GREENCOOL TECHNOLOGY HOLDINGS LIMITED

格林柯爾科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2000

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE')

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

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.

Contents

Highlights for the Twelve Months Period

- Turnover achieved approximately RMB364 million for the twelve months ended 31 December 2000, representing an increase of approximately 2.9 times as compared with the same period in 1999

- Profit from operations increased to approximately RMB269 million, representing a growth of approximately 5.5 times when compared with the same period of 1999

- Earnings per share rose from RMB0.055 for 1999 to RMB0.31 for 2000, representing a growth of approximately 4.6 times

- Interim dividend of HK$0.05 per share was paid and a final dividend of HK$0.05 per share is proposed

- New subsidiaries were set up in Tianjin and Zhuhai

- As at 28 February 2001, the contracts on hand amounted to RMB450 million

- Successfully listed on GEM and became a Hong Kong listed company on 13 July 2000

Corporate Information

BOARD OF DIRECTORS
Executive Directors
Gu, Chu Jun *(Chairman & CEO)*
Hu, Xiao Hui *(Vice Chairman)*
Liu, Cong Meng
Xu, Wan Ping
Chen, Chang Bei
Zhang, Xi Han
Su, Xue Zhi

Independent non-executive Directors
Fan, Jia Yan
Margaret Man

COMPLIANCE OFFICER
Chen, Chang Bei

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

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

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

SPONSOR
ING Barings Asia Limited

AUTHORISED REPRESENTATIVES
Zhang, Xi Han
Chen, Chang Bei

AUDITORS
Arthur Andersen & Co

WEBSITE ADDRESS
www.greencool.com.hk

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Xuanwu District
Beijing 100050 PRC

HONG KONG LIAISON OFFICE
Unit 1406-07,
14/F., West Tower,
Shun Tak Centre
168-200 Connaught Road
Central,
Hong Kong

REGISTERED OFFICE
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
Bristish West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Butterfield International
(Cayman) Limited
Butterfield House
Fort Street, P.O.Box 705
George Town
Grand Cayman
The Cayman Islands

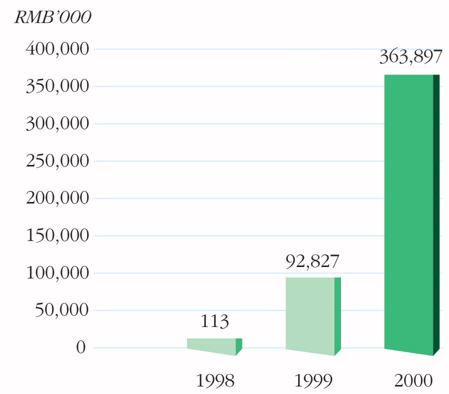
HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER
Agricultural Bank of China

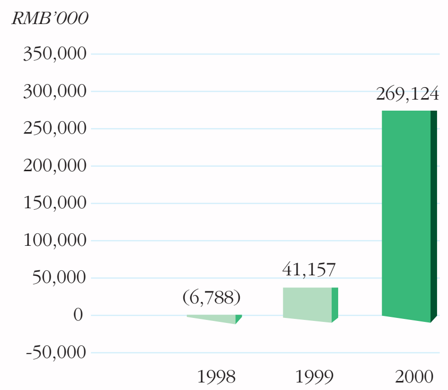
INVESTOR RELATIONS CONSULTANT
Strategic Financial Relations
(China) Limited

Financial Highlights

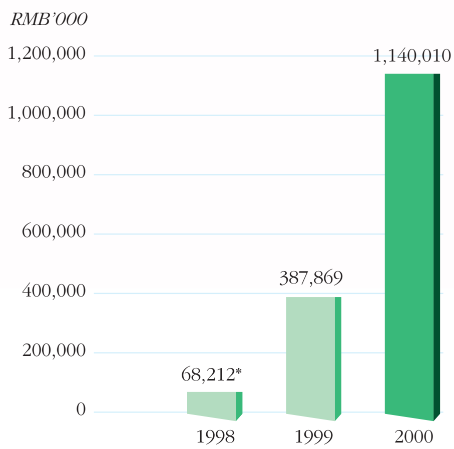
Turnover



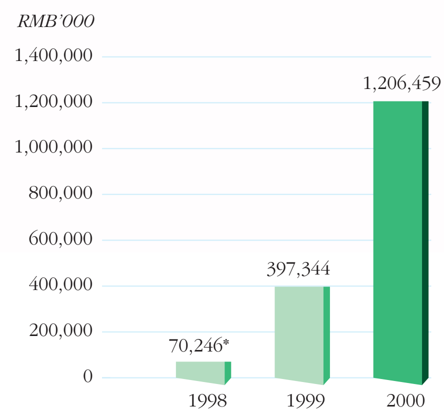
(Loss)/Profit before Tax



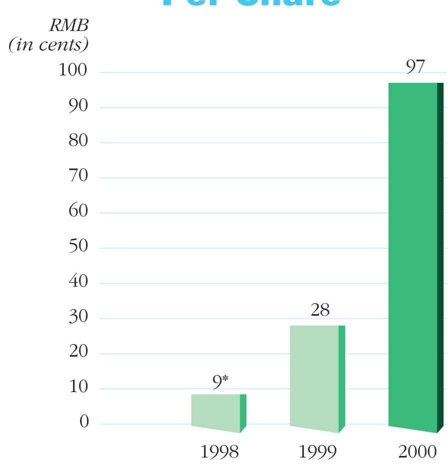
Total Share Capital & Reserve



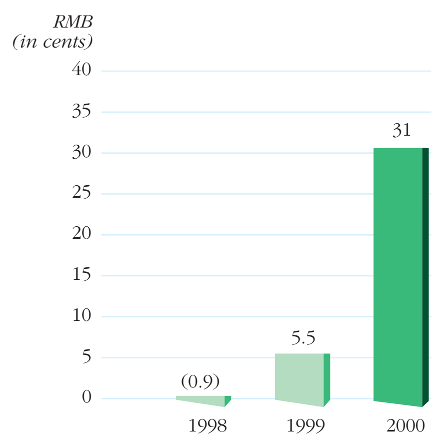
Total Assets



Net Tangible Assets Per Share



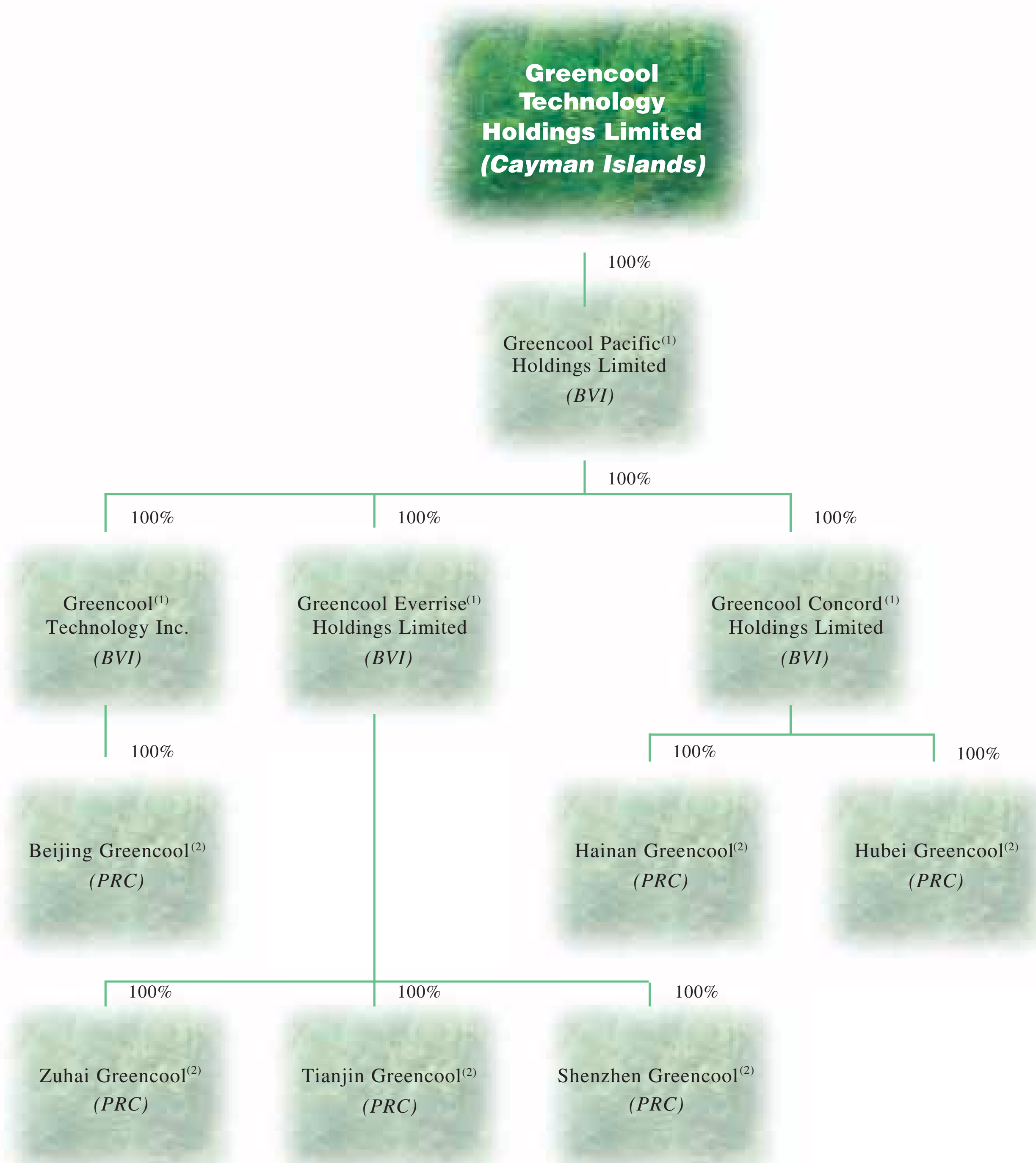
(Loss)/Earnings Per Share (basic)



* *1998 figures are unaudited*

Business Territories of Greencool

Group Structure



(1) *Investment holding companies*

(2) *Provision of replacement of CFC refrigerants and less energy-efficient CFC-free refrigerants with Greencool Refrigerants and distribution of Greencool Refrigerants*

Chairman's Statement

The Group is engaged in the replacement of chloroflurocarbon ("CFC") refrigerants and certain types of less energy-efficient CFC-free refrigerants with Greencool Refrigerants in refrigeration and air-conditioning systems, and the distribution of Greencool Refrigerants in China.

CFCs have been widely used as ingredients for refrigerants in the world since the 1930s. However, CFCs have been found to cause a number of undesirable effects to the environment, including the depletion of the ozone layer, which protects life on earth from the harmful effects of ultra-violet light from the sun, and a contribution to global warming. In response to the problems caused by CFCs, a number of countries signed the Montreal Protocol in 1987 to set out a timetable for the gradual elimination of CFCs in the world.

