



GREENCOOL TECHNOLOGY HOLDINGS LIMITED

格林柯爾科技控股有限公司*

(incorporated in Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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.

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This announcement, for which the directors of Greencool Technology 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 for the purpose of giving information with regard to Greencool Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this announcement 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 announcement misleading; and 3. all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purposes only

HIGHLIGHTS FOR THE TWELVE MONTH PERIOD

- Turnover achieved approximately RMB107 million for the twelve months ended 31st December 2003, representing a decrease of approximately 67 per cent. as compared with the same period in 2002
- Profit from operations decreased to approximately RMB11 million, representing an approximately 90 per cent. decrease compared with the same period of 2002
- No final dividend is proposed

RESULTS

The board (“Board”) of directors (“Directors”) of Greencool Technology Holdings Limited (the “Company”) hereby announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December 2003 together with the comparative audited figures for the corresponding periods in 2002 as follows:

Consolidated Income Statement

For the year ended 31st December 2003

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
Turnover	2	106,834	321,420
Cost of sales and services		(45,426)	(128,524)
Gross profit		61,408	192,896
Other operating income		30,985	19,202
Distribution costs		(25,784)	(26,933)
Administrative expenses		(56,059)	(81,797)
Profit from operations	3	10,550	103,368
Finance costs	4	(2,517)	(6,230)
Profit before taxation		8,033	97,138
Taxation	5	591	(14,450)
Net profit for the year		<u>8,624</u>	<u>82,688</u>
Dividends		<u>–</u>	<u>–</u>
Earnings per share	6		
Basic		<u>RMB0.9 cent</u>	<u>RMB8.3 cents</u>
Diluted		<u>N/A</u>	<u>RMB8.3 cents</u>

Consolidated Balance Sheet

At 31st December 2003

		2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		44,218	51,103
Intangible asset		132,000	144,000
Long term trade receivables	7	—	8,433
		<u>176,218</u>	<u>203,536</u>
Current assets			
Inventories		129,920	158,774
Trade receivables	7	17,095	44,267
Deposits, prepayments and other receivables		12,672	14,051
Investment securities		14,577	4,394
Amounts due from related companies	9	238	1,024
Pledged bank deposits		46,206	23,176
Bank balances and cash		1,114,560	1,031,033
		<u>1,335,268</u>	<u>1,276,719</u>
Current liabilities			
Other payables and accrued charges		77,241	57,411
Amounts due to related companies	10	16,658	17,002
Taxation payables		9,015	12,727
Bank loans	11	75,000	68,000
		<u>177,914</u>	<u>155,140</u>
Net current assets		<u>1,157,354</u>	<u>1,121,579</u>
Net assets		<u>1,333,572</u>	<u>1,325,115</u>
Capital and reserves			
Share capital		106,000	106,000
Reserves		1,227,572	1,219,115
Shareholders' funds		<u>1,333,572</u>	<u>1,325,115</u>

Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January 2002	106,000	429,961	353,394	64	405,835	1,295,254
Currency realignment not recognised in the consolidated income statement	-	-	-	173	-	173
Net profit for the year	-	-	-	-	82,688	82,688
2001 final dividend paid	-	-	-	-	(53,000)	(53,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1st January 2003	106,000	429,961	353,394	237	435,523	1,325,115
Currency realignment not recognised in the consolidated income statement	-	-	-	(167)	-	(167)
Net profit for the year	-	-	-	-	8,624	8,624
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	<u>106,000</u>	<u>429,961</u>	<u>353,394</u>	<u>70</u>	<u>444,147</u>	<u>1,333,572</u>

