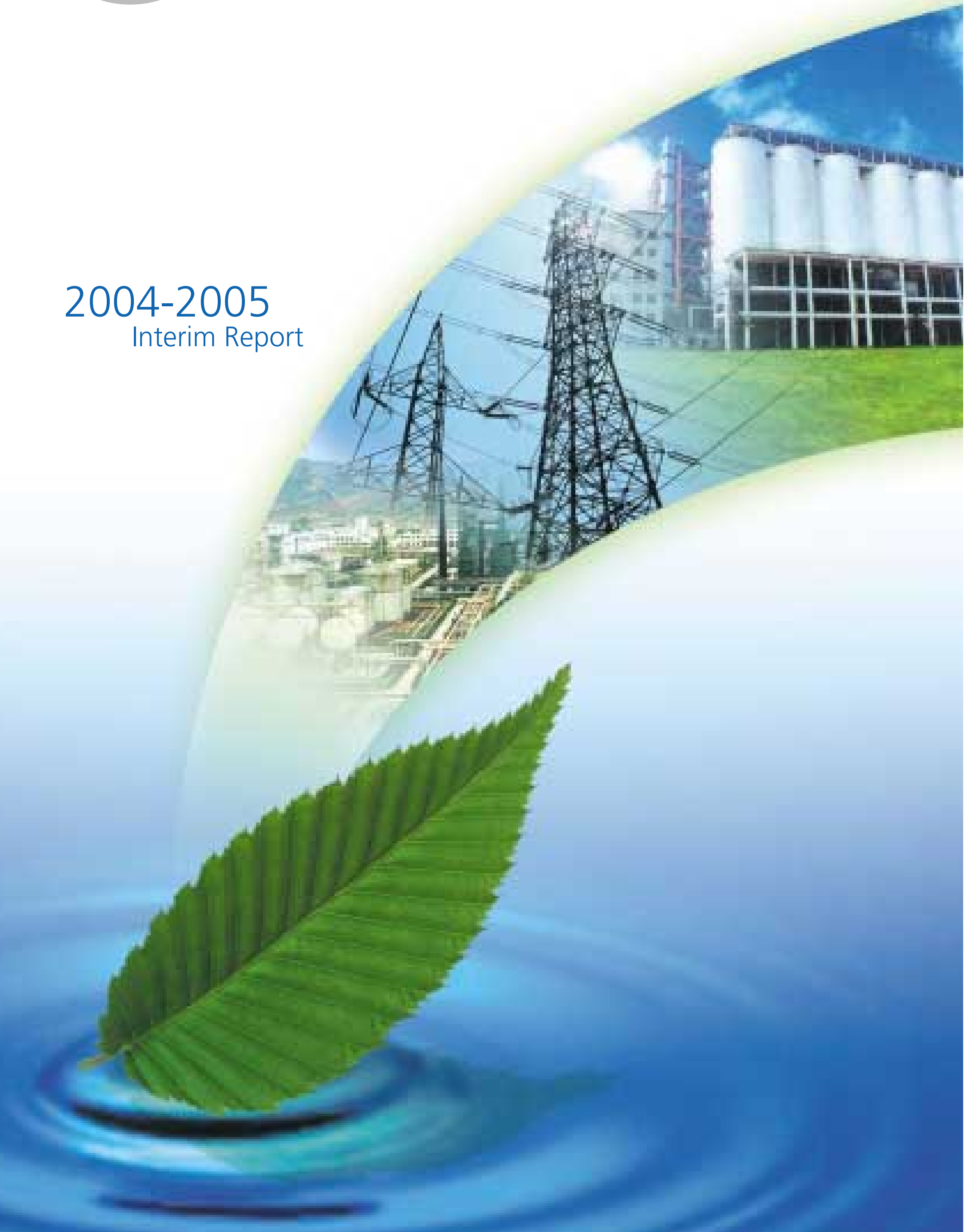
Creative Energy Solutions Holdings Limited

(Incorporated in Bermuda with limited liability)

2004-2005
Interim Report



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Creative Energy Solutions Holdings Limited 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 RMB30,921,000 for the six months ended 31st December, 2004, representing a decrease of approximately 24.3% when compared with the same period in 2003.

