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 2002

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 my 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 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 MONTH PERIOD •

- Turnover achieved approximately RMB321 million for the twelve months ended 31st December 2002, representing a decrease of approximately 38 per cent. as compared with the same period in 2001

- Profit from operations decreased to approximately RMB103 million, representing an approximately 70 per cent. decrease compared with the same period of 2001

- No final dividend is proposed

• CORPORATE INFORMATION •

Board of Directors

Executive Directors

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

Independent non-executive Directors

Fan, Jia Yan
Margaret Man

Compliance Officer

Chen, Chang Bei

Company Secretary

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

Qualified Accountant

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

Audit Committee

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

AUTHORISED REPRESENTATIVES

Zhang, Xi Han
Chen, Chang Bei

Auditors

Deloitte Touche Tohmatsu

Website Address

www.greencool.com.hk

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

Room 1701-1739
Tai Feng Hui Zhong Mansion
No. 120 Zhushikou Xi Street
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

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

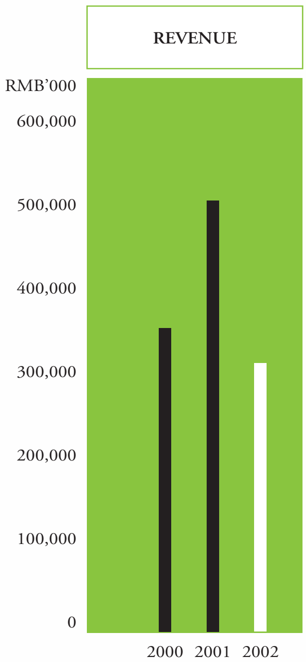
Principal Banker

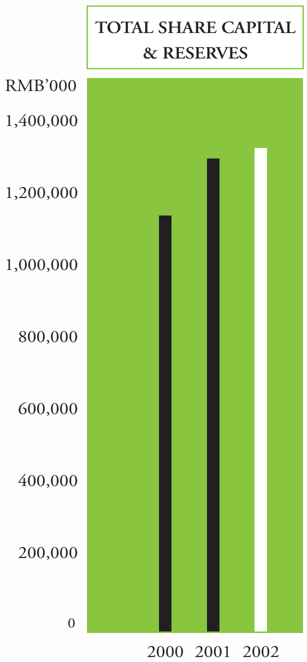
Agricultural Bank of China
Citic Ka Wah Bank Ltd.

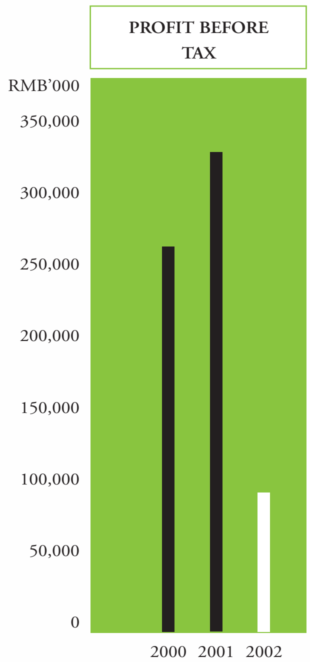
Investor relations consultant

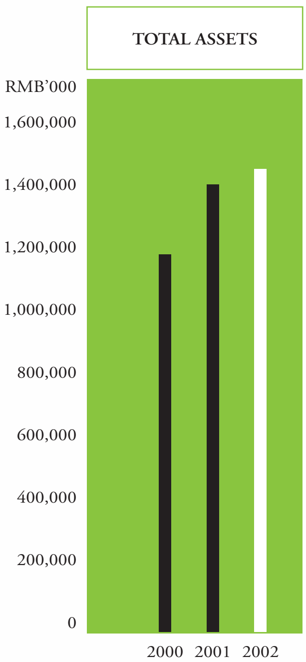
Strategic Financial Relations
(China) Limited

