

# Creative Energy Solutions Holdings Limited

(Incorporated in Bermuda with limited liability)



03-04  
Third-Quarterly  
Report



# Creative Energy Solutions Holdings Limited

## Third-Quarterly Report 2003-2004



### HIGHLIGHTS

Revenue was approximately RMB53,780,000 for the nine months ended 31st March, 2004, representing a decrease of approximately 36% when compared with the same period in 2003.

Profit attributable to shareholders for the nine months ended 31st March, 2004 amounted to approximately RMB12,479,000 representing a decrease of 51.8% when compared with the same period in 2003.

The Board has resolved not to declare any dividend for the nine months ended 31st March, 2004.

Basic earnings per share was RMB2.93 cents for the nine months ended 31st March, 2004.



# Creative Energy Solutions Holdings Limited

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### QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST MARCH, 2004

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 and nine months ended 31st March, 2004 together with the comparative unaudited consolidated figures for the corresponding periods in 2003, as set out below:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Three months ended 31st March,		Nine months ended 31st March,	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
TURNOVER, net	2	<b>12,906</b>	31,124	<b>53,780</b>	84,020
Cost of services		<b>(4,510)</b>	(11,230)	<b>(18,185)</b>	(29,851)
Gross profit		<b>8,396</b>	19,894	<b>35,595</b>	54,169
Other revenue		<b>240</b>	126	<b>672</b>	304
Distribution costs		<b>(2,092)</b>	(1,717)	<b>(5,469)</b>	(7,757)
General and administrative expenses		<b>(5,221)</b>	(4,845)	<b>(15,081)</b>	(16,727)
PROFIT FROM OPERATIONS		<b>1,323</b>	13,458	<b>15,717</b>	29,989
Finance costs		<b>(535)</b>	(443)	<b>(1,622)</b>	(3,706)
PROFIT BEFORE TAXATION		<b>788</b>	13,015	<b>14,095</b>	26,283
Taxation	3	<b>(66)</b>	(104)	<b>(792)</b>	(398)
PROFIT AFTER TAXATION		<b>722</b>	12,911	<b>13,303</b>	25,885
Minority interests		<b>(15)</b>	-	<b>(824)</b>	-
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>707</b>	12,911	<b>12,479</b>	25,885
Earnings per share					
Basic	4(i)	<b>0.16 cents</b>	3.11 cents	<b>2.93 cents</b>	6.24 cents
Diluted	4(ii)	<b>0.16 cents</b>	N/A	<b>2.77 cents</b>	N/A

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Notes:

### 1. Basis of presentation

The unaudited consolidated results of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 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 policies 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 nine months ended 31st March, 2004 or the prior periods, comparative information has 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 consolidated results 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.

An analysis of turnover is as follows:

	Three months ended 31st March, (Unaudited)		Nine months ended 31st March, (Unaudited)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
By services segments:				
Revenue from provision of system design and integration services	12,561	31,124	52,258	84,020
Revenue from provision of energy saving services	345	-	1,522	-
	<u>12,906</u>	<u>31,124</u>	<u>53,780</u>	<u>84,020</u>

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### Primary reporting format – geographical segments

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

	Hong Kong	(Unaudited) PRC	Consolidated
	Nine months ended 31st March, 2004	Nine months ended 31st March, 2004	2004
	RMB'000	RMB'000	RMB'000
TURNOVER	7,775	46,005	53,780
RESULT			
Segment results	2,112	20,964	23,076
Unallocated other revenue			1
Unallocated corporate expense			(7,360)
Profit from operations			15,717
Finance costs			(1,622)
Profit before taxation			14,095
Taxation			(792)
Profit before minority interests			13,303
Minority interests			(824)
Profit attributable to shareholders			12,479

There are no sales between the geographical segments for the nine months ended 31st March, 2004

The Group mainly operates in the PRC with one core business and no geographical segment information is presented for the nine months ended 31st March, 2003.

### 3. Taxation

	Three months ended 31st March, (Unaudited)		Nine months ended 31st March, (Unaudited)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Hong Kong profits tax (see note (ii) below)	8	-	437	-
PRC enterprise income tax (see note (iii) below)	58	104	355	398
Taxation	66	104	792	398

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**(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 nine months ended 31st March, 2004. No Hong Kong profits tax was provided for the three months and nine months ended 31st March, 2003 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 nine months ended 31st March, 2004 (2003: 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 nine months ended 31st March, 2004 (2003: 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 nine months ended 31st March, 2004 (2003: 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.

