not to recommend final dividend for the year ended 30th June, 2003 (2002: HK\$0.022 per share (approximately equivalent to RMB0.023 per share)). No interim dividend was declared for the six months ended 31st December, 2002 (2001: Nil).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 30th June, 2003 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, 2003 are set out in note 16 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 14 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 15 to the financial statements.

BANK LOANS AND OVERDRAFTS

Particulars of the bank loans and overdrafts of the Group as at 30th June, 2003 are set out in note 25 to the financial statements.

COMMITMENTS

Particulars of the commitments of the Group as at 30th June, 2003 are set out in note 31 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 acceptance of the offer, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. 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; and (c) the nominal value for the time being of each share.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

As at 30th June, 2003, particulars of the options granted to the eligible persons under the Share Option Scheme of the Company during the year were as follows:—

Name or Category of participant	Number of Shares in respect of Options Outstanding						Date of grant	Exercisable period	Exercise price per share HK\$	Company's Share Price	
	Balance as at 1st July, 2002	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 30th June, 2003				Closing price immediately before the date of grant HK\$	The weighted average closing price immediately before the exercise date (if exercised) HK\$
Director:											
Lin Rong Ying	—	1,200,000	—	—	—	1,200,000	04/04/2003	Note	0.30	0.31	N/A
Chief Executive:											
Kam Ying Fai	—	3,040,000	—	—	—	3,040,000	04/04/2003	Note	0.30	0.31	N/A
Employees:											
In aggregate	—	10,492,000	—	—	—	10,492,000	04/04/2003	Note	0.30	0.31	N/A
Total		14,732,000				14,732,000					

Note: Exercisable period: 04/04/2004 — 02/01/2012 (up to 25% of shares exercisable under options granted)
04/04/2005 — 02/01/2012 (up to 50% of shares exercisable under options granted)
04/04/2006 — 02/01/2012 (up to 75% of shares exercisable under options granted)
04/04/2007 — 02/01/2012 (up to 100% of shares exercisable under options granted)

2.5% COUPON BONDS WITH WARRANTS ATTACHED

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 (equivalent to approximately RMB37,206,000). 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 adjusted subscription price (being the average closing price of the Company's shares for the period of one month immediately preceding 1st July, 2003) of HK\$0.27 per share, subject to adjustment. The bonds and the warrants are not listed on the Stock Exchange or any other stock market.

During the year ended 30th June, 2003, no warrant was exercised by the warrant holders.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes for the year ended 30th June, 2003 are set out in note 29 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 30th June, 2003, there was no transaction which needed to be disclosed as connected transaction in accordance with the requirements of the GEM Listing Rules.

DIRECTORS

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

Executive Directors

Mr. Shum Fong Chung

Mr. Li Han Chun (Resigned on 4th April, 2003)

Ms. Lin Rong Ying

Independent Non-executive Directors

Mr. Hon Wa Fai

Mr. Shi Jian Hui

In accordance with bye-law 87 of the Company's Bye-Laws, Ms. Lin Rong Ying will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer herself 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.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th June, 2003, the interests and short positions of the directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

Long positions in shares of the Company

Name of Director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Shum Fong Chung	247,128,000	—	—	247,128,000	59.55%

Long positions in underlying shares of the Company

Share Options in the Company

Name	Date of grant	Exercise price (HK\$)	Exercisable period	Number of shares in respect of options outstanding as at 30th June, 2003
Director:				
Ms. Lin Rong Ying	04/04/2003	0.30	Note	1,200,000
Chief executive:				
Mr. Kam Ying Fai	04/04/2003	0.30	Note	3,040,000

Note: Exercisable period: 04/04/2004 — 02/01/2012 (up to 25% of underlying shares exercisable under options granted)
04/04/2005 — 02/01/2012 (up to 50% of underlying shares exercisable under options granted)
04/04/2006 — 02/01/2012 (up to 75% of underlying shares exercisable under options granted)
04/04/2007 — 02/01/2012 (up to 100% of underlying shares exercisable under options granted)

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30th June, 2003, so far as is known to the Directors, the following person (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Ms. Kwok Kin Kwok	Beneficial owner	24,000,000	5.78%

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections "Share Option Scheme" and "Directors' and Chief Executives' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries, 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 SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year, and in which a Director had, whether directly or indirectly, a material interest, nor there was any other contract of significance in relation to the Company's business between the Company or any of the Company's subsidiaries and a controlling shareholder or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 30th June, 2003, 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.

INTEREST OF SPONSORS

As updated and notified by the Company's sponsor, JS Cresvale Securities International Limited ("JS Cresvale"), as at 30th June, 2003, neither JS Cresvale nor its directors, employees or their 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.