China acceded to the Montreal Protocol in 1991 and is obliged to eliminate the production and use of CFCs by 2010. In 1999, the central government of China set out a revised national policy for the elimination of CFC substances in China. The policy and positive attitude of the central government have encouraged local governments to set out plans and strategies to phase out CFC substances in their administrative regions earlier than required by the central government. Greencool Refrigerants are recognized by the State Environmental Protection Administration of the PRC as Class A environmentally friendly products, and have been recommended by the governments of Hainan Province, Hubei Province and Tianjin Municipality as replacements for CFC refrigerants in these regions.

Chairman's Statement

The Group is now in its fourth year of operations in China. Apart from expanding the business in Beijing, Guangdong Province, Hainan Province and Hubei Province, the Group established a subsidiary in Tianjin Municipality at the end of 2000 to capture the substantial CFC replacement market demand. The Group is also planning to set up new subsidiaries in Jiangsu Province, Shanghai and Anhui Province this year. With strong confidence in the China market, the Group is actively promoting and assisting provinces and cities in China with their environmental protection projects, to phase out CFCs by using the highly effective and high energy-saving Greencool Refrigerants, which bring many long term benefits to customers.

To ensure customers receive the best services, the Group employs top level specialists and provides on-the-job training as well as a comprehensive assessment system to ensure that the right expertise is put into the right place.

Comparing with 1999, the Group's turnover in 2000 represented substantial growth of 292% with net profit increasing by 554%.

The Group paid an interim dividend of HK$0.05 per share in the third quarter of 2000 in recognition of investor support. The Board of Directors now recommends a final dividend payment of HK$0.05 per share subject to approval by its shareholders at the Annual General Meeting.

The Group was successfully listed on the GEM Board of The Stock Exchange of Hong Kong Limited on 13 July 2000 with tremendous investor response, illustrating public support and confidence in the Group's business. The Group was also selected by AsiaMoney (December 2000 issue) as "BEST SMALL COMPANY". None of these would have been possible without our staff and I would like to take this opportunity to thank everyone for their contribution. I am particulately grateful for the creativity and persistence of both management and staff in developing the business. I believe they will continue to work hard to bring higher quality services and more fruitful returns to investors.

Gu Chu Jun
Chairman

Management's Discussion and Analysis

OVERVIEW

The Group is principally engaged in the replacement of 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.

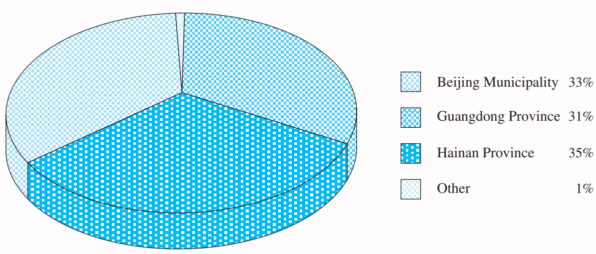
The replacement business generally includes the extraction of CFC refrigerants from and the injection of Greencool Refrigerants into the clients' refrigeration and air-conditioning systems and the provision of testing and maintenance services to the clients' refrigeration and air-conditioning systems after the replacement work. In addition, the Group is also engaged in the distribution business which includes the marketing and sale of Greencool Refrigerants to a number of authorized replacement project agents in China.

The Group's replacement 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 horsepowers), such as banks, telecommunication companies, hotels, shopping centres, restaurants, warehouses and cold storage, supermarkets, and recreational centers in China. The Directors believe that the Group is currently the leading player in the replacement business market in China.

The Group's distribution business is conducted primarily with authorised replacement project agents in China. Generally, the Group supplies Greencool Refrigerants to the authorized replacement project agents, who will undertake replacement projects for small scale refrigeration and air-conditioning systems (usually with an input of five horsepower or below).

Management's Discussion and Analysis

Currently, the Group's replacement and distribution businesses are mainly conducted in Beijing, Guangdong province, Hainan province, and Hubei province of China through Beijing Greencool, Shenzhen Greencool, Zhuhai Greencool, Hainan Greencool, and Hubei Greencool, respectively.



REVENUES

The Group's turnover has increased from approximately RMB92.8 million in 1999 to approximately RMB363.9 million in 2000.

The Group's revenues are derived from the replacement of CFC refrigerants and certain types of less energy-efficient CFC-free refrigerants with Greencool Refrigerants in refrigeration and air-conditioning systems and the distribution of Greencool Refrigerants in China.

Revenues derived from the replacement of CFC refrigerants and less energy-efficient CFC-free refrigerants with Greencool Refrigerants are charged on the basis of 10 per cent. of the electricity bill of the customers' refrigeration and air-conditioning systems after using Greencool Refrigerants for a period between six to ten months. The method for the calculation of the monthly electricity bill is agreed with the customer before a replacement project is undertaken. Other than 10 per cent. of the customer's "deemed" electricity bill in relation to the refrigeration and air-conditioning systems,

Management's Discussion and Analysis

the Group does not charge the customer any other fees for the replacement projects. The Group's engineers perform tests on customers' systems before and after the replacement work to verify the performance of Greencool Refrigerants in the customers' systems. A test report will be issued and signed by both engineers of the Group and representatives from the customers. The Directors, based on their experience in the industry, are of the opinion that since the performance of refrigeration and air-conditioning systems and Greencool Refrigerants are stable, it is unlikely that performance of the customers' systems or Greencool Refrigerants will spontaneously deteriorate without external influences after the tests. For the three years ended 31 December 2000, no customer complaint was received by the Group on the performance of Greencool Refrigerants in their systems.

The Group started its distribution business in 1999 with a view to capturing the revenue from the CFC and some CFC-free refrigerants replacement market of small scale refrigeration and air-conditioning systems, such as household refrigeration and air-conditioning systems and motor vehicles' air-conditioning systems. For this kind of business, the Group relies on its authorized replacement project agents to carry out the replacement work, while the Group only derives revenue out of supplying Greencool Refrigerants to these authorized replacement project agents.

Management's Discussion and Analysis

The following table shows a breakdown of the Group's turnover for the three years ended 31 December 2000:–

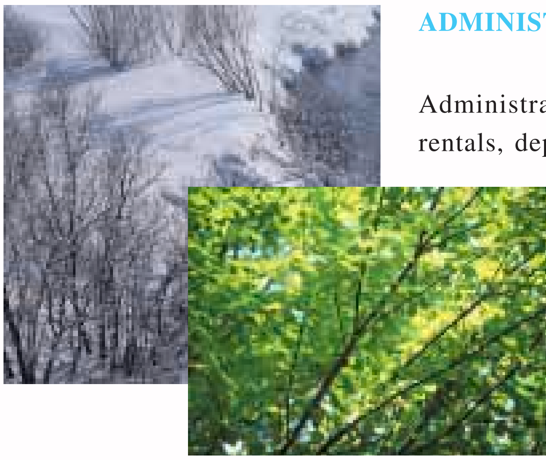
	For the years ended 31 December		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Conversion engineering income	**318,040**	52,733	113
Sales of Greencool Refrigerants	**45,857**	40,094	–
Total	**363,897**	92,827	113

The Group has not experienced any significant difficulty in collecting payment for its replacement projects and distributed products. The Group has only made a provision of RMB540,000 and RMB2,160,000 for bad and doubtful debts for the years ended 31 December 1999 and 2000 respectively.

COST OF SALES

The Group's cost of sales relates only to the cost of Greencool Refrigerants purchased from Greencool Refrigerant (China) Co., Ltd ("Tianjin Greencool Factory"). Under the exclusive distribution agreement dated 28 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 1 July 2000 to 31 December 2003. After 1 January 2004, supply prices of Greencool Refrigerants will be adjusted annually in accordance with the previous year's annual national production price index as announced by the PRC Government.

Management's Discussion and Analysis



ADMINISTRATIVE EXPENSES

Administrative expenses includes operating lease rentals, depreciation, employee salaries and wages, travelling expenses, write-off of pre-operating expenses, and others. The operating lease rentals of land and buildings amounted to approximately RMB2,581,000 and RMB3,588,000 for the years ended 31 December 1999 and 2000 respectively. The employee salaries and wages amounted to approximately RMB2,574,000 and RMB5,767,000 for the years ended 31 December 1999 and 2000 respectively.

OTHER OPERATING INCOME

Other income represents mainly interest income derived from cash at banks.

TAXATION

The Company is exempted from taxation in the Cayman Islands until 2020.

Pursuant to the relevant income tax laws of the PRC, the Group's PRC subsidiaries are subject to enterprise income tax ("EIT") at rates ranging from 15% to 24%. All the PRC subsidiaries were granted certain preferential tax treatments which are stated below. As a result of such preferential tax treatments, no provision for PRC EIT is needed (1999: Nil).

Beijing Greencool is subject to EIT at a rate of 15%. According to the Provisional Rules for Beijing High-technology Industrial Development District and approval from Beijing Changping Tax Bureau, Beijing Greencool is entitled to full exemption for EIT for three years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1998 is the first profitable year for Beijing Greencool.

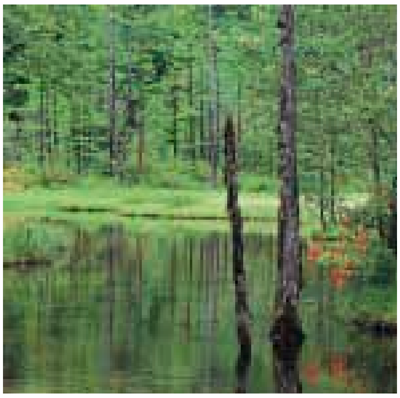
Management's Discussion and Analysis

Shenzhen Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Shenzhen Tax Bureau, Shenzhen Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1999 is the first profitable year for Shenzhen Greencool. Moreover, according to Rules for Further Support to High-technology Enterprises, enterprises that are qualified as high-technology enterprises are entitled to further tax holidays on EIT. Shenzhen Greencool is regarded as a high-technology enterprise and will, subject to the approval from the PRC Tax Bureau, be exempted from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next eight years. Shenzhen Greencool is in the process of applying for the additional tax holidays.

Hainan Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Qiongshan Tax Bureau, Hainan Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1999 is the first profitable year for Hainan Greencool.

Management's Discussion and Analysis

Hubei Greencool is subject to EIT at a rate of 24%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises, Hubei Greencool will, subject to the approval from the PRC Tax bureau after being designated as a high-technology enterprise by relevant authorities, be subject to EIT at a reduced rate of 15% and be entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. Hubei Geencool is in the process of applying for the tax holidays. Hubei Geencool has been in a loss position since incorporation.



