



Creative Energy Solutions Holdings Limited

(Incorporated in Bermuda with limited liability)

2003 - 2004
*Interim
Report*



China

Hong Kong

Thailand

Philippines

Indonesia

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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

Revenue was approximately RMB40,874,000 for the six months ended 31st December, 2003, representing a decrease of approximately 22.7% when compared with the same period in 2002.

Profit attributable to shareholders for the six months ended 31st December, 2003 amounted to approximately RMB11,772,000 representing a decrease of 9.2% when compared with the same period in 2002.

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2003.

Basic earnings per share was RMB2.81 cents for the six months ended 31st December, 2003.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER, 2003

The board of directors (the “Board”) of Creative Energy Solutions Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 31st December, 2003 together with the comparative unaudited condensed consolidated figures for the corresponding period in 2002, as set out below:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	<i>Note</i>	Three months ended 31st December,		Six months ended 31st December,	
		2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
TURNOVER, net	2	23,722	24,137	40,874	52,896
Cost of services		(7,967)	(8,614)	(13,675)	(18,623)
Gross profit		15,755	15,523	27,199	34,273
Other revenue		33	97	432	178
Distribution costs		(1,568)	(2,791)	(3,377)	(6,040)
General and administrative expenses		(4,659)	(6,518)	(9,860)	(11,880)
PROFIT FROM OPERATING ACTIVITIES		9,561	6,311	14,394	16,531
Finance costs		(566)	(3,263)	(1,087)	(3,263)
PROFIT BEFORE TAXATION	3	8,995	3,048	13,307	13,268
Taxation	4	(621)	(84)	(726)	(294)
PROFIT AFTER TAXATION		8,374	2,964	12,581	12,974
Minority interests		(882)	–	(809)	–
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		7,492	2,964	11,772	12,974
Earnings per share					
Basic (in RMB)	5(i)	1.77 cents	0.71 cents	2.81 cents	3.13 cents
Diluted (in RMB)	5(ii)	1.73 cents	N/A	2.72 cents	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	31st December, 2003 (Unaudited) RMB'000	30th June, 2003 (Audited) RMB'000
NON-CURRENT ASSETS			
Fixed assets		9,857	9,341
Intangible assets		18,862	20,410
Other investments in securities		28,154	22,857
Trade receivables	6	9,154	18,662
		66,027	71,270
CURRENT ASSETS			
Inventories		452	428
Work in progress		1,539	887
Trade receivables – current portion	6	47,208	41,726
Prepayments, deposits and other receivables		9,426	4,570
Pledged bank deposits		28,790	24,433
Cash and cash equivalents		132,779	113,993
		220,194	186,037
CURRENT LIABILITIES			
Trade payables	7	1,180	810
Other payables and accruals		4,493	3,080
Bank loans and overdrafts		50,235	36,185
Coupon bonds – current portion		7,441	7,441
Taxation		985	292
		64,334	47,808
NET CURRENT ASSETS		155,860	138,229
TOTAL ASSETS LESS CURRENT LIABILITIES		221,887	209,499
NON-CURRENT LIABILITIES			
Trade deposit received		676	–
Coupon bonds		22,324	29,765
		23,000	29,765
NET ASSETS		198,887	179,734
CAPITAL AND RESERVES			
Capital		46,640	43,990
Reserves	8	151,226	135,744
		197,866	179,734
MINORITY INTERESTS		1,021	–
		198,887	179,734

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN EQUITY**

For the six months ended 31st December, 2003

	Share capital	Share premium	Merger reserve	General reserve <i>(note 8 (i))</i>	Enterprise expansion reserve <i>(note 8 (ii))</i>	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st July, 2002	43,990	47,299	10,440	6,009	7,580	51,481	166,799
Profit for the period	-	-	-	-	-	12,974	12,974
2001 final dividend paid	-	-	-	-	-	(9,678)	(9,678)
Transfer from retained profits to reserves	-	-	-	715	2,669	(3,384)	0
At 31st December, 2002	43,990	47,299	10,440	6,724	10,249	51,393	170,095
At 1st July, 2003	43,990	47,299	10,440	6,588	12,635	58,782	179,734
Profit for the period	-	-	-	-	-	11,772	11,772
Issuance of 25,000,000 ordinary shares	2,650	3,975	-	-	-	-	6,625
Share issuance expenses	-	(265)	-	-	-	-	(265)
Transfer from retained profits to reserves	-	-	-	363	1,882	(2,245)	0
At 31st December, 2003	46,640	51,009	10,440	6,951	14,517	68,309	197,866