Consolidated Cash Flow Statement
For the year ended 31st December 2003

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	8,033	97,138
Adjustments for:		
Interest income	(10,841)	(9,563)
Interest expense	2,517	6,230
Depreciation	8,848	5,679
Amortisation of intangible asset	12,000	12,000
Allowance for doubtful debts	761	2,020
Unrealised holding (gain) loss on investment securities	(10,183)	1,586
Loss on disposal of property, plant and equipment	330	206
Write-back of allowance for bad debts	(4,868)	–
Operating cash flows before movements in working capital	6,597	115,296
Decrease (increase) in inventories	28,854	(127,656)
Decrease in trade receivables	39,712	41,946
Decrease in deposits, prepayments and other receivables	1,379	1,211
Decrease in amounts due from related companies	786	228,959
Increase in other payables and accrued charges	19,830	11,950
(Decrease) increase in amounts due to related companies	(344)	10,039
Net cash generated from operations	96,814	281,745
Interest paid	(2,517)	(6,230)
PRC Enterprise Income Tax paid	(3,121)	(3,891)
NET CASH GENERATED FROM OPERATING ACTIVITIES	91,176	271,624
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	10,841	9,563
Increase in pledged bank deposits	(23,030)	(23,176)
Purchase of property, plant and equipment	(2,293)	(13,069)
Proceeds on disposal of property, plant and equipment	–	297
NET CASH USED IN INVESTING ACTIVITIES	(14,482)	(26,385)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	–	(53,000)
Bank loans raised	48,000	98,000
Repayments of bank loans	(41,000)	(110,000)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	7,000	(65,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,694	180,239
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,031,033	850,621
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(167)	173
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>1,114,560</u>	<u>1,031,033</u>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<u>1,114,560</u>	<u>1,031,033</u>

Notes:

(1) Basis of presentation

The principal accounting policies adopted in preparing the audited consolidated results conform with International Financial Reporting Standards (“IFRS”).

(2) Turnover

Turnover represents net amount received and receivable for goods sold and services rendered during the year. An analysis of the Group’s turnover is as follows:

	2003 <i>RMB’000</i>	2002 <i>RMB’000</i>
Conversion engineering income	86,445	219,647
Sales of chlorofluorocarbon (“CFC”) free refrigerants	18,282	101,773
Agency entering fees	2,107	–
	<u>106,834</u>	<u>321,420</u>

The Group’s turnover and net profit for the year are almost entirely derived from the conversion engineering of large-scale CFC-free air-conditioning systems and sales of CFC-free refrigerants. In the opinion of directors, these activities constitute one business segment since the products are related and are subject to common risks and returns.

The Group’s operations are situated in the People’s Republic of China (the “PRC”) in which its revenue was derived therefrom and the Group’s assets are primarily located in the PRC. Accordingly, no geographical segment information is presented.

(3) Profit from operations

	2003 <i>RMB’000</i>	2002 <i>RMB’000</i>
Profit from operations has been arrived at after charging:		
Allowance for doubtful debts	761	2,020
Amortisation of intangible asset, included in distribution costs	12,000	12,000
Auditors’ remuneration	1,198	1,060
Cost of inventories	23,477	108,073
Depreciation	8,848	5,679
Loss on disposal of property, plant and equipment	330	206
Minimum lease payments under operating leases in respect of office premises	10,249	8,303
Staff costs, including directors’ remuneration	35,707	37,354
Unrealised holding loss on investment securities	–	1,586
	<u>–</u>	<u>1,586</u>

Note: As at 31st December 2003, the Group has approximately 700 (2002: 800) employees.

(4) **Finance costs**

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	<u>2,517</u>	<u>6,230</u>

(5) **Taxation**

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
PRC Enterprise Income Tax (credit) charge		
– Current year	3,863	14,450
– Overprovision in prior years	<u>(4,454)</u>	<u>–</u>
	<u>(591)</u>	<u>14,450</u>

Pursuant to the relevant income tax laws of the PRC applicable to enterprises with foreign investment and foreign enterprises, the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at rates ranging from 7.5% to 15% (2002: 7.5% to 15%). The Group's certain PRC subsidiaries are foreign investment enterprises of production nature established in the PRC. Accordingly, these subsidiaries are entitled to tax exemption for the first two years of profitable operations and 50% tax reduction in the following three years of operations. In addition, one of the Group's PRC subsidiaries is a foreign investment enterprise of production nature and is located in New and High Technology Development Zone in the PRC. Accordingly, this subsidiary is entitled to tax exemption for the first three years of operations and 50% tax reduction in the following three years of operations.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income is neither arises in nor is derived from Hong Kong.

(6) **Earnings per share**

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Net profit for the year for the purposes of basic and diluted earnings per share	<u>8,624</u>	<u>82,688</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of basic earnings per share	<u>1,000,000</u>	1,000,000
Effect of dilutive potential shares on share options		<u>578</u>
Weighted average number of shares for the purpose of diluted earnings per share		<u>1,000,578</u>

No diluted earnings per share for 2003 has been presented as the exercise price of the Company's option was higher than the average market price per shares.