Zhuhai Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Zhuhai Tax Bureau, Zhuhai Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 2000 is the first profitable year for Zhuhai Greencool.

STAFF

Staff number

A breakdown of the number of staff of the Group by responsibilities as at each year end of 31 December 2000, 1999 and 1998 are set out below:

	Number of staff		
		31 December	
Function	**2000**	1999	1998
Engineering	**163**	55	22
Sales	**283**	121	46
Administration	**82**	41	24
Management	**43**	22	18
	571	239	110

An analysis of the number of staff by the end of 2000 by locations is set out below:

Locations	Number of staff
Beijing	165
Shenzhen	186
Hainan	105
Hubei	85
Zhuhui	16
Tianjin	10
Hong Kong	4
	571

Labour relations

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.

Management's Discussion and Analysis

COMPARSION OF RESULTS OF OPERATIONS BETWEEN THE TWO YEARS ENDED 31 DECEMBER 1999 AND 2000

Total revenue in 2000 increased 2.9 times to approximately RMB364 million from RMB92.8 million in 1999, mainly as a result of significant increase in the Group's business activities in the replacement business. The Group completed a total of 125 replacement projects in 2000 compared to 57 replacement projects in 1999. In 2000, the Group had signed up to 23 authorised sales agents (1999: 10 sales agents) to help it procure large scale replacement projects and 75 authorised replacement project agents (1999: 21 replacement project agents) to carry out small scale replacement projects based on the Group's supply of Greencool Refrigerants.

In 2000, revenue from distribution business achieved approximately RMB45.9 million representing a 14% growth compared to same kind of business in 1999, RMB40.1 million .

The Group recorded a net profit of approximately RMB41.2 million in 1999 and RMB269 million in 2000. The Directors believe that the significant improvement in gross and net results of the Group for the last two years was a result of the Group's business promotion and development efforts in previous years, the innovative "Zero Cost" and "Zero Risk" selling strategies and good demand for our products.

Management's Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Group has funded its operations and investments in equipment with cash from operations. Apart from intra-group liabilities and normal trade payables, the Group had no other outstanding amount due to related company as at 31 December 2000. The Group will fund its working capital and capital expenditures through cash flow from operations, the net proceeds of the Placing and its cash at bank or on hand. The Directors believe that on a long-term basis the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowing.

In 2000, the Group has significantly increased its operating expenses as a result of its increased turnover for the same period. The Group anticipates that it will continue to experience significant growth both in its operating expenses for the foreseeable future as a result of its further development of businesses and its operating expenses which will be largely funded from the Group's existing cash resources and cash from operations.

As at 31 December 2000, the Group had current assets of RMB1,012.4 million, which principally comprised cash and bank balances RMB850.7 million, accounts receivable of RMB86.2 million, inventories of RMB59.0 million, deposits and prepayments and other receivables of RMB11.9 million and other current assets of RMB4.6 million. As at 31 December 2000, the Group had non-current assets of RMB194.0 million, consisting of fixed assets and related amounts of RMB26.0 million and intangible assets of RMB168.0 million. The intangible asset relates to the value of the exclusive distribution rights of Greencool Refrigerants in China granted to the Group by Mr. Gu and Tianjin Greencool Factory pursuant to the Exclusive Distribution Agreement.

As at 31 December 2000, the Group's current liabilities comprised amount due to related parties of RMB31.6 million, short-term borrowings of RMB20.0 million, salary and staff welfare payable of RMB1.3 million, taxes payables of RMB10.7 million, and accruals and other payables of RMB2.8 million.

Comparison of Business Objectives with Actual Business Progress

Business objectives as stated in the prospectus dated 5 July 2000	Actual business progress/ change in business objective (if any)
Marketing	
1. Promotional efforts	
Continue efforts on media publicity	Advertised in major newspapers and mass media in China.
Continue the "Zero Cost" and "Zero Risk" selling strategies	The "Zero Cost" and "Zero Risk" selling strategies were maintained throughout the year.
2. Government Support	
Secure support from two to four provincial governments	Conducted a few meetings with authorities of Shanghai, Jiangsu and Anhui provinces with regard to promotion of Group's business.
Secure support from two to three municipal governments	Obtained support from Tianjin Municipality Government for recommendation of Greencool Refrigerants for replacement of CFC refrigerants and set-up a new subsidiary in Tianjin.
Sales channels	
1. Own network	
Establish seven to ten subsidiaries in the eastern part of China	The Company has set up a subsidiary in Tianjin and is negotiating with Jiangsu and Anhui provinces and Shanghai Municipality for setting up subsidiaries. As the CFC phase-out schedule in some eastern provinces of China have not been fixed by the local governments in the time anticipated by the Group, the establishment of subsidiaries in those provinces will be deferred.
Increase the registered capital of Shenzhen Greencool	Injection of US$3,900,000 as additional capital contribution to Shenzhen Greencool for expansion of its sales channels in South China.
Set up two to four representative offices around Beijing	The Company reviewed the strategy and resolved that instead of setting up representative offices around Beijing, Beijing Greencool could, alone, cover the business within the area. The setting up of additional representative offices is deferred and will be re-considered in 2001.

Comparison of Business Objectives with Actual Business Progress

2. Authorised sales agent network	
Appoint about 70-110 authorised sales agents	As higher commission would be payable to authorized sales agents and it was not easy to find reliable sales agents, as at end of 2000, the Group appointed 23 authorised sales agents. Instead, the Group had substantially strengthened its own sales force with a total 283 sales staff as at 31 December 2000.
3. Authorised replacement project agent network	
Set up a training Centre in Guangzhou	The Group is negotiating with the Guangzhou Government to set up a training centre in Guangzhou.
Appoint about 260-350 authorised replacement project agents	The Group appointed 75 authorised replacement project agents as at end of 2000, which was less than expected due to resources being reallocated to dealing with the heavy demand for CFC replacement work in 2000. During the year, the Group concentrated on its major replacement engineering business because of its higher profit margin.

New product market

Set up a plant for packaging small packets of Greencool Refrigerants	In order to minimize the capital expenditure, the Group appointed a sub-contractor in Guangdong province for the packaging of small packets of Greencool Refrigerants. The sub-contractor's product quality has been satisfactory and thus the Group did not set up the plant in 2000. However, the Group is still planning to set up its own plant for packaging small packets of Greencool Refrigerants if the demand for small packets can cover the full capacity of the existing sub-contractor.

Service quality

Set up a service training center in Shenzhen	The Company would like to change the site of the service training centre to Guangzhou. Once the approval from Guangzhou Government is obtained in respect of setting up a training center, the Group will combine the function of service with the training centers in Guangzhou which, the Directors believe, can provide same service quality at lower cost.
Formulate staff incentive scheme	The management has formulated a staff incentive scheme for sales and engineering functions.

Comparison of Business Objectives with Actual Business Progress

Research and development and training center

Set up a facility in Shenzhen for research and development as well as training	The management has plans to combine the research and development facilities with Guangzhou training center instead of setting it up in Shenzhen.

Investment

Invest about RMB900-1,100 million	Injection of US$6,000,000 as capital contribution to Hubei Greencool. All cash contributions have been made. Injection of US$1,050,000 as additional capital contribution to Hainan Greencool. All capital contributions requirements of Hainan have been made. Injection of HK$1,300,000 as capital contribution to Zhuhai Greencool. All cash contributions have been made.

Use of Proceeds

Up to approximately HK$440 million to set up subsidiaries	Around HK$1.3 million was injected to Zhuhai Greencool, a new subsidiary in Guangdong Province for same kind of business of the Group.
Up to approximately HK$150 million as additional contribution to Shenzhen Greencool, Hainan Greencool and Hubei Greencool	Approximately HK$85.4 million totally has been injected to Shenzhen Greencool, Hainan Greencool and Hubei Greencool.
Up to approximately HK$30 million as advertising and public relations activities	Around HK$2 million has spent on advertising and public relations activities.
Up to approximately HK$50 million to set up a facilities in Shenzhen for research and development as well as activities for engineers	The set-up of research and development and training facilities has been deferred and, therefore, no material expenditure incurred. As the Company has decided to relocate the site of facilities to Guangzhou, the HK$50 million will be used by the facilities in Guangzhou for research, development and training in future.

The Company is expecting to increase its capital expenditure in order to expand its business.

The Directors believe that the proceeds is sufficient for covering all stated objectives in the relevant periods stated in the prospectus dated 5 July 2000.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Gu Chu Jun, aged 41, has been the chairman of the Board, president and chief executive officer of the Company since incorporation. Mr. Gu is also the founder of the Greencool Group. He is responsible for setting the Group's overall business development and corporate strategies. He graduated with a master's degree in engineering from Tianjin University, the PRC and has over 15 years of experience in the refrigeration engineering and refrigerant industry. Prior to founding the Greencool Group, Mr. Gu taught in Tianjin University（天津大學）and actively participated in the research of thermodynamics and refrigeration engineering. Mr. Gu is the inventor of Greencool Refrigerants.

Mr. Hu Xiao Hui, aged 34, has been the vice-chairman of the Board since 1 June 2000. Mr. Hu assists in setting the Group's overall business strategies and coordinating its operations. He holds a bachelor's degree in engineering from the University of Science and Technology of China（中國科學技術大學）. He has a wealth of experience in engineering thermophysics and refrigerant science. Being engaged in scientific research, engineering, marketing and management. Mr. Hu joined the Greencool Group in 1991 and the Group in May 1998.

Mr. Liu Cong Meng, aged 55, has been an executive Director and vice president of the Company since 1 June 2000. Mr. Liu studied International Relations and Economics in Beijing University, the PRC. He is experienced in environmental protection, international cooperation and management. He joined the Group in July 1998. Prior to joining the Group, Mr. Liu worked as Director General of the Department of International Cooperation of the Ministry of Agriculture of the PRC（中國農業部國際合作司）, and had also held several government and public posts, being responsible for bilateral or multilateral cooperation between the PRC and the World Bank, other international organizations and other related countries for a long period.

Mr. Xu Wan Ping, aged 37, has been an executive Director and vice president of the Company since 1 June 2000. Mr. Xu is an engineer and holds a bachelor's degree in engineering from Beijing Aeronautics and Space-Flight University（北京航空航天大學）. He has over eight years of experience in management. Mr. Xu joined Greencool Group in 1993 and the Group in December 1998 and is currently responsible for setting and implementing the Group's marketing strategies in the PRC.

Directors and Senior Management

Mr. Chen Chang Bei, aged 48, has been an executive Director and compliance officer of the Company since 1 June 2000. Mr. Chen holds a master's degree of Arts from the Shangdong University, the PRC and a master's degree of Arts from York University, Canada. He joined the Greencool Group in 1996 and the Group in December 1998. Mr. Chen is responsible for implementing the Group's development strategies for the PRC. Prior to joining the Greencool Group, Mr. Chen was a lecturer in Shan Dong University, and worked for MIC Inc. in Canada as a vice general manager.

