



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

First Quarterly Report 1Q/2004
For the Quarter ended 31/3/2004

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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

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

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

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This report, for which the directors of Greencool Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Greencool Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE THREE MONTHS ENDED 31 MARCH 2004

- Turnover was approximately RMB22.7 million for the three months ended 31 March 2004, representing a decrease of approximately 35% when compared with the same period in 2003
- Profit from operations was approximately RMB3.2 million, representing a decrease of approximately 45% when compared with the same period in 2003
- Earnings per share was RMB0.15 cents for the three months ended 31 March 2004

RESULTS

The board ("Board") of directors ("Directors") of Greencool Technology Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

| | | Three months ended | |
|----------------------------|--------------|---------------------------|----------------|
| | | 31 March | |
| | <i>Notes</i> | 2004 | 2003 |
| | | RMB'000 | <i>RMB'000</i> |
| Turnover | (2) | 22,675 | 34,715 |
| Cost of sales and services | | (7,365) | (11,963) |
| Gross profit | | 15,310 | 22,752 |
| Other operating income | | 5,065 | 2,182 |
| Distribution costs | | (6,110) | (6,109) |
| Administrative expenses | | (11,094) | (13,044) |
| Profit from operations | | 3,171 | 5,781 |
| Finance costs | | (1,020) | (941) |
| Profit before taxation | | 2,151 | 4,840 |
| Taxation | (3) | (691) | (737) |
| Net profit for the period | | 1,460 | 4,103 |
| Earnings per share – Basic | (4) | RMB0.15 cents | RMB0.41 cents |

Notes:

(1) Basis of presentation

The principal accounting policies adopted in preparing the unaudited consolidated results have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM.

(2) Turnover

Turnover during the relevant periods comprised the following:

| | Three months ended | |
|--------------------------------|---------------------------|---------------|
| | 31 March | |
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Conversion engineering income | 22,459 | 31,192 |
| Sales of CFC-free refrigerants | 216 | 3,523 |
| | <u>22,675</u> | <u>34,715</u> |

(3) Taxation

Taxation charge represents:

| | Three months ended | |
|---|---------------------------|------------|
| | 31 March | |
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| The People's Republic of China ("PRC") Enterprise Income Tax | <u>691</u> | <u>737</u> |

Pursuant to the relevant income tax laws of the PRC applicable to enterprises with foreign investment and foreign enterprises, the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at rates ranging from 7.5% to 15% (2003: 7.5% to 15%).

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

No provision for deferred taxation has been made in the financial statements for the three months ended 31 March 2004 (three months ended 31 March 2003: nil) as there were no significant temporary differences arising during the period or at the balance sheet date.

(4) **Earnings per share**

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

| | Three months ended | |
|--|---------------------------|-------------------------|
| | 31 March | |
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Net profit for the period for the purpose of basic earnings per share | <u>1,460</u> | <u>4,103</u> |
| | '000 | '000 |
| Weighted average number of shares for the purpose of basic earnings per share | <u>1,000,000</u> | <u>1,000,000</u> |

No diluted earnings per share for the three months ended 31 March 2004 and 2003 has been presented as the exercise price of options granted by the Company was higher than the average market price per share.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 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 2003 | 106,000 | 429,961 | 353,394 | 237 | 435,523 | 1,325,115 |
| Net profit for the period | – | – | – | – | 4,103 | 4,103 |
| At 31 March 2003 | <u>106,000</u> | <u>429,961</u> | <u>353,394</u> | <u>237</u> | <u>439,626</u> | <u>1,329,218</u> |
| At 1 January 2004 | 106,000 | 429,961 | 353,394 | 70 | 444,147 | 1,333,572 |
| Net profit for the period | – | – | – | – | 1,460 | 1,460 |
| At 31 March 2004 | <u>106,000</u> | <u>429,961</u> | <u>353,394</u> | <u>70</u> | <u>445,607</u> | <u>1,335,032</u> |

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the three months ended 31 March 2004 (three months ended 31 March 2003: nil).

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 own 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 centres, restaurants, warehouses and cold storage, supermarkets, and recreational centres in China.

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



Financial Performance

Turnover for the three months ended 31 March 2004 was approximately RMB22.7 million representing a decrease of approximately 35% when compared with the same period in 2003. Profit from operations was approximately RMB3.2 million, representing a decrease of approximately 45% when compared with the same period in 2003.

The Directors believe that seasonal factors have caused the low level of the Group's business in the first quarter of this year.

