



GREENCOOL TECHNOLOGY HOLDINGS LIMITED

格林柯爾科技控股有限公司*

(incorporated in Cayman Islands with limited liability)

(Stock code: 8056)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2004

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This announcement, for which the directors (the “Directors”) of Greencool Technology Holdings Limited (the “Company”) 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

- Turnover was approximately RMB57 million for the six months ended 30 June 2004, representing an increase of approximately 6% when compared with the same period in 2003.
- Profit from operations was approximately RMB10.3 million, representing an increase of approximately 63% when compared with the same period in 2003
- Basic earnings per share was RMB0.6 cent for the six months ended 30 June 2004

RESULTS

The Board of Directors (the “Board” or “Directors”) of Greencool Technology Holdings Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months and three months ended 30 June 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the six months ended 30 June		For the three months ended 30 June	
		2004 <i>RMB'000</i> <i>(unaudited)</i>	2003 <i>RMB'000</i> <i>(unaudited)</i>	2004 <i>RMB'000</i> <i>(unaudited)</i>	2003 <i>RMB'000</i> <i>(unaudited)</i>
Turnover	(3)	56,939	53,594	34,264	18,879
Cost of sales and services		(16,096)	(15,883)	(8,731)	(3,920)
Gross profit		40,843	37,711	25,533	14,959
Other operating income/ (expenses)		3,547	6,184	(1,518)	4,002
Distribution costs		(11,800)	(12,359)	(5,690)	(6,250)
Administrative expenses		(22,308)	(25,243)	(11,214)	(12,199)
Profit from operations		10,282	6,293	7,111	512
Finance costs		(2,009)	(1,478)	(989)	(537)
Profit (loss) before taxation	(4)	8,273	4,815	6,122	(25)
Taxation (charge) credit	(5)	(2,240)	187	(1,549)	924
Net profit for the period		<u>6,033</u>	<u>5,002</u>	<u>4,573</u>	<u>899</u>
Dividends	(6)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share – Basic	(7)	<u>RMB0.60 cent</u>	RMB0.50 cent	<u>RMB0.45 cent</u>	RMB0.09 cent

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	At 30 June 2004 <i>RMB'000</i> <i>(unaudited)</i>	At 31 December 2003 <i>RMB'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment	(8)	41,209	44,218
Intangible asset		126,000	132,000
		<u>167,209</u>	<u>176,218</u>
Current assets			
Inventories		119,716	129,920
Trade receivables	(9)	35,739	17,095
Deposits, prepayments and other receivables		13,501	12,672
Investment securities		11,900	14,577
Amounts due from related parties		–	238
Pledged bank deposits		46,797	46,206
Bank balances and cash		1,123,593	1,114,560
		<u>1,351,246</u>	<u>1,335,268</u>
Current liabilities			
Other payables and accrued charges		93,476	77,241
Amounts due to related parties		6,389	16,658
Taxation payables		2,985	9,015
Bank loans		76,000	75,000
		<u>178,850</u>	<u>177,914</u>
Net current assets		<u>1,172,396</u>	<u>1,157,354</u>
Net assets		<u>1,339,605</u>	<u>1,333,572</u>
Capital and reserves			
Share capital		106,000	106,000
Reserves		1,233,605	1,227,572
Shareholders' funds		<u>1,339,605</u>	<u>1,333,572</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(For the six months ended 30 June 2004)*

	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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,002</u>	<u>5,002</u>
At 30 June 2003	106,000	429,961	353,394	237	440,525	1,330,117
Currency realignment not recognised in the consolidated income statement	—	—	—	(167)	—	(167)
Net profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,622</u>	<u>3,622</u>
At 31 December 2003 and at 1 January 2004	106,000	429,961	353,394	70	444,147	1,333,572
Net profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,033</u>	<u>6,033</u>
At 30 June 2004	<u>106,000</u>	<u>429,961</u>	<u>353,394</u>	<u>70</u>	<u>450,180</u>	<u>1,339,605</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	3,576	25,373
Net cash from investing activities	4,457	3,634
Net cash from financing activities	1,000	—
Net increase in cash and cash equivalents	9,033	29,007
Cash and cash equivalents at 1 January	1,114,560	963,033
Cash and cash equivalents at 30 June	1,123,593	992,040

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(For the six months ended 30 June 2004)

(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.

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.