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 31st December,			
	2003		2002	
	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities				
Profit from ordinary activities				
before taxation	13,307		13,268	
Adjustments for:				
Depreciation of fixed assets	1,568		1,491	
Amortisation of intangible assets	1,548		1,234	
Finance costs	1,087		3,263	
Interest income	(432)		(178)	
Write-back of general provision for bad and doubtful debts	(213)		-	
Operating profit before changes in working capital	16,865		19,078	
Increase in inventories	(677)		(2,474)	
(Increase)/decrease in debtors, deposits and prepayments	2,532		(11,440)	
Increase in creditors and accrued charges	2,263		529	
Increase/(decrease) in other tax payables	143		(799)	
Cash generated from operations	21,126		4,894	
Tax paid				
PRC enterprise income tax paid	(176)		(505)	
Net cash (used in)/from operating activities		20,950		4,389
Investing activities				
Payment for purchase of fixed assets	(2,085)		(231)	
Payment for purchase of intangible assets	-		(1,000)	
Contribution from minority interests	212		-	
New loan to the investee company	(5,297)		(445)	
Increase in secured loan receivable	(1,823)		(2,735)	
Increase in unsecured loan receivable	(1,325)		-	
Increase in pledged bank deposits	(4,357)		-	
Interest received	432		178	
Net cash used in investing activities		(14,243)		(4,233)

	Six months ended 31st December,			
	2003		2002	
	RMB'000	RMB'000	RMB'000	RMB'000
Financing activities				
Proceeds from issuance of 25,000,000 ordinary shares	6,625		–	
Payment for share issuance expenses	(265)		–	
New bank loans	9,556		–	
Proceeds from issuance of coupon bonds	–		37,206	
Payment for coupon bonds issuance expenses	–		(3,108)	
Repayment of coupon bonds	(7,441)		–	
Dividend paid	–		(9,678)	
Finance costs paid	(890)		(155)	
Net cash (used in)/from financing activities		7,585		24,265
Net increase in cash and cash equivalents		14,292		24,421
Cash and cash equivalents at 1st July,		113,993		56,835
Cash and cash equivalents at 31st December,		128,285		81,256
Analysis of the balances of cash and cash equivalents at 31st December:				
Cash and cash equivalents	132,779		81,256	
Bank overdrafts	(4,494)		–	
	128,285		81,256	

Notes:

1. Basis of presentation

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” as issued by the Hong Kong Society of Accountants (“HKSA”) and accounting principles generally accepted in Hong Kong and also in compliance with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange. The accounting policies are consistent with those followed in the preparation of the Group’s latest financial statements dated 19th September, 2003 except for the first-time adoption in the period under review by the Group of the revised SSAP 12 “Income Taxes” issued by HKSA which becomes effective for accounting period commencing on or after 1st January, 2003.

The principal effect of the adoption of the revised SSAP 12 is in relation to deferred tax. In the current period, deferred taxation shall be provided in full but with limited exceptions (i.e. using balance sheet liability method whereby deferred tax is recognized in respect of all temporary differences arising between the tax bases used in the computation of taxable profits and the carrying amount of assets and liabilities in the financial statements). In previous years, by contrast, partial provision was made for deferred tax using the income statement liability method under which a liability was recognized for timing differences between profit as computed for taxation purpose and accounting profit as stated in the financial statements to the extent whereby a liability or an asset was expected to become payable or recoverable in the foreseeable future. Under the requirement of the revised SSAP 12, the adoption requires changes in accounting policy and the changes have been applied retrospectively. Since the effect of the change by adoption had no major impact on the unaudited consolidated results for the six months ended 31st December, 2003 or the prior periods, the openings balances have not been restated.

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 condensed consolidated financial statements is historical cost.

2. Turnover and segment information

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

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An analysis of turnover is as follows:

	Three months ended 31st December, (Unaudited)		Six months ended 31st December, (Unaudited)	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
By services segments:				
Revenue from provision of system design and integration services	23,522	24,137	39,697	52,896
Revenue from provision of energy saving services	200	–	1,177	–
	<u>23,722</u>	<u>24,137</u>	<u>40,874</u>	<u>52,896</u>

Primary reporting format – geographical segments

The Group operates in two geographical areas: Hong Kong and the PRC.