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 four financial years is set out on page 72 of the annual report.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the year ended 30th June, 2003, 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. Hon Wa Fai and Mr. Shi Jian Hui. The audit committee had met four times during the year to review and discuss the Group's annual results, interim results and two quarterly results, and providing advices and recommendations to the Board.

AUDITORS

The financial statements for the year were audited by Charles Chan, Ip & Fung CPA Ltd. who will 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, 19th September, 2003



CCIF

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 31 to 71 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, 2003 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

19th September, 2003

Chan Wai Dune, Charles

Practising Certificate Number P00712

CONSOLIDATED INCOME STATEMENT

For the year ended 30th June, 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
TURNOVER	4	97,134	117,599
COST OF SERVICES		(34,756)	(37,218)
GROSS PROFIT		62,378	80,381
OTHER REVENUE	5	1,152	134
DISTRIBUTION COSTS		(12,123)	(11,219)
ADMINISTRATIVE EXPENSES		(18,214)	(10,126)
OTHER OPERATING EXPENSES		(5,882)	(9,763)
PROFIT FROM OPERATIONS		27,311	49,407
FINANCE COSTS		(4,229)	(130)
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION	6	23,082	49,277
TAXATION	7(a)	(469)	(1,450)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	10	22,613	47,827
PROPOSED FINAL DIVIDEND	11(a)	—	9,678
EARNINGS PER SHARE			
Basic	12(a)	RMB5.45 cents	RMB13.74 cents

The notes on pages 36 to 71 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 30th June, 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Fixed assets	14	9,341	7,380
Intangible assets	15	20,410	18,278
Other investments in securities	17	22,857	—
Deposit for acquisition of a subsidiary		—	21,200
Trade receivables	18	18,662	19,432
		71,270	66,290
CURRENT ASSETS			
Inventories	19	428	118
Work in progress	20	887	—
Trade and other receivables	21	46,296	47,464
Pledged bank deposits	22	24,433	—
Cash and cash equivalents	23	113,993	56,835
		186,037	104,417
CURRENT LIABILITIES			
Trade and other payables	24	3,890	2,572
Bank loans and overdrafts	25	36,185	—
Current portion of coupon bonds	26	7,441	—
Taxation	7(b)	292	1,336
		47,808	3,908
NET CURRENT ASSETS		138,229	100,509
TOTAL ASSETS LESS CURRENT LIABILITIES		209,499	166,799
NON-CURRENT LIABILITIES			
Coupon bonds	26	29,765	—
NET ASSETS		179,734	166,799
CAPITAL AND RESERVES			
Share capital	27	43,990	43,990
Reserves	28	135,744	122,809
		179,734	166,799

Approved and authorised for issue by the board of directors on 19th September, 2003

Shum Fong Chung
Director

Lin Rong Ying
Director

The notes on pages 36 to 71 form part of these financial statements.

BALANCE SHEET

As at 30th June, 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	73,837	52,626
Other investments in securities	17	212	—
Deposit for acquisition of a subsidiary		—	21,200
		74,049	73,826
CURRENT ASSETS			
Trade and other receivables	21	96,118	52,756
Pledged bank deposits	22	1,060	—
Cash and cash equivalents	23	10,476	14,427
		107,654	67,183
CURRENT LIABILITIES			
Trade and other payables	24	2,028	1,782
Current portion of coupon bonds	26	7,441	—
		9,469	1,782
NET CURRENT ASSETS		98,185	65,401
TOTAL ASSETS LESS CURRENT LIABILITIES		172,234	139,227
NON-CURRENT LIABILITIES			
Coupon bonds	26	29,765	—
NET ASSETS		142,469	139,227
CAPITAL AND RESERVES			
Share capital	27	43,990	43,990
Reserves	28	98,479	95,237
		142,469	139,227

Approved and authorised for issue by the board of directors on 19th September, 2003

Shum Fong Chung
Director

Lin Rong Ying
Director

The notes on pages 36 to 71 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June, 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Shareholders' equity at 1st July		<u>166,799</u>	<u>28,202</u>
Net profit for the year		<u>22,613</u>	<u>47,827</u>
Dividends approved and paid during the year	11(b)	<u>(9,678)</u>	<u>—</u>
Reserve arising from the Reorganisation		<u>—</u>	<u>10,440</u>
Movements in share capital:			
Capital elimination on combination		—	(10,959)
Shares issued upon incorporation		—	106
Shares issued under the Reorganisation		—	413
Shares issued under initial public offering		—	12,190
Net share premium received		<u>—</u>	<u>78,580</u>
Net increase in shareholders' equity arising from capital transactions with shareholders		<u>—</u>	<u>80,330</u>
Shareholders' equity at 30th June		<u>179,734</u>	<u>166,799</u>