Profit attributable to shareholders for the six months ended 31st December, 2004 amounted to approximately RMB210,000 representing a decrease of 98.2% when compared with the same period in 2003.

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2004.

Basic earnings per share was RMB0.05 cents for the six months ended 31st December, 2004.

Interim Results for the six months ended 31st December, 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 six months ended 31st December, 2004 together with the comparative unaudited consolidated figures for the corresponding period in 2003, as set out below:

Condensed Consolidated Income Statement (Unaudited)

		Three months ended 31st December,		Six months ended 31st December,	
		2004	2003	2004	2003
	Note	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER, net	2	14,118	23,722	30,921	40,874
Cost of services		(5,901)	(7,967)	(12,701)	(13,675)
Gross profit		8,217	15,755	18,220	27,199
Other revenue		611	33	1,313	432
Distribution costs		(1,243)	(1,568)	(3,029)	(3,377)
General and administrative expenses		(6,535)	(4,659)	(14,528)	(9,860)
PROFIT FROM OPERATIONS		1,050	9,561	1,976	14,394
Finance costs		(662)	(566)	(1,211)	(1,087)
PROFIT BEFORE TAXATION	3	388	8,995	765	13,307
Taxation	4	(401)	(621)	(766)	(726)
PROFIT AFTER TAXATION		(13)	8,374	(1)	12,581
Minority interests		82	(882)	211	(809)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		69	7,492	210	11,772
Earnings per share					
Basic	5(i)	0.02 cents	1.77 cents	0.05 cents	2.81 cents
Diluted	5(ii)	N/A	1.73 cents	N/A	2.72 cents

Condensed Consolidated Balance Sheet

	Note	31st December, 2004 (Unaudited) RMB'000	30th June, 2004 (Audited) RMB'000
NON-CURRENT ASSETS			
Fixed assets		4,832	8,485
Intangible assets		17,909	19,671
Goodwill		50,412	55,453
Other investments in securities		25,454	25,454
Trade receivables	6	38,046	10,546
		136,653	119,609
CURRENT ASSETS			
Inventories		1,419	480
Work in progress		990	404
Trade receivables-current portion	6	25,439	37,360
Prepayments, deposits and other receivables		8,611	10,884
Pledged bank deposits		28,963	27,865
Cash & bank balances		82,673	86,276
		148,095	163,269
CURRENT LIABILITIES			
Trade payables	7	1,427	1,156
Other payables and accruals		8,354	7,229
Bills payables		4,240	3,498
Bank overdrafts		4,919	5,270
Bank loans		45,400	43,960
Coupon bonds – current portion		7,441	7,441
Income tax payable		567	269
		72,348	68,823
NET CURRENT ASSETS		75,747	94,446
TOTAL ASSETS LESS CURRENT LIABILITIES		212,400	214,055
NON-CURRENT LIABILITIES			
Coupon bonds		20,671	22,324
MINORITY INTEREST		1,588	1,800
NET ASSETS		190,141	189,931
CAPITAL AND RESERVES			
Capital		46,640	46,640
Reserves	8	143,501	143,291
		190,141	189,931

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31st December, 2004

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	General reserve fund (note 8 (ii)) RMB'000	Enterprise expansion reserve fund (note 8 (iii)) RMB'000	Retained profits RMB'000	Total RMB'000
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
At 1st July, 2004	46,640	51,006	10,440	6,922	14,926	59,997	189,931
Profit for the period	–	–	–	–	–	210	210
Transfer from retained profits to reserves	–	–	–	13	959	(972)	0
At 31st December, 2004	46,640	51,006	10,440	6,935	15,885	59,235	190,141

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 31st December, 2004 RMB'000	2003 RMB'000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(8,256)	20,950
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	5,885	(14,243)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(881)	7,585
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,252)	14,292
CASH AND CASH EQUIVALENTS AT 1ST JULY,	81,006	113,993
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER,	77,754	128,285
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	77,754	128,285

Notes to Accounts:

1. Basis of presentation

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong and also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The principal accounting policies and methods of computation used in the preparation of the unaudited consolidated financial statements are consistent with those followed in the Group's latest financial statements dated 21st September, 2004.