	(Unaudited)		
	Hong Kong	PRC	Consolidated
	Six months ended 31st December, 2003		
	2003 RMB'000	2003 RMB'000	2003 RMB'000
TURNOVER	6,457	34,417	40,874
RESULT			
Segment results	<u>2,554</u>	<u>16,455</u>	19,009
Unallocated other revenue			1
Unallocated corporate expense			(4,616)
Profit from operations			<u>14,394</u>
Finance costs			(1,087)
Profit before taxation			<u>13,307</u>
Taxation			(726)
Profit before minority interests			<u>12,581</u>
Minority interests			(809)
Profit attributable to shareholders			<u><u>11,772</u></u>

There are no sales between the geographical segments for the six months ended 31st December, 2003.

The Group mainly operates in the PRC with one core business and no geographical segment information is presented for the six months ended 31st December, 2002.

3. Profit before taxation

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

	Three months ended 31st December, (Unaudited)		Six months ended 31st December, (Unaudited)	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Depreciation of fixed assets	684	739	1,568	1,491
Amortisation of intangible assets	774	627	1,548	1,234

4. Taxation

	Three months ended 31st December, (Unaudited)		Six months ended 31st December, (Unaudited)	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Hong Kong profits tax <i>(see note (ii) below)</i>	429	–	429	–
PRC enterprise income tax <i>(see note (iii) below)</i>	192	84	297	294
Taxation	621	84	726	294

(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

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated profit for the three months and six months ended 31st December, 2003. No Hong Kong profits tax was provided for the three months and six months ended 31st December, 2002 as the Group did not generate any assessable profits arising in or derived from Hong Kong.

(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 three months and six months ended 31st December, 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 for the three months and six months ended 31st December, 2003 (2002: Nil).

No provision for PRC enterprise income tax has been made 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 purpose for the three months and six months ended 31st December, 2003 (2002: Nil).

(iv) *PRC business and value added tax*

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.

5. Earnings per share

i) *Basic earnings per share*

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to shareholders of approximately RMB7,492,000 and RMB11,772,000 (2002: RMB2,964,000 and RMB12,974,000) and the weighted average number of 423,423,913 and 419,211,957 (2002: 415,000,000) ordinary shares in issue respectively during the three months and six months ended 31st December, 2003 after adjusting for the effects of the issue of 25,000,000 ordinary shares on 1st December, 2003.

ii) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the unaudited consolidated profit attributable to shareholders of approximately RMB7,492,000 and RMB11,772,000 and on 432,389,430 and 432,211,957 ordinary shares, being the weighted average number of ordinary shares outstanding respectively during the three months and six months ended 31st December, 2003, adjusted for the effects of dilutive potential ordinary shares outstanding during the three months and six months ended 31st December, 2003.

Diluted earnings per share for the three months and six months ended 31st December, 2002 is not presented as there was no dilutive potential ordinary shares in existence for the three months and six months ended 31st December, 2002.

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

	During the three months ended 31st December, 2003	During the six months ended 31st December, 2003
	<i>No. of Shares</i>	<i>No. of Shares</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	423,423,913	419,211,957
Assuming issued at HK\$0.27 (equivalent to RMB0.29) on deemed exercise of all warrants outstanding	8,965,517	13,000,000
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	432,389,430	432,211,957
	<hr/> <hr/>	<hr/> <hr/>

6. Trade receivables

At 31st December, 2003 the trade receivables (net of specific provision for bad and doubtful debts) were recoverable as follows:

	At 31st December, 2003 (Unaudited) RMB'000	At 30th June, 2003 (Audited) RMB'000
Within 1 year	47,208	41,726
After 1 year but within 5 years	11,876	21,597
After 5 years	244	244
	<hr/>	<hr/>
<i>Less:</i> General provision for bad and doubtful debts	(2,966)	(3,179)
	<hr/>	<hr/>
<i>Less:</i> Current portion of trade receivables	(47,208)	(41,726)
	<hr/>	<hr/>
Non-current portion	9,154	18,662
	<hr/> <hr/>	<hr/> <hr/>