The notes on pages 36 to 71 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2003
(Expressed in Renminbi)

	Note	2003 RMB'000	2002 RMB'000
Operating activities			
Profit from ordinary activities before taxation		23,082	49,277
Adjustments for:			
Depreciation of fixed assets		3,487	2,638
Amortisation of intangible assets		2,684	1,596
Finance costs		4,229	130
Interest income		(1,147)	(134)
Provision for bad and doubtful debts		2,692	2,732
Loss on disposal of fixed assets		4	—
Operating profit before changes in working capital		35,031	56,239
(Increase)/decrease in inventories		(310)	41
Increase in work in progress		(887)	—
Increase in debtors, deposits and prepayments		(7,760)	(52,210)
Increase in creditors and accrued charges		534	1,100
Decrease in other tax payables		(820)	(929)
Cash generated from operations		25,788	4,241
Tax paid			
PRC enterprise income tax paid		(693)	(1,155)
Net cash from operating activities		25,095	3,086
Investing activities			
Payment for purchase of fixed assets		(5,456)	(3,719)
Proceeds from disposal of fixed assets		4	—
Payment for purchase of intangible assets		(4,816)	(6,724)
Payment for deposit for acquisition of a subsidiary		—	(21,200)
New loan to the investee company		(1,657)	—
Increase in secured loan receivable		(2,735)	—
Decrease/(increase) in unsecured loan receivable		9,752	(9,752)
Increase in pledged bank deposits		(24,433)	—
Interest received		1,136	134
Net cash used in investing activities		(28,205)	(41,261)
Financing activities			
Proceeds from issuance of share capital		—	109,710
Payment for share issuance expenses		—	(18,940)
New bank loans		36,622	—
Repayment of bank loans		(1,000)	(2,000)
Proceeds from issuance of coupon bonds		37,206	—
Dividend paid		(9,678)	—
Finance costs paid		(3,445)	(130)
Net cash from financing activities		59,705	88,640
Net increase in cash and cash equivalents		56,595	50,465
Cash and cash equivalents at 1st July		56,835	6,370
Cash and cash equivalents at 30th June	23	113,430	56,835

The notes on pages 36 to 71 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(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 16 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 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 (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), 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) 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 of 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less and provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(d) Fixed assets

- (i) Fixed assets are carried in the balance sheet on the following bases:
 - construction in progress is stated at cost. Cost comprises direct costs of construction capitalised during the period of construction and installation. Capitalisation of these costs ceased and the construction in progress is transferred to plant and machinery when substantially all of the activities necessary to prepare the assets for their intended use are complete.
 - other 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) No depreciation is provided on construction in progress.
- (ii) 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
Plant and machinery	2 to 5 years

- (iii) 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

As at 30th June, 2003
(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. For intangible assets that are not available for use or are amortised over more than 20 years from the date when the asset is available for use, the recoverable amount is estimated at each balance sheet date. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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 in which 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 revenue derived from provision of system design and integration services is set out in note 2(n)(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 "Work in progress". Progress billings not yet paid by the customers 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) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and from an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost of the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a mandatory central pension scheme organised by the People's Republic of China ("PRC") government are recognised as an expense in the income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(l) 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.

(m) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) 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) Revenue from provision of 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.

(ii) Revenue from provision of energy saving services

Revenue arising from the provision of energy saving services is recognised based on energy savings derived from meter readings which is taken to be the point in time the customer has accepted it. Revenue is stated after deduction of PRC business and value added taxes.

(iii) Interest income

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

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 of subsidiaries with functional currencies other than Renminbi are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the 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, 2003 and 2002.

(q) 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest bearing loans, borrowings, corporate and financial expenses.

3. CHANGES IN ACCOUNTING POLICIES

The effects of the adoption of the applicable new or revised SSAPs issued by the HKSA on the results and financial position of the Company and the Group are as follows:

(i) SSAP 11 (Revised) "Foreign currency translation"

In prior years, the results of subsidiaries which are not denominated in Renminbi were translated into Renminbi at the rates of exchange ruling at the balance sheet date. With effect from 1st July, 2002, in order to comply with SSAP 11 (revised) issued by the HKSA, the Group translates the results of these subsidiaries at the average exchange rate for the year. The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) SSAP 34 "Employee benefits"

This SSAP 34 prescribes the accounting and disclosure requirements for employee benefits. This has had no major impact on the financial statements.

