



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)

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2004

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

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

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

* For identification purposes only

HIGHLIGHTS FOR THE TWELVE MONTH PERIOD

- Turnover achieved approximately RMB184.8 million for the twelve months ended 31st December 2004, representing a increase of approximately 73 per cent. as compared with the same period in 2003
- Although profit from operations remained largely unchanged when compared with 2003, net profit for the year, after taking into account the release of discount on an acquisitions, increased to approximately RMB16.6 million, representing an approximately 93 per cent. increase compared with the same period of 2003
- No final dividend is proposed

CHAIRMAN'S STATEMENT

Greencool has achieved milestone development in 2004. It has effectively diversified its business risk and expanded its revenue streams.

During the year, the Group recorded an audited turnover of approximately RMB184.8 million, up 73.0% as compared with 2003. Although profit from operations remained largely unchanged when compared with 2003, net profit for the year, after taking into account the release of discount on an acquisition to approximately RMB16.6 million, representing an approximately 93% increase compared with the same period of 2003. The release of discount on acquisition, which amounted to RMB14.9 million, arising from the acquisition of refrigeration truck manufacturing and production facilities and machineries in 2004.

Despite having to weather the negative impact of the Severe Acute Respiratory Syndrome ("SARS") outbreak in 2003, the Group achieved a breakthrough by expanding its investment into the refrigeration-related manufacturing business. In August 2004, the Group acquired assets for manufacturing refrigeration trucks from Shang Qiu Bing Xiong Refrigeration Equipment Corporation Limited. The sale of refrigeration trucks brought immediate income for the Group, contributing to 36.0% of the Group's turnover for the year. This strategic acquisition not only complemented the Group's existing conversion engineering and distribution businesses, but also enabled the Group to achieve a broader and more stable income base for long-term development. Further investment in other refrigeration-related manufacturing businesses would be considered as and such when opportunities arise.

Conversion engineering business continued to be the Group's core revenue generator during the year, accounting for 52.0% of the Group's turnover. The remaining 12.0% turnover came from the distribution business. The Group will continue to leverage its expertise in these sectors to strive for better operating results.

The growing PRC economy with the population in general pursuing a higher quality of life presents tremendous prospects for the environmental protection industry. With its strong financial standing and solid foundations in the refrigeration industry and its vision to build a CFC-free China, the Group is dedicated to offering high quality services products to its customers. More stringent internal controls will also be put into place to improve the Group's corporate governance standards.

Finally, I would like to express my gratitude to all of our directors, the management and our staff for their contribution in the past year. On behalf of the board of directors, I would also like to take this opportunity to thank our shareholders who have given us their continuous support. We will continue to devote every effort in furthering the Group's earnings capacity and thus the shareholders' value.

RESULTS

The board ("Board") of directors ("Directors") of Greencool Technology Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2004 together with the comparative audited figures for the corresponding periods in 2003 as follows:

Consolidated Income Statement For the year ended 31st December

	Notes	2004 RMB'000	2003 RMB'000
Turnover	2	184,845	106,834
Cost of sales and services		(100,340)	(45,426)
Gross profit		84,505	61,408
Other operating income		12,138	30,985
Distribution costs		(24,904)	(25,784)
Administrative expenses		(61,148)	(56,059)
Profit from operations	4	10,591	10,550
Release of discount on acquisition		14,862	–
Finance costs	5	(3,572)	(2,517)
Profit before taxation		21,881	8,033
Taxation	6	(5,260)	591
Net profit for the year		<u>16,621</u>	<u>8,624</u>
Dividends		<u>–</u>	<u>–</u>
Earnings per share – basic	7	<u>RMB1.7 cents</u>	<u>RMB0.9 cent</u>