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

	At 31st December, 2003 (Unaudited) RMB'000	At 30th June, 2003 (Audited) RMB'000
Within 1 month	10,072	2,473
1 to 3 months	3,562	4,327
More than 3 months but less than 12 months	17,971	35,065
More than 12 months	27,723	21,702
	59,328	63,567

7. Trade payables

All trade payables are expected to be settled within one year and the aging analysis of trade payables is as follows:

	At 31st December, 2003 (Unaudited) RMB'000	At 30th June, 2003 (Audited) RMB'000
Due within 1 month or on demand	1,180	740
Due after 1 month but within 3 months	0	69
Due after 6 months but within 12 months	0	1
	1,180	810

8. Reserves

(i) 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 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 only be utilized to offset accumulated losses or be utilised to increase capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Fujian Traving have proposed to transfer 10% of the profit after taxation to the general reserve fund for the six months ended 31st December, 2003.

The directors of Hainan Creative determined not to make any appropriation to the general reserve fund for the six months ended 31st December, 2003 as the balance of such fund as at 31st December, 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 six months ended 31st December, 2003.

(ii) *Enterprise expansion reserve funds*

According to 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 six months ended 31st December, 2003.

The directors of Beijing Creative and Shenzhen Creative determined not to make any appropriation to the enterprise expansion reserve fund as these subsidiaries have sustained loss for the six months ended 31st December, 2003

9. Capital commitments

As of 31st December, 2003, the Group had no material capital commitments which were not provided for in the condensed consolidated financial statements of the Group.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2003 (2002 : Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, with the aim to reduce energy consumption for the customers, the Group devoted to develop its Energy Management Systems Solutions, which represent the "SAVIN 2000" series, through continued enhancement of product quality. In respect of energy saving products, the Group focused on developing the environmental friendly lighting source products, as a result of the satisfactory gross profit margin, in order to create synergies through product diversifications.

Energy Management Systems (“EMS”) Solutions

For the six months ended 31st December, 2003, the Group completed 114 projects mainly of commercial buildings and hotels. During the period under review, turnover of the Group amounted to approximately RMB40,874,000, representing a decrease of approximately 22.7% as compared to the corresponding period last year. Sales of “*SAVIN 2000 I*”, contributed approximately 91.5% of the turnover, amounted to approximately RMB37,388,000. The Group has successfully captured a large market share in the PRC, including Fuzhou, Chongqing, Hefei, Nanjing, Hangzhou, Tianjing, Beijing and Qingdao and also developed the markets in Southeast Asia. “*SAVIN 2000 IIP*”, contributed approximately 8.3% of the turnover, amounted to approximately RMB3,396,000. The whole implementation project of “*SAVIN 2000 IP*” was affected by the adjustment in the policy of the government’s energy consumption structure. As under the heating supply season in winter, no sale was recorded during the period under review and the performance of the Group affected.

During the period, the Group installed the High Efficiency Energy Saving Hot/Cold Water Equipment in air conditioning system for Sunshine Hotel in Shenzhen, the PRC. The heat generated during the frigorific process by the water chiller of the central air-conditioner is transformed to heat water of approximately 45-65°C, for end-users that can be used for purpose such as bathing. Since the equipment has completed testing and commenced operation, the first installment has been reflected in the turnover during the period.

Active exploration in overseas markets has always been the Group’s development strategy. Other than the Hong Kong market, the Group has also made every effort to explore the Southeast Asia markets. Due to the delay in the expansion of overseas business as a result of the impact arising from Severe Acute Respiratory Syndrome (“SARS”) in the first half of 2003, the Group thus focused on the expansion of its overseas business in the second half of 2003. For the Southeast Asia markets, the Group formed strategic alliance with a company located in the Philippines, and jointly marketing “*SAVIN 2000 I*”, which represented a leap forward regarding to the expansion in the Philippines. For the Hong Kong market, the Group negotiated with four to five developers in respect of more than ten environmental protection projects with aggregated contract sum of over HK\$10,000,000. In addition, the Group successfully installed “*SAVIN 2000 I*” in Chinachem Golden Plaza, Fanling Town Centre and other two commercial buildings under the Chinachem Group, one of the largest property developers in Hong Kong, with an aggregated turnover of approximately HK\$4,800,000. In addition to the satisfactory energy saving achievements in the China Resources Building, including 61% energy saving effect on the chill water pump system and approximately 10% reduction in the running current of the refrigerant machine, the sea water pump installed in the above-mentioned Chinachem Golden Plaza also achieved a result of 85% energy saving. Such results received encouraging recognition from customers. During the period, the Group entered into four additional contracts with the Chinachem Group regarding the installation of “*SAVIN 2000 I*”, and also entered into a contract with Kerry Group regarding the installation of “*SAVIN 2000 I*” in a commercial building in Shanghai, the PRC.

