



GREENCOOL TECHNOLOGY HOLDINGS LIMITED

格林柯爾科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GREENCOOL

Annual Report 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 further 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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the 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.

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○ HIGHLIGHTS FOR THE TWELVE MONTH PERIOD

- Turnover achieved approximately RMB107 million for the twelve months ended 31 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

CORPORATE INFORMATION

Board of Directors

Executive Directors

Gu, Chu Jun (*Chairman*)
Hu, Xiao Hui (*Vice Chairman, CEO & President*)
Zhang, Xi Han
Liu, Cong Meng
Xu, Wan Ping
Chen, Chang Bei

Independent non-executive

Directors

Fan, Jia Yan
Margaret Man

Compliance Officer

Chen, Chang Bei

Company Secretary

Mok, Henry Wing Kai,
FCCA, FHKSA, MBA, MSc

Qualified Accountant

Mok, Henry Wing Kai,
FCCA, FHKSA, MBA, MSc

Audit Committee

Fan, Jia Yan (*Chairman*)
Margaret Man
Hu, Xiao Hui

Authorised Representative

Zhang, Xi Han
Chen, Chang Bei

Auditors

Deloitte Touche Tohmatsu

Website Address

www.greencool.com.hk

Head Office and Principal Place of Business in the People's Republic of China

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Beijing 100050 PRC

Hong Kong Liaison Office

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14/F., West Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Registered Office

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Principal Share Registrar and Transfer Office

Bank of Butterfield
International
(Cayman) Limited
Butterfield House
Fort Street, P.O. Box 705
George Town
Grand Cayman
The Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited
Rooms 1901-1905
19th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

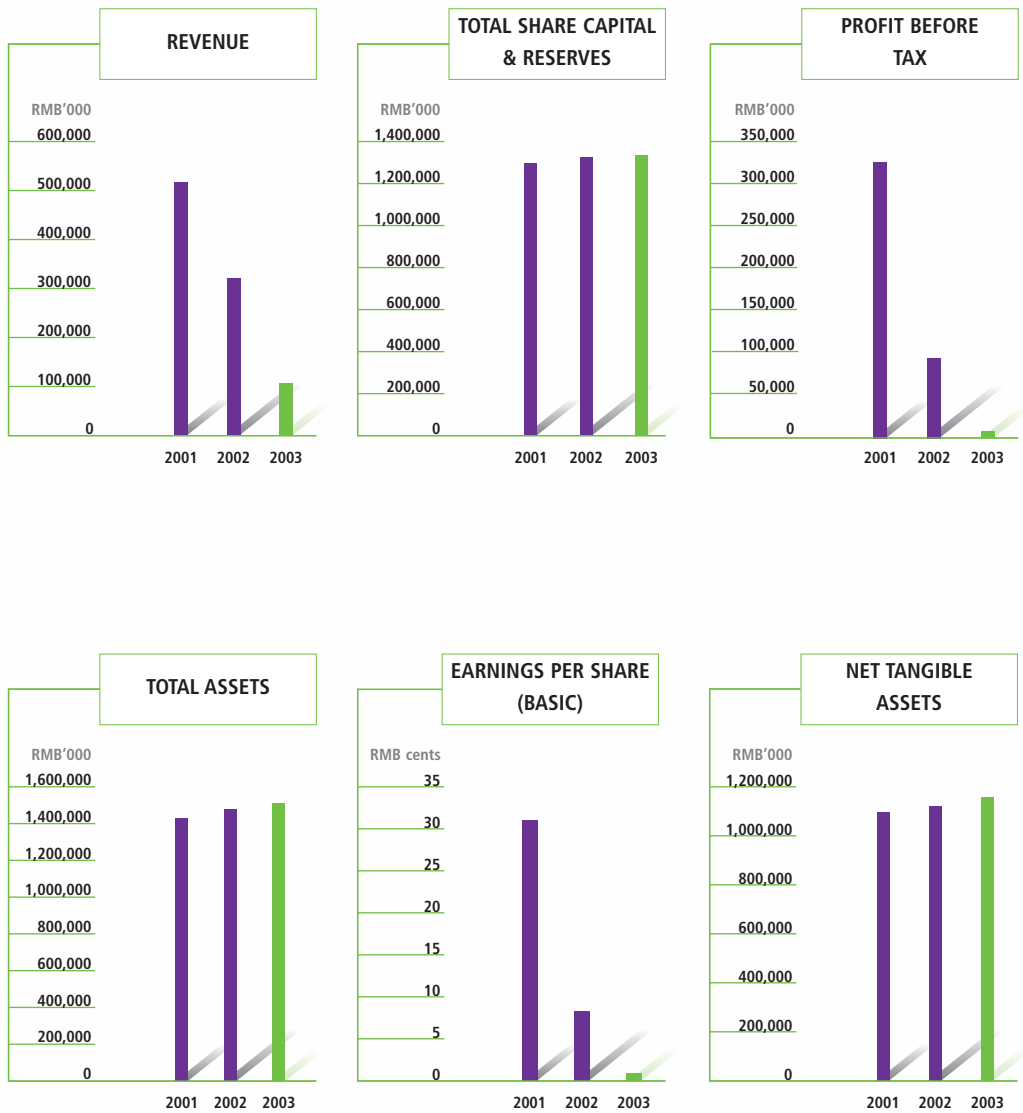
Principal Banker

Agricultural Bank of China
Citic Ka Wah Bank Ltd.