(2) Basis of preparation and accounting policies

The condensed financial statements have been prepared under the historic cost convention, except for the revaluation of investment securities, and in accordance with International Financial Reporting Standard ("IFRS") 34 "Interim financial reporting". The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

(3) Turnover and segment information

An analysis of the Group's turnover is as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Conversion engineering income	56,351	47,406	33,892	16,214
Sale of chlorofluorocarbon ("CFC") -free refrigerants	588	6,188	372	2,665
	<u>56,939</u>	<u>53,594</u>	<u>34,264</u>	<u>18,879</u>

Business segments

The Group's turnover and net profit for the period are almost entirely derived from the conversion engineering of large-scale 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.

Geographical segments

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

(4) Profit (loss) before taxation

	For the six months ended 30 June		For the three months ended 30 June	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Profit (loss) before taxation has been arrived at after charging:				
Amortisation of intangible asset	6,000	6,000	3,000	3,000
Cost of inventories	10,793	10,018	5,917	3,228
Depreciation	3,485	2,964	1,825	1,632
Interest on borrowings wholly repayable within five years	1,889	1,472	977	530
and after crediting:				
Interest income from banks	5,524	3,658	3,365	1,579
Unrealised holding (loss) gain on investment securities	(2,677)	2,423	5,488	2,423

(5) Taxation (charge) credit

Taxation (charge) credit comprises:

	For the six months ended 30 June		For the three months ended 30 June	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
PRC Enterprise Income Tax				
Current period	(2,240)	(1,086)	(1,549)	(349)
Overprovision in prior year	—	1,273	—	1,273
	<u>(2,240)</u>	<u>187</u>	<u>(1,549)</u>	<u>924</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%). 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, a PRC subsidiary 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 operation. The tax exemption and reduction were fully utilised as this subsidiary began its seventh profitable year in current period.

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.

No provision for deferred taxation has been made in the financial statements as there were no significant timing differences arising during the period or at the balance sheet date.

(6) **Dividends**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2004.

No interim dividend and no final dividend was declared for the six months ended 30 June 2003 and for the year ended 31 December 2003 respectively.

(7) **Earnings per share**

The calculation of the basic and diluted earnings per share for the six months and three months ended 30 June 2004 and 2003 is based on the following data:

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>RMB6,033,000</u>	<u>RMB5,002,000</u>	<u>RMB4,573,000</u>	<u>RMB899,000</u>
Weighted average number of shares for the purpose of basic earnings per share	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000,000</u>

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

(8) **Property, plant and equipment**

During the period under review, the Group spent approximately RMB476,000 (1 January 2003 to 31 December 2003: RMB2,293,000) on acquisition of property, plant and equipment.

(9) **Trade receivables**

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Within 90 days	16,269	13,229
Between 91 to 180 days	12,667	3,382
Between 181 to 365 days	7,204	862
Over 365 days	2,791	2,814
	<u>38,931</u>	<u>20,287</u>
Less: Allowance for doubtful debts	<u>(3,192)</u>	<u>(3,192)</u>
	<u>35,739</u>	<u>17,095</u>

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

(10) Related party transactions

- (a) Greencool Refrigerant (China) Co., Ltd (“Tianjin Greencool Factory”) is controlled by Mr. Gu Chu Jun (“Mr. Gu”), the Chairman and ultimate majority shareholder of the Company.

All the CFC-free refrigerants used by the Group were purchased from Tianjin Greencool Factory which has been the Group’s sole supplier of refrigerants since 1999. The patent of the CFC-free refrigerants manufactured by Tianjin Greencool Factory is owned by Mr. Gu.

Pursuant to an exclusive distribution agreement dated 28 June 2000 recording the arrangements 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 financial statements as an intangible asset; and
- CFC-free refrigerants supplied by Tianjin Greencool Factory to the Group for the 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.

During the six months and three months ended 30 June 2004 and for the same period in 2003, the Group did not purchase any CFC-free refrigerants from the Tianjin Greencool Factory.

- (b) 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, at the date of issue of the Company’s prospectus upon listing dated 5 July 2000, was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option (as amended) can be exercisable solely at the discretion of the Company during the period ending 27 June 2006, at a price which is equivalent to 80% 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.

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 six months ended 30 June 2004 was approximately RMB57 million, representing an increase of approximately 6% when compared with the same period in 2003. Profit from operations was approximately RMB10.3 million, representing an increase of approximately 63% when compared with the corresponding period in 2003.

Gross profit margin was approximately 72% for the six months ended 30 June 2004.

For the first half of 2004, administrative expenses decreased to around RMB22 million compared to RMB25 million in the same period of 2003 due to tighter cost control.

Market coverage

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

Liquidity and financial resources

The Group maintained a very strong financial position with approximately RMB1,340 million shareholders' equity as at 30 June 2004 (31 December 2003: RMB1,334 million) and approximately RMB1,214 million net tangible assets (31 December 2003: RMB1,202 million).