4. TURNOVER

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

Turnover represents revenue arising from provision of system design and integration and energy saving services, after deduction of 5% PRC business tax and 6% to 17% PRC value added tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Revenue from provision of system design and integration services	96,577	117,599
Revenue from provision of energy saving services	557	—
	<u>97,134</u>	<u>117,599</u>

5. OTHER REVENUE

	The Group	
	2003	2002
	RMB'000	RMB'000
Interest income from banks	511	134
Interest income from others	636	—
Value added tax refunds	5	—
	<u>1,152</u>	<u>134</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Finance costs

	The Group	
	2003	2002
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	185	126
Interest on coupon bonds wholly repayable within five years	620	—
Interest on bank overdrafts	27	4
Other borrowing costs	3,397	—
	<hr/>	<hr/>
Total borrowing costs	4,229	130
	<hr/>	<hr/>

(b) Staff costs (including directors' emoluments)

	The Group	
	2003	2002
	RMB'000	RMB'000
Contributions to defined contribution plans	929	293
Salaries, wages and other benefits	7,323	4,341
	<hr/>	<hr/>
	8,252	4,634
	<hr/>	<hr/>

(c) Other items

	The Group	
	2003	2002
	RMB'000	RMB'000
Cost of inventories	32,602	27,819
Amortisation of intangible assets	2,684	1,596
Depreciation of fixed assets	3,487	2,638
Operating lease rentals of premises	2,745	1,314
Research and development costs	32	4,574
Auditors' remuneration	561	461
Provision for bad and doubtful debts	2,692	2,732
Net exchange loss	55	118
Loss on disposal of fixed assets	4	—
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

7. TAXATION

(a) Taxation in the consolidated income statement represents

	The Group	
	2003 RMB'000	2002 RMB'000
PRC enterprise income tax (see note (iii) below)	<u>469</u>	<u>1,450</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 as the Group did not derive any income subject to Hong Kong profits tax during the years ended 30th June, 2003 and 2002.

(iii) PRC enterprise income tax

The Company's subsidiaries, which are wholly foreign owned enterprises established in the PRC, are exempted from PRC enterprise income tax for two years starting from their first profit-making year after offsetting prior years' tax losses, and is entitled to a 50% relief on PRC enterprise income tax for the subsequent three years.

Fujian Traving Science & Technology of Saving Development Co., Ltd. ("Fujian Traving") is subject to PRC enterprise income tax, before any relief or concession, at a preferential rate of 15% and became profitable after offsetting prior years' losses in the year ended 30th June, 2000. Accordingly, Fujian Traving was chargeable to PRC enterprise income tax at a rate of 7.5% for the years ended 30th June, 2003 and 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. ("Hainan Creative") as it was exempted from PRC enterprise income tax during the years ended 30th June, 2003 and 2002.

No provision for PRC enterprise income tax has been made for the year in the financial statements of Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd. ("Beijing Creative") and Shenzhen Creative Eternal Well Science & Technology of Saving Development Co., Ltd. ("Shenzhen Creative") as they sustained loss for taxation purposes (2002: Nil).

(iv) PRC business and value added taxes

Fujian Traving and Hainan Creative are subject to PRC business tax at 5% of the revenue from energy efficiency solutions services. Beijing Creative is subject to PRC value added tax ("VAT") at 6% to 17% of the revenue from energy efficiency solutions services. Shenzhen Creative is subject to PRC VAT at 6% of the revenue from energy efficiency solutions services.

(v) Deferred taxation

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

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

7. TAXATION (Continued)

(b) Taxation in the consolidated balance sheet represents

	The Group	
	2003 RMB'000	2002 RMB'000
PRC enterprise income tax payable		
At 1st July	295	—
Provision for PRC enterprise income tax for the current year	469	1,450
PRC enterprise income tax paid	(693)	(1,155)
	<hr/>	<hr/>
At 30th June	71	295
Other tax payables	221	1,041
	<hr/>	<hr/>
	292	1,336
	<hr/>	<hr/>

8. DIRECTORS' REMUNERATION

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

	The Group	
	2003 RMB'000	2002 RMB'000
Fees	254	64
Salaries and other emoluments	1,557	836
Retirement scheme contributions	35	19
	<hr/>	<hr/>
	1,846	919
	<hr/>	<hr/>

Included in the directors' remuneration were fees of approximately RMB127,000 (2002: RMB32,000), RMB21,000 (2002: RMB32,000) and RMB106,000 (2002: Nil) paid to the three independent non-executive directors respectively during the year.

During the year ended 30th June, 2003, the three executive directors received individual emoluments of approximately RMB725,000 (2002: RMB396,000), RMB396,000 (2002: RMB240,000) and RMB471,000 (2002: RMB219,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

8. DIRECTORS' REMUNERATION (Continued)

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, 2003 (2002: Nil).