Investor relations consultant

Strategic Financial Relations
(China) Limited

FINANCIAL HIGHLIGHTS






○ BUSINESS TERRITORIES OF GREENCOOL



○ CHAIRMAN'S STATEMENT



Gu Chu Jun *Chairman*



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.





○ CHAIRMAN'S STATEMENT

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.



Gu Chu Jun

Chairman

25 March 2004



○ REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in the provision of engineering services, which include the replacement of chlorofluorocarbon (“CFC”) and less energy-efficient CFC-free refrigerants with Greencool refrigerants, a series of CFC-free refrigerants, in refrigeration and air-conditioning systems, and sale of CFC-free refrigerants in the People’s Republic of China (the “PRC”).

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 26.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately RMB2.3 million to expand its business. Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 12 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 29 and the note 25 to the financial statements, respectively.



○ REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Gu Chu Jun, *Chairman*

Hu Xiao Hui, *Vice-chairman, Chief Executive Officer and President*

Zhang Xi Han, *Chief Operating Officer*

Liu Cong Meng

Xu Wan Ping

Chen Chang Bei

Independent non-executive directors:

Fan Jia Yan

Margaret Man

In accordance with the Company's Articles of Association, Mr. Hu Xiao Hui and Ms. Margaret Man retire by rotation and, being eligible, will offer themselves for re-election.

All of the directors had entered into service contracts with the Company for a fixed term of three years commencing on 1 June 2000, which have been extended for further 3 years on 1 June 2003. In respect of the executive directors' service contracts, these may be terminated by either party thereto giving to the other six months' prior notice in writing, which notice period shall not expire until after the first two years. In respect of the independent non-executive directors, the terms of appointment are such that either party may terminate the appointment after the first two years by three months' prior notice in writing.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation (other than statutory compensation).

○ REPORT OF THE DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Gu Chu Jun, aged 44, has been the chairman of the Company and the founder of the Greencool Group. He is responsible for setting the Group's overall business development and corporate strategies. He graduated with a master's degree in engineering from Tianjin University, the PRC and has over 15 years of experience in the refrigeration engineering and refrigerant industry. Prior to founding the Greencool Group, Mr. Gu taught in Tianjin University (天津大學) and actively participated in the research of thermodynamics and refrigeration engineering. Mr. Gu is the inventor of Greencool Refrigerants. Mr. Gu is also the Chairman, executive director and single largest shareholder of Guangdong Kelon Electrical Holdings Co., Limited.

Mr. Hu Xiao Hui, aged 37, has been the vice-chairman since June 2000 and subsequently appointed the president and chief executive officer of the Company. Mr. Hu is responsible for execution of the Group's overall business strategies and managing the overall operations. He holds a bachelor's degree in engineering from the University of Science and Technology of China (中國科學技術大學). He has a wealth of experience in engineering thermophysics and refrigerant science. Being engaged in scientific research, engineering, marketing and management.

Mr. Zhang Xi Han, aged 37, has been the executive director and vice-president since June 2000 and subsequently appointed as the chief operating officer of the Company. Mr. Zhang holds a master's degree in low temperature and refrigerating engineering. He joined the Greencool Group in 1993 after obtaining his master's degree, and now is responsible for overall the engineering, marketing and management of the Group.

Mr. Liu Cong Meng, aged 58, has been an executive director and vice president of the Company since June 2000. Mr. Liu studied International Relations and Economics in Beijing University, the PRC. He is experienced in environmental protection, international cooperation and management. Prior to joining the Group, Mr. Liu worked as Director General of the Department of International Cooperation of the Ministry of Agriculture of the PRC (中國農業部國際合作司), and had also held several government and public posts, being responsible for bilateral or multilateral cooperation between the PRC and the World Bank, other international organizations and other related countries for a long period. Mr. Liu is also an executive director, chief executive officer and president of Guangdong Kelon Electrical Holdings Co., Limited.



REPORT OF THE DIRECTORS

Mr. Xu Wan Ping, aged 40, has been an executive director and vice president of the Company since June 2000 and is currently responsible for setting and implementing the Group's marketing strategies in the PRC. Mr. Xu is an engineer and holds a bachelor's degree in engineering from Beijing Aeronautics and Space-Flight University (北京航空航天大学). He has over ten years of experience in management.