Energy Saving Products

As the environmental friendly lighting source products achieved high gross profit margin and received encouraging market response, the Group will actively develop such products, including Cold Cathode Fluorescent Lamp and energy saving light bulbs for domestic use, with the aim of establishing cross-selling marketing strategies and creating synergy effects. The Cold Cathode Fluorescent Lamp achieved a high gross profit margin of 30%, in which the Group currently holds 14% of the shareholding of such product. The Group will also actively participate in the large-scale international lighting exhibition, with the aim to launch the environmental friendly lighting source products into the international market.

FINANCIAL REVIEW

Result & Turnover

The turnover of the Group for the six months ended 31st December, 2003 was approximately RMB40,874,000, representing a decrease of approximately 22.7% as compared to the corresponding period last year (2002: RMB52,896,000). The decrease resulted from the delay in the installation of "SAVIN 2000 II" as there was an adjustment in the government's power consumption structure. The turnover of the Group for the three months ended 31st December, 2003 being RMB23,722,000, however, could maintain at around the same level as the corresponding period last year (2002: RMB24,137,000) due to the successful penetration of "SAVIN 2000 I" into Hong Kong market and launch of "SAVIN 2000 III" in the PRC.

The profit attributable to shareholders of the Group and basic earnings per share for the six months ended 31st December, 2003 were approximately RMB11,772,000 (2002: RMB12,974,000) and RMB2.81 cents (2002: RMB3.13 cents) respectively. In comparing the corresponding period last year, the decrease in the profit attributable to shareholders and basic earnings per share of 9.2% and 10.2% was reflected. In fact, however, there was an encouraging result reflected for the three months ended 31st December, 2003 with an increase by 153% and 149% on the profit attributable to shareholders and basic earnings per share respectively.

Gross Profit

The gross profit of the Group decreased by approximately 20.6% from approximately RMB34,273,000 of the corresponding period last year to RMB27,199,000 for the six months ended 31st December, 2003. The gross profit ratio increased to 66.5% for the six months ended 31st December, 2003 from 64.7% of the corresponding period last year, owing to the relative higher profit margin of the "SAVIN 2000 III", which contributed approximately 8.3% of the Group's total sales for the six months ended 31st December, 2003.

Expenses and Costs

Distribution costs largely decreased to approximately RMB3,377,000 for the six months ended 31st December, 2003 in comparing to approximately RMB6,040,000 of the corresponding period last year due to substantial reduction on the advertising and promotion expenses.

General and administrative expenses decreased by RMB2,020,000 to approximately RMB9,860,000 for the six months ended 31st December, 2003 as compared to RMB11,880,000 of the corresponding period last year. It was due to the fact that there was no major expansion and establishments occurred in the period under review and the Directors exercised a set of stringent cost control measures to keep expenses spending in a most effective manner.

Finance costs was approximately RMB1,087,000 for the six months ended 31st December, 2003 as compared to RMB3,263,000 of the corresponding period last year. The costs was mainly incurred for interest payment in the period under review without incurring further professional fees in relation to the issue of 2.5% coupon bonds as incurred for the corresponding period last year.

Staff

A breakdown of the number of staff of the Group by functions as at 31st December, 2003 and 30th June, 2003 is set out below:

	Number of staff					At 31st	At 30th
	Beijing	Fuzhou	Hainan	Shenzhen	Hong Kong	December, 2003 Total	June, 2003 Total
Sales & marketing	25	9	22	5	5	66	65
Professional services and technical support	17	14	37	9	1	78	81
Research & development	5	0	8	0	0	13	8
Finance & administration	13	12	13	11	7	56	53
	60	35	80	25	13	213	207

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. Apart from 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. Granting of share options to outstanding and valuable employees shall be a continuing practice by the Group.