The remuneration of the directors is within the following bands:

	The Group	
	Number of directors 2003	Number of directors 2002
RMB Nil — RMB1,060,000 (approximately equivalent to HK\$Nil — HK\$1,000,000)	6	5

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2002: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2002: two) individuals are as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Salaries and other emoluments	751	572
Retirement scheme contributions	24	19
	775	591

During the year ended 30th June, 2003, 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 (2002: RMB Nil). The emoluments of the two (2002: two) individuals with the highest emoluments are within the following bands:

	The Group	
	Number of individuals 2003	Number of individuals 2002
RMB Nil — RMB1,060,000 (approximately equivalent to HK\$Nil to HK\$1,000,000)	2	2

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately RMB12,920,000 (2002: a loss of approximately RMB2,515,000) which has been dealt with in the financial statements of the Company.

11. PROPOSED FINAL DIVIDEND

(a) Dividend attributable to the year

	2003 RMB'000	2002 RMB'000
Proposed final dividend of RMBNil (2002: HK\$0.022 (approximately equivalent to RMB0.023)) per ordinary share	<u>—</u>	<u>9,678</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2003 RMB'000	2002 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.022 (approximately equivalent to RMB0.023) per ordinary share, (2002: Nil)	<u>9,678</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

12. 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 RMB22,613,000 (2002: RMB47,827,000) and the weighted average of 415,000,000 (2002: 348,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30th June, 2003 does not assume the exercise of the Company's outstanding warrants as the exercise prices of those warrants were higher than the average market prices of the Company's shares during the year ended 30th June, 2003.

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

13. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segment

Throughout the year, the Group has been operating in a single business segment, i.e. the provision of energy efficiency solutions services. Accordingly, no business segment information is presented.

(b) Geographical segment

As all the Group's revenue and results were substantially derived from the PRC, no geographical segment information is presented.

NOTES TO THE FINANCIAL STATEMENTS

*As at 30th June, 2003
(Expressed in Renminbi)*

14. FIXED ASSETS

The Group

	Leasehold improvements	Furniture and equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost						
At 1st July, 2002	1,976	4,506	4,654	—	—	11,136
Additions	—	391	252	3,754	1,059	5,456
Disposals	—	(9)	—	—	—	(9)
At 30th June, 2003	<u>1,976</u>	<u>4,888</u>	<u>4,906</u>	<u>3,754</u>	<u>1,059</u>	<u>16,583</u>
Accumulated depreciation						
At 1st July, 2002	1,059	1,051	1,646	—	—	3,756
Charge for the year	917	931	936	703	—	3,487
Written back on disposals	—	(1)	—	—	—	(1)
At 30th June, 2003	<u>1,976</u>	<u>1,981</u>	<u>2,582</u>	<u>703</u>	<u>—</u>	<u>7,242</u>
Net book value						
At 30th June, 2003	<u>—</u>	<u>2,907</u>	<u>2,324</u>	<u>3,051</u>	<u>1,059</u>	<u>9,341</u>
At 30th June, 2002	<u>917</u>	<u>3,455</u>	<u>3,008</u>	<u>—</u>	<u>—</u>	<u>7,380</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

15. INTANGIBLE ASSETS

The Group

	Energy saving technologies for 'SAVIN 2000'
	<i>RMB'000</i>
Cost	
At 1st July, 2002	21,724
Additions	4,816
	<hr/>
At 30th June, 2003	26,540
	<hr/>
Accumulated amortisation	
At 1st July, 2002	3,446
Charge for the year	2,684
	<hr/>
At 30th June, 2003	6,130
	<hr/>
Net book value	
At 30th June, 2003	20,410
	<hr/>
At 30th June, 2002	18,278
	<hr/>

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

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	73,837	52,626
	<hr/>	<hr/>

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, 2003 and 2002.

NOTES TO THE FINANCIAL STATEMENTS

*As at 30th June, 2003
(Expressed in Renminbi)*

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries as at 30th June, 2003 were as follows:

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by the 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
Easy Union Holdings Limited	British Virgin Islands/ Hong Kong	50,000 ordinary shares of US\$1 each	100%	100%	—	Investment holding
Eternal Well Limited	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
Rising Dragon International Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	100%	100%	—	Investment holding
Success Field Limited	British Virgin Islands	50,000 ordinary shares of US\$1 each	100%	100%	—	Not yet commenced business
Creative Management (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	—	Provision of administrative services to the Group
Creative ECO-Energy Investment Group Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	—	Provision of energy efficiency solutions and engineering consulting services

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

16. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries as at 30th June, 2003 were as follows (Continued):