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### 4. 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 RMB707,000 and RMB12,479,000 (2003: RMB12,911,000 and RMB25,885,000) and the weighted average number of 440,000,000 and 426,090,909 (2003: 415,000,000) ordinary shares in issue respectively during the three months and nine months ended 31st March, 2004 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 RMB707,000 and RMB12,479,000 and on 453,797,170 and 451,306,426 ordinary shares, being the weighted average number of ordinary shares outstanding respectively during the three months and nine months ended 31st March 2004, adjusted for the effects of dilutive potential ordinary shares outstanding during the three months and nine months ended 31st March, 2004.

Diluted earnings per share for the three months and nine months ended 31st March, 2003 is not presented as there was no dilutive potential ordinary shares in existence for the three months and nine months ended 31st March, 2003.

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

	<b>During the three months ended 31st March, 2004</b>	<b>During the nine months ended 31st March, 2004</b>
	<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	440,000,000	426,090,909
Assuming issued at HK\$0.24 (equivalent to approximately RMB0.25) on deemed exercise of all warrants outstanding	13,797,170	25,215,517
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	453,797,170	451,306,426

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### 5. Statement of changes in equity (Unaudited)

For the nine months ended 31st March, 2004

	Share capital	Share premium	Merger reserve	General reserve <i>(note (i))</i>	Enterprise expansion reserve <i>(note (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	-	-	-	-	-	25,885	25,885
2001 final dividend paid	-	-	-	-	-	(9,678)	(9,678)
Transfer from retained profits to reserves	-	-	-	972	4,286	(5,258)	0
<b>At 31st March, 2003</b>	<b>43,990</b>	<b>47,299</b>	<b>10,440</b>	<b>6,981</b>	<b>11,866</b>	<b>62,430</b>	<b>183,006</b>
At 1st July, 2003	43,990	47,299	10,440	6,588	12,635	58,782	179,734
Profit for the period	-	-	-	-	-	12,479	12,479
Issuance of 25,000,000 ordinary shares	2,650	3,975	-	-	-	-	6,625
Share issuance expenses	-	(268)	-	-	-	-	(268)
Transfer from retained profits to reserves	-	-	-	438	2,436	(2,874)	0
<b>At 31st March, 2004</b>	<b>46,640</b>	<b>51,006</b>	<b>10,440</b>	<b>7,026</b>	<b>15,071</b>	<b>68,387</b>	<b>198,570</b>

#### (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 nine months ended 31st March, 2004.

The directors of Hainan Creative determined not to make any appropriation to the general reserve fund for the nine months ended 31st March, 2004 as the balance of such fund as at 31st March, 2004 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 nine months ended 31st March, 2004.





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#### (ii) **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 nine months ended 31st March, 2004.

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 nine months ended 31st March, 2004.

#### DIVIDEND

The Board has resolved not to declare any dividend for the nine months ended 31st March, 2004 (2003: Nil).

#### BUSINESS REVIEW

With the burgeoning economic growth in the PRC, there is increasing concern regarding power shortage and such issue has in turn generated demands on the products of the Group, including the Energy Management Systems Solutions "SAVIN 2000" series and other energy saving products. Given the different degree of energy consumption restriction imposed by the governments in different provinces, districts and cities in the PRC, which affects the daily life of its residents and commercial activities of the region, upon such market environment, the Group will further its efforts in expanding in the PRC market, including the coastal areas, major provincial capitals and economically well-developed cities. However, the sales of "SAVIN 2000 II" during the period was affected by the adjustments in the policy of the government's consumption structure, and, therefore, the overall profits of the Group was set back from that of last year.



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During the period under review, the Group acquired 75% interests of Fujian Shenzhou Electron Information Technology Co., Ltd ("Fujian Shenzhou"), whose principal businesses are the provision of the know-how of high efficiency energy-saving hot/cold water equipment to hotels and energy management systems solutions for industrial application, at a consideration of HK\$60,000,000 (equivalent to approximately RMB63,600,000). The consideration was mainly financed by the retained profits of the Group and the proceeds from the listing in 2002 which was originally planned to be used in the research and development. Such acquisition brought an immediate return for the Group as the patented products of the central hot water equipment under the brand name of "文清", which shall be owned by the Group, are enjoying promising future in the region, as well as the newly developed technology for energy saving management solutions which was named as one of the major upgrading and supporting technologies of the "Tenth Five Year Plan on Energy Saving and Comprehensive Use of Energy (第十個五年能源節約及能源綜合利用計劃)" of the PRC Government and which have different functions but compatible to "SAVIN 2000 III". The Group believes, through the integration of the two technologies, it would be able to provide more value-added services in the Group's energy saving system and the above acquisition will also help to diversify the range of energy saving products for construction and industrial sectors and increase the market share of the Group's energy saving products.