(7) **Trade receivables**

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
The Group's trade receivables are repayable as follows:		
Within one year	17,095	44,267
In the second to fifth year inclusive	–	8,433
	17,095	52,700
<i>Less: Amount due within one year shown as current assets</i>	(17,095)	(44,267)
Amount due after one year	–	8,433

The aged analysis of the Group's trade receivables is as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within 90 days	13,229	17,509
Between 90 to 180 days	3,382	22,186
Between 181 days to 365 days	862	7,289
Over 365 days	2,814	13,015
	20,287	59,999
<i>Less: Allowance for doubtful debts</i>	(3,192)	(7,299)
	17,095	52,700

The normal credit period granted by the Group is on average of 30 to 90 days from the date of invoice. For certain customers, repayment schedules were pre-determined for a period up to 36 months.

(8) **Related party transactions**

During the year, the Group had the following significant transactions with related parties:

- (a) Pursuant to a purchase agreement dated 20th May 1998, a subsidiary of the Company, namely Beijing Greencool Environmental Protection Engineering Co., Ltd. ("Beijing Greencool"), appointed Greencool Canada Inc. ("GCI"), a company incorporated in Canada with limited liability and wholly-owned by Mr. Gu Chu Jun ("Mr. Gu"), the Chairman of the Company as the agent to purchase equipment from overseas markets. These new equipment is used for the CFC replacement engineering work. Total purchase amounts under this agreement were US\$2,863,000 (equivalent to approximately RMB23.7 million). During the year ended 31 December 2002, property, plant and equipment of approximately RMB9,999,000 were acquired from GCI, of which RMB8,500,000 was paid in the previous years and resulted in a balance payable of RMB1,499,000 to GCI as at 31st December 2002. Pursuant to the agreement, GCI also agreed to provide auxiliary services to the Group, including design, installation and testing of the purchased equipment. The directors confirmed that GCI has not charged and will not charge any fees in providing such services. In current year, the payable of RMB1,499,000 to GCI has been fully settled and there will not be any further purchase of property, plant and equipment or provision of service from GCI pursuant to the agreement dated 20th May 1998.

The terms of the transactions were mutually agreed between the Company and GCI.

- (b) The refrigerants used by the Group (“Greencool Refrigerants”) are exclusively sourced from the Greencool Refrigerant (China) Co., Limited (“Tianjin Greencool Factory”).

For the year ended 31st December 2003, the Group did not purchase any Greencool Refrigerants from the Tianjin Greencool Factory.

For the year ended 31st December 2002, the Group purchased Greencool Refrigerants from the Tianjin Greencool Factory amounting to approximately RMB230,023,000.

Pursuant to the exclusive distribution agreement dated 28th June 2000 (the “Exclusive Distribution Agreement”), the Group obtained the exclusive distribution right to obtain and sell Greencool Refrigerants and any further refrigerants invented by Mr. Gu in future manufactured by the Tianjin Greencool Factory in the PRC for a term of 20 years from 31 December 1999. The Group has priority over other customers of the Tianjin Greencool Factory to purchase Greencool Refrigerants from the Tianjin Greencool Factory if there is not enough supply. The Exclusive Distribution Agreement also provides that, if the Tianjin Greencool Factory fails to supply sufficient Greencool Refrigerants as ordered by the Group, the Group has the non-exclusive rights to produce or contract with a third party to produce the relevant Greencool Refrigerants. Under this circumstance, Mr. Gu and Tianjin Greencool Factory will be obliged to provide the necessary know-how to the Group or the Group’s contractors free of charge to enable them to produce the relevant Greencool Refrigerants.

Pursuant to an agreement dated 28th June 2000 entered into between a subsidiary of the Company, Mr. Gu and the Tianjin Greencool Factory, which came into effect on 31st December 1999:

- the Group is granted an exclusive distribution right (the “Exclusive Distribution Right”) in the PRC of CFC-free refrigerants manufactured by the Tianjin Greencool Factory for 20 years commencing from 31st December 1999;
- the cost of the Exclusive Distribution Right was determined by the three parties to be RMB180,000,000, and has been reflected in the financial statements as an intangible asset; and
- CFC-free refrigerants supplied by the Tianjin Greencool Factory to the Group for a period from 1st January 2000 to 31st December 2003 will be at pre-determined prices; and from 1st January 2004 onwards will be at prices calculated in accordance with pre-determined bases.

- (c) For the year ended 31st December 2003, the Group did not sell any CFC-free refrigerants to Guangdong Kelon Electrical Holdings Co., Ltd. (“Kelon”).