Name	Place of incorporation/ operations	Particulars of issued capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by the subsidiary	
Fujian Traving Science & Technology of Saving Development Co., Ltd.* ("Fujian Traving")	The People's Republic of China	HK\$15,000,000	100%	—	100%	Provision of energy efficiency solutions and engineering consulting services
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
Shenzhen Creative Eternal Well Science & Technology of Saving Development Co., Ltd.* ("Shenzhen Creative")	The People's Republic of China	HK\$10,000,000	100%	—	100%	Provision of energy efficiency solutions and engineering consulting services

* These subsidiaries are wholly foreign owned enterprises established in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

17. OTHER INVESTMENTS IN SECURITIES

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Investment securities				
Unlisted equity securities, at cost	21,200	—	—	—
Loan to the investee company	1,657	—	212	—
	<u>22,857</u>	<u>—</u>	<u>212</u>	<u>—</u>

The loan to the investee company is unsecured, interest free and has no fixed repayment terms.

18. TRADE RECEIVABLES

At 30th June, 2003, the trade receivables (net of specific provision for bad and doubtful debts) were recoverable as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 year	41,726	32,482
After 1 year but within 5 years	21,597	22,001
After 5 years	244	163
	<u>63,567</u>	<u>54,646</u>
Less: General provision for bad and doubtful debts	(3,179)	(2,732)
	<u>60,388</u>	<u>51,914</u>
Less: Current portion of trade receivables (note 21)	(41,726)	(32,482)
	<u>18,662</u>	<u>19,432</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

18. TRADE RECEIVABLES (Continued)

The repayment of the trade receivables is according to the payment terms specified in each of the contracts. An aging analysis of trade receivables (net of specific provision for bad and doubtful debts) is as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Within 1 month	2,473	12,246
1 to 3 months	4,327	17,738
More than 3 months but less than 12 months	35,065	24,457
More than 12 months	21,702	205
	63,567	54,646

19. INVENTORIES

	The Group	
	2003	2002
	RMB'000	RMB'000
Consumable stores, at cost	428	118

As at 30th June, 2003 and 2002, none of inventories was stated at the estimated net realisable value.

20. WORK IN PROGRESS

Work in progress represents the amount of contract cost incurred. All the amount are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Amounts due from subsidiaries	—	—	93,225	42,642
Rental and other deposits	1,255	1,433	—	—
Trade receivables (note 18)	41,726	32,482	—	—
Loan receivable				
— secured	2,735	—	2,735	—
— unsecured	—	9,752	—	9,752
Interest receivable	11	—	—	—
Other receivables	189	526	—	212
Value added tax prepaid	78	—	—	—
Prepayments	302	3,271	158	150
	46,296	47,464	96,118	52,756

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

Secured loan receivable is secured by 51% equity interest in unlisted equity securities held by the borrower, bears interest at 3% per annum and has no fixed terms of repayment.

Unsecured loan receivable was non-interest bearing and had no fixed terms of repayment.

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

As at 30th June, 2003
(Expressed in Renminbi)

22. PLEDGED BANK DEPOSITS

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Maturing within three months from placement	11,669	—	1,060	—
Maturing after three months from placement	12,764	—	—	—
	<u>24,433</u>	<u>—</u>	<u>1,060</u>	<u>—</u>

These bank deposits were pledged to banks for bank loans and overdrafts granted to the Group.

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	113,760	56,496	10,476	14,427
Cash on hand	233	339	—	—
Cash and cash equivalents in the balance sheet	<u>113,993</u>	<u>56,835</u>	<u>10,476</u>	<u>14,427</u>
Bank overdrafts (note 25)	<u>(563)</u>	<u>—</u>		
Cash and cash equivalents in the cash flow statement	<u>113,430</u>	<u>56,835</u>		

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	810	394	—	—
Receipts in advance	88	—	—	—
Finance costs payable	784	—	620	—
Other payables and accruals	2,208	2,178	969	955
Amounts due to subsidiaries	—	—	439	827
	<u>3,890</u>	<u>2,572</u>	<u>2,028</u>	<u>1,782</u>

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 aging analysis:

	The Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 1 month or on demand	740	394
Due after 1 month but within 3 months	69	—
Due after 6 months but within 12 months	1	—
	<u>810</u>	<u>394</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

25. BANK LOANS AND OVERDRAFTS

At 30th June, 2003, the analysis of bank loans and overdrafts was as follows:

	The Group	
	2003	2002
	RMB'000	RMB'000
Bank overdrafts		
— secured	557	—
— unsecured	6	—
	563	—
Secured bank loans	35,622	—
	36,185	—

The banking facilities of certain subsidiaries are secured by bank deposits with an aggregate carrying amount of approximately RMB24,433,000 at 30th June, 2003 and corporate guarantee given by the Company. Such banking facilities, amounting to approximately RMB55,272,000, were utilised to the extent of approximately RMB36,179,000 at 30th June, 2003.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