### **Energy Management Systems ("EMS") Solutions**

The turnover of the Group was approximately RMB53,780,000 for the nine months ended 31st March, 2004, representing a decrease of approximately 36% as compared with the corresponding period last year. The turnover of the major product "SAVIN 2000 I" was approximately RMB50,284,000, representing approximately 93.5% of the total turnover. Leveraging on the satisfactory results of the Group's EMS Solutions which help enterprises in reducing costs and relieving the problem of power supply shortage in China, "SAVIN 2000 I" has successfully captured a significant market share in Fuzhou, Chongqing, Hefei, Nanjing, Hangzhou, Tianjin, Beijing and Qingdao in the PRC, which also developed markets in Hong Kong. As the turnover of "SAVIN 2000 III" was still affected by the adjustment in the policy of the government's consumption structure and the seasonal fluctuation, no turnover was recorded during the period under review. The turnover of "SAVIN 2000 III" was approximately RMB3,396,000, which represented approximately 6.3% of the total turnover. Currently, the Group is promoting this product actively in the industrial area and is negotiating the adoption of "SAVIN 2000 III" with some large-scaled industrial units, like cement plants, power plants, chemical plants, refineries and steel mills.

After acquiring Fujian Shenzhou, new products and technologies are introduced to the Group. It is believed that the Group will have greater development in the PRC market through technological combination, broadening the scope of production and expansion of production scale. During the period, the Group had co-operation with Fujian Shenzhou in Sunshine Hotel project in Shenzhen, the PRC. The project was completed and commenced operation. Sunshine Hotel was satisfied with the good results of the co-operation. Such project contributed a contract amount of RMB1,960,000 to the Group.



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Though the Group is optimistic towards the PRC market, in maintaining the long-term development of the business as a whole, active overseas market development is still the prime objective for the Group. The EMS Solutions of the Group was widely accepted in Hong Kong market. The main clients include China Resources Building, Chinachem Group and Kerry Group. The Group has entered into eight contracts with Chinachem Group, one of the largest property developers in Hong Kong, to install "SAVIN 2000 I" in Chinachem Golden Plaza, Fanling Town Centre and other six commercial buildings owned by Chinachem Group, with an aggregated contract amount of approximately HK\$6,050,000 and was reflected in the turnover for the period. In addition, The Group has also entered into a contract with Kerry Group regarding the installation of "SAVIN 2000 II" in Shanghai Kerry Centre, with an aggregate contract amount of approximately RMB950,000. This project is expected to enhance the market recognition of the Group in the PRC market and attract more contracts.

For the Southeast Asia markets, the Group formed strategic alliance with a company located in the Philippines to market the "SAVIN 2000 III" in the region, which represented a leap forward regarding to the expansion in the Philippines.

### FINANCIAL REVIEW

#### **Result & Turnover**

The turnover of the Group for the three months and nine months ended 31st March, 2004 was approximately RMB12,906,000 and RMB53,780,000, representing respectively a decrease of approximately 58.5% and 36% as compared to the corresponding period last year (2003: RMB31,124,000 & RMB84,020,000). The decrease of turnover was mainly due to the halting in the installation of "SAVIN 2000 III" as there was an adjustment of policy in the government's consumption structure and therefore no turnover from "SAVIN 2000 III" was recorded for the nine months ended 31st March, 2004 (2003: RMB60,446,000).

The profit attributable to shareholders of the Group and basic earnings per share for the nine months ended 31st March, 2004 were approximately RMB12,479,000 (2003: RMB25,885,000) and RMB2.93 cents (2003: RMB6.24 cents) respectively. In comparing the corresponding period last year, the decrease in the profit attributable to shareholders and basic earnings per share of 51.8% and 53% was reflected respectively.

#### **Gross Profit**

The gross profit of the Group decreased by approximately 34.3% from approximately RMB54,169,000 of corresponding period last year to RMB35,595,000 for the nine months ended 31st March, 2004. The gross profit ratio increased to 66.2% for the nine months ended 31st March, 2004 from 64.5% of the corresponding period of last year, owing to the relative higher profit margin of the "SAVIN 2000 III", which contributed approximately 6.3% of the Group's total sales for the nine months ended 31st March, 2004.

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### *Expenses and Costs*

The distribution costs for the nine months ended 31st March, 2004 was approximately RMB5,469,000 in comparing to RMB7,757,000 of the corresponding period last year which showed the decrease of 29.5%. The substantial reduction in the costs was mainly attributable to the decrease of advertising and promotion expenses.

General and administrative expenses decreased by RMB1,646,000 to approximately RMB15,081,000 for the nine months ended 31st March, 2004 compared to RMB16,727,000 of corresponding period last year as the Group exercised a set of stringent cost control measures with an aim to keep the expenses to be in line with its business activities.