For the year ended 31st December 2002, the Group sold CFC-free refrigerants of RMB23,077,000 to Kelon. These sales were carried out after negotiation between the Group and Kelon with reference to the estimated open market value.

- (d) On 28th June 2000, Mr. Gu granted, in consideration of HK\$10, the Company an option (the “Tianjin Option”) to purchase all of his interest in the Tianjin Greencool Factory which, as at the date of issue of the Company’s prospectus upon listing dated 5th July 2000 (the “Prospectus”), was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option can be exercised solely at the discretion of the Company during the three-year period commencing on 28th June 2000, being the date of the relevant deed of option, at a price which is equivalent to 80 per cent. of Mr. Gu’s interest in the Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company, but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with IFRS) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable. Both Mr. Gu and Tianjin Greencool Factory have agreed to extend the option period for a further three-year period commencing on 28th June 2003 while the all other terms of the Tianjin Option remain unchanged.
- (e) Pursuant to a trademark licensing agreement entered between the Company and Greencool Thermo-Tech Holdings Limited dated 28th June 2000, Greencool Thermo-Tech Holdings Limited also agreed to grant the Company a licence to use the trademarks (as listed in paragraph 8 of Appendix V of the Prospectus) in the two registered classes in the PRC upon its acquisition of the same for nil consideration for a period of ten years commencing 28th June 2000.
- (f) During the year, Kelon collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of the Group from 1,050 (2002: 198) authorised engineering units of the Group. In return, the Group paid a handling fee of RMB1,575,000 (2002: RMB149,000) to Kelon in this regard. Mr. Gu ultimately has an equity of approximately 21% interest in Kelon.
- (g) During the year ended 31st December 2003, 江西格林柯爾實業發展有限公司 (“江西格林柯爾”) and Tianjin Greencool Factory executed corporate guarantees to banks to secure loans amounted to RMB20,000,000 and RMB12,000,000 respectively, granted to the Group. No commission, fees or charges were paid to any persons in respect of these guarantees. Mr. Gu has an equity interest in 江西格林柯爾 and Tianjin Greencool Factory.

(9) Amounts due from related companies

Name of related companies	The Group	
	2003 RMB'000	2002 RMB'000
Tianjin Greencool Factory	49	–
洋浦格林柯爾製冷劑有限公司	163	163
Kelon	26	149
順德市格林柯爾企業發展有限公司	–	712
	238	1,024

Mr. Gu, the Chairman of the Company, has beneficial interests in the above related companies.

The amounts are unsecured, non-interest bearing and repayable on demand.

(10) Amounts due to related companies

Name of related companies	The Group	
	2003 RMB'000	2002 RMB'000
GCI	15,163	16,662
格林柯爾科技(深圳)發展有限公司	1,495	–
Beijing Huazhao Green Energy Refrigerant Engineering Co., Ltd.	–	300
Tianjin Greencool Factory	–	40
	<u>16,658</u>	<u>17,002</u>

Mr. Gu has beneficial interests in the above related companies.

The amounts are unsecured, non-interest bearing and repayable on demand.

(11) Bank loans

All of the Group's borrowings are in Renminbi, and carry interest at rates ranging from 4.78% – 5.31% (2002: 5.31% – 5.52%) per annum.

At 31st December 2003, the Group's bank loans of RMB43,000,000 (2002: RMB22,000,000) were secured by pledged bank deposits of approximately RMB45,726,000 (2002: RMB23,176,000). The remaining bank loans of RMB32,000,000 (2002: RMB46,000,000) were unsecured.

In addition, included in the unsecured bank loans, RMB20,000,000 (2002: nil) and RMB12,000,000 (2002: nil) are corporate guaranteed by 江西格林柯爾實業發展有限公司 and Tianjin Greencool Factory respectively. No commission, fees or charges were paid by the Group to any persons for these guarantees.

DIVIDENDS

No dividend was proposed for both years, nor has any dividend been proposed since the balance sheet date.

RESERVES

THE GROUP

PRC laws and regulations require wholly foreign-owned enterprises to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after taxation (based on the local statutory accounts of the Company's subsidiaries in the PRC) but before dividend distribution. The PRC subsidiaries are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of their respective registered capital. Appropriation to the staff and workers' bonus and welfare fund is at the discretion of the directors of such subsidiaries. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

The staff and workers' bonus and welfare fund can only be utilised for special bonuses or collective welfare of the employees of the individual PRC subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31st December 2003, the reserve funds, included in accumulated profits, amounted to approximately RMB84,739,000 (2002: RMB84,739,000). Under IFRS, appropriations to the staff and workers' bonus and welfare fund are treated as expenses and the balance of this fund is regarded as a liability of the Group.