Mr. Zhang Xi Han, aged 34, has been the executive Director and vice-president of the Company since 1 June 2000. Mr. Zhang holds a master's degree in low temperature and refrigerating engineering. He joined the Greencool Group in 1993 after obtaining his master's degree, and now is responsible for the engineering, marketing and management of the Group.

Mr. Wang Yang Zu, aged 64, is a senior engineer and an environmental protection specialist. Mr. Wang has over 15 years of working experience at a senior level in environmental protection and pollution control. He was the deputy director of the State Environmental Protection Administration of China（中國國家環境保護總局）, and led Chinese delegation in attending meetings of signing parties to the "Montreal Protocol on Substances that Deplete the Ozone Layer". He was also granted the "Reward for the Protection of Ozone Layer in Stratosphere (1997)". Mr. Wang is a minister adviser of the State Environmental Protection Administration of China and also holds a few other senior posts in professional organizations. Mr. Wang was appointed as a Director in June 2000 and resigned on 13 October 2000.

Mr. Su Xue Zhi, aged 66, holds a master's degree from Saint Petersburg Industrial University in the former Soviet Union. Mr. Su joined the Group in May 1998, and was the vice managing director of Shenzhen Greencool responsible for setting and implementing the Group's development strategies for the PRC. Prior to joining the Group, Mr. Su was the Director General of the Department of Science and Technology of the Ministry of Electronic Industry（中國電子工業部科學技術司）of the PRC.

Directors and Senior Management

Independent Non-Executive Directors

Mr. Fan Jia Yan, aged 55, was appointed an executive director of The Hongkong Chinese Bank, Limited in 1993. He has been with CITIC Industrial Bank in Beijing for more than 10 years. He is also a director of The Hong Kong Building and Loan Agency Limited, a company listed in Hong Kong. Mr. Fan was appointed as an independent non-executive Director in June 2000.

Mdm. Margaret Man, aged 46, joined CITIC Ka Wah Bank Ltd as Senior Vice President in October 1998. Prior to that, Mdm. Man was a Deputy Managing Director of China Venturetechno International Co., Ltd and was a Division Chief in People's Bank of China for seven years. Mdm. Man graduated from the College of Finance and Economy of Shanxi province with a bachelor's degree in finance and obtained a master's degree in banking and finance from the Graduate School of the People's Bank of China. Mdm. Man completed a legal studies programme at Columbia University Law School in the United States in 1986. Mdm. Man was appointed as an independent non-executive Director in June 2000.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Mok Henry Wing Kai, aged 40, is the qualified accountant and company secretary of the Group. Mr. Mok has over 16 years of experience in the finance, accounting and company secretarial field. Mr. Mok holds a Master of Science degree of Manufacturing Systems Engineering from the University of Warwick in the United Kingdom and a Master of Business Administration degree jointly awarded by the University of Wales (Bangor) and the University of Manchester in the United Kingdom. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Mok joined the Group in April 2000.

AUDIT COMMITTEE

The Company established an audit committee on 28 June 2000 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has three members comprising Mr. Fan Jia Yan (who is acting as chairman of the audit committee) and Ms. Man Margaret, the two independent non-executive Directors, and Mr. Hu Xiao Hui, an executive Director. The Audit Committee held one meeting during 2000.

Report of The Directors

The Board of Directors ("Board") of Greencool Technology Holdings Limited ("the Company") is pleased to present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred as the "Group") for the year ended 31 December 2000.

REORGANISATION

The Company was incorporated in Cayman Islands under the Companies Law (Revised) of the Cayman Islands ("Company Law") as an exempted company with limited liability on 10 January 2000. Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the Group on 28 June 2000.

PRINCIPAL ACTIVITIES

The Group is principally engaged in:

(a) Conversion engineering: which means the replacement of chloroflurocarbon ("CFC") and less energy-efficient CFC-free refrigerants with Greencool Refrigerants in refrigeration and air-conditioning systems and

(b) Sale of CFC-free refrigerants (collectively namely "Greencool Refrigerants")

Report of The Directors

FINANCIAL RESULTS

(Expressed in thousands of RMB except for earnings per share)

	For the year ended 31 December	
	2000	1999
	RMB'000	RMB'000
Revenue *(Note)*	**363,897**	92,827
Cost of sales	**(67,724)**	(34,698)
Gross profit	**296,173**	58,129
Other operating income	**16,916**	2,084
Distribution costs	**(15,048)**	(5,853)
Administrative expenses	**(28,824)**	(12,817)
Other operating expenses	**–**	(243)
Profit from operations	**269,217**	41,300
Finance cost	**(93)**	(143)
Profit before tax	**269,124**	41,157
Income tax expense	**–**	–
Net profit for the year	**269,124**	41,157
Dividends	**53,000**	–
Earnings per share		
– Basic	**RMB31cents**	RMB5.5cents
– Diluted	**RMB31cents**	Not applicable

Note:

Revenue:

	For the year ended 31 December	
	2000	1999
	RMB'000	RMB'000
Conversion engineering income	318,040	52,733
Sale of Greencool Refrigerants	45,857	40,094
	363,897	92,827

All revenue was derived in the PRC for the year ended 31 December 2000.

Report of The Directors

BUSINESS REVIEW AND PROSPECTS

Financial Performance

The annual results of the Company and its subsidiaries (the "Group") for the year 2000 showed a strong growth in turnover and in profit. Turnover for the year 2000 achieved approximately RMB363,897,000, representing a 2.9 times growth, as compared to approximately RMB92,827,000 for the previous year.

The gross profit and net profit attributable to shareholders amounted to approximately RMB296,173,000 (1999: RMB58,129,000) and RMB269,124,000 (1999: RMB41,157,000) respectively. As a result, net profit attributable to shareholders as a percentage of turnover for the year 2000 was approximately 74.0% (1999: 44.3%).

Business Review

The Directors believe that the Group is currently the leading player in the conversion engineering market in China.

The Group's replacement 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 horsepowers), such as banks, telecommunication companies, hotels, shopping centres, restaurants, warehouses and cold storage, supermarkets, and recreational centres in China.

The strong growth for the year ended 2000 is a result of the substantial activities of marketing and business development for the past two years and the full operation of subsidiaries in Beijing, Shenzhen and Hainan province.

Moreover, the Hainan province government aims to make Hainan to be the first CFC-free province in the PRC, thus strongly supporting the idea of replacement CFC substances.

Among the total turnover for year 2000, there were RMB 318,040,000 derived from 125 replacement business (1999: 57 projects) and there were RMB 45,857,000 derived from distribution of Greencool Refrigerants in the PRC.

As at 31 December 2000, the Group had total 571 staff including 163 staff in engineering function, 283 staff in sales function, 82 staff in administration function and 43 staff in management function.

Location of staff comprised 165 staff in Beijing Greencool, 186 in Shenzhen Greencool, 105 in Hainan Greencool and 85 in Hubei Greencool, 16 in Zhuhai Greencool, 10 in Tianjin Greencool and 4 in Hong Kong office.

Outlook

For the year 2001, the Directors believe that the Group will still experience substantial growth in revenues as well as profits. The listing of the Group on the GEM greatly enhanced the Group's credibility and strengthened the negotiation power of the Group companies with potential customers.

The Directors anticipates that China's economy will continue to grow and that China's expected entry into the World Trade Organisation should be a significant new development for the China's economy which would accelerate the CFC replacement process. As at 28 February 2001, the Group had a total of RMB450 million contracts in hand.

Moreover, following the negotiations conducted by the Group in 2000, the Group will continue to look into the schedule of the phasing out of CFC substances in Shanghai city, Anhui and Jiangsu provinces and will fix the plan of the establishment of new subsidiaries.

Related party transactions

Particulars of related party transactions are set out in note 3 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that are set out in the financial statements on pages 38 to 72.

An interim dividend of HK$0.05 per share has been paid. The Directors recommend a final dividend of HK$0.05 per share subject to approval by its shareholders in the forthcoming Annual General Meeting.

For details of dividends, please refer to note 20 to the financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group are set out in note 4 to the financial statements.

Report of The Directors

Intangible assets

Particulars of the Company's intangible assets are set out in note 5 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries at 31 December 2000 are set out in note 6 to the financial statements.

Bank borrowings

Details of the Group's bank borrowings are set out in note 14 to the financial statements.

Share capital

Details of changes in the Company's authorized and issued share capital during the year are set out in note 11 to the financial statements.

Pre-emptive rights

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

Reserves

Details of movements in the reserves of the Company and the Group are set in note 13 to the financial statements.

Pension scheme

The Group has put in place defined contribution schemes for its employees in the PRC and Hong Kong. Details of the pension scheme for the Group's employees in the PRC and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2(p) and 18 to the financial statements, respectively.

Major customers and suppliers

For the year ended 31 December 2000, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 35.1 per cent. of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 8.2 per cent. of the Group's total turnover. Tianjin Greencool Factory remains the only supplier to the Group and thus accounted for 100% of the Group's total purchase.

Report of The Directors

Directors

Unless otherwise stated, the following are directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Gu, Chu Jun *(Chairman & CEO)*	(appointed on 10 January 2000)
Hu, Xiao Hui *(Vice Chairman)*	(appointed on 1 June 2000)
Liu, Cong Meng	(appointed on 1 June 2000)
Xu, Wan Ping	(appointed on 1 June 2000)
Chen, Chang Bei	(appointed on 1 June 2000)
Zhang, Xi Han	(appointed on 1 June 2000)
Su, Xue Zhi	(appointed on 1 June 2000)
Wang Yang Zu	(appointed on 1 June 2000 and resigned on 13 October 2000)

Independent non-executive Directors

Fan, Jia Yan	(appointed on 1 June 2000)
Margaret Man	(appointed on 1 June 2000)

In accordance with the Company's articles of association, all the directors of the Company will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

Each of Messrs. Gu Chu Jun, Chen Chang Bei, Xu Wang Ping, Zhang Xi Han, Hu Xiao Hui, Liu Cong Meng, Wang Yang Zhu, Su Xue Zhi, Fan Jia Yan and Ms. Margaret Man has entered into a service contract with the Company for a term of three years commencing 1 June 2000, which may be terminated by either party thereto giving to the other 6 months prior notice in writing, which notice period shall not expire until after the first two years.

Directors' interests in contracts

1. *Purchase of equipment*

   Pursuant to a purchase agreement dated 20 May 1998, Beijing Greencool has appointed Greencool Canada Inc., a company incorporated in Canada with limited liability and wholly-owned by Mr. Gu ("GCI") as the agent to purchase equipment from overseas markets. The new equipment is used for the CFC replacement engineering work. Total purchase amounts under this agreement were US$2,863,000 (equivalent to approximately HK$22.3 million) and Beijing Greencool has paid RMB8.5 million (equivalently HK$8 million) to GCI as deposit. Pursuant to the agreement, GCI agreed to provide to the Group auxiliary services including design, installation and testing of the purchased equipment. The Directors confirm that GCI has not charged and will not charge any fees in providing such services. The Directors believe that the terms of the purchase agreements have been negotiated at arm's length basis and are beneficial to the business of the Group.