Finance costs decreased to approximately RMB1,622,000 for the nine months ended 31st March, 2004 compared to RMB3,706,000 of corresponding period last year. The costs were mainly the interest payment of 2.5% coupon bonds and bank loans.

### FUTURE PROSPECTS

Due to the expeditious industrial development and the gradual improvement of living standard in the PRC, the domestic electricity demand grows rapidly. CAGR of electricity demand was 7.5% over the past five years. According to the information of the Guang-Dian Power Grid Group in Guangdong, it is expected that the supply of electricity will lag behind the demand for more than 2 million kilowatt for the whole Guangdong Province in 2004. The government, under such a forecast, has undertaken precautionary measures to limit the electricity supply in more than 20 cities, and such measures have severely impacted the production. The PRD Council under the Federation of Hong Kong Industries estimates that such measures will increase the costs of manufacturers by 3-5%. If the problem of power shortage cannot be resolved by May this year, which is the peak season for production, manufacturers will have to bear an additional cost of 10-15%. According to the estimation of the State Grid Corporation of China, the annual electricity consumption is expected to increase for more than 10% in the coming three years. In addition, the State Development and Reform Commission may lift the price of electricity by RMB0.02 to relieve the problem of power supply shortage in the PRC and raise funds for expanding the electricity transmission network. Judging from this prevailing phenomenon, domestic factories will have a strong demand over energy saving production facilities and related services, and this in turn provides attractive opportunities for the Group. The products of the Group has an outstanding performance in energy saving and has achieved 85% energy saving in sea water pump system installed in "SAVIN 2000 I" for Chinachem Golden Plaza. The products of the Group help enterprises in reducing costs and raising profits, which in turn help to achieve a higher cost efficiency.





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During the period under review, the Group captured favorable development opportunities through the acquisition of Fujian Shenzhou. In terms of products, both the patented products of central hot water equipment under the brand name of “文清” and the high efficiency energy-saving hot/cold water equipment in air-conditioning system achieved a high level of economic efficiency and such products are expected to be widely recognized by the market. Moreover, after the integration with Fujian Shenzhou, it is expected the broadened client base can enlarge the market share of the Group’s products. In terms of technology, the capacity of the newly acquired Energy Management Solutions technology, which is mainly applied to industrial enterprise, is more compatible as compared with “SAVIN 2000 III”, and able to optimize operation process for the clients. As a result, the Group can provide clients with quality value-added services through such technology combination.

Looking forward, along with the improvement of products and technologies and the increasing market demand for energy saving systems and products, while expanding the market share in the PRC, the Group will also continue to develop markets in Hong Kong and Southeast Asia. As local energy expense represents a relative high proportion to national expense in the Philippines, the Group captured such business opportunity and formed strategic alliance with a company located in the Philippines. It is anticipated that “SAVIN 2000” series will achieve a satisfactory performance in different markets and reduce energy consumption for the public and create a better future.

#### DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SECURITIES

As at 31st March, 2004, 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%

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### 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 31st March, 2004
<b>Director:</b>				
Ms. Lin Rong Ying	04/04/2003	0.30	Note	1,200,000
<b>Chief executive:</b>				
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 nine months ended 31st March, 2004 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 nine months ended 31st March, 2004, 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.

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### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31st March, 2004, 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 March, 2004	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				
<b>Director:</b>									
Lin Rong Ying	1,200,000	-	-	-	-	1,200,000	04/04/2003	Note	0.30
<b>Chief Executive:</b>									
Kam Ying Fai	3,040,000	-	-	-	-	3,040,000	04/04/2003	Note	0.30
<b>Employees:</b>									
In aggregate	10,492,000	-	-	-	(420,000)	10,072,000	04/04/2003	Note	0.30
Total	14,732,000				(420,000)	14,312,000			

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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 January, 2004) of HK\$0.24 per share, subject to adjustment. The bonds and the warrants are not listed on the Stock Exchange or any other stock market.

During the nine months ended 31st March, 2004, 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.







# Creative Energy Solutions Holdings Limited

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### INTEREST OF SPONSOR

As updated and notified by the Company's sponsor, JS Cresvale Capital Limited ("JS Cresvale"), as at 31st March, 2004, 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 nine months ended 31st March, 2004, 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 nine months ended 31st March, 2004.

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

*The Board as of the date of this report comprises of Mr. Shum Fong Chung and Ms. Lin Rong Ying, who are the executive directors of the Company, Mr. Hon Wa Fai and Mr. Shi Jian Hui, who are the independent non-executive directors of the Company.*

Hong Kong, 13th May, 2004