Consolidated Balance Sheet

At 31st December

		2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		264,735	44,218
Intangible asset		120,000	132,000
		<u>384,735</u>	<u>176,218</u>
Current assets			
Inventories	8	117,523	129,920
Trade receivables	9	30,439	17,095
Deposits, prepayments and other receivables		15,389	12,672
Investment securities		6,617	14,577
Amounts due from related companies	11	22	238
Pledged bank deposits		25,939	46,206
Bank balances and cash		977,729	1,114,560
		<u>1,173,658</u>	<u>1,335,268</u>
Current liabilities			
Trade payables		27,029	–
Other payables and accrued charges		120,273	77,241
Amounts due to related companies	12	16,996	16,658
Taxation payables		13,240	9,015
Bank loans	13	24,000	75,000
		<u>201,538</u>	<u>177,914</u>
Net current assets		<u>972,120</u>	<u>1,157,354</u>
Net assets		<u>1,356,855</u>	<u>1,333,572</u>
Capital and reserves			
Share capital		106,000	106,000
Reserves		1,244,193	1,227,572
Shareholders' funds		<u>1,350,193</u>	<u>1,333,572</u>
Non current liability			
Deferred tax liability		6,662	–
		<u>1,356,855</u>	<u>1,333,572</u>

Consolidated Statement of Changes in Equity

For the year ended 31st December 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 1st January 2003	106,000	429,961	353,394	237	435,523	1,325,115
Currency realignment not recognised in the consolidated income statement	-	-	-	(167)	-	(167)
Net profit for the year	-	-	-	-	8,624	8,624
At 1st January 2004	106,000	429,961	353,394	70	444,147	1,333,572
Net profit for the year	-	-	-	-	16,621	16,621
At 31st December 2004	<u>106,000</u>	<u>429,961</u>	<u>353,394</u>	<u>70</u>	<u>460,768</u>	<u>1,350,193</u>

Consolidated Cash Flow Statement
For the year ended 31st December

	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	21,881	8,033
Adjustments for:		
Interest income	(11,415)	(10,841)
Interest expense	3,572	2,517
Depreciation	10,619	8,848
Amortisation of intangible asset	12,000	12,000
Allowance for doubtful debts of trade receivables	834	761
Allowance for doubtful debts of other receivables	527	–
Gain on disposal of investment securities	(123)	–
Discount on acquisition released to income	(14,862)	–
Unrealised holding loss (gain) on investment securities	6,983	(10,183)
Loss on disposal of property, plant and equipment	–	330
Write-back of allowance for bad debts	(328)	(4,868)
Operating cash flows before movements in working capital	29,688	6,597
Decrease in inventories	31,216	28,854
(Increase) decrease in trade receivables	(5,770)	39,712
(Increase) decrease in deposits, prepayments and other receivables	(2,272)	1,379
Decrease in amounts due from related companies	216	786
Increase in trade payables	7,368	–
(Decrease) increase in other payables and accrued charges	(2,526)	19,830
Increase (decrease) in amounts due to related companies	338	(344)
Net cash generated from operations	58,258	96,814
Interest paid	(3,572)	(2,517)
PRC Enterprise Income Tax paid	(1,693)	(3,121)
NET CASH GENERATED FROM OPERATING ACTIVITIES	52,993	91,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	11,415	10,841
Acquisition of a business	(154,168)	–
Purchase of property, plant and equipment	(17,438)	(2,293)
Decrease (increase) in pledged bank deposits	20,267	(23,030)
Proceeds on disposal of investment securities	1,100	–
NET CASH USED IN INVESTING ACTIVITIES	(138,824)	(14,482)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of bank loans	(75,000)	(41,000)
Bank loans raised	24,000	48,000
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	(51,000)	7,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(136,831)	83,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,114,560	1,031,033
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(167)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	977,729	1,114,560
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	977,729	1,114,560

Notes:

(1) Basis of presentation

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

For the year ended 31 December, 2004 the Group has adopted, for the first time, the accounting treatment of IFRS 3 “Business combinations” to business combinations for which the agreement date is on or after 31 March 2004 and has also adopted, for the first time, International Accounting Standard (“IAS”) 36 (Revised) “Impairment of assets” and IAS 38 (Revised) “Intangible assets” for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after 31 March 2004. For business combinations which the agreement date was before 31 March 2004, goodwill arising on those acquisitions is accounted for in accordance with IAS 22 “Business Combinations”. Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the fair value of identifiable assets and liabilities of a subsidiary at the date of acquisition and is stated at cost less accumulated amortisation and accumulated impairment losses. IFRS 3 required goodwill arising from acquisitions to be determined as the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities on the date of acquisition and is measured after initial recognition of cost less accumulated impairment losses. Under IFRS 3, goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

If the acquirer’s interest in the fair values of the assets, liabilities and contingent liabilities exceed the cost of acquisition (discount on acquisition), the acquirer should reassess the fair values determined, and the measurement of the cost of acquisition. Having reassessed this information any excess remaining is recognised immediately in profit or loss for the period.