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

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

2. Turnover and segment information

The Group is principally engaged in the provision of energy efficiency solutions and engineering consulting services in the People's Republic of China ("PRC") including Hong Kong.

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

	Three months ended 31st December, (Unaudited)		Six months ended 31st December, (Unaudited)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Revenue from provision of system design and integration services	13,760	23,522	29,553	39,697
Revenue from provision of energy saving services	358	200	1,368	1,177
	14,118	23,722	30,921	40,874

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

(i) Business segment

During the period under review, the Group has been operating in a single business segment, i.e. the provision of energy efficiency solutions and engineering consulting services. Accordingly, no business segment information is presented.

(ii) Geographical segment

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

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)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Depreciation	794	684	1,008	1,568
Amortisation of intangible assets	881	774	1,762	1,548
Amortisation of goodwill	2,521	–	5,041	–

4. Taxation

	Three months ended 31st December, (Unaudited)		Six months ended 31st December, (Unaudited)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Hong Kong profits tax (see note (ii) below)	–	429	–	429
PRC enterprise income tax (see note (iii) below)	401	192	766	297
Taxation	401	621	766	726

(i) Overseas income tax

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income taxes.

(ii) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the three months and six months ended 31st December, 2004. Hong Kong profits tax of RMB429,000 was provided at the rate of 17.5% on the estimated profit for the three months and six months ended 31st December, 2003.

(iii) PRC enterprise income tax

The Company's subsidiaries established in the PRC are foreign investment enterprises and are subject to PRC enterprise income tax at a preferential rate of 15%. However, they are exempted from PRC enterprise income tax for two years starting from 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 following three years.

Fujian Traving Science & Technology of Saving Development Co., Ltd. ("Fujian Traving") became profitable after offsetting prior years' losses in the year ended 30th June, 2000 and, accordingly, Fujian Traving was chargeable to PRC enterprise income tax at a rate of 7.5% for the periods ended 31st December, 2004 and 2003.

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") was exempted from PRC enterprise income tax until 31st December, 2003 and was chargeable to PRC enterprise income tax at a rate of 7.5% from 1st January, 2004 for the following three years (2003: Nil).

No provision for PRC enterprise income tax has been made for the three months and six months ended 31st December, 2004 in the financial results of Beijing Creative Easy Union Science & Technology of Saving Development Co., Ltd. ("Beijing Creative") and Fujian Creative New Era Control Technology Co., Ltd ("Fujian New Era") as the profits derived from these subsidiaries for the period under review are used to offset their prior years' tax losses. No provision for PRC enterprise income tax was made for the three months and six months ended 31st December, 2003 in the financial results of Beijing Creative and Fujian New Era as they had sustained losses for taxation purposes.

No provision for PRC enterprise income tax has been made for the three months and six month months ended 31st December, 2004 in the financial results of Shenzhen Creative Eternal Well Science & Technology of Saving Development Co., Ltd. ("Shenzhen Creative") as it has sustained loss for taxation purposes (2003: Nil).

(iv) PRC business and value added taxes

Fujian Traving and Hainan Creative are subject to PRC business tax at 5% of the revenue from provision of system design and integration and energy saving services. Beijing Creative is subject to PRC value added tax ("VAT") at 17% of the revenue from provision of system design and integration and energy saving services. Shenzhen Creative and Fujian New Era are subject to PRC VAT at 6% of the revenue from provision of system design and integration and energy saving services.

(v) Deferred taxation

The Group has no significant potential deferred tax assets and liabilities for the three months and six months ended 31st December, 2004 and 2003.

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 RMB69,000 and RMB210,000 (2003: RMB7,492,000 and RMB11,772,000) and the weighted average number of 440,000,000 (2003: 423,423,193 and 419,211,957) ordinary shares in issue during the three months and six months ended 31st December, 2004 .