	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY				
At 1st January 2002	429,961	502,621	256,608	1,189,190
Net profit for the year	–	–	82,688	82,688
2001 final dividend paid	–	–	(53,000)	(53,000)
	<u>429,961</u>	<u>502,621</u>	<u>286,296</u>	<u>1,218,878</u>
At 1st January 2003	429,961	502,621	286,296	1,218,878
Net profit for the year	–	–	8,624	8,624
	<u>429,961</u>	<u>502,621</u>	<u>294,920</u>	<u>1,227,502</u>
At 31st December 2003	<u>429,961</u>	<u>502,621</u>	<u>294,920</u>	<u>1,227,502</u>

Under the Company's Articles of Association and the Companies Law (Revised) of the Cayman Islands ("Companies Law"), share premium and capital reserve are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and capital reserve if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Share premium	429,961	429,961
Capital reserve	502,621	502,621
Accumulated profits	294,920	286,296
	<u>1,227,502</u>	<u>1,218,878</u>

CHAIRMAN'S STATEMENT

In 2003, the unpredictable outbreak of the Severe Acute Respiratory Syndrome ("SARS") in China severely and adversely affected Greencool's business performance, while at the same time bringing a profound impact to the Group's future business development.

Under this difficult environment, Greencool managed to report an audited turnover of approximately RMB107 million in 2003.

Customers' reluctance to invest in improving large-scale air-conditioning systems, caused by the general perception that there was a correlation between SARS and closed ventilation systems, brought delays and cancellations to many of the Group's conversion engineering contracts during the year. Revenue from the conversion engineering business, the Group's major source of income, hence, dropped 61% in 2003.

Turnover from the distribution business declined substantially by 82% during the year. The Group will continue to leverage the established network of 1,248 authorized replacement project agents to improve the performance of its distribution business.

Stringent cost controls reduced the Group's administrative expenses by 31% in 2003, helping to relieve pressures on the bottom line as a result of the overall business decline.

Having experienced the SARS epidemic, the Group realizes that an even stronger base of stable income must be established to ensure greater profitability and business performances. As such, while maintaining the conversion engineering and distribution businesses, the Group is exploring diversification opportunities in the synergistic refrigeration-related manufacturing businesses in search of a broadened, more secure income sources, looking forward to further profit growth.

China's robust economic growth continued in 2003. People are now seeking higher quality of life, including a cleaner and healthier living environment. This offers tremendous prospects for realizing the Group's vision of building a CFC-free China. Leveraging its solid foundations in the refrigeration industry and strong financial standing, the Group is committed to offering good service quality and high-end technology to its customers.

I would like to take this opportunity to thank all our management, staff and customers for their dedication and loyalty to the Group during the very tough times in the past year. I am also grateful to our shareholders for their continued confidence in us during such difficult times in the past year, which has given us the greatest motivation to create a better future for Greencool.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Business Review

The Group is principally engaged in conversion engineering, which represents the replacement of chlorofluorocarbon ("CFC") and less energy-efficient CFC-free refrigerants with Greencool Refrigerants in refrigeration and air-conditioning systems, and the distribution of Greencool Refrigerants in China.

In 1991, China signed the Montreal Protocol which requires the entire country to completely eliminate CFC substances by 2010. Greencool Refrigerants are CFC-free and a good substitute for CFC refrigerants due to its energy saving effect and drop-in features that avoid substantial modification to existing cooling systems.

The Group's conversion engineering business targets primarily commercial and industrial customers who owns or operate large scale refrigeration and air-conditioning systems (usually with an input of more than five horsepower), such as banks, telecommunication companies, hotels, shopping centers, restaurants, warehouses and cold storage, supermarkets, and recreational centers in China.

The Group's distribution business represents the distribution of Greencool Refrigerants through either the Group's sales force or authorized replacement project agents. The authorized replacement project agents undertake mainly replacement projects for small scale refrigeration and air-conditioning system (usually with an input of five horsepower or below).

Financial Performance

Turnover for the year ended 31 December 2003 was approximately RMB107 million, representing a decrease of approximately 67% when compared with the same period in 2002. Profit from operations was approximately RMB11 million, representing a decrease of approximately 90% when compared with the corresponding period in 2002.