The Group has maintained good labor relations and does not encounter any major 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 employee.

The Group's labor forces were maintained at about the same level of the corresponding period last year but with relative higher salary level adopted for Hong Kong segment. Total remuneration including basic salaries and bonus allowances and fringe benefits for the six months ended 31st December, 2003 was RMB4,715,000 (2002: RMB3,896,024).

Liquidity and Financial Resources

The Group maintained a strong financial position for the six months ended 31st December, 2003. During the period under review, the Group's sources of funding were generated from its operating activities, the issue of 25,000,000 ordinary shares with net proceeds of approximately HK\$6,000,000 (equivalent to RMB6,360,000) and the additional raising of short-term bank loans of approximately RMB9,556,000. As at 31st December, 2003, the Group had cash and cash equivalents of RMB128,285,000 (30th June, 2003: RMB113,993,000). The currencies in which cash and cash equivalent held by the Group are mainly Renminbi and Hong Kong dollars. A bank borrowing of RMB50,235,000 (30th June, 2003: RMB36,185,000) bearing interest ranging from 1.35% to 6% 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 six months ended 31st December, 2003 (30th June, 2003: 2.2% to 2.6375%). As at 31st December, 2003, the Group had total assets of approximately RMB286,221,000 (30th June, 2003: RMB257,307,000) which were financed by current liabilities of approximately RMB64,334,000 (30th June, 2003: RMB47,808,000), the non-current portion of the coupon bonds of approximately RMB22,324,000 (30th June, 2003: RMB29,765,000), the deposit received from customers of approximately RMB676,000 (30th June, 2003: Nil), minority interests of approximately RMB1,021,000 (30th June, 2003: Nil) and shareholder's equity of approximately RMB197,866,000 (2002: RMB179,734,000). The ratio of current assets to current liabilities was 3.4 (30th June, 2003: 3.8) still showing a relative high liquidity of the Group's assets in meeting its short-term obligations once becoming due.

Foreign Exchange Exposure

Most of the assets of the Group were denominated in Renminbi as the operating activities of the Group were substantially in the PRC and the major liabilities were denominated in United States dollars and Hong Kong dollars resulting from the issue of coupon bonds with warrants and the arrangements of short-term bank loans. During the six months ended 31st December, 2003, it was indeed a significant movement of United States dollars by depreciation against other major international currencies and, in turn, such movement posed revaluation pressure on Renminbi. In view of the potential movement between the two currencies during the period under review, it should be acting favourable to the Group in terms of the existing debt structure and thus the Group did not conclude any forward foreign contracts aimed at hedging against exposure on adverse fluctuations in foreign currency exchange rates for the six months ended 31st December, 2003. As at 31st December, 2003, the Group had no significant exposure under foreign exchange.

Trade Receivables

As at 31st December, 2003, trade receivables net of provisions of bad and doubtful debts decreased by RMB4,026,000 to approximately RMB56,362,000 (30th June, 2003: RMB60,388,000). The reason of the decrease in trade receivables was attributable partly to the recovery from the SARS as most of our customers in commercial sectors getting back to their normal operations. The other reason could be the adoption of the "Shared-Saving" program 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 revenue of "Shared-Saving" program would only be recognized in the period in which the energy saving is verified by customer. In short, trade receivables shall only reflect the recognized revenue from the "Shared-Saving" program but not the estimated energy savings stated in the program.

The receivables in relation to "SAVIN 2000 II" were approximately 60.4% (30th June, 2003: 72.7%) of gross trade receivables as at 31st December, 2003 and its payments shall be recovered according to the payment terms of each contracts.

In spite of keeping down the trade receivables by around 6.7% from 30th June, 2003, the Group continues to enforce an effective credit control procedure in reviewing each of the proposed contract regarding the payment terms against the customer credibility and assessing the possibility of default in repayment by our finance personnel. The sales and marketing personnel and management also review the credibility of all customers before concluding the sales contract. The Group will continue to strengthen the present credit control policy aiming at minimizing the possibility of incurring bad debts.

Gearing Ratio

The Group's gearing ratio, defined as the ratio between long-term borrowings and shareholder's equity, was 0.113 as at 31st December, 2003 (30th June, 2003: 0.165).