(ii) Diluted earnings per share

Diluted earnings per share for the three months and six months ended 31st December, 2004 are not presented as there were no dilutive potential ordinary shares in existence for the three months and six months ended 31st December, 2004.

The calculation of diluted earnings per share for the three months and six months ended 31st December, 2003 is based on the unaudited consolidated profit attributable to shareholders of approximately RMB7,492,000 and RMB11,772,000 and the weighted average number of 432,389,430 and 432,211,957 ordinary shares after adjusting for the effects of all dilutive potential shares under the Company's warrants.

(iii) Reconciliation

	During the three months ended 31st December, 2004 Number of shares	During the three months ended 31st December, 2003 Number of shares	During the six months ended 31st December, 2004 Number of shares	During the six months ended 31st December, 2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	440,000,000	423,423,913	440,000,000	419,211,957
Deemed issue of ordinary shares	N/A	8,965,517	N/A	13,000,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	N/A	432,389,430	N/A	432,211,957

6. Trade receivables

Trade receivables (net of specific provision for bad and doubtful debts) were recoverable as follows:

	At 31st December, 2004 (Unaudited) RMB'000	At 30th June, 2004 (Audited) RMB'000
Within 1 year	25,439	37,360
After 1 year but within 5 years	41,326	12,675
After 5 years	61	392
	66,826	50,427
Less: General provision for bad and doubtful debts	(3,341)	(2,521)
	63,485	47,906
Less: Current portion of trade receivables	(25,439)	(37,360)
Non-current portion	38,046	10,546

The repayment of 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, 2004 (Unaudited) RMB'000	At 30th June, 2004 (Audited) RMB'000
Within 1 month	6,901	4,800
1 to 3 months	6,122	220
More than 3 months but less than 12 months	13,193	6,620
More than 12 months	40,610	38,787
	66,826	50,427

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, 2004 (Unaudited) RMB'000	At 30th June, 2004 (Audited) RMB'000
Due within 1 month or on demand	150	961
Due after 1 month but within 3 months	582	2
Due after 3 months but within 6 months	402	192
Due after 6 months but within 12 months	283	1
Due more than 12 months	10	0
	1,427	1,156

8. Reserves

(i) The Company was incorporated in Bermuda on 29th August, 2001 under the Companies Act 1981 of Bermuda and, through a group reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, became the holding company of the Group on 3rd January, 2002. The Group has been treated as a continuing entity and, accordingly, the consolidated financial statements for the year ended 30th June, 2002 were prepared on the basis that the Company was the holding company of the Group for the entire year rather than from 3rd January, 2002. The merger reserve represents the excess value of the shares acquired over the nominal value of the shares issued in exchange.

(ii) According to the relevant rules and regulations in the PRC, each of the PRC subsidiaries is required to appropriate 10% of after-tax profit (after offsetting prior years' losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the fund reaches 50% of the PRC subsidiary's registered capital. Thereafter, any further appropriation can be made at the directors' discretion. The general reserve fund can be utilised to offset prior years' losses or be utilised to increase the capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such increase.

The directors of Fujian Traving have proposed to transfer 10% of the profit after taxation to the general reserve fund for the three months and six months ended 31st December, 2004 and 2003.

The directors of Hainan Creative determined not to make any appropriation to the general reserve fund for the three months and six months ended 31st December, 2004 and 2003 because the balance of such fund as at 31st December, 2004 and 2003 has reached 50% of its registered capital.

The directors of Beijing Creative and Fujian New Era determined not to make any appropriation to the general reserve fund for the three months and six months ended 31st December, 2004 as the profits after taxation for the period under review are used to offset prior year's losses of these subsidiaries. No appropriation to the general reserve fund for the three months and six months ended 31st December, 2003 was made for Beijing Creative and Fujian New Era as these subsidiaries had sustained losses.

The directors of Shenzhen Creative determined not to make any appropriation to the general reserve fund as it sustained loss for the three months and six months ended 31st December, 2004 and 2003.

(iii) According to the relevant rules and regulations in the PRC and the PRC subsidiary's 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 appropriations are 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 and six months ended 31st December, 2004 and 2003.