Mr. Chen Chang Bei, aged 51, has been an executive director and compliance officer of the Company since June 2000. Mr. Chen holds a master's degree of Arts from the Shangdong University, the PRC and a master's degree of Arts from York University, Canada. Mr. Chen is responsible for implementing the Group's development strategies for the PRC. Prior to joining the Greencool Group, Mr. Chen was a lecturer in Shan Dong University, and worked for MIC Inc. in Canada as a vice general manager.

Independent Non-Executive Directors

Mr. Fan Jia Yan, aged 58, has been an independent non-executive director of the Company since June 2000. He was appointed as an executive director of The Hongkong Chinese Bank, Limited in 1993. Mr. Fan joined CITIC Group in 1980 and he had been in the management of CITIC Industrial Bank in Beijing for more than 10 years. He was also a director of The China Assets Management Limited, a company listed in Hong Kong. Mr. Fan graduated from the Institute of International Relations in Beijing in 1968.

Mdm. Margaret Man, aged 49, has been an independent non-executive director of the Company since June 2000. She joined CITIC Ka Wah Bank Ltd as Senior Vice President in October 1998. Prior to that, Mdm. Man was a Deputy Managing Director of China Venturetechno International Co., Ltd and was a Division Chief in People's Bank of China for seven years. Mdm. Man graduated from the College of Finance and Economy of Shanxi province with a bachelor's degree in finance and obtained a master's degree in banking and finance from the Graduate School of the People's Bank of China. Mdm. Man completed a legal studies programme at Columbia University Law School in the United States in 1986.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Mok Henry Wing Kai, aged 43, is the qualified accountant and company secretary of the Group. Mr. Mok has over 18 years of experience in the finance, accounting and company secretarial field. Mr. Mok holds a Master of Science degree of Manufacturing Systems Engineering from the University of Warwick in the United Kingdom and a Master of Business Administration degree jointly awarded by the University of Wales (Bangor) and the University of Manchester in the United Kingdom. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Mok Joined the Group in April 2000.

○ REPORT OF THE DIRECTORS

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.



○ REPORT OF THE DIRECTORS

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 around 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.

○ REPORT OF THE DIRECTORS

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 around 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).



○ REPORT OF THE DIRECTORS

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 (the "GEM Listing Rules").

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.

○ REPORT OF THE DIRECTORS

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.

REPORT OF THE DIRECTORS

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 (Note 1)	10,000,000 underlying shares representing 1% of the shares then in issue (Note 1)	–	625,940,000 shares representing approximately 62.6% of the shares then in issue (Note 2)	63.6% (Note 3)
Gu Chu Jun	Greencool Capital Limited	Ordinary		104 shares representing 100% of the shares then in issue	–	–	–

Notes:

- 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 31 December 2003.
- These shares were held through Greencool Capital Limited, a company beneficially owned as to 100% by Mr. Gu Chu Jun.
- Based on 1,000,000,000 shares in issue as at 31 December 2003.

REPORT OF THE DIRECTORS

SHARE OPTION

Particular of the Company's share option are set out in note 24 to the financial statements.

Pursuant to the Company's share option scheme adopted by the Company on 28 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 1 January 2003 and 31 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:					<u>80,200,000</u>

The abovementioned options were outstanding as at 1 January 2003 and remained outstanding as at 31 December 2003. None of the above options were exercised, cancelled or lapsed during the year ended 31 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.

REPORT OF THE DIRECTORS

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 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.

DIRECTORS' INTERESTS IN CONTRACTS

- (a) On 28 June 2000, Mr. Gu Chu Jun ("Mr. Gu") granted, in consideration of HK\$10, the Company an option (the "Tianjin Option") to purchase all of his interest in Greencool Refrigerant (China) Co., Limited (the "Tianjin Greencool Factory") which, at the date of issue of the Company's prospectus upon listing dated 5 July 2000 (the "Prospectus"), was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option can be exercisable solely at the discretion of the Company during the three-year period commencing on 28 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 International Financial Reporting Standards) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool

○ REPORT OF THE DIRECTORS

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 for further three-year period commencing on 28 June 2003 while all other terms of the Tianjin Option remain unchanged. The exercise and non-exercise of the Tianjin Option would also constitute connected transactions subject to the provisions of the GEM Listing Rules requiring reporting announcement and shareholders' approval.

- (b) Pursuant to a trademark licensing agreement entered between the Company and Greencool Thermo-Tech Holdings Limited dated 28 June 2000, Greencool Thermo-Tech Holdings Limited, a company incorporated in BVI with limited liability and is owned as to 100% by Mr. Gu, 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 28 June 2000.
- (c) During the year, Guangdong Kelon Electrical Holdings Co., Ltd. ("Kelon") collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of the Group from 1,050 authorised engineering units of the Group. In return, the Group paid a handling fee of RMB1,575,000 to Kelon in this regard. Mr. Gu ultimately has an equity of approximately 21% interest in Kelon.