2. *Option to acquire interests in Tianjin Greencool Factory*

Mr. Gu has granted the Company any option (the "Tianjin Option") for a consideration of HK$10 to purchase 100 per cent. of his interest in Tianjin Greencool Factory which is approximately 83.7% of the registered capital of Tianjin Greencool Factory. The Tianjin Option can be exercisable solely at the discretion of the Company during the three-year period commencing on 28 June 2000, being the date of the relevant deed of option, at a price which is equivalent to 80 per cent. of Mr. Gu's interest in Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company,but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with International Accounting Standards) of the Group comprising Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable and the exercise and non-exercise of the Tianjin Option would constitute connected transactions and would be subject to the relevant provisions of GEM Listing Rules requiring reporting announcement and shareholders' approval.

3. *Use of trademarks*

Pursuant to an agreement dated 28 June 2000, for the transfer of trademarks pending registration, Beijing Greencool, in a capacity similar to that of a trustee/agent, has agreed to transfer to Greencool Thermo-Tech Holdings Limited, a company incorporated in BVI with limited liability and is owned as to 100 per cent. by Mr. Gu, the trademarks (as listed in paragraph 8 of the appendix V of the prospectus) currently pending registration. Pursuant to a trademark licensing agreement entered into on 30 June 2000 between the Company and Greencool Thermo-Tech Holdings Limited, Greencool Thermo-Tech Holdings Limited has agreed to grant to 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 10 years commencing 28 June 2000. The Directors consider that the terms of the granting the Tianjin Option and the use of trademarks have been negotiated at arm's length basis and are better than normal commercial terms in favour of the Group.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST IN SECURITIES

As at 31 December 2000, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Company's Directors, chief executive and their associates were as follows:

(a) Shares in the Company:

Name of Director	Corporate Interest	Personal/ Family/ Other Interests	Total	Approximate Percentage of issued Shares
Gu Chu Jun	711,150,000	–	711,150,000	71.1

Gu Chu Jun ("Mr. Gu") is the sole shareholder and sole director of Greencool Capital Limited which is the holder of 71.1 per cent. of the share capital of the Company.

(b) Options to subscribe for shares in the Company

Pursuant to the Company's share option scheme adopted on 28 June 2000, certain directors of the Company have personal interests in share options to subscribe for shares of the Company which have been granted to them as follows:

Name of director	Date of Grant	Exercise price per share	Number of shares during the period and outstanding at 15 March 2001
Gu Chu Jun	28 June 2000	HK$2.18	10,000,000
Liu Cong Meng	28 June 2000	HK$2.18	3,400,000
	26 September 2000	HK$1.68	20,000,000
Xu Wan Ping	28 June 2000	HK$2.18	3,400,000
	26 September 2000	HK$1.68	20,000,000
Zhang Xi Han	28 June 2000	HK$2.18	3,400,000
	26 September 2000	HK$1.68	20,000,000

The options can be exercised within five years after the date of grant. The principal terms of the share option scheme are also set out in the Company's prospectus dated 5 July 2000. All the above share options have not been exercised so far and there is no other share option scheme.

There is no share option at the beginning of 2000. During the year of 2000, there was no cancelled or lapsed option.

Save as disclosed above, at no time during the periods under review was the Company, its subsidiaries or holding company a party to any arrangements to enable the Directors (including their spouses or children under 18 years of age) or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and senior executives' remuneration

Details of the directors' and senior executives' remuneration are set out in note 22 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital

Name	Number of Shares	Approximate percentage of holding
Greencool Capital Limited (Note)	711,150,000	71.1

Note: Greencool Capital Limited is a company established in British Virgin Islands with limited liability and wholly owned by Mr. Gu, the Chairman, President and Chief Executive Officer of the Company.

CONNECTED TRANSACTIONS

Continuing connected transactions

The refrigerants used by the Group are exclusively sourced from Greencool Refrigerant (China) Co., Limited (the "Tianjin Greencool Factory"), a sino-foreign equity joint venture established in China on 3 March 1995, which is owned as to approximately 83.7 per cent. indirectly by Mr. Gu and 16.3 per cent. by independent third parties.

Pursuant to the exclusive distribution agreement dated 28 June 2000 (the "Exclusive Distribution Agreement"), the Group obtained the exclusive distribution right to obtain and sell Greencool Refrigerants and any further refrigerants invented by Mr. Gu in future manufactured by 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 rights to produce or contract with a third party to produce the relevant Greencool Refrigerans. 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. Further details can be found in the Company's prospectus dated 5 July 2000.

Independent non-executive directors would like to confirm here that:

(a) the above connected transactions have been entered into by the Group in the usual and ordinary course of its business;

(b) the transactions have been entered into on normal commercial terms (to the extent that there are comparable transactions) and on an arm's length basis, and the transactions have been carried out in accordance with the terms of the agreements governing such transactions; and

(c) the transactions have been entered into on terms that are fair and reasonable and in the interests of the shareholders of the company as a whole.

COMPETING INTEREST

Deed of Non-competition Undertaking

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 recognised 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) holds, 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 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.

None of the Directors or the management shareholders (as defined in the GEM Lisiting Rules) of the Company had an interest in any business which competes or may compete with the business of the Group in the PRC.

Report of The Directors

SPONSOR'S INTERESTS

To the best knowledge of ING Barings Asia Limited ("ING Barings"), the Company's sponsor, its directors, employees and associates were not interested in the shares of the Company as at 31 December 2000.

Pursuant to the agreement dated 4 July 2000 entered in between the Company and ING Barings, ING Barings has received and will receive a fee for acting as the Company's retained sponsor for the period from 13 July 2000 to 31 December 2002.

YEAR 2000 COMPLIANCE RESULTS

The Board is pleased to announce that all accounting and financial applications in the Group were fully compliant and therefore, the fear of Year 2000 compliance issue did not create any material adverse impact on the business operations in all functional areas.

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 13 July 2000 (date of listing) to 31 December 2000.

AUDITORS

Arthur Andersen & Co retire and a resolution for their appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Greencool Technology Holdings Limited

Gu Chu Jun
Chairman

Hong Kong, 27 March 2001

Auditors' Report

ARTHUR ANDERSEN

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

We have audited the accompanying balance sheet of Greencool Technology Holdings Limited (the "Company") and combined balance sheet of the Company and its subsidiaries (the "Group") as of 31 December 2000, and the related combined statements of income, recognized gains and losses, and cash flows of the Group for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2000, and the results of operations and the cash flows of the Group for the year then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
27 March 2001

Balance Sheets

As of 31 December 2000

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

	Note	Combined 2000 RMB'000 *(Note 1)*	Combined 1999 RMB'000 *(Note 1)*	Company 2000 RMB'000 *(Note 1)*
ASSETS				
Non-current assets				
Property, plant and equipment	*4*	**26,042**	3,610	**1,434**
Intangible asset	*5*	**168,000**	180,000	**–**
Investment in subsidiaries	*6*	**–**	–	**821,766**
		194,042	183,610	**823,200**
Current assets				
Inventories	*7*	**58,984**	12,725	**–**
Trade receivables, net	*8*	**86,207**	17,551	**–**
Deposits, prepayments and other receivables		**11,917**	14,270	**254**
Due from related parties	*3*	**–**	10,701	**–**
Short-term investments	*9*	**4,614**	–	**–**
Cash and bank deposits		**850,695**	158,487	**318,702**
		1,012,417	213,734	**318,956**
Total assets		**1,206,459**	397,344	**1,142,156**
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	*11*	**106,000**	173,500	**106,000**
Reserves	*13*	**1,034,010**	214,369	**1,033,848**
		1,140,010	387,869	**1,139,848**
Current liabilities				
Accruals and other payables		**2,847**	2,060	**2,308**
Staff and workers' bonus and welfare funds		**1,288**	717	**–**
Due to related parties	*3*	**31,585**	2,722	**–**
Short-term borrowings	*14*	**20,000**	–	**–**
Tax payable		**10,729**	3,976	**–**
		66,449	9,475	**2,308**
Total equity and liabilities		**1,206,459**	397,344	**1,142,156**

Approved by and signed on behalf of the Board of Directors on 27 March 2001

Mr. Gu Chu Jun
Chairman

Mr. Chen Chang Bei
Director

Combined Income Statement

For the year ended 31 December 2000

(Expressed in thousands of RMB except for earnings per share)

	Note	**2000** **RMB'000** *(Note 1)*	1999 RMB'000 *(Note 1)*
Revenue	*15*	**363,897**	92,827
Cost of sales		**(67,724)**	(34,698)
Gross profit		**296,173**	58,129
Other operating income	*16*	**16,916**	2,084
Distribution costs		**(15,048)**	(5,853)
Administrative expenses		**(28,824)**	(12,817)
Other operating expenses		**–**	(243)
Profit from operations		**269,217**	41,300
Finance cost	*17*	**(93)**	(143)
Profit before tax	*18*	**269,124**	41,157
Income tax expense	*19*	**–**	–
Net profit for the year		**269,124**	41,157
Dividends	*20*	**53,000**	–
Earnings per share	*21*		
– Basic		**RMB31cents**	RMB5.5cents
– Diluted		**RMB31cents**	Not applicable

Combined Statement of Recognized Gains and Losses

For the year ended 31 December 2000

(Expressed in thousands of RMB)

	Note	**2000** **RMB'000** *(Note 1)*	1999 RMB'000 *(Note 1)*
Exchange differences on translation of the financial statements of foreign entities	*13*	**162**	–
Net gains not recognized in the income statement		**162**	–
Net profit for the year		**269,124**	41,157
Total recognized gains		**269,286**	41,157

Combined Cash Flow Statement

For the year ended 31 December 2000

(Expressed in thousands of RMB)

	Note	**2000**	1999
		RMB'000	RMB'000
		(Note 1)	*(Note 1)*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	*23 (i)*	**203,029**	31,127
Interest paid		**(93)**	(143)
Income taxes paid		**–**	–
Net cash from operating activities		**202,936**	30,984
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(23,795)**	(543)
Interest received		**14,664**	1,468
Net cash (used in) from investing activities		**(9,131)**	925
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		**577,700**	–
Share issuance expenses		**(41,845)**	–
Proceeds from capital injection		**–**	98,500
Dividends paid		**(53,000)**	–
Net cash from financing activities		**482,855**	98,500
Net increase in cash and cash equivalents		**676,660**	130,409
Cash and cash equivalents at beginning of year		**158,487**	28,078
Effect of foreign exchange differences		**162**	–
Cash and cash equivalents at end of year	*23 (ii)*	**835,309**	158,487

Notes to the Financial Statements

31 December 2000

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. OPERATIONS, GROUP REORGANIZATION AND BASIS OF ACCOUNTING FOR BUSINESS COMBINATION

Greencool Technology Holdings Limited (the "Company") was incorporated in the Cayman Islands on 10 January 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited since 13 July 2000.