The adoption of IFRS 3, IAS 36 (Revised) and IAS 38 (Revised) have had no material effect on the prior accounting period. Accordingly, no prior period adjustment has been made.

(2) Turnover

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

	2004 <i>RMB’000</i>	2003 <i>RMB’000</i>
Conversion engineering income	96,067	86,445
Sales of refrigeration trucks and parts	66,531	–
Sales of chlorofluorocarbon (“CFC”) free refrigerants	17,220	18,282
Agency entering fees	5,027	2,107
	<u>184,845</u>	<u>106,834</u>

(3) Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into two main operating divisions - provision of engineering services and sale of CFC-free refrigerants, as well as manufacture and sale of refrigeration trucks.

In prior years, the Group’s turnover and net profit for the year were 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 were related and were subject to common risks and returns.

Segment information about these business for the year ended 31 December 2004 is presented below:

(i) *Income statement*

	Provision of engineering services and sale of CFC-free refrigerants RMB'000	Manufacture and sale of refrigeration trucks RMB'000	Consolidated RMB'000
TURNOVER	<u>118,314</u>	<u>66,531</u>	<u>184,845</u>
RESULT			
Segment result	<u>32,814</u>	<u>3,799</u>	36,613
Unallocated corporate expenses			<u>(26,022)</u>
Profit from operations			10,591
Release of discount on acquisition	–	14,862	14,862
Finance costs			<u>(3,572)</u>
Profit before taxation			21,881
Taxation			<u>(5,260)</u>
Net profit for the year			<u>16,621</u>

(ii) *Balance sheet*

	Provision of engineering services and sale of CFC-free refrigerants RMB'000	Manufacture and sale of refrigeration trucks RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	280,346	260,691	541,037
Unallocated corporate assets			<u>1,017,382</u>
Consolidated total assets			<u>1,558,419</u>
LIABILITIES			
Segment liabilities	70,247	75,165	145,412
Unallocated corporate liabilities			<u>62,814</u>
Consolidated total liabilities			<u>208,226</u>

(iii) *Other information*

	Provision of engineering services and sale of CFC-free refrigerants	Manufacture and sale of refrigeration trucks	Others	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions of property, plant and equipment	1,511	229,618	7	231,136
Depreciation	7,480	2,733	406	10,619
Amortisation of intangible assets	12,000	–	–	12,000
Net allowance for doubtful debts	<u>506</u>	<u>–</u>	<u>527</u>	<u>1,033</u>

Geographical segment

The Group's operations and assets are primarily located in the PRC where it sources its revenue. Accordingly, no geographical segment information is presented.

(4) Profit from operations

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Allowance for doubtful debts	834	761
Allowance for doubtful debts of other receivables	527	–
Amortisation of intangible asset, included in distribution costs	12,000	12,000
Auditors' remuneration	1,590	1,198
Cost of inventories	82,881	23,477
Depreciation	10,619	8,848
Loss on disposal of property, plant and equipment	–	330
Minimum lease payments under operating leases in respect of office premises	7,551	10,249
Staff costs, including directors' remuneration	35,235	35,707
Unrealised holding loss on investment securities	6,983	–
Write-back of allowance for bad debt	328	–

Note: As at 31st December 2004, the Group has approximately 1,050 (2003: 700) employees.

(5) Finance costs

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	<u>3,572</u>	<u>2,517</u>

(6) **Taxation**

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
PRC Enterprise Income Tax (credit) charge		
– Current year	5,918	3,863
– Overprovision in prior years	–	(4,454)
	5,918	(591)
Deferred tax credit	(658)	–
	5,260	(591)

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

The income tax rate for one of the Group's PRC subsidiaries is 33%.