Other than disclosed in this report, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

- (a) The refrigerants used by the Group ("Greencool Refrigerants") are exclusively sourced from the Tianjin Greencool Factory.

Pursuant to the exclusive distribution agreement dated 28 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 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

○ REPORT OF THE DIRECTORS

Group or the Group's contractors free of charge to enable them to produce the relevant Greencool Refrigerants. During the year, the Group made no purchase of Greencool Refrigerants from Tianjin Greencool Factory.

- (b) During the year, the Group paid approximately RMB1,575,000 service charge to Kelon, in relation to the collection of entering fees from 1,050 authorised engineering units on behalf of the Group. Mr. Gu ultimately has an equity of approximately 21% interest in Kelon.
- (c) During the year ended 31 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 interests in 江西格林柯爾 and Tianjin Greencool Factory.

Details of the above transactions are set out in note 29 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest customer accounted for 19.4% of total turnover during the year. Aggregate turnover attributable to the Group's five largest customers represented 43.8% of the total turnover for the year.

The Group's sole supplier is Tianjin Greencool Factory. There was no purchase from Tianjin Greencool Factory during the year.

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 28 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 31 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.

○ REPORT OF THE DIRECTORS

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 28 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 31 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 28 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 the 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.



○ **REPORT OF THE DIRECTORS**

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied with the broad practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year ended 31 December 2003.

The Company's audit committee comprised two independent non-executive directors, Mr. Fan Jin Yan and Ms. Margaret Man and an executive director, Hu Xiao Hui. Mr. Fan Jin Yan is the Chairman of the audit committee.

During the year, three audit committee meetings were held. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

DIRECTOR

Hong Kong,
25 March 2004

○ REPORT OF THE AUDITORS

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF
GREENCOOL TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 59 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.



○ REPORT OF THE AUDITORS

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Public Certified Accountants

Hong Kong,
25 March 2004

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

	Notes	2003 RMB'000	2002 RMB'000
Turnover	3	106,834	321,420
Cost of sales and services		(45,426)	(128,524)
Gross profit		61,408	192,896
Other operating income	4	30,985	19,202
Distribution costs		(25,784)	(26,933)
Administrative expenses		(56,059)	(81,797)
Profit from operations	5	10,550	103,368
Finance costs	8	(2,517)	(6,230)
Profit before taxation		8,033	97,138
Taxation	9	591	(14,450)
Net profit for the year		8,624	82,688
Dividends	10	–	–
Earnings per share	11		
Basic		RMB0.9 cent	RMB8.3 cents
Diluted		N/A	RMB8.3 cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

(Expressed in thousands of Renminbi ("RMB"))

	Notes	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	12	44,218	51,103
Intangible asset	13	132,000	144,000
Long term trade receivables	15	–	8,433
		176,218	203,536
Current assets			
Inventories	16	129,920	158,774
Trade receivables	15	17,095	44,267
Deposits, prepayments and other receivables		12,672	14,051
Investment securities	17	14,577	4,394
Amounts due from related companies	18	238	1,024
Pledged bank deposits		46,206	23,176
Bank balances and cash		1,114,560	1,031,033
		1,335,268	1,276,719
Current liabilities			
Other payables and accrued charges		77,241	57,411
Amounts due to related companies	21	16,658	17,002
Taxation payables		9,015	12,727
Bank loans	22	75,000	68,000
		177,914	155,140
Net current assets		1,157,354	1,121,579
Net assets		1,333,572	1,325,115
Capital and reserves			
Share capital	23	106,000	106,000
Reserves		1,227,572	1,219,115
Shareholders' funds		1,333,572	1,325,115

The financial statements on pages 26 to 59 were approved and authorised for issue by the Board of Directors on 25 March 2004 and are signed on its behalf by:

GU CHU JUN
DIRECTOR

CHEN CHANG BEI
DIRECTOR

BALANCE SHEET

AT 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

	Notes	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	12	465	857
Investments in subsidiaries	14	1,294,908	1,271,547
		1,295,373	1,272,404
Current assets			
Deposits, prepayments and other receivables		435	387
Bank balances and cash		39,797	59,022
		40,232	59,409
Current liabilities			
Other payables and accrued charges		1,869	2,399
Amounts due to subsidiaries		234	4,536
		2,103	6,935
Net current assets		38,129	52,474
Net assets		1,333,502	1,324,878
Capital and reserves			
Share capital	23	106,000	106,000
Reserves	25	1,227,502	1,218,878
Shareholders' funds		1,333,502	1,324,878

GU CHU JUN
DIRECTOR

CHEN CHANG BEI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

	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 1 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)
At 1 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
At 31 December 2003	106,000	429,961	353,394	70	444,147	1,333,572

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

	2003 RMB'000	2002 RMB'000
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	1,114,560	1,031,033
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	1,114,560	1,031,033

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the Company's ultimate holding company is Greencool Capital Limited, a company incorporated in the British Virgin Islands with limited liability.

