



CREATIVE ENERGY SOLUTIONS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)



2003-2004

First Quarterly Report

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

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This report, for which the directors of Creative Energy Solutions Holdings Limited 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.

HIGHLIGHTS

- For the three months ended 30th September, 2003, the Group's turnover decreased by approximately 40% over the corresponding period last year to approximately RMB17,152,000.
- Profit attributable to shareholders decreased by approximately 57% over the corresponding period last year to approximately RMB4,280,000 for the three months ended 30th September, 2003.
- Basic earnings per share was RMB1.03 cents representing approximately 57% decrease compared to that of the corresponding period last year.
- The Board has resolved not to declare any dividend for the three months ended 30th September, 2003.

QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH SEPTEMBER, 2003

The board of directors (the "Board") of Creative Energy Solutions Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30th September, 2003 together with the comparative unaudited consolidated figures for the corresponding period in 2002, as set out below:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		For the three months ended 30th September,	
	Note	2003 RMB'000	2002 RMB'000
Turnover	2	17,152	28,759
Cost of services		(5,708)	(10,009)
Gross profit		11,444	18,750
Other revenue		399	81
Distribution costs		(1,809)	(3,248)
General and Administrative expenses		(5,201)	(5,364)
PROFIT FROM OPERATIONS		4,833	10,219
Finance costs		(521)	—
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		4,312	10,219
Taxation	3	(105)	(210)
PROFIT FROM ORDINARY ACTIVITIES AFTER TAXATION		4,207	10,009
MINORITY INTERESTS		73	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		4,280	10,009
Dividends		—	—
Earnings per share			
Basic	4(a)	1.03 cents	2.41 cents
Diluted	4(b)	0.99 cents	N/A

Notes:

1. Basis of presentation

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

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

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

2. Turnover

The Group's turnover represented revenue arising from provision of system design and integration and energy saving services, after deducting 5% PRC business tax and 6% to 17% PRC value added tax.

An analysis of revenue recognised in turnover is as follows:

	For the three months ended 30th September,	
	2003	2002
	RMB'000	RMB'000
By services segments:		
Revenue from provision of system design and integration services	16,175	28,759
Revenue from provision of energy saving services	977	—
	17,152	28,759
By geographical segments:		
Hong Kong	1,349	—
PRC	15,803	28,759
	17,152	28,759

3. Taxation

	For the three months ended 30th September,	
	2003	2002
	RMB'000	RMB'000
PRC enterprise income tax (see note (c) below)	<u>105</u>	<u>210</u>

Notes:

(a) *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.

(b) *Hong Kong profits tax*

No Hong Kong profits tax has been provided for in the financial statements as the Group has accumulated tax losses brought forward which exceed the estimated assessable profits for the three months ended 30th September, 2003 (2002: Nil).

(c) *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 three months ended 30th September, 2003 (2002: 7.5%).

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 three months ended 30th September, 2003 (2002: Nil).

No provision for PRC enterprise income tax has been made for the three months ended 30th September, 2003 (2002: Nil) 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.

(d) *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.

(e) *Deferred taxation*

No provision for deferred taxation for the three months ended 30th September, 2003 has been made as the effect of all timing differences is immaterial (2002: Nil).

4. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to shareholders of approximately RMB4,280,000 (2002: RMB10,009,000) and the weighted average of 415,000,000 (2002: 415,000,000) ordinary shares in issue during the three months ended 30th September, 2003.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the unaudited consolidated profit attributable to shareholders of approximately RMB4,280,000 and on 431,774,194 ordinary shares, being the weighted average number of ordinary shares outstanding during the three months ended 30th September, 2003, adjusted for the effects of dilutive potential ordinary shares outstanding during the three months ended 30th September, 2003.

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

A reconciliation of the weighted average number of ordinary shares used in calculating the basic and diluted earnings per share is as follows:

	2003
	No. of Shares
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	415,000,000
Assuming issued at HK\$0.27 (equivalent to RMB0.29) on deemed exercise of all warrants outstanding during the three months ended 30th September, 2003	16,774,194
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	431,774,194

5. Reserves

Movement of reserves are:

	Share premium <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	General reserve fund <i>RMB'000</i> <i>(note (a))</i>	Enterprise expansion reserve fund <i>RMB'000</i> <i>(note (b))</i>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st July, 2002	47,299	10,440	6,009	7,580	51,481	122,809
Profit for the period	—	—	—	—	10,009	10,009
Transfer from retained profit to reserve	—	—	612	1,379	(1,991)	—
At 30th September, 2002	<u>47,299</u>	<u>10,440</u>	<u>6,621</u>	<u>8,959</u>	<u>59,499</u>	<u>132,818</u>
At 1st July, 2003	47,299	10,440	6,588	12,635	58,782	135,744
Profit for the period	—	—	—	—	4,280	4,280
Transfer from retained profit to reserve	—	—	125	821	(946)	—
At 30th September, 2003	<u>47,299</u>	<u>10,440</u>	<u>6,713</u>	<u>13,456</u>	<u>62,116</u>	<u>140,024</u>

Notes:

(a) *General reserve fund*

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 10% of the profit after taxation to the general reserve fund for the three months ended 30th September, 2003.