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

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	21,881	8,033
Tax rates of 15% applicable to the Group's subsidiaries in the PRC (2003: 15%)	3,282	1,205
Tax effect of expenses not deductible for tax purpose	3,051	6,468
Tax effect of income not taxable for tax purpose	(2,323)	(677)
Over-provision in respect of prior year	–	(4,454)
Tax effect of tax losses not recognised	3,359	3,213
Tax effect of different tax rates of subsidiaries	400	–
Tax benefit arising from the relevant income tax laws of the PRC applicable to foreign investment enterprises in the PRC	(2,375)	(6,340)
Others	(134)	(6)
Taxation charge (credit) to the consolidated income statement	5,260	(591)

(7) **Earnings per share**

The calculation of the basic earnings per share is based on the net profit for the year of RMB16,621,000 (2003: RMB8,624,000) and on 1,000,000,000 shares (2003: 1,000,000,000 shares) outstanding during the year.

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares in issue in both years.

(8) Inventories

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Raw materials	6,469	–
Work in progress	4,280	–
Finished goods of refrigeration trucks	5,396	–
Finished goods of CFC-free refrigerants for sale and installation	101,378	129,920
	<u>117,523</u>	<u>129,920</u>

At the balance sheet date, all of the inventories are carried at cost.

(9) Trade receivables

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within 90 days	20,997	13,229
Between 90 to 180 days	7,405	3,382
Between 181 days to 365 days	2,612	862
Over 365 days	3,123	2,814
	<u>34,137</u>	<u>20,287</u>
<i>Less: Allowance for doubtful debts</i>	<u>(3,698)</u>	<u>(3,192)</u>
	<u>30,439</u>	<u>17,095</u>

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.

(10) Related party transactions

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

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

For the years ended 31st December 2004 and 31st December 2003, the Group did not purchase any Greencool Refrigerants from the Tianjin Greencool Factory.

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

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

- the Group is granted an exclusive distribution right (the “Exclusive Distribution Right”) in the PRC of CFC-free refrigerants manufactured by the Tianjin Greencool Factory for 20 years commencing from 31st December 1999;
 - the cost of the Exclusive Distribution Right was determined by the three parties to be RMB180,000,000, and has been reflected in the financial statements as an intangible asset; and
 - CFC-free refrigerants supplied by the Tianjin Greencool Factory to the Group for a period from 1st January 2000 to 31st December 2003 will be at pre-determined prices; and from 1st January 2004 onwards will be at prices calculated in accordance with pre-determined bases.
- (b) On 28th June 2000, Mr. Gu granted, in consideration of HK\$10, the Company an option (the “Tianjin Option”) to purchase all of his interest in the Tianjin Greencool Factory which, as at the date of issue of the Company’s prospectus upon listing dated 5th July 2000 (the “Prospectus”), was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option can be exercised solely at the discretion of the Company during the three-year period commencing on 28th June 2000, being the date of the relevant deed of option, at a price which is equivalent to 80 per cent. of Mr. Gu’s interest in the Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company, but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with IFRS) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable. Both Mr. Gu and Tianjiu Greencool Factory have agreed to extend the option period for a further three year period commencing as 28 June 2003 while all other terms of the Tianjiu Option remain unchanged.
- (c) Pursuant to a trademark licensing agreement entered between the Company and Greencool Thermo-Tech Holdings Limited dated 28th June 2000, Greencool Thermo-Tech Holdings Limited also agreed to grant the Company a licence to use the trademarks (as listed in paragraph 8 of Appendix V of the Prospectus) in the two registered classes in the PRC upon its acquisition of the same for nil consideration for a period of ten years commencing 28th June 2000.
- (d) During the year ended 31st December 2004, Kelon collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of the Group from 50 (2003: 1,050) authorised engineering units of the Group. No handling fee was paid by the Group to Kelon for the year ended 31 December 2004. During the year ended 31 December 2003, the Group paid a handling fee of RMB1,575,000 to Kelon in this regard. Mr. Gu ultimately has an equity of approximately 26.43% interest in Kelon.
- (e) During the year ended 31st December 2003, 江西格林柯爾實業發展有限公司 (“江西格林柯爾”) and Tianjin Greencool Factory executed corporate guarantees to banks to secure loans amounted to RMB20,000,000 and RMB12,000,000 respectively, granted to the Group. No commission, fees or charges were paid to any persons in respect of these guarantees. Mr. Gu has an equity interest in 江西格林柯爾 and Tianjin Greencool Factory.