The Company and its subsidiaries are collectively referred to as the "Group". Pursuant to a group reorganization (the "Reorganization") in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the Group on 28 June 2000. The Reorganization involved companies under common control, and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group. Accordingly, the Reorganization has been accounted for on the basis of the pooling of interests method under which the combined financial statements for the years ended 31 December 1999 and 2000 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years, rather than from the date on which the Reorganization was completed. The directors consider Greencool Capital Limited ("Greencool Capital", incorporated in the British Virgin Islands ("BVI")) to be the ultimate holding company.

No balance sheet of the Company as at 31 December 1999 is presented as it was incorporated subsequent to that date.

The Company is an investment holding company. Its subsidiaries are principally engaged in the sale of chloroflurocarbon ("CFC")-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems in the People's Republic of China (the "PRC"). The Group's head office and principal place of business in the PRC is located at Tai Feng Hui Zhong Mansion, No. 120 Zhushikou Xi Street, Xuanwu District, Beijing. The registered office of the Company is located at Zephyr House, Mary Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Group principally operates in the PRC and employed approximately 600 employees as at 31 December 2000.

Notes to the Financial Statements

31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and the Group are as follows:

(a) Basis of presentation

The accompanying financial statements have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM.

Owing to the fact that the Group principally operates in the PRC and its business activities are principally transacted in RMB, the financial statements are prepared in RMB.

(b) Principles of combination

The combined financial statements include the accounts of the Company and its subsidiaries.

As set out in Note 1 above, the combined financial statements incorporate the effects of the Reorganization which has been accounted for using the pooling of interests method.

All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on combination. Combined financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognized as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment *(continued)*

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

Machinery	7 years
Motor vehicles	5-7 years
Office equipment and other equipment	5-7 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(d) Intangible assets

Intangible assets represent certain exclusive distribution rights which are stated at cost (See Note 3 (i)) less accumulated amortization and accumulated impairment loss. Intangible assets are amortized on a straight-line basis. The amortization period and the amortization method are reviewed annually at each financial year-end.

(e) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investment in subsidiaries are accounted for using the equity method. An assessment of investment in subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(g) Receivables

Receivables are stated at face value, after provision for doubtful accounts.

(h) Short-term investments

Marketable securities held for short-term purposes are stated at the lower of cost and market value on an individual investment basis. Changes in the carrying amount of short-term investments are included in the income statement.

Income from short-term investments is accounted for to the extent of interest and dividends received and receivable. Upon disposal of an investment, the difference between the net disposal proceeds and the carrying amount is included in the income statement.

(i) Cash and cash equivalents

Cash represents cash in hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Provisions

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(k) Taxation

The Group companies provide for taxation on the basis of their income for financial reporting purposes; adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(l) Turnover and revenue recognition

Turnover represents proceeds from sale of CFC-free refrigerants and conversion engineering of large-scale CFC-free air-conditioning systems, net of value added tax or business tax.

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of goods have been transferred to the buyer.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Turnover and revenue recognition *(continued)*

(ii) Rendering of conversion engineering services

Service income is recognized as revenue by reference to the stage of completion of the installation, unless it is incidental to the sale of a product in which case it is recognized when the goods are sold.

(iii) Interest income

Interest income from bank deposits is recognized on a time proportion basis that takes into account the effective yield on the assets.

(iv) Dividend income

Dividend income is recognized when the right to receive payment is established.

(m) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are charged as an expense in the income statement on a straight-line basis over the lease term.

(n) Foreign currency transactions

The Company and its BVI subsidiaries maintain their books and records in Hong Kong dollars. The PRC subsidiaries maintain their books and records in RMB. Transactions denominated in other currencies are translated into the reporting currencies at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are re-translated at exchange rates prevailing at that date. Non-monetary assets and liabilities denominated in other currencies are translated into the reporting currencies at historical rates. Exchange differences arising on the settlement of monetary items at rates different from those at which they were recorded during earlier periods, other than those capitalized as a component of borrowing costs, are recognized in the income statement in the period in which they arise.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Foreign currency transactions *(continued)*

On combination, all of the assets and liabilities of group companies with reporting currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of group companies with reporting currencies other than RMB are translated into RMB at the average applicable exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments in equity.

(o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(p) Pension schemes

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the local staff of the Company's PRC subsidiaries are to be made monthly to a government agency based on 25% of the standard salary set by the provincial government, of which 7%~20% is borne by the Company's PRC subsidiaries and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, trade and other receivables, payables and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group companies have a legally enforceable right to offset and intend to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(r) Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in income.

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(u) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. RELATED PARTY TRANSACTIONS

(i) The Group had the following material transactions with related parties for the year ended 31 December 2000:

	2000	1999
	RMB'000	RMB'000
Purchase of raw materials from Greencool Refrigerant (China) Co., Ltd. ("Tianjin Greencool Factory")	**112,397**	19,203
Purchase of fixed assets from Greencool Canada Inc. ("GCI")	**15,163**	–

Mr. Gu Chu Jun ("Mr. Gu"), Chairman and ultimate majority shareholder of the Company, is the majority shareholder of Tianjin Greencool Factory and GCI.

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 agreement dated 28 June 2000 entered into between a subsidiary of the Company, Mr. Gu and 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 Tianjin Greencool Factory for 20 years commencing from 31 December 1999;

– the cost of the Exclusive Distribution Right was determined by the three parties to be RMB180,000,000, and has been reflected in the financial statements as an intangible asset and a capital reserve; and

– CFC-free refrigerants supplied by Tianjin Greencool Factory to the Group in 2000-2003 will be at pre-determined prices; and from 1 January 2004 onwards will be at prices calculated in accordance with pre-determined bases.

The directors are of the opinion that the above transactions with related parties were conducted under normal commercial terms in the ordinary course of business.

3. RELATED PARTY TRANSACTIONS *(continued)*

(ii) As of 31 December 2000, the Group had the following material balances with related parties:

	2000	1999
	RMB'000	RMB'000
Due from related parties		
– Mr. Gu	**–**	701
– Beijing Huazhao Green Energy Refrigerant Engineering Co., Ltd. ("Huazhao", of which Mr. Gu is the majority shareholder)	**–**	10,000
	–	10,701
Due to related parties		
– Aike (Tianjin) Ltd. (of which Mr. Gu is the majority shareholder)	**–**	1,200
– Huazhao	**–**	180
– Tianjin Greencool Factory	**24,922**	1,342
– GCI	**6,663**	–
	31,585	2,722

The balances with related parties were unsecured, interest free and repayable on demand.

(iii) Pursuant to a trademark licensing agreement entered into on 30 June 2000 between the Company and Greencool Thermo-Tech Holdings Limited ("Greencool Thermo-Tech", incorporated in BVI and 100% owned by Mr. Gu), Greencool Thermo-Tech has granted the Company a licence to use the trademarks of "Greencool"(both in Chinese and English) in the PRC for nil consideration for a period of 10 years commencing 28 June 2000.

3. RELATED PARTY TRANSACTIONS *(continued)*

(iv) Mr. Gu has granted the Company an option (the "Tianjin Option") for a consideration of HK$10, which is stated at cost, to purchase all of his equity interest in Tianjin Greencool Factory. The Tianjin Option is exercisable solely at the discretion of the Company during the three-year period commencing on 28 June 2000 at a price which is equivalent to 80% of the value of Mr. Gu's equity interest in 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 by 12 the audited consolidated profit after taxation and minority interests (in accordance with IAS) of the group comprising Tianjin Greencool Factory and the companies through which Mr. Gu holds his equity interest in Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option.

4. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were:

	Group				
	2000				1999
	Machinery RMB'000	**Motor vehicles RMB'000**	**Office equipment and other equipment RMB'000**	**Total RMB'000**	Total RMB'000
Cost					
Beginning of year	143	3,904	266	4,313	3,771
Additions	15,227	7,328	1,240	23,795	543
Disposals	–	(128)	–	(128)	(1)
End of year	15,370	11,104	1,506	27,980	4,313
Accumulated depreciation					
Beginning of year	16	657	30	703	177
Charge for the year	96	871	290	1,257	526
Disposals	–	(22)	–	(22)	–
End of year	112	1,506	320	1,938	703
Net book value					
End of year	15,258	9,598	1,186	26,042	3,610
Beginning of year	127	3,247	236	3,610	3,594

Notes to the Financial Statements

31 December 2000

4. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Company		
	2000		
	Motor vehicles RMB'000	Office equipment and other equipment RMB'000	Total RMB'000
Cost			
Beginning of year	–	–	–
Additions	1,311	492	1,803
End of year	1,311	492	1,803
Accumulated depreciation			
Beginning of year	–	–	–
Charge for the year	262	107	369
End of year	262	107	369
Net book value			
End of year	1,049	385	1,434
Beginning of year	–	–	–

The directors are of the opinion that the underlying value of property, plant and equipment was not less than their carrying value as of 31 December 2000.

5. INTANGIBLE ASSET

	Group	
	2000	1999
	RMB'000	RMB'000
Cost		
Beginning of year	**180,000**	–
Addition	**–**	180,000
End of year	**180,000**	180,000
Amortization		
Beginning of year	**–**	–
Charge for the year	**12,000**	–
End of year	**12,000**	–
Net book value		
End of year	**168,000**	180,000
Beginning of year	**180,000**	–

Intangible asset represents the exclusive distribution right in the PRC of CFC-free refrigerants manufactured by Tianjin Greencool Factory (see Note 3 (i)). It is amortized over 15 years commencing from 1 January 2000.

The directors are of the opinion that the underlying value of the intangible asset was not less than its carrying value as of 31 December 2000.

Notes to the Financial Statements

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6. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised the following:

	2000 RMB'000
Share of net identifiable assets of subsidiaries	653,733
Amounts due from subsidiaries	168,033
	821,766

The amounts due from subsidiaries were unsecured, interest free and had no fixed repayment date.

The directors are of the opinion that the underlying value of the subsidiaries was not less than their carrying value as of 31 December 2000.