The Company is an investment holding company. Its principal subsidiaries are engaged in the provision of engineering services, which include the replacement of chlorofluorocarbon ("CFC") and less energy-efficient CFC-free refrigerants with CFC-free refrigerants in refrigeration and air-conditioning systems, and sale of CFC-free refrigerants in the People's Republic of China (the "PRC").

These financial statements are presented in Renminbi (RMB) since that is the currency in which the majority of the transactions are denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, except for the revaluation of investments, and in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Investments in subsidiaries

The results and assets and liabilities of subsidiaries are incorporated in the financial statements using equity method of accounting.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged to write off the cost of property, plant and equipment over their estimated useful lives, after taking into account their estimated residual value, using the straight-line method. The estimated useful lives of each category of property, plant and equipment are as follows:

Buildings	20 years
Machinery	7 to 10 years
Motor vehicles	5 to 7 years
Office equipment	5 to 7 years

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Exclusive distribution right for CFC-free refrigerants

Exclusive distribution right for CFC-free refrigerants is stated at cost less accumulated amortisation and any identified impairment loss. The cost incurred for the acquisition of exclusive distribution right is capitalised and amortised on a straight-line basis over the estimated useful life of 15 years. The amortisation period and the amortisation method are reviewed annually at each financial year end for appropriateness.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investment securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost, including transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments in securities other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other financial assets

The Group's principal financial assets are bank balances and cash and trade receivables, deposits, prepayments and other receivables and amounts due from related companies.

Trade receivables, deposits, prepayments and other receivables and amounts due from related companies are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

The Group's principal liabilities include interest bearing bank loans, other payables and accrued charges and amounts due to related companies.

Interest bearing bank loans are recorded at the proceeds received. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Other payables and accrued charges and amounts due to related companies are stated at their nominal value.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi (“RMB”))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Retirement benefits scheme

The Group participates in the Mandatory Provident Fund Scheme (the “MPF Scheme”) in Hong Kong and retirement schemes administered by the provincial governments of the PRC pursuant to which the Group pays a fixed percentage of the salaries and wages of its qualifying staff and employees as the contribution to such schemes. The Group’s contributions to the MPF Scheme in Hong Kong and retirement schemes in the PRC are charged to the income statement as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the costs of those assets.

All other borrowing costs are expensed in the period in which they are incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currency translation

Transactions in currencies other than RMB are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Gains and losses arising on exchange are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value is recognised directly to equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

3. 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 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 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.

4. OTHER OPERATING INCOME

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interest income	10,841	9,563
Unrealised holding gain on investment securities	10,183	–
Write-back of allowance for doubtful debts	4,868	–
Others	5,093	9,639
	<u>30,985</u>	<u>19,202</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

5. 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 (<i>note 6</i>)	35,707	37,354
Unrealised holding loss on investment securities	-	1,586

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

6. DIRECTORS' REMUNERATION

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Directors		
Fees:		
Executive	–	–
Independent non-executive	–	–
	–	–
Other emoluments for executive directors:		
Salaries and other benefits	6,768	6,839
Retirement benefits scheme contributions	38	38
	6,806	6,877
Other emoluments for independent non-executive directors	826	721
	7,632	7,598

Emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Executive directors		
Nil to RMB1,000,000	3	4
RMB1,000,001 to RMB1,500,000	2	2
RMB2,500,001 to RMB3,000,000	1	1
Independent non-executive directors		
Nil to RMB1,000,000	2	2
	8	9

For the year ended 31 December 2003, other emoluments, including contributions to retirement benefit scheme, paid to six (2002: seven) executive directors were RMB2,851,000, RMB1,253,000, RMB1,046,000, RMB827,000, RMB827,000 and RMB1,000 respectively (2002: RMB2,851,000, RMB1,253,000, RMB1,046,000, RMB827,000, RMB827,000, RMB72,000 and RMB1,000 respectively).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS

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7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2002: four) executive directors of the Company, whose emoluments are included in note 6 above. The details of the aggregate emoluments of the remaining one (2002: one) highest paid individual are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Basic salaries and allowances	1,033	1,033
Retirement benefits scheme contributions	13	13
	1,046	1,046

The emoluments of the five highest paid individuals were within the following bands:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Nil to RMB1,000,000	1	1
RMB1,000,001 to RMB1,500,000	3	3
RMB2,500,001 to RMB3,000,000	1	1
	5	5

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any emoluments during the year.

8. FINANCE COSTS

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

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9. TAXATION

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

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.