Gross profit margin was approximately 57% for the year ended 31 December 2003.

The business of the Group suffered severely primarily as a result of the unpredictable impact of the outbreak of Severe Acute Respiratory Syndrome (“SARS”) around the world including China. SARS has caused deaths of hundreds of people in Hong Kong and China and changed the hygiene habits of the general public. It is generally believed that SARS can spread easily in closed ventilation systems or environment. As many targeted customers of the Group worried about the spread of SARS in large-scale air-conditioning systems, the demand for conversion engineering to large-scale air-conditioning systems was affected. As a result, many of the Group’s contracts relating to conversion engineering were either cancelled or delayed. The executive Directors believe that its targeted customers continued to be concerned about the re-emergence of SARs and, consequently, were reluctant to invest, at this stage into the conversion engineering of their air conditioning systems.

Moreover, the negative impact of SARS also affected the business of the Group’s authorized project agents and depressed the demand of Greencool Refrigerants by the end users of household appliances.

In 2003, administrative expenses decreased to around RMB56 million compared to RMB82 million in the same period of 2002 mainly as a result of declining business, less business travel and tighter controls over expenses.

Outlook

The executive Directors believe that although the threat of SARS had abated, the Group’s performance still significantly lagged its performance when compared with the corresponding period last year. The Directors believe that to continue with a single line of business could be risky for the Company even though the historical results were relatively good. Moreover, in respect of the existing business, the Group is in discussions with the Stock Exchange regarding some of the Group’s standard terms of business. If the Group is required to change some of its standard terms of business and the Group’s customers do not agree to these new terms, the Group’s business and profitability may be materially and adversely affected. Therefore, the Company will make greater efforts to diversify into related businesses and consider entering into the refrigeration-related manufacturing business and actively explore new areas for profit growth.

Greencool Refrigerants are recognized by the State Environmental Protection Administration of China as environmental friendly products. The Directors believe that Greencool Refrigerants should play an important role in ozone layer protection projects.

With the possible improvement caused by the energy saving features of Greencool Refrigerants, the management would continue to persuade manufacturers of refrigeration and air-conditioning systems to use Greencool Refrigerants in their products.

In future, the Directors will consider new products and new business that may provide additional benefits to and synergy with the Group’s existing business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a very strong financial position with approximately RMB1,334 million shareholders' fund as at 31st December 2003 (2002: RMB1,325 million) and RMB1,200 million net tangible assets (2002: 1,181 million).

As at 31st December 2003, the Group had a total of approximately RMB1,161 million (2002: RMB1,054 million) cash and bank deposits, of which approximately RMB46 million (2002: RMB23 million) are pledged bank deposits, that represent approximately 87% (2002: 80%) of shareholders' fund. Cash and bank deposits are usually treated as liquid assets.

As at 31st December 2003, the net current assets (representing total current assets less total current liabilities) amounted to approximately RMB1,157 million (2002: RMB1,122 million) represents 87% (2002: 85%) of shareholders' fund.

In 2003, the Group significantly decreased its administrative expenses as a result of its decreased activities in marketing and promotion.

Short term borrowings and gearing ratio

As of 31st December 2003, the Group's short-term bank loans amounted to approximately RMB75 million. These bank loans bore interest ranging from 4.78%–5.31% (2002: 5.31%–5.52%) per annum are repayable within one year.

The Group's gearing ratio, measured in terms of total bank borrowings divided by shareholders fund, was 5.62% as at 31st December 2003 (2002: 5.13%). As of 31st December 2003, the Group's cash and cash equivalent, net of total bank borrowings and excluding pledge bank deposits, amounted to approximately RMB1,040 million (2002: RMB963 million).

Trade receivables

By end of 2003, the total gross trade receivables amounted to approximately RMB20 million, around 19% of total revenue in 2003 (2002: around 19%).

The management understands that around 18% of gross trade receivables are of aging over 180 days. The marketing and sales staff and our management have reviewed the creditability of all customers relating to receivables aging over 180 days and have made specific provision for all receivables that are doubtful debts according to the particular circumstances.

The Group has provided approximately RMB3 million for provision of doubtful debts, which represents around 16% of the total gross trade receivables as of 31st December 2003. The directors believe that stronger control in credit control and debt collection can protect the interest of the Company and the shareholders.