Gross profit margin increased from 66% in the three months ended 31 March 2003 to approximately 68% in the three months ended 31 March 2004.

For the first quarter ended on 31 March 2004, administrative expenses decreased to RMB11 million compared to RMB13 million in the same period of 2003 as a result of tighter control over expenses.

As a result of contraction in the Group's total turnover, profit from operations decreased by approximately 45% and net profit for the period decreased by 64% as well.

Currently, the Group's replacement and distribution businesses are mainly conducted in Beijing, Tianjin, Shanghai, Guangdong province, Hainan province and Hubei province of China through its wholly-owned subsidiaries.

Outlook

The Directors believe that, in view of current market conditions, to continue with a single line of business could be risky for the Group and the Group will make greater efforts to diversify into related businesses, 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.

DISCLOSURE OF DIRECTORS' INTERESTS

As at 31 March 2004, 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 5.46 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 sharesthen 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:

1. These are the underlying shares of the Company in respect of which an option was granted to Mr. Gu Chu Jun (details of which are set out below). The percentage was calculated on the basis of 1,000,000,000 shares in issue as at 31 March 2004.
2. These shares were held through Greencool Capital Limited, a company beneficially owned as to 100% by Mr. Gu Chu Jun.
3. Based on 1,000,000,000 shares in issue as at 31 March 2004.

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 | Period | Outstanding number of share options at 1 January 2004 and 31 March 2004 |
|------------------|---------------|------------------------------|--------------------------|------------------------|---|
| 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 2004 and remained outstanding as at 31 March 2004. None of the above options were exercised, cancelled or lapsed during the three months ended 31 March 2004. 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 pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, 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 herein, no other person (other than a director or chief executive of the Company) has an interest or a short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTEREST

The refrigerants used by the Group are exclusively sourced from Greencool Refrigerant (China) Co., Ltd. ("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.

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 GEM Listing Rules as long as Mr. Gu remains a connected person of the Company (as defined under 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 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 for and was granted by the Stock Exchange waivers from strict compliance with the relevant requirements of 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 for the three months ended 31 March 2004 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 Ordinance (Chapter 333 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 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 in China; and/or (b) any other business in China that is similar to any member of the Group as described in the Company's prospectus dated 5 July 2000.

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 had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest with the Group in the PRC.

AUDIT COMMITTEE

The Company established an audit committee in 2000 with written terms of reference in compliance with the GEM Listing Rules at that time. The audit committee's terms of reference has been reviewed by reference to the new GEM Listing Rules which came into effect on 31 March 2004 and the Company must comply with the new GEM Listing Rules by 30 September 2004. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee until the Company's compliance with changes in the GEM Listing Rules comprises Mr. Fan Jia Yan (who is acting as the chairman of the audit committee) and Ms. Man Margaret, the two independent non-executive Directors and Mr. Hu Xiao Hui, an executive Director.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period from 1 January 2004 to 31 March 2004.

BOARD PRACTICES AND PROCEDURES

For the three months ended 31 March 2004, the Company was in compliance with the Board Practices and Procedures as then set out in the GEM Listing Rules.

ANNUAL GENERAL MEETING

In the Company's annual general meeting held on 30 April 2004, the following resolutions were passed:

1. The audited financial statements for the year ended 31 December 2003 together with the Directors' and Auditors' reports were received and adopted.
2. Two directors, namely Ms. Margaret Man and Mr. Hu Xiao Hui, of the Company were required to retire by rotation pursuant to the Company's articles of association and they offered themselves for re-election and were re-elected. In addition, the Board of Directors was authorized to fix the remuneration of the directors.
3. Messrs. Deloitte Touche Tohmatsu was re-appointed the auditors of the Company until the conclusion of the next annual general meeting at a remuneration to be agreed by the Board of Directors.
4. Ordinary resolution no. 4 as set out in the Notice of Annual General Meeting dated 1 April 2004 (To grant a general mandate to the directors to allot and issue new shares) was approved.
5. Ordinary resolution no. 5 as set out in the Notice of Annual General Meeting dated 1 April 2004 (To grant a general mandate to the directors to repurchase shares of the Company) was approved.
6. Ordinary resolution no. 6 as set out in the Notice of Annual General Meeting dated 1 April 2004 (To extend the general mandate to the directors to issue new shares) was approved.

Special resolution set out as item 7 in the Notice of Annual General Meeting dated 1 April 2004 was approved (to amend the articles of association of the Company).

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

Hong Kong, 13 May 2004