The directors of Beijing Creative and Fujian New Era determined not to make any appropriation to an enterprise expansion reserve fund for the three months and six months ended 31st December, 2004 as the profits after taxation for the period under review are used to offset prior year's losses of these subsidiaries. No appropriation to an enterprise expansion reserve fund for the three months and six months ended 31st December, 2003 was made for Beijing Creative and Fujian New Era as these subsidiaries had sustained losses.

The directors of Shenzhen Creative determined not to make any appropriation to an enterprise expansion reserve as it sustained loss for the three months and six months ended 31st December, 2004 and 2003

9. Capital commitments

As of 31st December, 2004, the Group had no material capital which were not provided for in the unaudited 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, 2004 (2003: Nil).

Management Discussion And Analysis

Business Review

During the period under review, the Group spared no efforts in developing its Energy Management Systems Solutions, "SAVIN 2000", with an aim to enhance the energy saving effects, reduce clients' energy expenses and optimize the energy efficiency for clients, by means of our ever pursuance of excellence for our products.

Energy Management Systems ("EMS") Solutions

For the six months ended 31st December, 2004, the turnover of the Group in the period under review amounted to approximately RMB30,921,000, representing a decrease of approximately 24.3%. "SAVIN 2000 I", accounting for approximately 87.4% of turnover and with a value of approximately RMB27,030,000, has been successfully entered into the Shanghai and Hong Kong market. In addition to the existing markets of Fuzhou, Chongqing, Hefei, Nanjing, Hangzhou, Tianjin, Beijing and Qingdao, the Group has successfully established it presence in major cities in the PRC, and has also well-developed the Southeast Asian markets including Japan. "SAVIN 2000 III" accounts for approximately 5% of turnover, amounting to approximately RMB1,538,000.

Leveraging on the EMS "SAVIN 2000 I", which is developed for the use amongst commercial buildings and enjoyed high popularity both in the mainland and Hong Kong, the Group has successfully extended its reach to the Shanghai market during the period. In November, 2004, Fujian Traving Science & Technology of Saving Development Co., Ltd., a subsidiary of the Group, entered into a 4-year contract with Shanghai Times Square Property Co. Ltd.（大上海時代廣場物業管理（上海）有限公司）to design and install the "SAVIN 2000 I" pump intelligent control system for Shanghai Times Square, with a total contract amount of approximately RMB890,000.

The Group's EMS "SAVIN 2000 I" is broadly recognized in Hong Kong, reflecting that the Group has already gained prestige and established its presence in the market. In December 2004, the Group entered into a 4-year contract with Melbourne Plaza situated in Central, Hong Kong for the design and installation of "SAVIN 2000 I" centralised air-conditioning energy-saving system, with a total contract amount of approximately HK$1,144,000. It is expected that the project will help to reduce the energy consumption of Melbourne Plaza by approximately HK$421,000 per year. By the same month, the Group also entered into a 3-year contract with Garden Company Limited with a total contract amount of approximately HK$900,000 for the installation of "SAVIN 2000 I" centralised air-conditioning energy-saving system. It is expected that the project will help its factory located in Sham Tseng, New Territories to reduce energy consumption by approximately HK$354,000 per year.

Energy-saving products

In view of the high gross profit margin and encouraging market response of environmental-friendly lighting products, the Group will actively develop such products, including Cold Cathode Fluorescent Lamp ("CCFL") and energy-saving lights for domestic use, with an aim to establish cross-product selling strategies and creating synergy effects. During the period under review, the Group has successfully explored the Japanese market and has secured an order from a large enterprise in Japan for the provision of CCFL light bulbs.

Financial Review

Results & Turnover

The turnover of the Group for the six months ended 31st December, 2004 was approximately RMB30,921,000, representing a decrease of approximately 24.3% as compared to the corresponding period last year (2003: RMB40,874,000). The decrease was the result of relatively slow development in the Hong Kong market during the period under review. The turnover of Hong Kong market was approximately RMB845,000 for the six months ended 31st December, 2004 which was approximately RMB5,612,000 less than that of the corresponding period last year.