COST OF SALES

The Group's cost of sales relates mainly to the cost of Greencool Refrigerants purchased from Greencool Refrigerant (China) Co., Ltd ("Tianjin Greencool Factory"). Under the exclusive distribution agreement dated 28th June 2000 (the "Exclusive Distribution Agreement"), Tianjin Greencool Factory will supply R405a and R411 refrigerants at RMB111 and RMB86 per kilogramme respectively, for the period from 1st July 2000 to 31st December 2003. The Group is in discussions with Tianjin Greencool Factory to try and secure an agreement from

Tianjin Greencool Factory that, notwithstanding prices of CFC-free refrigerants supplied by Tianjin Greencool Factory should rise from 1st January 2004, for there to be no increase in prices. If and when such an agreement is reached, the Company will make such announcements as required under the Rules Governing the Listing of Securities on the GEM.

DISTRIBUTION COSTS

Distribution costs represent mainly amortization of intangible asset of RMB12 million each year and sales commission.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased to approximately RMB56 million in 2003 compared to approximately RMB82 million in 2002.

Administrative expenses include mainly operating lease rentals, depreciation, staff costs, travelling expenses, and others. The operating lease rentals of land and buildings amounted to approximately RMB10.2 million (2002: RMB8.3 million) staff costs including directors' remuneration amounted to approximately RMB35.7 million (2002: RMB37.4 million).

The directors believe the decrease in administrative expenses are in line with decrease in business activity and turnover from the distribution.

HUMAN RESOURCES

Staff number

The number of staff of the Group were around 700 and 800 as at 31st December 2003 and 2002 respectively.

Remuneration policies and labour relations

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

The Group maintains good relations with its staff and has not encountered any major difficulties in its recruitment and retention of its experienced personnel. There has not been any interruption to its operations as a result of labour disputes. In addition, the Group provides social security benefits, namely pension or mandatory provident fund and health insurance scheme, to its employees.

The Group's employees located in the PRC are entitled to the defined contribution retirement schemes organized by the respective local government authorities in the PRC. The Group has also put in place a defined contribution scheme for its employees in Hong Kong. The Group does not have any material liability arising from the relevant statutory retirement schemes.

Training

The Group has set up a training center in Hubei province. The purpose of the training center is to provide instruction to trainee engineers from the subsidiaries and authorised replacement project agents.

DISCLOSURE OF DIRECTORS' INTERESTS

As at 31 December 2003, the interests of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Aggregate long positions in shares and underlying shares

Director	Name of company	Class of shares	Number of options held	Number of shares held			Aggregate percentage of long position
				Personal interests	Family interests	Corporate interests	
Gu Chu Jun	The Company	Ordinary	10,000,000 underlying shares representing 1% of the shares then in issue (<i>Note 1</i>)	10,000,000 underlying shares representing 1% of the shares then in issue (<i>Note 1</i>)	–	625,940,000 shares representing approximately 62.6% of the shares then in issue (<i>Note 2</i>)	63.6% (<i>Note 3</i>)
Gu Chu Jun	Greencool Capital Limited	Ordinary		104 shares representing 100% of the shares then in issue	–	–	–

Notes:

1. These are the underlying shares of the Company in respect of which an option was granted to Mr. Gu Chu Jun (details of which are set out below). The percentage was calculated on the basis of 1,000,000,000 shares in issue as at 31st December 2003.
2. These shares were held through Greencool Capital Limited, a company beneficially owned as to 100% by Mr. Gu Chu Jun.
3. Based on 1,000,000,000 shares in issue as at 31st December 2003.

Pursuant to the Company's share option scheme adopted by the Company on 28th June 2000, the following Directors of the Company have personal interests in options to subscribe for ordinary shares in the Company of HK\$0.10 each which have been granted to them for a consideration of HK\$1 as follows:

Name of Director	Date of grant	Percentage of vested options	Exercise price per share	Exercisable period	Outstanding number of share options at 1st January 2003 and 31st December 2003
Gu Chu Jun	28/6/2000	100%	HK\$2.18	28/6/2000 to 27/6/2005	10,000,000
Liu Cong Meng	28/6/2000	100%	HK\$2.18	28/6/2000 to 27/6/2005	3,400,000
	26/9/2000	100%	HK\$1.68	26/9/2000 to 25/9/2005	20,000,000
Xu Wan Ping	28/6/2000	100%	HK\$2.18	28/6/2000 to 27/6/2005	3,400,000
	26/9/2000	100%	HK\$1.68	26/9/2000 to 25/9/2005	20,000,000
Zhang Xi Han	28/6/2000	100%	HK\$2.18	28/6/2000 to 27/6/2005	3,400,000
	26/9/2000	100%	HK\$1.68	26/9/2000 to 25/9/2005	20,000,000
Total:					80,200,000

The abovementioned options were outstanding as at 1st January 2003 and remained outstanding as at 31st December 2003. None of the above options were exercised, cancelled or lapsed during the year ended 31st December 2003. Such options constitute unlisted physically settled equity derivatives.