The directors of Hainan Creative determined not to make any appropriation to the general reserve fund for the three months ended 30th September, 2003 because the balance of such fund as at 30th September, 2003 has reached 50% of its registered capital.

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 three months ended 30th September, 2003.

(b) *Enterprise expansion reserve fund*

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 three months ended 30th September, 2003.

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 three months ended 30th September, 2003.

DIVIDEND

The Board has resolved not to declare any dividend for the three months ended 30th September, 2003 (2002: Nil).

BUSINESS REVIEW

Energy Management Systems (“EMS”) Solutions

For the three months ended 30th September, 2003, the Group completed 56 projects. During the period under review, turnover of the Group amounted to approximately RMB17,152,000, representing approximately 40% decrease as compared to the corresponding period last year. The Group consolidated the markets of “SAVIN 2000 I” in Fuzhou, Chongqing, Hefei, Nanjing, Hangzhou, Tianjin, Beijing and Qingdao through effective sales and marketing strategies, and successfully promoted the EMS Solutions to other new domestic markets. On the other hand, the Group consolidated the Beijing market for “SAVIN 2000 II” and actively explored new markets such as Qinhuangdao, which were already under negotiation. During the period, “SAVIN 2000 III” received encouraging market recognition and successfully entered into two contracts relating to chemical industry in Nantong city, Jiangsu Province, that totally amounted to approximately RMB1,390,000.

In addition, the Group cooperated with another EMS service provider to explore into a new area of EMS, the High Efficiency Energy Saving Hot/Cold Water Equipment in air conditioning system. The underlying principle of the equipment is the use of the heat exchange process. The heat generated during the frigorific process by the water chiller of the central air-conditioner is transformed to heat water to approximately 45-65°C, for end-users that can be used for purpose such as bathing. The Group has successfully installed the equipment for Sunshine Hotel in Shenzhen, the PRC and the contract amounted to approximately RMB1,930,000. Since the equipment was still under testing, it was not yet realized in the Group’s turnover for the period under review.

Hong Kong was the starting point of the Group's plan to explore overseas markets during the period under review. In addition to the collaboration with China Resources Group for providing EMS Solutions in the China Resources Building, the Group entered into four contracts, which totally amounted to approximately HK\$4,800,000, with another large-scale property development company, Chinachem Group, for the installation of "SAVIN 2000 I" to one shopping arcade and three commercial buildings.

Energy Saving Products

During the period under review, since the environmental friendly lighting source products received encouraging market response, the Group will continue to develop this business and actively participate in the large-scale international lighting exhibition, with the aim to launch the series of Cold Cathode Fluorescent Lamp. Apart from the initial lighting projects for the adornment of cities, such as the Colour Ring Lamps for the Guomao Bridge Beautifying Project in Beijing, the Group is also developing a series of energy saving light bulbs for domestic use. It is expected that the cross-selling marketing strategies will create the synergy effects with other Group's EMS products.

FINANCIAL REVIEW

For the three months ended 30th September, 2003, turnover of the Group amounted to RMB17,152,000, representing a 40% decrease as compared to the corresponding period last year (2002: RMB28,759,000). Gross profit decreased by approximately 39% to RMB11,444,000, as compared to RMB18,750,000 for the corresponding period in 2002. Profit attributable to shareholders declined by 57% to RMB4,280,000 in 2003 from RMB10,009,000 in 2002. The drop in the period resulted from the delay in the installation of "SAVIN 2000 II" as there was an adjustment in the policy of the government's energy consumption structure. The sales performance was hence affected. During the period under review, the contribution of the Group's profit mainly derived from "SAVIN 2000 I" and the contract in respect of the China Resources Building, which amounted to approximately HK\$1,272,000.

The distribution costs for the three months ended 30th September, 2003 was RMB1,809,000 in comparing to RMB3,248,000 of the corresponding period last year which showed the decrease of 44%. The tremendous saving of costs was mainly attributable to the reduction of advertising and promotion expenses to RMB76,000 (2002: RMB1,060,000) which was in line with the business activities of the Group for the period under review.