The taxation (credit) charge can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Profit before taxation	8,033	97,138
Tax rates of 15% applicable to the Group's subsidiaries in the PRC (2002: 15%)	1,205	14,571
Tax effect of expenses not deductible for tax purpose	6,468	11,948
Tax effect of income not taxable for tax purpose	(677)	(442)
Over-provision in respect of prior year	(4,454)	–
Tax effect of tax losses not recognised	3,213	1,628
Tax benefit arising from the relevant income tax laws of the PRC applicable to foreign investment enterprises in the PRC	(6,340)	(13,240)
Others	(6)	(15)
Taxation (credit) charge to the consolidated income statement	(591)	14,450

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9. TAXATION (Continued)

Except for the unprovided deferred tax assets arising from the tax losses as described below, there are no other significant unprovided deferred tax.

At the balance sheet date, the Group has unused tax losses of RMB32 million (2002: RMB11 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

10. DIVIDENDS

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

11. EARNINGS PER SHARE

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

	2003 RMB'000	2002 RMB'000
Net profit for the year for the purposes of basic and diluted earnings per share	<u>8,624</u>	<u>82,688</u>
	'000	'000
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.

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FOR THE YEAR ENDED 31 DECEMBER 2003
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12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP					
COST					
At 1 January 2003	10,298	15,595	21,547	15,091	62,531
Additions	–	–	1,896	397	2,293
Disposals	–	–	(582)	(1)	(583)
At 31 December 2003	10,298	15,595	22,861	15,487	64,241
DEPRECIATION					
At 1 January 2003	609	1,988	7,292	1,539	11,428
Provided for the year	884	2,449	3,470	2,045	8,848
Eliminated on disposals	–	–	(252)	(1)	(253)
At 31 December 2003	1,493	4,437	10,510	3,583	20,023
NET BOOK VALUES					
At 31 December 2003	8,805	11,158	12,351	11,904	44,218
At 31 December 2002	9,689	13,607	14,255	13,552	51,103
			Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY					
COST					
At 1 January 2003			1,346	668	2,014
Additions			–	14	14
Disposals			–	(2)	(2)
At 31 December 2003			1,346	680	2,026
DEPRECIATION					
At 1 January 2003			801	356	1,157
Provided for the year			269	136	405
Eliminated on disposals			–	(1)	(1)
At 31 December 2003			1,070	491	1,561
NET BOOK VALUES					
At 31 December 2003			276	189	465
At 31 December 2002			545	312	857

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
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13. INTANGIBLE ASSET

	<i>RMB'000</i>
COST	
At 1 January 2003 and 31 December 2003	<u>180,000</u>
AMORTISATION	
At 1 January 2003	36,000
Provided for the year	<u>12,000</u>
At 31 December 2003	<u>48,000</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>132,000</u></u>
At 31 December 2002	<u>144,000</u>

Intangible asset represents the exclusive distribution right (see note 29(b)) in the PRC of CFC-Free refrigerants manufactured by Greencool Refrigerant (China) Co., Limited (the "Tianjin Greencool Factory"). Intangible asset is amortised over the estimated useful life of 15 years.

The directors are of the opinion that the underlying value of the intangible asset was not less than its carrying value at 31 December 2003.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net identifiable assets of subsidiaries	1,031,076	1,013,304
Amounts due from subsidiaries	<u>263,832</u>	<u>258,243</u>
	<u><u>1,294,908</u></u>	<u><u>1,271,547</u></u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment term. In the opinion of directors, the Company will not demand for the repayment of the amounts due from subsidiaries within the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current assets.

Particulars of the Company's subsidiaries at 31 December 2003 are set out in note 30.

NOTES TO THE FINANCIAL STATEMENTS

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15. 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
Less: Amount due within one year shown as current assets	(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
Less: Allowance for doubtful debts	(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
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16. INVENTORIES

THE GROUP

Inventories represent finished goods of CFC-free refrigerants for sale and installation. At the balance sheet date, all of the inventories are carried at cost.

17. INVESTMENT SECURITIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Investment held-for-trading		
Listed marketable equity securities in Hong Kong, at market value		
– Guangdong Kelon Electrical Holdings Co., Ltd. ("Kelon")	13,600	3,613
– GZITIC Hualing Holdings Limited	977	781
	<u>14,577</u>	<u>4,394</u>
Cost of listed marketable securities	<u>6,096</u>	<u>6,096</u>

18. AMOUNTS DUE FROM RELATED COMPANIES

Name of related companies

	THE GROUP	
	2003	2002
	RMB'000	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
	<u>238</u>	<u>1,024</u>

Mr. Gu Chu Jun ("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.

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19. OTHER FINANCIAL ASSETS

Deposits, prepayments and other receivables

The carrying amount of these assets approximates their fair values.

Bank balances and cash

The amount comprises cash and short term deposits held by the Group treasury function. The carrying amount of these assets approximates their fair values.

Credit risks

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on past experience and the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

20. OTHER FINANCIAL LIABILITIES

Other payables and accrued charges

The balance principally comprises amounts outstanding for ongoing costs.