(11) Amounts due from related companies

Name of related companies	The Group	
	2004 RMB'000	2003 RMB'000
Kelon	22	26
Tianjin Greencool Factory	–	49
洋浦格林柯爾製冷劑有限公司	–	163
	<u>22</u>	<u>238</u>

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.

(12) Amounts due to related companies

Name of related companies	The Group	
	2004 RMB'000	2003 RMB'000
Greencool Canada Inc. (“GCI”)	15,163	15,163
Tianjin Greencool Factory	1,833	–
格林柯爾科技(深圳)發展有限公司	–	1,495
	<u>16,996</u>	<u>16,658</u>

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

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

(13) Bank loans

All of the Group’s borrowings are in Renminbi, and carry interest at 4.78% (2003: 4.78%-5.31%) per annum.

At 31 December 2004, the Group’s bank loans of RMB24,000,000 (2003: RMB43,000,000) were secured by pledged bank deposits of approximately RMB25,939,000 (2003: RMB45,726,000). At 31 December 2003, the remaining bank loans of RMB32,000,000 were unsecured.

At 31 December 2003, included in the unsecured bank loans, RMB20,000,000 and RMB12,000,000 are corporate guaranteed by 江西格林柯爾實業發展有限公司 and Tianjin Greencool Factory respectively. No commission, fees or charges were paid by the Group to any persons for these guarantees.

DIVIDENDS

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

RESERVES

THE GROUP

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

The staff and workers' bonus and welfare fund can only be utilised for special bonuses or collective welfare of the employees of the individual PRC subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31st December 2004, the reserve funds, included in accumulated profits, amounted to approximately RMB84,739,000 (2003: 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 of Hong Kong Limited 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 1st January 2003	429,961	502,621	286,296	1,218,878
Net profit for the year	—	—	8,624	8,624
At 1st January 2004	429,961	502,621	294,920	1,227,502
Net profit for the year	—	—	16,621	16,621
At 31st December 2004	<u>429,961</u>	<u>502,621</u>	<u>311,541</u>	<u>1,244,123</u>

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

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

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Share premium	429,961	429,961
Capital reserve	502,621	502,621
Accumulated profits	311,541	294,920
	<hr/>	<hr/>
	1,244,123	1,227,502
	<hr/> <hr/>	<hr/> <hr/>

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 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 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).

In August 2004, the Group acquired assets for manufacturing refrigeration trucks in Henan Province. The strategic acquisition not only complemented the Group's conversion engineering and distribution businesses, but also enabled the Group to achieve a broaden and more stable income base for long-term development.

Financial Performance

Turnover for the year ended 31 December 2004 was approximately RMB185 million, representing an increase of approximately 73% when compared with the same period in 2003.

The Group's total turnover mainly comprised approximately RMB96 million from conversion engineering income, RMB 66 million from sales of refrigeration trucks and parts, RMB17 million from sales of CFC-free refrigerants, and RMB5 million from agency entering fees.

Profit from operations was approximately RMB11 million which is similar to the profit level in the corresponding period in 2003.

Gross profit margin was approximately 46% for the year ended 31 December 2004 compared to 57% for the year ended 31 December 2003. The decrease was mainly due to the relative lower profit margin of the new business, manufacturing and sales of refrigeration trucks.

In 2004, administrative expenses increased to around RMB61 million compared to RMB56 million in the same period of 2003 mainly as a result of expansion of business.

Although profit from operations remained largely unchanged when compared to 2003 net profit rose by 92.7% to approximately RMB16.6 million, after taking into account the release of discount on acquisition of assets and liabilities, which amounted to RMB14.9 million, relating to refrigeration truck manufacturing and production facilities and machineries.

Outlook

Greencool Refrigerants are recognized by the State Environmental Protection Administration of China as environmental friendly products. The Directors believe that Greencool Refrigerants should play an important role in ozone layer protection projects. With the possible improvement caused by the energy saving features of Greencool Refrigerants, the management would continue to persuade manufacturers of refrigeration and air-conditioning systems to use Greencool Refrigerants in their products.