Charges on Group Assets and Contingent Liabilities

As at 31st December, 2003, a total of approximately RMB28,790,000 (30th June, 2003: RMB24,433,000) bank deposit was pledged as security for loans and banking facilities and the corporate guarantee to the extent of approximately RMB50,235,000 (30th June, 2003: RMB36,185,000) against the loans and banking facilities was also made by the Company. Save as disclosed above, the Group had no other material contingent liabilities as at 31st December, 2003.

Significant Investment

There was no material acquisition and disposal during the six months ended 31st December, 2003.

FUTURE PROSPECTS

Global climate has been adversely affected by the Greenhouse Effect in recent years, which aroused the international awareness of energy conservation and environmental protection. As such, most of the countries has made significant investments in energy savings. Pursuant to the National Meeting of Development and Reformation in the PRC in December 2003, the energy shortage problems severe with the rapid economic growth in the PRC. The rapid growth in production volume and the abundant import of prime energy, such as electricity and coal are not capable to meet the growth in consumption. There is varied electricity supply limitation in 19 provinces and cities in the PRC. Power failure is common in some areas, which adversely affects the daily life and commercial activities. Thus, the market demand for the Group's products, which help to reduce cost and to enhance profit of the enterprise, will continue to escalate. The Group will continue to enlarge its market share in the PRC, including the markets in coastal regions, major provincial cities and more economically developed cities, and to provide users with high quality products and services.

Regarding the Hong Kong market, the Group has contracted with Kerry Group, a Hong Kong property developer, to install "SAVIN 2000 P" system for a commercial building in Shanghai during the period. The successful collaboration with the Hong Kong property developers such as China Resources Group and the Chinachem Group provides effective energy saving result and helps the Group to gain market reputation and support from customers. The Group believes that the number of projects which negotiated in Hong Kong and carried out in the PRC will increase in the future.

Apart from the Hong Kong market, the Group is also committed to develop Southeast Asia market. As the ratio of energy expense is relatively high for the people in Southeast Asia countries (like the Philippines), the Group's energy saving products are expected to lower their energy expense and thus a great demand for energy saving products is forecasted. The Group successfully developed the Philippines market during the period, which provided precious experiences for further expansion. Looking ahead, the Group will continue the negotiations with enterprises of other Southeast Asia countries such as Indonesia and Thailand, in order to develop and market "SAVIN 2000" series. The Group plans to apply 3% of its turnover for the sales and marketing in overseas markets.

After the balance sheet date, most of the Asia countries suffered from Avian Influenza. Despite the Group's business has not been affected at the time being, the Group will look closely into the status of the disease and take appropriate measures in order to minimize the possible adverse effects.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The actual progress of the Group's business objectives for the six months ended 31st December, 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 the six months ended 31st December, 2003 disclosed in the Prospectus

Actual business progress for the period of six months ended 31st December, 2003

Research and development

- Complete the design and commence testing on the air-quality control technologies;

Since the present indoor ventilation air-standard of the domestic premises has not reached the standard of the architectural design, which leads the lack of market demand on such control technology unless the standard of such industry being upgraded, the Company has postponed the overall planning and the development plan of such control technology, and would not consider such plans until the restoration of business opportunities in this field.

- Complete overall design and commence testing on the personal temperature control and occupancy sensor driven technologies with Tsinghua University; and

Such technology would not be introduced until the general consumption level continues to rise in the PRC. In spite of its well recognition as state-of-the-art by industry practitioners, the competitiveness of such technology in terms of its functions and prices has not yet been accepted. As a result, the Company has postponed the overall planning and the development plan of such control technology, and would not consider such plans until the restoration of business opportunities in this field.

- Continue to research and develop the district cooling system.

Currently, there is no common auxiliary standard for the domestic urban residential construction. The installation of the district cooling system in such district will increase the pricing of properties. In consideration of the high exposure resulting from the absence of support of government policies and individual marketing, as well as the increase in the property pricing, the Company has postponed the overall planning and the development plan of such control technology, and would not consider such plans until the restoration of business opportunities in this field.

Sales and marketing

- Form strategic alliances with property developers and conduct showcase projects in upmarket residential communities to promote the Group's district cooling systems; and
- Focus on expanding the sales of public district heating systems and industrial water cooling system in the PRC.