As at 30 June 2004, the Group had a total of RMB1,124 million (31 December 2003: RMB1,115 million) cash and bank deposits that represented approximately 84% (31 December 2003: 84%) of shareholders' equity. Cash and bank deposits are usually treated as liquid assets.

As at 30 June 2004, the net current assets (representing total current assets less total current liabilities) amounted to approximately RMB1,172 million (31 December 2003: RMB1,157 million) and represented approximately 87% (31 December 2003: 87%) of shareholders' equity.

Short term borrowings and gearing ratio

As at 30 June 2004, the Group's short-term bank loans amounted RMB76,000,000 (31 December 2003: RMB75,000,000) which are repayable within one year. The Group's gearing ratio, measured in terms of total bank loans divided by shareholders' funds, was 5.7% as at 30 June 2004 (31 December 2003: 5.6%).

Trade receivables

By 30 June 2004, the total gross trade receivables amounted to approximately RMB39 million (31 December 2003: RMB20 million).

The management notes that around 7% of gross trade receivables are with age over 365 days. The marketing and sales staff and our management have reviewed the credit worthiness of all customers relating to receivables over 365 days old 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 8% of the total gross trade receivables as of 30 June 2004. The Group will continuously monitor credit control and strengthen debt collection procedures in order to protect the interest of the Company and the shareholders.

Contingent liabilities

As at 30 June 2004, the Group had no significant contingent liabilities.

Exposure to fluctuation of Foreign Exchange Rates

The Directors believe that the Group does not have material exposure to fluctuation of foreign exchange rates because majority of the Group's assets, liabilities, revenue and expenses are denominated in currency of RMB and the reporting currency of the Group is also in RMB.

Moreover, as at 30 June 2004, the Group had some bank deposits in foreign currencies, mainly in Hong Kong dollars. The exchange rate of Hong Kong dollars against RMB was also stable throughout the period under review.

As at 30 June 2004, the Group did not have any material liabilities in foreign currencies.

Cost of sales and services

The Group's cost of sales and services relates mainly to the cost of Greencool Refrigerants purchased from Tianjin Greencool Factory.

Distribution costs

Distribution costs represented mainly amortisation of an intangible asset of RMB6 million for half a year and sales commission.

Administrative expenses

Administrative expenses amounted to RMB22 million for the 6 months ended 30 June 2004 compared to RMB25 million in the same period in 2003.

Administrative expenses include mainly operating lease rentals, depreciation, staff costs, traveling expenses, and others.

Human Resources

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 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 scheme 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.

Outlook

As the directors mentioned in previous announcements, the Group will consider entering into the refrigeration-related manufacturing business. The Group has, on 6 August 2004, entered into an agreement for the acquisition of certain assets and facilities which could be used for production of refrigeration/freezing trucks in Henan province, the PRC.

The directors believe that acquisition of such assets and facilities will provide opportunity of diversification of existing business and also new areas of profit growth.

This acquisition constitutes a discloseable transaction of the Company. The Company will comply with the requirement of GEM Listing Rules for such kind of transaction.

This acquisition would enable the Group to diversify its existing business into manufacturing of refrigeration trucks and thereby providing more integration to the Group's existing conversion engineering business and distribution business of Greencool Refrigerants.

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

DISCLOSURE OF DIRECTORS' INTERESTS

As at 30 June 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 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:

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 30 June 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 30 June 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 30 June 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					80,200,000

The abovementioned options were outstanding as at 1 January 2004 and remained outstanding as at 30 June 2004. None of the above options were exercised, cancelled or lapsed during the six months ended 30 June 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 30 June 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 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 six months ended 30 June 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 amendments for GEM Listing Rules which came into effect on 31 March 2004 and the Company must comply with the new amendments for 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 30 June 2004.

BOARD PRACTICES AND PROCEDURES

For the six months ended 30 June 2004, the Company was in compliance with Rules 5.34 to 5.45 of GEM Listing Rules concerning the board practices and procedures.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry of all Directors, the Directors have complied with the required standard of dealings and the Company's code of conduct regarding directors' securities transactions.

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

Hong Kong, 12 August 2004

As at the date of this announcement, the board of directors of the Company comprises six executive directors, being Mr. Gu Chu Ju, Mr. Hu Xiao Hui, Mr. Zhang Xi Han, Mr. Liu Cong Meng, Mr. Xu Wan Ping and Mr. Chen Chang Bei and two independent non-executive Directors Mr. Fan Jia Yan and Ms. Margaret Man.

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