The directors consider that the carrying amount of other payables and accrued charges approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

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21. AMOUNTS DUE TO RELATED COMPANIES

Name of related companies

	THE GROUP	
	2003 RMB'000	2002 RMB'000
Greencool Canada Inc. ("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.

22. 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 31 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 ("江西格林柯爾") and Tianjin Greencool Factory respectively. No commission, fees or charges were paid by the Group to any persons for these guarantees.

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23. SHARE CAPITAL

	2003 & 2002	
	Number of shares '000	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.1 each	<u>5,000,000</u>	<u>500,000</u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.1 each	<u>1,000,000</u>	<u>100,000</u>
		2003 & 2002
		RMB'000
Shown in the financial statements as		<u>106,000</u>

24. SHARE OPTIONS

The Company has adopted a share option scheme (the "Option Scheme") on 28 June 2000, for the primary purpose of providing incentives to its employees. Pursuant to the Option Scheme, the board of directors of the Company may, as its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less the higher of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the closing price of the share on the Stock Exchange immediately preceding the date of grant of the options. The share options are exercisable at any time for a period to be determined by its directors, which shall not be less than three years and more than ten years from the adoption of the Option Scheme. Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1 as the nominal consideration. Unless otherwise terminated or altered, the Option Scheme will remain in force for a period of ten years from the date of adoption.

The maximum number of shares in respect of which options may be granted under the Option Scheme together with shares previously issued pursuant to options exercised under the Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Option Scheme.

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24. SHARE OPTIONS (Continued)

The financial impact of share options granted is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The following options were granted to the directors of the Company to subscribe for shares in the Company:

Name of director	Date of Grant	Exercisable period	Exercise price HK\$	Number of	Number of
				share options outstanding at 1 January 2003 and 31 December 2003	share options outstanding at 1 January 2002 and 31 December 2002
Mr. Gu	28.6.2000	28.6.2000 - 27.6.2005	2.18	10,000,000	10,000,000
Liu Cong Meng	28.6.2000	28.6.2000 - 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 - 25.9.2005	1.68	20,000,000	20,000,000
Xu Wan Ping	28.6.2000	28.6.2000 - 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 - 25.9.2005	1.68	20,000,000	20,000,000
Zhang Xi Han	28.6.2000	28.6.2000 - 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 - 25.9.2005	1.68	20,000,000	20,000,000
				80,200,000	80,200,000

None of share options were granted to other employees and none of these share options were exercised, cancelled or lapsed during the year.

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25. 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 31 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.

The capital reserve represents the difference between the fair values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued in accordance with the corporate reorganisation of the Group for listing of the Company's shares on the Stock Exchange on 13 July 2000.

	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 1 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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2003	429,961	502,621	286,296	1,218,878
Net profit for the year	–	–	8,624	8,624
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>429,961</u>	<u>502,621</u>	<u>294,920</u>	<u>1,227,502</u>

NOTES TO THE FINANCIAL STATEMENTS

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25. RESERVES (Continued)

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 RMB'000	2002 RMB'000
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>

26. RETIREMENT BENEFITS

The Group participates in the MPF Scheme pursuant to which the Group pays 5% of the salaries and wages of its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group's contributions are subject to a cap of HK\$1,000 per month for individual employee.

The Group also participates retirement schemes administered by the provincial governments of the PRC pursuant to which the Group pays 19% of the salaries and wages of its qualifying employees in the PRC. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's contributions to the MPF Scheme in Hong Kong and retirement schemes in the PRC of RMB1,569,000 (2002: RMB2,414,000) are charged to the consolidated income statement as they fall due.

27. CAPITAL COMMITMENTS

At the balance sheet date, the Group was contracted for but not provided for acquisition of property, plant and equipment amounting to approximately RMB155,000 (2002: RMB13,672,000).

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28. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	4,859	5,788	757	1,179
In the second to fifth year inclusive	1,286	1,941	9	766
	6,145	7,729	766	1,945

Operating lease payments represent rental payable by the Group and the Company for its office premises. Leases are negotiated for term from one to three years.

29. RELATED PARTY TRANSACTIONS

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

- (a) Pursuant to a purchase agreement dated 20 May 1998, a subsidiary of the Company, namely Beijing Greencool Environmental Protection Engineering Co., Ltd. ("Beijing Greencool"), appointed GCI, a company incorporated in Canada with limited liability and wholly-owned by Mr. Gu, 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 31 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 20 May 1998.

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

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29. RELATED PARTY TRANSACTIONS (Continued)

- (b) The refrigerants used by the Group ("Greencool Refrigerants") are exclusively sourced from the Tianjin Greencool Factory.