As of 31 December 2000, the Company had the following subsidiaries:

Name	Date and place of incorporation/ establishment	Percentage of equity interest attributable to the Company		Capital		Principal activities
		Directly	Indirectly	Registered	Paid-up	
Greencool Pacific Holdings Limited	1 December 1999 British Virgin Islands	100%	–	US$50,000	US$10,000	Investment holding
Greencool Technology Inc.	24 October 1997 British Virgin Islands	–	100%	US$50,000	US$10,000	Investment holding
Greencool Concord Holdings Limited	9 September 1998 British Virgin Islands	–	100%	US$1,000	US$100	Investment holding
Greencool Everrise Holdings Limited	9 September 1998 British Virgin Islands	–	100%	US$1,000	US$100	Investment holding

Notes to the Financial Statements

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6. INVESTMENT IN SUBSIDIARIES *(continued)*

Name	Date and place of incorporation/ establishment	Percentage of equity interest attributable to the Company		Capital		Principal activities
		Directly	Indirectly	Registered	Paid-up	
Beijing Greencool Environmental Protection Engineering Co., Ltd. ("Beijing Greencool")	11 May 1998 PRC	–	100%	US$12,090,000	US$12,090,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Greencool Environmental Protection Engineering (Shenzhen) Co., Ltd. ("Shenzhen Greencool")	3 December 1998 PRC	–	100%	US$6,000,000	US$6,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Hainan Greencool Environmental Protection Engineering Co., Ltd. ("Hainan Greencool")	15 September 1999 PRC	–	100%	US$12,000,000	US$12,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Hubei Greencool Environmental Protection Engineering Co., Ltd. ("Hubei Greencool")	8 December 1999 PRC	–	100%	US$12,000,000	US$12,000,000	Sale of CFC-free refrigerants and the conversion engineeringof large-scale CFC-free air-conditioning systems
Zhuhai Greencool Environmental Protection Engineering Co., Ltd. ("Zhuhai Greencool")	6 November 2000 PRC	–	100%	HK$2,000,000	HK$2,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Tianjin Greencool Environmental Protection Engineering Co., Ltd.	21 November 2000 PRC	–	100%	US$12,000,000	–	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

Notes to the Financial Statements

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7. INVENTORIES

Inventories are CFC-free refrigerants for sale and installation.

8. TRADE RECEIVABLES, NET

	Group	
	2000	1999
	RMB'000	RMB'000
Trade receivables	**88,907**	18,091
Less : Provision for doubtful debts	**(2,700)**	(540)
	86,207	17,551

9. SHORT-TERM INVESTMENTS

	Group	
	2000	1999
	RMB'000	RMB'000
Marketable securities		
– Listed, at lower of cost and market value	**4,614**	–
Cost of marketable securities	**4,724**	–

10. DEFERRED TAXATION

There was no significant unprovided deferred taxation as of 31 December 2000 (1999: Nil).

Notes to the Financial Statements

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11. SHARE CAPITAL

	Number of shares	Nominal value HK$
Authorized (ordinary shares of HK$0.10 each):		
Upon incorporation and subsequent conversion (i)	3,900,000	390,000
Subsequent increase (ii)	4,996,100,000	499,610,000
As at 31 December 2000	5,000,000,000	500,000,000
Issued and fully paid (ordinary shares of HK$0.10 each):		
Issue of shares upon incorporation and subsequent conversion (i)	78	8
Issue of shares pursuant to the Reorganization (iii)	999,922	99,992
Issue of shares through placing (iv)	250,000,000	25,000,000
Capitalization of share premium (v)	749,000,000	74,900,000
As at 31 December 2000	1,000,000,000	100,000,000
		RMB106,000,000

Notes:

(i) On 10 January 2000, the Company was incorporated with an authorized share capital of US$50,000, divided into 50,000 shares of US$1 each. On that day, 1 share was issued at par to and was fully paid in cash by Codan Trust Company (Cayman) Limited which then transferred the share to Mr. Gu on the same day.

Pursuant to shareholder's resolutions passed on 2 June 2000, the authorised and issued share capital were converted into Hong Kong dollars and subdivided into shares of HK$0.10 each. Accordingly, the then authorized share capital changed to HK$390,000 divided into 3,900,000 shares and issued share capital changed to HK$8 divided into 78 shares, all at HK$0.1 each. On 22 June 2000, these 78 shares were transferred by Mr. Gu to Greencool Capital.

(ii) Pursuant to a shareholder's resolution passed on 28 June 2000, the authorized share capital was increased from HK$390,000 to HK$500,000,000 by the creation of an additional 4,996,100,000 shares of HK$0.10 each ranking pari passu with the then existing shares in all respects.

11. SHARE CAPITAL *(continued)*

Notes: (continued)

(iii) On 28 June 2000 and pursuant to the Reorganization referred to in Note 1, the Company issued 928,122 shares and 71,800 shares respectively to Greencool Capital Limited and Lodestar Power Limited in consideration of the 100% equity interest in Greencool Pacific Holdings Limited ("Greencool Pacific"). The excess of the net asset value of Greencool Pacific over the nominal value of shares issued of approximately RMB502,621,000 is accounted for as capital reserve by the Company.

(iv) On 10 July 2000, 250,000,000 shares of HK$0.10 each were issued at HK$2.18 per share through placing (the "New Issue"), resulting in total cash proceeds of approximately RMB577,700,000. After deducting share issuance expenses of approximately RMB41,845,000, the net cash proceeds were approximately RMB535,855,000.

(v) Immediately after the New Issue, share premium of RMB79,394,000 was capitalized for the issuance of 749,000,000 shares of HK$0.10 each on pro-rata basis to the Company's shareholders before the New Issue.

The share capital as at 31 December 1999 shown on the combined balance sheet represents the aggregate nominal value of the share capital of the Company's subsidiaries as at the date.

12. EMPLOYEE SHARE OPTIONS

The Company has an employee share option scheme (the "Employee Share Option Scheme") under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the board of directors from time to time. The subscription price will not be less than the higher of the nominal value of the Company's shares and the average of the closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of offer of the options. As of 31 December 2000, for nominal consideration, a total of 20,200,000 options and 60,000,0000 options had been granted under the Employee Share Option Scheme which are exercisable over a period of five years commencing 28 June 2000 and 26 September 2000 respectively. The exercise price of the 20,200,000 options and the 60,000,000 options is respectively HK$2.18 and HK$1.68. As of 31 December 2000, none of these options have been exercised.

Notes to the Financial Statements

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13. RESERVES

Movements of reserves were:

	Share Premium (i) RMB'000	Capital reserve (i) RMB'000	Cumulative translation adjustments RMB'000	Retained profits (Accumulated losses) (iii) RMB'000	Total RMB'000
Group					
Balance as at 1 January 1999	–	–	–	(6,788)	(6,788)
Net profit for the year	–	–	–	41,157	41,157
Injection of Exclusive Distribution Right *(Note 3 (i))*	–	180,000	–	–	180,000
Balance as at 31 December 1999	–	180,000	–	34,369	214,369
Premium on issue of ordinary shares *(Note 11 (iv))*	551,200	–	–	–	551,200
Share issuance expenses *(Note 11 (iv))*	(41,845)	–	–	–	(41,845)
Capitalization of share premium *(Note 11 (v))*	(79,394)	–	–	–	(79,394)
Effect of the Reorganization (ii)	–	173,394	–	–	173,394
Translation adjustments	–	–	162	–	162
Net profit for the year	–	–	–	269,124	269,124
Dividends	–	–	–	(53,000)	(53,000)
Balance as at 31 December 2000	429,961	353,394	162	250,493	1,034,010
Company					
Balance as at 1 January 2000	–	–	–	–	–
Premium on issue of ordinary shares *(Note 11 (iv))*	551,200	–	–	–	551,200
Share issuance expenses *(Note 11 (iv))*	(41,845)	–	–	–	(41,845)
Capitalization of share premium *(Note 11 (v))*	(79,394)	–	–	–	(79,394)
Effect of the Reorganization *(Note 11 (iii))*	–	502,621	–	–	502,621
Net profit for the year	–	–	–	154,266	154,266
Dividends	–	–	–	(53,000)	(53,000)
Balance as at 31 December 2000	429,961	502,621	–	101,266	1,033,848

13. RESERVES *(continued)*

(i) Under the Company's Articles of Association and the Cayman Islands Law, if certain provisions therein are satisfied, the share premium and capital reserve are distributable to shareholders.

(ii) This represents the difference between the nominal value of the share capital issued by the Company and the aggregate nominal value of the share capital of subsidiaries as of 28 June 2000, the date of the Reorganization (see Note 11 (iii)).

(iii) 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 tax (based on the local statutory accounts of the Company's subsidiaries in the PRC) but before dividend distribution. The 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 used for special bonuses or collective welfare of the employees of the individual subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31 December 2000, the reserve funds amounted to approximately RMB27,016,000 (1999: Nil).

Under IAS, appropriations to the staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as a liability of the Group.

14. SHORT-TERM BORROWINGS

As of 31 December 2000, the Group had short-term bank borrowings granted by Bank of China, Shenzhen Branch, amounting to RMB20,000,000 (1999: Nil), which were guaranteed by a stand-by letter of credit issued by the Hong Kong Chinese Bank. These loans bore interest of 5.989% per annum.

Notes to the Financial Statements

31 December 2000

15. REVENUE

	2000	1999
	RMB'000	RMB'000
Conversion engineering income	**318,040**	52,733
Sale of CFC-free refrigerants	**45,857**	40,094
	363,897	92,827

All revenue was derived in the PRC.

16. OTHER OPERATING INCOME

	2000	1999
	RMB'000	RMB'000
Interest income on bank deposits	**14,664**	1,468
Others	**2,252**	616
	16,916	2,084

17. FINANCE COST

	2000	1999
	RMB'000	RMB'000
Interest expense on bank borrowings	**81**	122
Other finance cost	**12**	21
	93	143

Notes to the Financial Statements

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18. PROFIT BEFORE TAX

	2000 RMB'000	1999 RMB'000
Profit before tax was determined after crediting and charging the following:		
Crediting:		
Joining fees for authorized sales agents	**–**	616
Charging:		
Staff costs		
– salaries and wages	**5,767**	2,574
– provision for staff and workers' bonus and welfare fund	**829**	1,094
– contribution to defined contribution pension schemes	**326**	401
	6,922	4,069
Depreciation of property, plant and equipment	**1,257**	526
Amortization of intangible asset included in distribution costs	**12,000**	–
Cost of inventories	**66,138**	33,435
Operating lease rentals of land and buildings	**3,588**	2,581
Auditors' remuneration	**1,400**	42
Provision for doubtful debts	**2,160**	540
Loss on disposal of property, plant and equipment	**106**	1

19. INCOME TAX EXPENSE

The Company is exempted from taxation in the Cayman Islands until 2020.

Pursuant to the relevant income tax laws of the PRC, the Group's PRC subsidiaries are subject to enterprise income tax ("EIT") at rates ranging from 15% to 24%. All the PRC subsidiaries were granted certain preferential tax treatments which are stated below. As a result of such preferential tax treatments, no provision for PRC EIT is needed (1999: Nil).