In August 2004, the Group acquired assets for manufacturing refrigeration trucks in Henan province. This strategic acquisition not only complemented the Group's existing conversion engineering and distribution business, but also empowered the Group with a broadened and stable income base for long-term development. In fact, the integration of business of refrigeration trucks contributed positively to the Group's turnover and profit. The business is forecasted to continue growing in coming one year.

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 RMB1,350 million shareholders' fund as at 31st December 2004 (2003: RMB1,334 million) and RMB1,237 million net tangible assets (2003: 1,200 million).

As at 31st December 2004, the Group had a total of approximately RMB1,003 million (2003: RMB1,161 million) cash and bank deposits, of which approximately RMB26 million (2003: RMB46 million) were pledged bank deposits, that represented approximately 74% (2003: 87%) of shareholders' fund. Cash and bank deposits are usually treated as liquid assets.

As at 31st December 2004, the net current assets (representing total current assets less total current liabilities) amounted to approximately RMB972 million (2003: RMB1,157 million) represented 72% (2003: 87%) of shareholders' fund.

Short term borrowings and gearing ratio

As of 31st December 2004, the Group's short-term bank loans amounted to approximately RMB24 million. These bank loans bore interest at 4.78% (2003: 4.78%-5.31%) per annum and are repayable within one year.

The Group's gearing ratio, measured in terms of total bank borrowings divided by shareholders fund, was 1.78% as at 31st December 2004 (2003: 5.62%). As of 31st December 2004, the Group's cash and cash equivalent, net of total bank borrowings and excluding pledge bank deposits, amounted to approximately RMB954 million (2003: RMB1040 million).

Trade receivables

By end of 2004, the total gross trade receivables amounted to approximately RMB34 million, around 18.5% of total revenue in 2004 (2003: around 19%). The Directors note that around 17% of gross trade receivables are over 180 days old. The marketing and sales staff and senior management have reviewed the credit worthiness of all customers in relation to receivables over 180 days old and have made specific provision for all receivables that are doubtful debts according to the particular circumstances.

The Group has provided approximately RMB3.7 million for provision of doubtful debts, which represents around 10.8% of the total gross trade receivables as of 31st December 2004. The Directors will continue stringently monitor credit control and debt collection in order to protect the interests of the Company and its shareholders as a whole.

COST OF SALES

The Group's cost of sales relates mainly to the cost of materials for refrigeration trucks and 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 announcement as required under the Rules Governing the Listing of Securities on the GEM.

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

Administrative expenses increased to approximately RMB61 million in 2004 compared to approximately RMB56 million in 2003.

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 RMB7.6 million (2003: RMB10.2 million), staff costs including directors' remuneration amounted to approximately RMB35.2 million (2003: RMB35.7 million).

The Directors believe the increase in administrative expenses is in line with increase in business activity and turnover.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year. The capital of the Company comprises only ordinary shares.

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2004.

MATERIAL ACQUISITIONS AND DISPOSAL/ FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for the acquisition of assets for manufacturing refrigeration trucks from Shang Qiu Bing Xiong Refrigeration Equipment Corporation Limited, the Group did not have any material acquisitions or disposals during the year ended 31 December 2004. At present, the Group has no future plans for material investments.

PLEDGE OF ASSETS OF THE GROUP

As at 31 December 2004, bank deposits of approximately RMB26 million were pledged as collateral to secure the bank facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had contracted for but not provided for acquisition of property, plant and equipment amounting to approximately RMB19,069,000 (2003: RMB155,000).

OPERATING LEASE COMMITMENTS

As at 31 December 2004, 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	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	6,417	4,859	917	757
In the second to fifth year inclusive	4,989	1,286	649	9
	<u>11,406</u>	<u>6,145</u>	<u>1,566</u>	<u>766</u>

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

CONTINGENT LIABILITIES

On 14 January 2005, Sung Chun (“Sung”) commenced proceedings against the Company and its Chairman, Mr. Gu Chu Jun, seeking a declaration that Sung was authorised by Mr. Gu and/or the Company and/or unspecified third parties to sell certain shares belonging to two of the Company’s subsidiaries and to keep the sale proceeds. Alternatively, Sung claimed damages from Mr. Gu and the Company in the amount of HK\$10,533,000 on the basis that he had an oral contract with Mr. Gu and/or the Company pursuant to which he was entitled to receive this amount. The legal proceedings have not yet been completed as of the date of these financial statements. However, the Company’s legal advisor is of the view that based on the facts relied on in the defence, Sung has no realistic prospect of success against the Company/Mr. Gu, and that consequently the Company/Mr. Gu have a good prospect of successfully defending the action. Accordingly, no provision for this claim was made.