26. COUPON BONDS

The 2.5% coupons bonds (the "Bonds") with warrants (the "Warrants") attached, having an aggregate principal amount of US\$4,500,000 (approximately RMB37,206,000), were issued on 1st November, 2002 and will mature on 1st November, 2007. The Bonds bear interest at the coupon rate of 2.5% per annum. At 30th June, 2003, the Bonds were repayable as follows:

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
Within 1 year	7,441	—
After 1 year but within 2 years	7,441	—
After 2 years but within 5 years	22,324	—
	37,206	—
Less: Current portion	(7,441)	—
Non-current portion	29,765	—

The Warrants attached to the Bonds can be exercised at any time from 1st November, 2002 to 1st November, 2007 (both days inclusive) to subscribe in whole or in part for new shares of the Company at the average closing price of the Company's shares for the period of one month immediately preceding a setting date which commenced from 31st December, 2002 and is every 6 months thereafter with the exception of the resetting date of 1st November, 2007.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

27. SHARE CAPITAL

	The Group and the Company			
	2003		2002	
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
Authorised — Ordinary shares of HK\$0.10 (equivalent to RMB0.106) each	1,000,000	106,000	1,000,000	106,000
Issued and fully paid - Ordinary shares of HK\$0.10 (equivalent to RMB0.106) each:				
At 1st July	415,000	43,990	—	—
Issue of shares upon incorporation (note (a))	—	—	100	106
Subdivision of shares into HK\$0.10 each (note (b))	—	—	900	—
Issue of shares arising from the Reorganisation (note (c))	—	—	3,900	413
Issue of shares on initial public offering (note (d))	—	—	115,000	12,190
Capitalisation issue of shares (note (e))	—	—	295,100	31,281
At 30th June	415,000	43,990	415,000	43,990

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

27. 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

28. RESERVES

(a) The Group

	Share premium	Merger reserve	General reserve fund	Enterprise expansion reserve fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 27(d))	97,520	—	—	—	—	97,520
Capitalisation issue of share (note 27(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 and 1st July, 2002	47,299	10,440	6,009	7,580	51,481	122,809
Profit attributable to shareholders	—	—	—	—	22,613	22,613
Dividends paid	—	—	—	—	(9,678)	(9,678)
Transfer from retained profits	—	—	579	5,055	(5,634)	—
At 30th June, 2003	47,299	10,440	6,588	12,635	58,782	135,744

28. RESERVES (Continued)

(a) The Group (Continued)

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.

(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 RMB579,000 (2002: RMB3,755,000), 10% (2002: 9%) of the profit after taxation, to the general reserve fund for the year ended 30th June, 2003.

The directors of Hainan Creative determined not to make any appropriation to the general reserve fund for the year ended 30th June, 2003 because the balance of such fund as at 30th June, 2003 has reached 50% of its registered capital (2002: transfer of RMB530,000 (3% of the profit after taxation) to the general reserve fund).

The directors of Beijing Creative and Shenzhen Creative determined not to make any appropriation to the general reserve fund as these subsidiaries have sustained loss for the year ended 30th June, 2003 (2002: Nil).

(iii) According to the relevant rules and regulations in the PRC and the PRC subsidiaries' 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. Such appropriation is 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, 2003 and 2002.

The directors of Beijing Creative and Shenzhen Creative determined not to make any appropriation to the enterprise expansion reserve fund as those subsidiaries have sustained loss for the year ended 30th June, 2003 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

28. RESERVES (Continued)

(b) The Company

	Share premium RMB'000	Contributed surplus RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total 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 27 (d))	97,520	—	—	97,520
Capitalisation of share premium (note 27 (e))	(31,281)	—	—	(31,281)
Share issuance expenses	(18,940)	—	—	(18,940)
Loss attributable to shareholders	—	—	(2,515)	(2,515)
At 30th June, 2002 and 1st July, 2002	47,299	50,453	(2,515)	95,237
Profit attributable to shareholders	—	—	12,920	12,920
Dividends paid	—	—	(9,678)	(9,678)
At 30th June, 2003	<u>47,299</u>	<u>50,453</u>	<u>727</u>	<u>98,479</u>

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

Pursuant to the Reorganisation, the Company became the holding company of the Group on 3rd January, 2002. 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 ended 30th June, 2002 was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.

28. RESERVES *(Continued)*

(b) **The Company** *(Continued)*

As at 30th June, 2003, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately RMB51,180,000 (2002: RMB47,938,000) subject to the restriction stated above.

29. EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contributed retirement scheme administered by an independent approved MPF trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF Scheme vest immediately.

The Company's subsidiaries established in the PRC 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.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 30th June, 2003 in respect of the retirement of its employees.