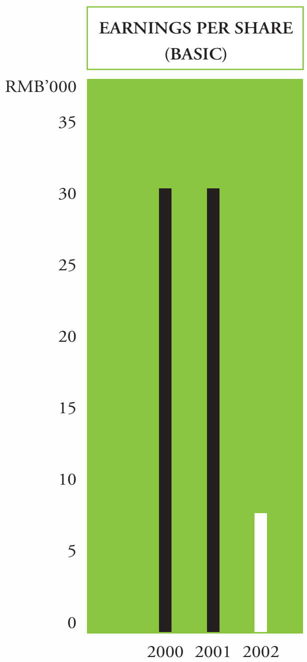
• FINANCIAL HIGHLIGHTS •

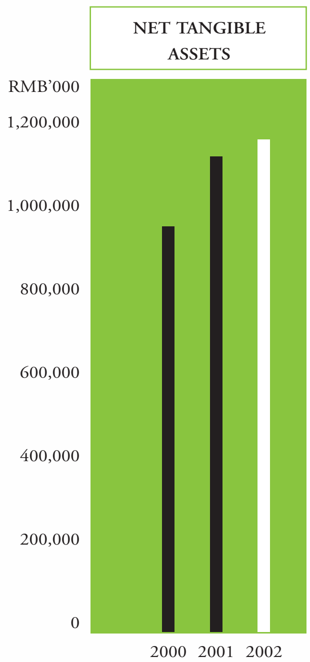




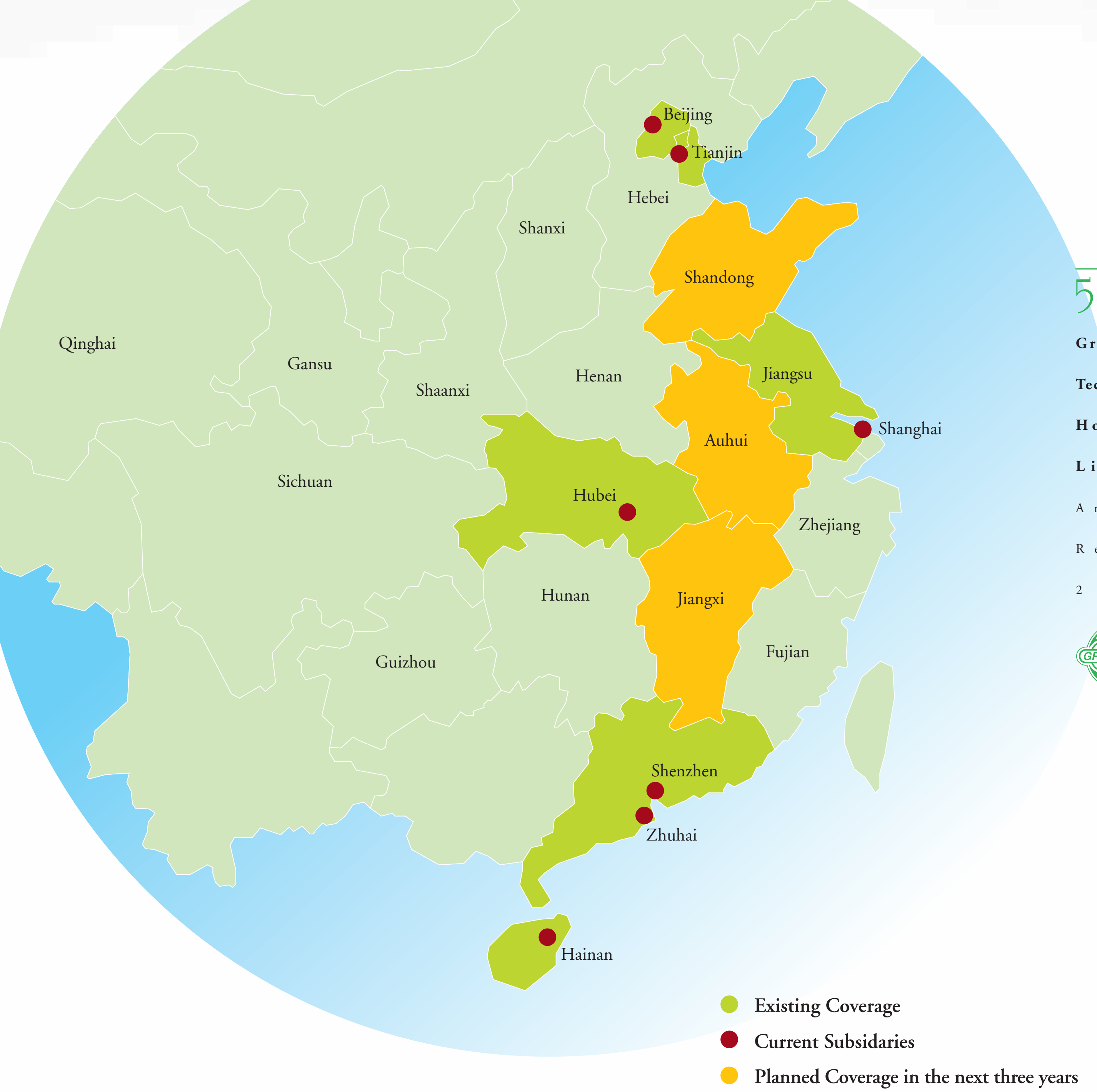








• BUSINESS TERRITORIES OF GREENCOOL •



• CHAIRMAN'S STATEMENT •

Gu Chu Jun ***Chairman***

2002 was full of challenges for Greencool as it suffered from an unfavourable environment. Apart from making strong efforts in regaining its reputation during the year, the Group also accelerated the expansion of its distribution business in an effort to remedy the negative impact of its conversion engineering business.

Under this tough environment in 2002, Greencool managed to report an audited turnover of approximately RMB321.4 million and profit of approximately RMB82.69 million, achieving a net margin of 25.7%. The Group was satisfied with these results despite the substantial decline compared to previous years. The unfavourable environment has affected the performance of the conversion engineering business. The beginning of operations in new subsidiaries in Shanghai and Jiangsu province also increased operating expenses. Nevertheless, the Group was greatly encouraged to achieve a breakthrough in the growth of its distribution business.

During the year under review, the Group made active efforts to improve the performance of its distribution business. By the end of 2002, the number of authorized replacement project agents increased substantially to 309 from 92 in 2001, greatly broadening the

• CHAIRMAN'S STATEMENT •

Group's distribution network in China. As a result, turnover from the distribution business soared 157% against 2001, contributing to almost 32% of the Group's total turnover as compared to only 7.7% in 2001. It is highly advantageous to see the increasing significance of the Group's distribution business as it will bring in recurrent income for the Group, empowering the Group with strong foundations for further growth in the long run.

Conversion engineering business, the Group's major source of income in the past, as mentioned, experienced the most difficult time in 2002. Its revenue decreased 54%, contributing to 68% of the Group's turnover as compared to 92.3% in 2001. Exploring new markets is instrumental in sustaining the Group's further business growth. In view of this situation, the Group started operations in subsidiaries in Shanghai and Jiangsu province in 2002 to capture business opportunities arising from the Eastern China region. Substantial contribution from these new markets, however, is yet to be realized. While more time needs to be invested before reaping results, the Group is considering enhancing its sales incentive scheme to encourage more dedicated sales efforts and to better sales management.