19. INCOME TAX EXPENSE *(continued)*

Beijing Greencool is subject to EIT at a rate of 15%. According to the Provisional Rules for Beijing High-technology Industrial Development District and approval from Beijing Changping Tax Bureau, Beijing Greencool is entitled to full exemption for EIT for three years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1998 is the first profitable year for Beijing Greencool.

Shenzhen Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Shenzhen Tax Bureau, Shenzhen Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1999 is the first profitable year for Shenzhen Greencool. Moreover, according to Rules for Further Support to High-technology Enterprises, enterprises that are qualified as high-technology enterprises are entitled to further tax holidays on EIT. Shenzhen Greencool is regarded as a high-technology enterprise and will, subject to the approval from the PRC Tax Bureau, be exempted from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next eight years. Shenzhen Greencool is in the process of applying for the additional tax holidays.

Hainan Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Qiongshan Tax Bureau, Hainan Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 1999 is the first profitable year for Hainan Greencool.

Hubei Greencool is subject to EIT at a rate of 24%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises, Hubei Greencool will, subject to the approval from the PRC Tax bureau after being designated as a high-technology enterprise by relevant authorities, be subject to EIT at a reduced rate of 15% and be entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. Hubei Geencool is in the process of applying for the tax holidays. Hubei Geencool has been in a loss position since incorporation.

Zhuhai Greencool is subject to EIT at a rate of 15%. Pursuant to the PRC Laws of Enterprise Income Tax for Enterprises with Foreign Investment and Foreign Enterprises and approval from Zhuhai Tax Bureau, Zhuhai Greencool is entitled to full exemption from EIT for two years starting from the first year of profitable operations and a 50% reduction in the next three years. The year 2000 is the first profitable year for Zhuhai Greencool.

19. INCOME TAX EXPENSE *(continued)*

No provision for Hong Kong profits tax has been made as the Group has no income assessable under Hong Kong profits tax (1999: Nil).

There was no material deferred taxation (1999: Nil).

20. DIVIDENDS

	2000	1999
	RMB'000	RMB'000
Dividends paid		
– Interim dividend of HK$0.05 (equivalent to RMB0.053) per share (1999: Nil)	**53,000**	–
Dividends proposed after year end		
– Final dividend of HK$0.05 (equivalent to RMB0.053) per share (1999 : Nil)	**53,000**	–

21. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the combined net profit for the year attributable to ordinary shareholders of approximately RMB269,124,000 (1999: RMB41,157,000) divided by the weighted average number of ordinary shares outstanding during the year of 867,486,000 shares (1999 : 750,000,000 shares). The weighted average number of shares outstanding for 1999 is calculated assuming all ordinary shares outstanding at 31 December 2000, except for the 250,000,000 ordinary shares issued in 2000 through placing, were outstanding throughout 1999.

Diluted earnings per share is computed by dividing the combined net profit for the year attributable to ordinary shareholders of approximately RMB269,124,000 by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares from exercise of share options.

Notes to the Financial Statements

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21. EARNINGS PER SHARE *(continued)*

Reconciliation of number of ordinary shares for calculation of basic and diluted earnings per share:

	2000
Weighted average number of ordinary shares used in calculating basic earnings per share	**867,486,000**
Deemed issue of ordinary shares for no consideration	**6,096,000**
Weighted average number of ordinary shares used in calculating diluted earnings per share	**873,582,000**

Diluted earnings per share for the year ended 31 December 1999 is not presented because there were no dilutive potential ordinary shares in existence during the year.

22. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS

(i) Details of directors' emoluments are:

	2000 **RMB'000**	1999 RMB'000
Fees for executive directors	**–**	–
Fees for non-executive directors	**–**	–
Other emoluments for executive directors		
– Basic salaries and allowances	**3,812**	523
– Contribution to retirement scheme	**–**	–
Other emoluments for non-executive directors	**297**	–
	4,109	523

No director waived any emoluments during the year. No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group.

Notes to the Financial Statements

31 December 2000

22. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(i) Details of directors' emoluments are: *(continued)*

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000	1999
Executive directors		
– Nil to RMB1,000,000	**7**	5
– RMB1,500,000 to RMB2,000,000	**1**	–
Non-executive directors		
– Nil to RMB1,000,000	**2**	–
	10	5

During the year ended 31 December 2000, the eight executive directors received individual emoluments of approximately RMB1,529,000 (1999: RMB145,000), RMB371,000 (1999: RMB128,000), RMB371,000 (1999:RMB80,000), RMB371,000 (1999: RMB104,000) RMB140,000 (1999: RMB66,000), RMB519,000 (1999: Nil), RMB371,000 (1999: Nil) and RMB140,000 (1999: Nil) respectively. Each of the two non-executive directors received individual emoluments of approximately RMB148,000 (1999: Nil).

(ii) The five individuals whose emoluments were the highest in the Group (including directors and employees) were as follows:

	2000	1999
Directors	**4**	4
Employees	**1**	1
	5	5

22. DIRECTORS AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

(iii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	2000	1999
	RMB'000	RMB'000
Basic salaries and allowance	**3,280**	359
Contribution to retirement scheme	**–**	–
Others	**53**	201
	3,333	560

Four (1999: four) of the highest paid individuals are directors of the Company, whose emoluments are included in Note 22 (i) above.

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

	2000	1999
Nil to RMB1,000,000	**4**	4
RMB1,500,000 to RMB2,000,000	**1**	1
	5	5

During the year ended 31 December 2000, no emoluments of the five highest paid individuals (including directors and employees) were paid by the Group as inducement to join or upon joining the Group or as compensation for loss of office.

23. NOTES TO THE COMBINED CASH FLOW STATEMENT

(i) Reconciliation from profit before tax to cash generated from operations:

	2000	1999
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	**269,124**	41,157
Adjustments for:		
Provision for doubtful debts	**2,160**	540
Depreciation of property, plant and equipment	**1,257**	526
Loss on disposal of property, plant and equipment	**106**	1
Interest expense	**93**	143
Interest income	**(14,664)**	(1,468)
Amortization of intangible asset	**12,000**	–
Operating profit before working capital changes	**270,076**	40,899
(Increase) decrease in inventories	**(46,259)**	14,615
Increase in trade receivables	**(70,816)**	(18,091)
Decrease (increase) in deposits, prepayments and other receivables	**2,353**	(3,036)
Decrease (increase) in amounts due from related parties	**10,701**	(10,701)
Increase in accruals and other payables	**787**	241
Increase in staff and workers' bonus and welfare funds	**571**	528
Increase in amounts due to related parties	**28,863**	2,722
Increase in tax payable	**6,753**	3,950
Cash generated from operations	**203,029**	31,127

23. NOTES TO THE COMBINED CASH FLOW STATEMENT *(continued)*

(ii) Analysis of the balances of cash and cash equivalents

	2000	1999
	RMB'000	RMB'000
Cash and bank deposits	**850,695**	158,487
Short-term investments	**4,614**	–
Short-term borrowings	**(20,000)**	–
	835,309	158,487

(iii) Major non-cash transactions

	2000	1999
	RMB'000	RMB'000
Injection of Exclusive Distribution Right *(Note 3 (i))*	**–**	180,000

24. CONTINGENT LIABILITIES

As of 31 December 2000, the Group had no significant contingent liabilities.

25. FINANCIAL INSTRUMENTS

(i) Fair values

The carrying amounts of the Group's cash and cash equivalents, trade and other receivables, payables and borrowings approximate their fair values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

Notes to the Financial Statements

31 December 2000

25. FINANCIAL INSTRUMENTS *(continued)*

(ii) Credit risk

The carrying amount of cash and cash equivalents, trade receivables and other current assets represented the Group's maximum exposure to credit risk in relation to financial assets.

Majority of the Group's trade receivables relate to sales of goods and installation income from third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation. No single customer accounted for greater than 10% of total revenues during the year.

No other financial assets carry a significant exposure to credit risk.

(iii) Interest rate risk

Cash is placed with reputable banks and the weighted average effective interest rate on deposits was approximately 3%.

The interest rates and terms of repayment of short-term bank loans of the Group are disclosed in Note 14.

26. SEGMENT INFORMATION

No segment information is presented as the Group operates in one industry and one segment.

27. COMMITMENTS

Total future lease payments under non-cancellable operating leases were as follows:

	2000	1999
	RMB'000	RMB'000
Land and buildings		
– not later than one year	**4,689**	2,166
– later than one year and not later than five years	**1,918**	1,456
	6,607	3,622

Financial Summary

Combined Income Statement

(Expressed in thousands of Renminbi ("RMB") except for earnings per share)

	For the years ended 31 December		
	2000	1999	1998
	RMB'000	RMB'000	RMB'000
Revenue	**363,897**	92,827	113
Cost of sales	**(67,724)**	(34,698)	(520)
Gross profit (loss)	**296,173**	58,129	(407)
Other operating income	**16,916**	2,084	–
Distribution costs	**(15,048)**	(5,853)	(930)
Administrative expenses	**(28,824)**	(12,817)	(5,479)
Other operating expenses	**–**	(243)	28
Profit (loss) from operations	**269,217**	41,300	(6,788)
Finance cost	**(93)**	(143)	–
Profit (loss) before tax	**269,124**	41,157	(6,788)
Income tax expense	**–**	–	–
Net profit (loss) for the year	**269,124**	41,157	(6,788)
Dividends	**53,000**	–	–
Earnings (loss) per share			
– Basic	**RMB31 cents**	RMB5.5 cents	RMB (0.9 cents)
– Diluted	**RMB31 cents**	Not applicable	Not applicable

Financial Summary

Combined Balance Sheet

(Expressed in thousands of RMB)

	As of 31 December		
	2000	1999	1998*
	RMB'000	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	**26,042**	3,610	3,605
Intangible asset	**168,000**	180,000	–
	194,042	183,610	3,605
Current assets			
Inventories	**58,984**	12,725	27,340
Trade receivables, net	**86,207**	17,551	–
Deposits, prepayments and other receivables	**11,917**	14,270	11,223
Due from related parties	**–**	10,701	–
Short-term investments	**4,614**	–	–
Cash and bank deposits	**850,695**	158,487	28,078
	1,012,417	213,734	66,641
Total assets	**1,206,459**	397,344	70,246
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**106,000**	173,500	75,000
Reserves	**1,034,010**	214,369	(6,788)
	1,140,010	387,869	68,212
Current Liabilities			
Accruals and other payables	**2,847**	2,060	1,810
Staff and workers' bonus and welfare funds	**1,288**	717	198
Due to related parties	**31,585**	2,722	–
Short-term borrowings	**20,000**	–	–
Tax payable	**10,729**	3,976	26
	66,449	9,475	2,034
Total equity and liabilities	**1,206,459**	397,344	70,246

* *1998 figures are unaudited.*