EXPOSURE TO FLUCTUATION OF FOREIGN EXCHANGE RATES

The management believe that the Group does not have much exposure to fluctuation of foreign exchange rates because majority of the Group’s assets, liabilities, revenue and expenses are denominated in currency of Renminbi (“RMB”) and the reporting currency of the Group is also in RMB.

Moreover, as at the year end of 2004, the Group had some bank deposits in foreign currencies, mainly in Hong Kong dollars of which exchange rate to RMB was also stable in 2004.

As at the year end of 2004, the Group did not have any material liabilities in foreign currencies.

HUMAN RESOURCES

Staff number

The number of staff of the Group were around 1,050 and 700 as at 31st December 2004 and 2003 respectively.

Remuneration policies and labour relations

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

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

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

Training

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

DISCLOSURE OF DIRECTORS' INTERESTS

As at 31 December 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
				Beneficial owner	Held by controlled corporation	
Gu Chu Jun	The Company	Ordinary	10,000,000 underlying shares representing 1% of the shares then in issue (<i>Note 1</i>)	10,000,000 underlying shares representing 1% of the shares then in issue (<i>Note 1</i>)	625,940,000 shares representing approximately 62.6% of the shares then in issue (<i>Note 2</i>)	63.6% <i>(Note 3)</i>
Gu Chu Jun	Greencool Capital Limited	Ordinary		104 shares representing 100% of the shares then in issue	–	–

Notes:

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

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

Name of Director	Date of grant	Percentage of vested options	Exercise price per share	Exercisable period	Outstanding number of share options at 1st January 2003 and 31st December 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 1st January 2004 and remained outstanding as at 31st December 2004. None of the above options were exercised, cancelled or lapsed during the year ended 31st December 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 and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, the following substantial shareholder and person (other than a director or chief executive of the Company) who has an interest or 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:

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

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

COMPETING INTEREST

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

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

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

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

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

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

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

Pursuant to the Deed of Non-competition Undertaking dated 28th June 2000 entered into between Mr. Gu and the Company, Mr. Gu has undertaken that at any time during which securities of the Company are listed on the Stock Exchange or any other stock exchange recognized under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and for so long as Mr. Gu and his associates (as defined in the GEM Listing Rules) hold, whether individually or taken together, 10 per cent. or more of the issued shares in the Company or Mr. Gu and his associates are otherwise regarded as substantial shareholders of the Company under the GEM Listing Rules or the rules of the relevant securities exchange, he will not and will procure that his associates will not directly or indirectly carry on or be engaged or concerned or interested in: (a) the business of replacement of CFC and CFC-free refrigerants using Greencool Refrigerants and the distribution of Greencool Refrigerants in PRC; and/or (b) any other business in the PRC that is similar to any member of the Group as described in the Company’s Prospectus dated 5th 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 (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.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

CORPORATE GOVERNANCE

The Company complied throughout the year ended 31 December 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules effective as at 31 December 2004.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the year ended 31 December 2004.

The Company has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of its independent non-executive directors are independent.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half-yearly reports and quarterly reports to the directors.

The audit committee has three members which are all independent non-executive directors, namely Mr. Fan Jia Yan (who is chairman of the audit committee), Ms. Man Margaret and Mr. Wang Jing Shi.

During the year, the audit committee of the Company held four meetings and performed the following duties:

1. reviewed and commented on the Company's annual report, half-yearly report and quarterly reports;
2. reviewed and commented on the Company's internal control systems;
3. met with external auditors and discussed the financial matters of the Company arose during the course of the audits for the year ended 31 December 2004; and

4. participated in the re-appointment and assessment of the performance of the external auditors.

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

Hong Kong, 23 March 2005

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
Wang Jing Shi

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