Currently, China's economy is reporting dynamic growth despite the volatility and slump in the world's economies. The country thus offers many opportunities for diverse economic activities, leading to an enormous market for the phasing out of CFC substances. With the Group's strong financial standing, as well as its vision to build a CFC-free China, the Group will continue to offer high quality services and leading technologies to deepen its market penetration. Stringent cost control measures will also be enacted for striving stronger profits in the future.

In April 2002, the Group's Vice Chairman, Mr. Hu Xiao Hui, took over my position as Chief Executive Officer and President. During the year, a group of talented and highly educated professionals were also appointed to management positions in the Group's subsidiaries. These personnel changes optimize the Group's operating structure, enabling clearer definition of management roles across the Group's management team. I am confident that they will bring Greencool's development to new heights.

I would also like to take this opportunity to thank all our management, staff and customers for their support and loyalty to the Group in the past year. I am also grateful to our shareholders for their continued confidence in us. The Group has walked through a dark time and will continue to do its best in creating greater returns for shareholders.

Gu Chu Jun
Chairman

18 March 2003

• REPORT OF THE DIRECTORS •

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the conversion engineering, which represents 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 distribution business includes mainly the marketing and sale of Greencool Refrigerants to a number of authorized replacement project agents in China.

The total revenue for 2002 is approximately RMB321 million (2001: RMB516 million). In 2002, the income from conversion engineering accounts for around 68% of the total revenue while the distribution business accounts for around 32% of the total revenue.

Gross profit margin has been maintained at a high level of 60% (2001: 80%) which the management considers reasonable.

For 2002, net profit for the year amounted to RMB83 million (2001: RMB314 million) representing 26% of total turnover (2001: 61%)

Decrease in percentage for net profit for the year divided by total turnover was mainly due to increases in administrative expenses such as rental, staff costs, advertising and promotion expenses and income tax expenses.