The gross profit of the Group decreased by approximately 33% from approximately RMB27,199,000 of the corresponding period last year to RMB18,220,000 for the six months ended 31st December, 2004. The gross profit ratio decreased to 58.9% for the six months ended 31st December, 2004 from 66.5% of the corresponding period last year, owing to the comparatively lower profit margin on the central hot water system retrofit technologies and the other energy saving products which together contributed approximately 7.6% of the Group's total sales for the six months ended 31st December, 2004.

The profit attributable to shareholders of the Group and earnings per share for the six months ended 31st December, 2004 were approximately RMB210,000 (2003: RMB11,772,000) and RMB0.05 cents (2003: RMB2.81 cents) respectively. In comparing the corresponding period last year, the decrease of 98.2% in the profit attributable to shareholders and earnings per share was reflected.

Expenses and Costs

The distribution costs for the six months ended 31st December, 2004 decreased in line with its business activities by 10.3% to approximately RMB3,029,000 from approximately RMB3,377,000 of the corresponding period last year.

General and administrative expenses sharply increased by approximately RMB4,668,000 to approximately RMB14,528,000 for the six months ended 31st December, 2004 compared to approximately RMB9,860,000 of the corresponding period last year. The major reasons leading to the sharp increase was the amortisation of goodwill of approximately RMB5,041,000 (2003: Nil) resulting from the acquisition of 75% equity interest in China Meijia Education Holdings Limited on 23rd March, 2004. In addition, the Group provided approximately RMB820,000 for provision of bad and doubtful debts representing 5% on the net increase of the gross trade receivables as of 31st December, 2004 in comparison of having a reversal of the provision of RMB213,000 in the same corresponding period last year. If by eliminating the effect of the reasons as stated above, the Group's general and administrative expenses for the six months ended 31st December, 2004 would be indeed 13.9% less than that of the corresponding period last year.

Finance costs were approximately RMB1,211,000 (2003: RMB1,087,000) for the six months ended 31st December, 2004 and were mainly incurred for the interests of bank borrowings and coupon bonds.

Staff

A breakdown of the number of staff of the Group by functions as at 31st December, 2004 and 30th June, 2004 is set out below:

	Number of staff					At 31st December, 2004	At 30th June, 2004
	Beijing	Fuzhou	Hainan	Shenzhen	Hong Kong	Total	Total
Sales & Marketing	14	7	3	2	5	31	48
Professional services and technical support	15	10	2	5	1	33	56
Research & development	6	3	2	2	0	13	33
Finance & administration	16	11	2	4	7	40	21
	51	31	9	13	13	117	158

Remuneration Policies and Labor Policies

With the overall objective of providing competitive salaries package, the employee's salary level will be remunerated and adjusted in closed association with individual's performance, qualification and experience as well as the labor market conditions. Besides the basic remuneration, discretionary bonus may be rewarded to eligible employee by the assessment in the merit of individual's performance and by reference to the Group's performance. The Group also provides fringe benefits including contributions to retirement scheme, medical and unemployment insurance scheme and housing funds to eligible employee. No share options have been granted to any eligible persons for the six months ended 31st December, 2004 (30th June, 2004: nil).

Total remuneration including basic salaries, bonus, allowances and fringe benefits for the six months ended 31st December, 2004 decreased to RMB4,217,000 (2003: RMB4,715,000).

Liquidity and Financial Resources

During the period under review, the Group's sources of funding were mainly generated from the existing internal resources, the collection of RMB4,124,000 from a secured loan and the additional bank loans of approximately RMB2,182,000. As at 31st December, 2004, the Group had bank and cash balances of RMB82,673,000 (30th June, 2004: RMB86,276,000). The currencies in which cash and cash equivalent held by the Group are mainly Renminbi and Hong Kong dollars. A bank borrowing of RMB54,559,000 (30th June, 2004: RMB52,728,000) bearing interest ranging from 1.66% to 13.01% 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, 2004 (30th June 2004: 1.33% to 6%). As at 31st December, 2004, the Group had total assets of approximately RMB284,748,000 (30th June, 2004: RMB282,878,000) which were financed by current liabilities of approximately RMB72,348,000 (30th June, 2004: RMB68,823,000) the non-current portion of the coupon bonds of approximately RMB20,671,000 (30th June, 2004: RMB22,324,000), minority interests of approximately RMB1,588,000 (30th June, 2004: RMB1,800,000) and shareholders' equity of approximately RMB190,141,000 (30th June, 2004: RMB189,931,000). The ratio of current assets to current liabilities was 2.05 (30th June, 2004: 2.37).