Except for a newly Hong Kong subsidiary with major shareholdings held by the Group established in July, 2003 with other strategic partners targeting at exploring the Hong Kong market, there was no other set-up of operating subsidiary by the Group for the reporting period. The general and administrative expenses were then RMB5,201,000 for the three months ended 30th September, 2003 maintaining about the same level (2002: RMB5,364,000) as the corresponding period of last year.

FUTURE PROSPECTS

In the second half of 2003, the world was gradually walking out of the shadow of Severe Acute Respiratory Syndrome. The economic recovery and the enhanced international recognition towards energy conservation and environmental protection are positive elements for the Group to further develop and promote the EMS products. Among which, the Group will continue to develop "SAVIN 2000" series, improve product quality and value-added technology. In addition, the Group is also considering the acquisition of new technology that is related to the core business in order to satisfy diversified needs of customers and thus enlarge the customer base.

Regarding the Hong Kong market, the effectiveness of the energy saving was significant in the project with China Resources Building in Hong Kong. The Group is actively seeking cooperation opportunities with major property developers and property management companies to design, install and manage EMS Solutions for all types of properties and buildings. With regard to the exploration of new markets, the Group plans to extend its business to overseas markets in the Southeast Asia, such as Indonesia, the Philippines and Thailand, etc through joint venture establishment and business negotiation.

The Group plans to spend 3% of the turnover on sales and marketing uses so as to explore more overseas markets. Looking ahead, the Group will consolidate the markets in coastal regions, major provincial and prosperous cities in the PRC while exploring opportunities in the Southeast Asia.

In view of the whole business operation, the Group will actively improve the overall efficiency of the management and employees, strengthen the research & development, as well as the sales and marketing capacity. The Group commits to enlarge the market share through targeting on potential customers. The Group also pledges to become the top EMS solutions provider leveraging on our active and aggressive attitude.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th September, 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

Name	Date of grant	Exercise price HK\$	Exercisable period	Share Options in the Company
				Number of shares in respect of options outstanding as at 30th September, 2003
<i>Director:</i>				
Ms. Lin Rong Ying	04/04/2003	0.30	Note	1,200,000
<i>Chief executive:</i>				
Mr. Kam Ying Fai	04/04/2003	0.30	Note	3,040,000
<i>Note:</i>				
<i>Exercisable period: 04/04/2004 — 02/01/2012 (up to 25% of underlying shares exercisable under options granted)</i>				
<i>04/04/2005 — 02/01/2012 (up to 50% of underlying shares exercisable under options granted)</i>				
<i>04/04/2006 — 02/01/2012 (up to 75% of underlying shares exercisable under options granted)</i>				
<i>04/04/2007 — 02/01/2012 (up to 100% of underlying shares exercisable under options granted)</i>				

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the sections "Share Option Scheme" below and "Directors' and Chief Executives' Interests in Securities" above, at no time during the three months ended 30th September, 2003 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' INTERESTS IN COMPETING BUSINESS

During the three months ended 30th September, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30th September, 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%

SHARE OPTION SCHEME

On 3rd January, 2002, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's 2003 Annual Report.

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review were as follows:

Name or Category of participant	Number of Shares in respect of Options						Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1st July, 2003	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30th September, 2003			
<i>Director:</i>									
Lin Rong Ying	1,200,000	—	—	—	—	1,200,000	04/04/2003	Note	0.30
<i>Chief Executive:</i>									
Kam Ying Fai	3,040,000	—	—	—	—	3,040,000	04/04/2003	Note	0.30
<i>Employees:</i>									
In aggregate	10,492,000	—	—	—	(200,000)	10,292,000	04/04/2003	Note	0.30
Total	14,732,000				(200,000)	14,532,000			

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 (HK\$36,000,000). Bondholders can exercise the subscription rights attaching to the warrants, expiring on 1st November, 2007, to subscribe for subscription shares of the Company at an 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 three months ended 30th September, 2003, no warrant was exercised by the warrantholders.

INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, JS Cresvale Capital Limited ("JS Cresvale"), as at 30th September, 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 30th September, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established an audit committee on 3rd January, 2002 with written terms of reference which deal clearly with its authority and duties. The primary duties of the audit committee include reviewing the Company's annual report and financial statements, half-year report and quarterly reports and providing advice and comments thereon to the Board. 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 has reviewed the quarterly results for the three months ended 30th September, 2003.

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

Hong Kong, 13th November, 2003