Conversion engineering

The Group's conversion engineering business targets primarily commercial and industrial customers who own or operate large scale refrigeration and air-conditioning systems (usually with an input of more than five horsepowers), such as banks, telecommunication companies, hotels, shopping centres, restaurants, warehouses and cold storage, supermarkets, and recreational centers in China.

• REPORT OF THE DIRECTORS •

In 2002, the turnover from conversion engineering achieved RMB220 million, representing a decrease of 54% as compared to that of 2001.

The directors believe that the Group is currently still the leading player in the conversion engineering business market in China.

Distribution business

The Group's distribution business represents sale of refrigerants through the Group's sales teams and 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 horsepowers or below).

By the end of 2002, the Group had appointed 309 authorised replacement project agents (2001: 92). In order to bring in more distribution business, the management has contacted certain manufacturers of refrigeration and air-conditioning equipments and invited those manufacturers to assess and explore the application of Greencool Refrigerants in their existing products or new products.

The management believes that the energy-saving feature of Greencool Refrigerants can improve the performance of certain refrigeration and air-conditioning systems as well as their competitiveness.

Market coverage

Currently, the Group's businesses are mainly conducted in Beijing, Shanghai, Tianjin, Guangdong province, Hainan province, Hubei province and Jiangsu province.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a very strong financial position with approximately RMB1,325 million shareholders' fund as at 31 December 2002 (2001: RMB1,295 million) and RMB1,181 million net tangible assets (2001: 1,139 million).

As at 31 December 2002, the Group had a total of RMB1,054 million (2001: RMB851 million) cash and bank deposits (of which RMB23 million are pledged bank deposits) that represent 80% (2001: 66%) of shareholders' fund. Cash and bank deposits are usually treated as liquid assets.

• REPORT OF THE DIRECTORS •

As at 31 December 2002, the net current assets (representing total current assets less total current liabilities) amounted to approximately RMB1,122 million (2001: RMB1,095 million) represents 85% (2001: 85%) of shareholders' fund.

Short term borrowings and gearing ratio

As of 31 December 2002, the Group's short-term bank loans amounted to RMB68,000,000. These bank loans bore interest ranging from 5.31%–5.52% (2001: 4.65%–5.59%) per annum are repayable within one year.

The Group's gearing ratio, measured in terms of total bank borrowings divided by shareholders equity, was 5.13% as at 31 December 2002 (2001: 6.18%). As of 31 December 2002, the Group's cash and cash equivalent, net of total bank borrowings and excluding pledge bank deposits, amounted to RMB963 million (2001: RMB771 million).

Trade receivables

By end of 2002, the total gross trade receivables amounted to RMB60 million, around 19% of total revenue in 2002 (2001: around 20%). The decrease in the ratio of receivables to turnover, represents the Group's tightened control in credit control and debt collection.

The management understands that around 34% of gross trade receivables are of aging over 180 days. The marketing and sales staff and our management have reviewed the creditability of all customers relating to receivables aging over 180 days and have made specific provision for all receivables that are doubtful debts according to the particular circumstances.

The Group has provided approximately RMB7 million for provision of doubtful debts, which represents around 12% of the total gross trade receivables as of 31 December 2002. The directors believe that stronger control in credit control and debt collection can protect the interest of the Company and the shareholders.

Contingent liabilities

As at 31 December 2002, the Group had no significant contingent liabilities.

• REPORT OF THE DIRECTORS •

Exposure to fluctuction of Foreign Exchange Rates

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

Moreover, as at the year end of 2002, the Group had some bank deposits in foreign currencies, mainly in Hong Kong dollars of which exchange rate to Reminbi was also stable in 2002.

As at the year end of 2002, the Group did not have any material liabilities in foreign currencies.

COST OF SALES

The Group's cost of sales relates only to the cost of Greencool Refrigerants purchased from Greencool Refrigerant (China) Co., Ltd (the "Tianjin Greencool Factory"). Under the exclusive distribution agreement dated 28 June 2000 (the "Exclusive Distribution Agreement"), the 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. From 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 Government of the People's Republic of China (the "PRC").

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

Administrative expenses increased to RMB82 million in 2002 compared to RMB69 million in 2001.