Foreign Exchange Exposure

Most of the assets of the Group were denominated in Renminbi and Hong Kong dollars as the major operating activities of the Group were in the PRC and Hong Kong and the major liabilities were denominated in United States dollars and Hong Kong dollars. It appeared a continuing movement of United States dollars depreciated against other major international currencies and revaluation pressure was posted on Renminbi during the six months ended 31st December, 2004. The possible movement between United States dollars and Renminbi shall be acting favourable to the Group and thus the Group did not engage in any forward foreign contracts for the three months and six months ended 31st December, 2004.

Trade Receivables

As at 31st December, 2004, trade receivables net for provisions of bad and doubtful debts increased by approximately RMB15,579,000 to approximately RMB63,485,000 (30th June, 2004: RMB47,906,000). The reason of the increase in the receivables was attributable partly to the recognition of the entire revenue derived from some of the projects under the "Shared-Saving" program adopted in the previous year. By the initial adoption of "Shared-Saving" program, the revenue of "Shared-Saving" program would only be recognized in the period in which the energy saving is verified by customers and trade receivables shall only reflect the recognized revenue from the "Shared-Saving" program but not the estimated energy saving stated in the program. However, due to the re-negotiation of terms on the contracts under "Shared-Saving" program after the running of program, customers became contractual to pay up the agreed energy saving stated in the program. The agreed energy saving amount shall become the contract sum and such amount was recorded as trade receivables accordingly.

Trade receivables in relation to "Savin 2000 II" were approximately 52.1% (30th June, 2004: 69%) of the gross trade receivables as at 31st December, 2004 and its payments shall be recovered according to the payment terms of each contracts.

The Group adopted a general practice to provide approximately RMB3,341,000 for provision of bad and doubtful debts (30th June, 2004: RMB2,521,000) representing around 5% of the net increase in the gross trade receivables as of 31st December, 2004. 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 shareholders' equity, was 0.109 as at 31st December, 2004 (30th June, 2004: 0.117).

Charges on Group Assets and Contingent Liabilities

As at 31st December, 2004, a total of approximately RMB28,963,000 (30th June, 2004: RMB27,865,000) bank deposit was pledged as security for loans and banking facilities and the corporate guarantee to the extent of approximately RMB54,559,000 (30th June, 2004: RMB52,728,000) 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, 2004.

Significant Investment

There were no material acquisition and disposal during the six months ended 31st December, 2004.

Future Prospects

With the burgeoning economic development in China, the demand for electricity has continued to grow rapidly. The growth of electricity consumption has been particularly strong in high-energy consumption industries. Given the imbalance between electricity supply and demand, Beijing, the capital of the PRC, inevitably requires thousands of large production enterprises that work on non-consecutive basis to implement shifting day-off measures. Even Shanghai, a tourist attraction renowned for its glamorous night scenery of the Bund, has dimmed out under the restriction of energy supply.

In addition, the sharp increase in toll caused by increasing cost of power generation, which is in turn driven by the significant fluctuation in the global fuel price and the ever-rising oil and coal prices, coupled with the abnormal weather conditions around the world brought by the greenhouse effects in recent years as well as the sudden occurrence of havoc, have all posed challenges to enterprises on the improvement of economic efficiency of energy-consuming goods and on the ways to reduce the pollution to the minimum. Such challenges faced by the enterprises have brought tremendous business opportunities for the Group's energy-saving business.