Save as disclosed herein, none of the directors and chief executives or their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the following substantial shareholder and person (other than a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Long position	Approximate percentage of shareholding
Greencool Capital Limited	625,940,000 shares in the Company	62.6%

Save as disclosed above, no other person (other than a director or chief executive of the Company) has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTEREST

The refrigerants used by the Group are exclusively sourced from Tianjin Greencool Factory, a limited liability company established in China and is controlled by Mr. Gu.

Pursuant to the exclusive distribution agreement dated 28th June 2000 (the “Exclusive Distribution Agreement”), the Group obtained the exclusive distribution rights to obtain and sell Greencool Refrigerants and any further refrigerants invented by Mr. Gu in the future, manufactured by Tianjin Greencool Factory in China for a term of 20 years from 31st December 1999.

The Group has priority over other customers of Tianjin Greencool Factory to purchase Greencool Refrigerants from Tianjin Greencool Factory if there is not enough supply.

The Exclusive Distribution Agreement also provides that if Tianjin Greencool Factory fails to supply sufficient Greencool Refrigerants as ordered by the Group, the Group has the non-exclusive right to produce or contract with a third party to produce the relevant Greencool Refrigerants. Under this circumstance, Mr. Gu and Tianjin Greencool Factory will be obliged to provide the necessary know-how to the Group or the Group’s contractors free of charge to enable them to produce the relevant Greencool Refrigerants.

Tianjin Greencool Factory, under the exclusive distribution agreement with the Group dated 28th June 2000, is the sole supplier of Greencool Refrigerants to the Group.

As the supply of Greencool Refrigerants constitutes continuing connected transactions of the Company under the GEM Listing Rules as long as Mr. Gu remains a connected person of the Company (as defined under the GEM Listing Rules), such transactions would normally require full disclosure and, depending on the value of the transactions, prior approval by the independent shareholders of the Company.

Since the transactions under the Exclusive Distribution Agreement are conducted in the ordinary and usual course of business and on a regular basis, the Company had, at time of listing, applied to the Stock Exchange for granting waivers from strict compliance with the relevant requirements of the GEM Listing Rules in respect of the above transaction for the period ended 31st December 2002. There have been no purchases under the Exclusive Distribution Agreement this year as the Group has been utilising its inventory. For future potential purchases, the Company will comply with the GEM Listing Rules requirements.

Pursuant to the Deed of Non-competition Undertaking dated 28th June 2000 entered into between Mr. Gu and the Company, Mr. Gu has undertaken that at any time during which securities of the Company are listed on the Stock Exchange or any other stock exchange recognized under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and for so long as Mr. Gu and his associates (as defined in the GEM Listing Rules) hold, whether individually or taken together, 10 per cent. or more of the issued shares in the Company or Mr. Gu and his associates are otherwise regarded as substantial shareholders of the Company under the GEM Listing Rules or the rules of the relevant securities exchange, he will not and will procure that his associates will not directly or indirectly carry on or be engaged or concerned or interested in: (a) the business of replacement of CFC and CFC-free refrigerants using Greencool Refrigerants and the distribution of Greencool Refrigerants in PRC; and/or (b) any other business in the PRC that is similar to any member of the Group as described in the Prospectus.

Saved as disclosed above, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company and their respective associates (as defined in the GEM Listing Rules) had any conflict of interest nor an interest in a business which competes or may compete with the business of the Group in the PRC.

AUDIT COMMITTEE

The Company established an audit committee in February 2000 with written terms of reference in compliance with Rules 5.23 and 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising Mr. Fan Jia Yan (who is acting as the chairman of the audit committee) and Ms. Man Margaret, the two independent non-executive Directors, and Mr. Hu Xiao Hui, an executive Director.

BOARD PRACTICES AND PROCEDURES

For the year ended 31st December 2003, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

By Order of the Board
Greencool Technology Holdings Limited
Gu Chu Jun
Chairman

Hong Kong, 25th March 2004

This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of the posting and at the Company's website at <http://www.greencool.com.hk>.