Administrative expenses include mainly operating lease rentals, depreciation, staff costs, travelling expenses, and others. The operating lease rentals of land and buildings amounted to approximately RMB8.3 million (2001: RMB6 million); staff costs including directors' remuneration amounted to approximately RMB37.4 million (2001: RMB11.5 million).

The directors believe the increase in administrative expenses are in line with increases in business activity and turnover from the distribution.

• REPORT OF THE DIRECTORS •

HUMAN RESOURCES

Staff number

A breakdown of the number of staff of the Group by responsibilities as at each year end of 31 December 2002 and 2001 are set out below:

	Number of staff at 31 December	
Function	**2002**	2001
Engineering	223	256
Sales	381	373
Administration	122	123
Management	78	71
	804	823

An analysis of the number of staff by the end of 2002 by locations is set out below:

Locations	**Number of staff**
Beijing	228
Shenzhen	199
Hainan	116
Hubei	92
Zhuhai	42
Tianjin	64
Hong Kong	5
Jiangsu	21
Shanghai	37
	804

• REPORT OF THE DIRECTORS •

Remuneration policies and labour relations

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

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

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

Training

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

OUTLOOK

The Directors anticipate that China's economy will continue to grow and that China's entry into the World Trade Organization should bring new development for the China's economy which would accelerate the CFC replacement process.

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

For the year 2003, the Directors believe that more manufacturers of refrigeration and air-conditioning systems would use the Greencool Refrigerants in their products due to possible improvement in product performance caused by the energy saving features of Greencool Refrigerants. The demand for Greencool Refrigerants would thus grow significantly.

• REPORT OF THE DIRECTORS •

In the next three years, the Directors are looking forward to establish new subsidiaries or representative offices in three to four provinces.

The Directors are confident that the business of the Group should generate significant profit from the business.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives for the year ending 31 December 2002 as stated in the prospectus dated 5 July 2000	Actual business progress/change in business objective (if any)
Marketing	
1. *Promotional efforts*	
In line with the establishment of extensive nationwide distribution network, marketing focus will be in the regional level	Advertised in major regional newspapers and mass media in China.
2. *Government support*	
Secure supports from three to five provincial governments	Actively conducted meetings with relevant authorities of Shangdong, Jiangxi and Anhui provinces with regard to expansion of business in those areas and all those local authorities' inital responses are positive.
Sales channels	
1. *Own network*	
Strengthen the sales and services network of newly set-up subsidiaries	The Group is adding financial and human resources to strengthen the sales and services network of newly set up subsidiaries in Shanghai and Jiangsu province.
Set up five to eight representative offices in the surrounding areas of the Group's subsidiaries	The setting up of additional representative offices has deferred because the Group believes that the existing subsidiaries and representative offices are coping well with market demand.

• REPORT OF THE DIRECTORS •

2. *Authorised sales agent network*	
Appoint about 100-150 authorised sales agents	As the Group's in-house sales force was more efficient and cost effective than anticipated, at the end of December 2002, the Group appointed 37 authorised sales agents. Also, the Group had substantially strengthened its own sales force with a total 381 sales staff as at the end of December 2002.
3. *Authorised replacement project agent network*	
Appoint about 400-600 authorised replacement project agents	The Group appointed 309 authorised replacement project agents as at the end of December 2002, which was less than expected due to resources being reallocated to dealing with CFC replacement projects which have a higher profit margin.
New product market	
Start to promote and sell the Group's new products produced from the packaging plant	In order to minimise capital expenditure, the Group continued to use a sub-contractor in Guangdong province for the packaging of small packets of Greencool Refrigerants. The Group has decided not to build the small packets plant and there is no new product this year.
Service quality	
• Set up a computer network to link up all the Group's subsidiaries and representative offices in China	The Group has already installed desk top workstations for major subsidiaries that can communicate effectively and economically through internet.
• Set up a national chain of Greencool Refrigerants service centre in China	A national chain of authorised replacement project agents has been set up in China that becomes the foundation of national coverage of maintenance of services.

• REPORT OF THE DIRECTORS •

Investment

Invest about RMB 300-400 million	RMB2,120,000 was injected as capital contribution to 珠海市格林柯爾製冷工程有限公司 in 2002. The amount invested is not as much as management had expected at time of issue of the Company's prospectus as management did not come across investment opportunities which they felt merited investment.