30. EQUITY COMPENSATION BENEFITS

The Company has an employee share option scheme which was adopted on 3rd January, 2002 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The subscription price of options is 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 closing price of the shares quoted on the GEM of the Stock Exchange for the five trading days immediately preceding the date of grant and (iii) the closing price of the shares on the GEM of Stock Exchange on the date of grant. The options vest after one to four years from the date of grant and are then exercisable within a period up to 2nd January, 2012. A nominal consideration of HK\$1 (equivalent approximately to RMB1) is payable on acceptance of the grant of options. Each option gives the holder the right to subscribe for one share.

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

30. EQUITY COMPENSATION BENEFITS (Continued)

(a) Movements in share options

	2003 Number	2002 Number
At 1st July	—	—
Issued	14,732,000	—
At 30th June	14,732,000	—
Options vested at 30th June	—	—

(b) Terms of unexpired and unexercised share options at balance sheet date

Date of grant	Exercisable period	Exercise price	2003 Number	2002 Number
4th April, 2003	4th April, 2004 to 2nd January, 2012	HK\$0.30	3,683,000	—
4th April, 2003	4th April, 2005 to 2nd January, 2012	HK\$0.30	3,683,000	—
4th April, 2003	4th April, 2006 to 2nd January, 2012	HK\$0.30	3,683,000	—
4th April, 2003	4th April, 2007 to 2nd January, 2012	HK\$0.30	3,683,000	—
			14,732,000	—

NOTES TO THE FINANCIAL STATEMENTS

As at 30th June, 2003
(Expressed in Renminbi)

31. OPERATING LEASE COMMITMENTS

At 30th June, 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 year	558	1,966	95	96
After 1 year but within 5 years	138	369	40	32
	<u>696</u>	<u>2,335</u>	<u>135</u>	<u>128</u>

32. CONTINGENT LIABILITIES

At 30th June, 2003, there were contingent liabilities in respect of banking facilities utilised by certain wholly owned subsidiaries and guaranteed by the Company amounting to approximately RMB36,179,000 (2002: Nil).

FINANCIAL SUMMARY

(Expressed in Renminbi)

	Years ended 30th June,			Period from
	2003 RMB'000	2002 RMB'000	2001 RMB'000	20/4/1999 to 30/6/2000 RMB'000
Results				
Turnover	97,134	117,599	31,899	4,478
Profit from operations	27,311	49,407	16,933	534
Finance costs	(4,229)	(130)	(193)	(31)
Profit from ordinary activities before taxation	23,082	49,277	16,740	503
Taxation	(469)	(1,450)	—	—
Profit attributable to shareholders	22,613	47,827	16,740	503
Dividend	—	9,678	—	—
Earnings per share				
— Basic	RMB5.45 cents	RMB13.74 cents	RMB5.58 cents	RMBO.17 cents
Assets and liabilities				
Fixed assets	9,341	7,380	6,299	
Other non-current assets	61,929	58,910	13,150	
Net current assets	138,229	100,509	8,753	
Non-current liabilities	(29,765)	—	—	
Net assets	179,734	166,799	28,202	
Share capital	43,990	43,990	10,959	
Reserves	135,744	122,809	17,243	
	179,734	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 Drawing Room, M/F, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 24th October, 2003 at 10:00 a.m. for the following purposes:

1. To receive and approve the audited 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, 2003;
2. To re-elect the retiring Directors and to authorise the Board of Directors (the "Board") to fix the remuneration of the Directors;
3. To re-appoint Auditors and to authorise the Board to fix their remuneration; and

as special businesses, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

4. **"THAT** subject to and conditional upon the GEM Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the shares of HK\$0.10 each in the share capital of the Company (the "Shares") to be issued pursuant to the exercise of options which may be granted under the New Refreshed Limit (as defined below), pursuant to clause 5.2 of the share option scheme adopted by the Company on 3rd January, 2002 (the "Scheme"), approval be and is hereby generally and unconditionally granted for "refreshing" the 10% limit (the "New Refreshed Limit") provided that the total number of Shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company must not exceed 10% of the Shares in issue as at the date of approval of the New Refreshed Limit. For the avoidance of doubt, options previously granted under the Scheme (including options which are outstanding, cancelled, lapsed or exercised in accordance with the Scheme) will not be counted for the purpose of calculating the New Refreshed Limit and any Director be and is hereby authorised to do such act and execute such documents to effect the New Refreshed Limit."

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") on the GEM of 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;

NOTICE OF ANNUAL GENERAL MEETING

(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;

(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, 26th September, 2003



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. 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.
2. 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.
3. A circular setting out further information regarding the above resolutions nos. 4 and 5 will be despatched to the shareholders of the Company together with the Company's 2003 annual report.