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

For the year ended 31 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 28 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 28 June 2000 entered into between a subsidiary of the Company, Mr. Gu and the Tianjin Greencool Factory, which came into effect on 31 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 31 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 (see note 13); and
- CFC-free refrigerants supplied by the Tianjin Greencool Factory to the Group for a period from 1 January 2000 to 31 December 2003 will be at pre-determined prices; and from 1 January 2004 onwards will be at prices calculated in accordance with pre-determined bases.

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29. RELATED PARTY TRANSACTIONS (Continued)

- (c) For the year ended 31 December 2003, the Group did not sell any CFC-free refrigerants to Kelon.

For the year ended 31 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 28 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 5 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 28 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 further three-year period commencing on 28 June 2003 while 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 28 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 28 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

29. RELATED PARTY TRANSACTIONS (Continued)

- (g) During the year ended 31 December 2003, 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.

30. SUBSIDIARIES

Name of company	Place of incorporation/ establishment and operations	Proportion of nominal value of issued capital/ registered capital held by the Company	Issued and fully paid share capital/ registered capital	Principal activities
Greencool Concord Holdings Limited	British Virgin Islands	100%	US\$100	Investment holding
Greencool Everrise Holdings Limited	British Virgin Islands	100%	US\$100	Investment holding
Greencool Pacific Holdings Limited	British Virgin Islands	100%*	US\$10,000	Investment holding
Greencool Technology Inc.	British Virgin Islands	100%	US\$10,000	Investment holding
GTT Assets Management Limited	British Virgin Islands	100%*	US\$100	Investment holding
SEMIRED Capital Limited	British Virgin Islands	100%*	US\$100	Investment holding
SIMOG Capital Limited	British Virgin Islands	100%*	US\$100	Investment holding
Beijing Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$12,090,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

30. SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operations	Proportion of nominal value of issued capital/ registered capital held by the Company	Issued and fully paid share capital/ registered capital	Principal activities
Beijing Greencool New Model Refrigerants Conversion Engineering Co., Ltd.	PRC	100%	HK\$10,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Greencool Environmental Protection Engineering (Shenzhen) Co., Ltd.	PRC	100%	US\$6,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Greencool Environmental Protection Engineering (Zhuhai) Co., Ltd.	PRC	100%	HK\$2,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Hainan Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$12,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Hubei Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$12,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Jiangsu Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$6,999,964	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

30. SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operations	Proportion of nominal value of issued capital/ registered capital held by the Company	Issued and fully paid share capital/ registered capital	Principal activities
Shanghai Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$5,499,994	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Tianjin Greencool Environmental Protection Engineering Co., Ltd.	PRC	100%	US\$8,400,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Wuhan Greencool Refrigerants Replacement Engineering Co., Ltd.	PRC	100%	RMB10,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Zhuhai Greencool Refrigeration Engineering Co., Ltd.	PRC	100%	HK\$2,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

* Companies directly held by the Company.

None of the subsidiaries had any debt securities outstanding at 31 December 2003 or at any time during the year.

31. COMPARATIVE FIGURES

Certain comparative figures of the consolidated cash flow statement for the year ended 31 December 2002 have been reclassified to conform with the requirements of IFRS.

FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 2003
(Expressed in thousands of Renminbi ("RMB"))

	Year ended 31 December				2003 RMB'000
	1999 RMB'000	2000 RMB'000	2001 RMB'000	2002 RMB'000	
RESULTS					
Turnover	92,827	363,897	516,330	321,420	106,834
Cost of sales and services	(34,698)	(67,724)	(105,604)	(128,524)	(45,426)
Gross profit	58,129	296,173	410,726	192,896	61,408
Other operating income	2,084	16,916	25,871	19,202	30,985
Distribution costs	(5,853)	(15,048)	(28,431)	(26,933)	(25,784)
Administrative expenses	(12,817)	(28,824)	(68,801)	(81,797)	(56,059)
Other operating expenses	(243)	–	–	–	–
Profit from operations	41,300	269,217	339,365	103,368	10,550
Finance costs	(143)	(93)	(4,430)	(6,230)	(2,517)
Profit before taxation	41,157	269,124	334,935	97,138	8,033
Taxation	–	–	(20,593)	(14,450)	591
Net profit for the year	<u>41,157</u>	<u>269,124</u>	<u>314,342</u>	<u>82,688</u>	<u>8,624</u>
		At 31 December			
		2000	2001	2002	2003
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets		1,206,459	1,429,846	1,480,255	1,511,486
Total liabilities		(66,449)	(134,592)	(155,140)	(177,914)
Net assets		<u>1,140,010</u>	<u>1,295,254</u>	<u>1,325,115</u>	<u>1,333,572</u>

Notes:

- (a) The results for the year ended 31 December 1999 were extracted from the Company's prospectus dated 5 July 2000 which have been prepared on a combined basis as if the Company and its subsidiaries had been in existence throughout this year.
- (b) The Company was incorporated on 10 January 2000. Accordingly, the only summaries of assets and liabilities of the Group that have been prepared are those set out above.