Since the development plan of this technology is postponed, no further sales and marketing works is undergoing.

Since the government has implemented political adjustments to the power consumption structure on the public district heating system, in which an internal reconstruction is required, the implementation of "SAVIN 2000 II" has been postponed. "SAVIN 2000 III", which is applicable to catering and chemical industries, has successfully entered the markets in Fujian, Jiangsu and Hainan, and is widely accepted by the industrial markets. It is presently expanding its market share and penetrating to other provinces in the PRC.

Geographical expansion

- Further develop the sales and distribution network in Hong Kong and to obtain significant market presence in southeast Asian countries such as Singapore, Malaysia and Thailand.

Total 5 contracts for China Resources Group and Chinachem Group in Hong Kong with contract sum of approximately HK\$6,091,000 was completed and 5 additional contracts was awarded from Chinachem Group and Kerry Group. Formed strategic alliance with a company located in the Philippines and on-going negotiations were made for Singapore, Malaysia and Thailand.

USE OF PROCEEDS

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

For the six months up to 31st December, 2003	Originally* planned RMB'000	Amount utilised RMB'000
RESEARCH & DEVELOPMENT		
"SAVIN 2000 I" and related technology upgrades, "SAVIN 2000 I" intergrating technologies with building management systems, Integrated energy efficient control system for commercial buildings, VAV system, "SAVIN 2000 II" for public district heating systems	0	350
Control technologies for indoor ventilation and air quality control	1,060	0
Personal temperature control and occupancy sensor control	1,060	0
District cooling systems	1,060	0
SALES & MARKETING		
Marketing and promotional activities	2,120	279
Establishment of training centres	1,060	0
GEOGRAPHICAL EXPANSION		
Set up a sales office and a sales team in Hong Kong	0	1,973
Establish strategic sales and service partnership in southeast Asian countries	1,060	69
	7,420	2,671
	7,420	2,671

* Amounts are extracted from the Company's Prospectus but amounts will be reclassified for comparisons purpose at the exchange rate of HK\$1.00 = RMB1.06.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 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	56.17%

Long positions in underlying shares of the Company

Name	Date of grant	Share Options in the Company			Number of shares in respect of options outstanding as at 31st December, 2003
		Exercise price (HK\$)	Exercisable period		
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.

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 six months ended 31st December, 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 six months ended 31st December, 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 31st December, 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	5.45%

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					Outstanding as at 31st December, 2003	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				
Director:									
Lin Rong Ying	1,200,000	-	-	-	-	1,200,000	04/04/2003	Note	0.30
Chief Executive:									
Kam Ying Fai	3,040,000	-	-	-	-	3,040,000	04/04/2003	Note	0.30
Employees:									
In aggregate	10,492,000	-	-	-	(300,000)	10,192,000	04/04/2003	Note	0.30
Total	<u>14,732,000</u>				<u>(300,000)</u>	<u>14,432,000</u>			

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 six months ended 31st December, 2003, no warrant was exercised by the warrantholders.

PLACING AND SUBSCRIPTION OF SHARES

On 19th November, 2003, Mr. Shum Fong Chung ("Mr. Shum"), a Director and a substantial shareholder of the Company, entered into a placing agreement with VC CEF Brokerage Limited, a placing agent, in respect of the placing of up to 25,000,000 existing shares of the Company by Mr. Shum through VC CEF Brokerage Limited to independent professional and institutional investors on a best effort basis at a price of HK\$0.25 per share (the "Placing").

On the same date, Mr. Shum entered into a subscription agreement with the Company in respect of the subscription of up to 25,000,000 new shares of the Company by Mr. Shum at a price of HK\$0.25 per share (the "Subscription").

The Placing was completed on 24th November, 2003 and the Subscription was completed on 1st December, 2003. The net proceeds of approximately HK\$6,000,000 were received by the Company for the business expansion of the Group's market share in the Hong Kong and overseas markets, including procurement of hardware, equipment and other sub-contract works for customers under energy saving contracts with the Group and for the use as general working capital of the Company.

INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, JS Cresvale Capital Limited ("JS Cresvale"), as at 31st December, 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 six months ended 31st December, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

During the six months ended 31st December, 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 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 interim results for the six months ended 31st December, 2003.

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

Hong Kong, 12th February, 2004