Looking forward, it is expected that the market demand for the Group's products will continue to increase, as our products would help to reduce cost, increase profit and achieve a higher cost-efficiency. The Group shall continue its efforts in enlarging its market share in the PRC, particularly for the energy-saving projects of heavy industries with high electricity consumption, by customizing energy-saving system for customers and providing installation services, with an aim to achieve a "win-win" situation. The Group is now working with Tong Li Cement Co., Ltd. (同力水泥有限公司) on a project of saving energy consumption and it is expected that such project will serve as an example to further consolidate the Group's market position in providing EMS to high-energy consumption industries.

As to the Hong Kong market, the Group shall continue its efforts in providing EMS for commercial buildings in the territory with a target to help our clients to reduce operating costs and shoulder its social responsibilities. In early 2005, the Group will enter into a co-operative agreement with a renowned hotel group in Hong Kong to design and install "SAVIN 2000 I" for various hotels under the group for the purpose of enhancing its quality of service. Leveraging on our unparalleled expertise accumulated in the territory throughout the years, the Group is confident in further developing the EMS market for commercial buildings in Hong Kong.

The Group has successfully explored the Japanese market during the period. Looking forward, the Group will strive to expand its market share in Southeast Asian countries with a goal to secure more energy-saving projects from more enterprises.

To cope with the ever-changing needs of the market, the Group shall continue to raise the quality of the products under the series of "SAVIN 2000" and to provide more value-added services. The Group also intends to develop various technologies with different value-added energy-saving efficiency and enlarges its investment on R&D so as to perfect the "SAVIN 2000" product series and achieve better results in energy saving.

Directors' and Chief Executives' Interests in Securities

As at 31st December, 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 or as otherwise notified to the Company and the Stock Exchange pursuant to the adopted code for securities transactions by directors (the "Adopted Code") as set out in the Rules 5.46 to 5.68 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

	Number of ordinary shares				Percentage
Name of Director	Personal interests	Family interests	Corporate interests	Total	of issued share capital
Mr. Shum Fong Chung	247,128,000	–	–	247,128,000	56.17%

Long positions in underlying shares of the Company

Name	Date of grant	Exercise price (HK$)	Exercisable period	Number of shares in respect of options outstanding as at 31st December, 2004
	Share Options in the Company			
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 (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept by the Company under Section 352 of the SFO or which are notified to the Company and the Stock Exchange pursuant to the Adopted Code.

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, 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 six months ended 31st December, 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.

Substantial Shareholders' Interests in Securities

As at 31st December, 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	5.78%

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 2004 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, 2004	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 31st December, 2004			
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	9,892,000	–	–	–	–	9,892,000	04/04/2003	Note	0.30
Total	14,132,000					14,132,000			

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

2.5% Coupon Bonds with Warrants Attached

Pursuant to two subscription agreements dated 26th August, 2002 and 27th August, 2002 respectively in respect of the placement of 2.5% coupon bonds due on 1st November, 2007 with warrants, having an aggregate principal amount of US$4,500,000 (equivalent to approximately RMB37,206,000). Bondholders can exercise the subscription rights attaching to the warrants, expiring on 1st November, 2007, to subscribe for subscription shares of the Company at an adjusted subscription price (being the average closing price of the Company's shares for the period of one month immediately preceding 1st July, 2004) of HK$0.19 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, 2004, no warrant was exercised by the warrantholders.

Purchase, Sale or Redemption of Listed Securities

During the six months ended 31st December, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Compliance with Rules 5.34 to 5.45 of the Gem Listing Rules

During the six months ended 31st December, 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

Adopted Code for Securities Transactions by Directors

The Company has adopted the code set out in Rules 5.46 to 5.68 of the GEM Listing Rules for securities transactions by Directors since 31st March, 2004. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the Adopted Code regarding securities transactions by directors.

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 three independent non-executive directors, namely, Mr. Hon Wa Fai, Mr. Shi Jian Hui and Ms. To Sin Ning. The audit committee has reviewed the interim results for the six months ended 31st December, 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 Mr. Shum Fong Chung and Ms. Lin Rong Ying as the executive directors of the Company and Mr. Hon Wa Fai, Mr. Shi Jian Hui and Ms. To Sin Ning as the independent non-executive directors of the Company.

Hong Kong, 3rd February, 2005