Use of proceeds

Up to approximately HK$440 million to set up subsidiaries in a number of major cities and provinces	An aggregate of approximately HK$87 million has been injected in to new subsidiaries since the Company's listing.
Up to approximately HK$150 million as additional contribution to Shenzhen Greencool, Hainan Greencool and Hubei Greencool	Additional contributions to Shenzhen Greencool. Hainan Greencool and Hubei Greencool were fully injected.
Up to approximately HK$30 million as advertising and public relation activities	Around HK$0.8 million was used in advertising and public relation activities during 2002. Up to 31 December 2002, an aggregate of approximately HK$6.3 million of proceeds have been used in this respect.
Up to approximately HK$50 million to set up a facilities in Shenzhen for research and development as well as training activities for engineers	The Company has decided to set up such facilities in Hubei instead of Shenzhen. The set-up of research and development and training facilities in Hubei is in the preliminary stage and no material expenditure has therefore been incurred. As the Company has decided to change the site of such facilities to Hubei, HK$50 million will be used in Hubei facilities for research, development and training in future.

Unused proceeds are mainly kept as short term bank deposits and the Directors believe that the proceeds is sufficient for covering all stated objectives in the relevant periods stated in the prospectus dated 5th July 2000.

• REPORT OF THE DIRECTORS •

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Gu Chu Jun, aged 43, has been the chairman of the Company and the founder of the Greencool Group. He is responsible for setting the Group's overall business development and corporate strategies. He graduated with a master's degree in engineering from Tianjin University, the PRC and has over 15 years of experience in the refrigeration engineering and refrigerant industry. Prior to founding the Greencool Group, Mr. Gu taught in Tianjin University (天津大學) and actively participated in the research of thermodynamics and refrigeration engineering. Mr. Gu is the inventor of Greencool Refrigerants. Mr. Gu is also the Chairman, executive director and single largest shareholder of Guangdong Kelon Electrical Holdings Co., Limited.

Mr. Hu Xiao Hui, aged 36, has been the vice-chairman and subsequently appointed the president and chief executive officer of the Company. Mr. Hu is responsible for execution of the Group's overall business strategies and managing the overall operations. He holds a bachelor's degree in engineering from the University of Science and Technology of China (中國科學技術大學). He has a wealth of experience in engineering thermophysics and refrigerant science. Being engaged in scientific research, engineering, marketing and management. Mr. Hu joined the Greencool Group in 1991 and the Group in May 1998.

Mr. Zhang Xi Han, aged 36, has been the executive director and vice-president and subsequently appointed as the chief operating officer of the Company. Mr. Zhang holds a master's degree in low temperature and refrigerating engineering. He joined the Greencool Group in 1993 after obtaining his master's degree, and now is responsible for overall the engineering, marketing and management of the Group.

Mr. Liu Cong Meng, aged 57, has been an executive director and vice president of the Company. 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. Liu is also an executive director, chief operating officer and president of Guangdong Kelon Electrical Holdings Co., Limited.

• REPORT OF THE DIRECTORS •

Mr. Xu Wan Ping, aged 39, has been an executive director and vice president of the Company and is currently responsible for setting and implementing the Group's marketing strategies in the PRC. Mr. Xu is an engineer and holds a bachelor's degree in engineering from Beijing Aeronautics and Space-Flight University (北京航空航天大學). He has over nine years of experience in management.

Mr. Chen Chang Bei, aged 50, has been an executive director and compliance officer of the Company. Mr. Chen holds a master's degree of Arts from the Shangdong University, the PRC and a master's degree of Arts from York University, Canada. Mr. Chen is responsible for implementing the Group's development strategies for the PRC. Prior to joining the Greencool Group, Mr. Chen was a lecturer in Shan Dong University, and worked for MIC Inc. in Canada as a vice general manager.

Independent Non-Executive Directors

Mr. Fan Jia Yan, aged 57, has been an independent non-executive director of the Company. He was appointed as an executive director of The Hongkong Chinese Bank, Limited in 1993 and now is special advisor of CITIC Ka Wah Bank. Mr. Fan joined CITIC Group in 1980 and he had been in the management of CITIC Industrial Bank in Beijing for more than 10 years. He was also a director of The China Assets Management Limited, a company listed in Hong Kong. Mr. Fan graduated from the Institute of International Relations in Beijing in 1968.

Mdm. Margaret Man, aged 48, has been an independent non-executive director of the Company. She joined CITIC Ka Wah Bank Ltd as Senior Vice President in October 1998. Prior to that, Mdm. Man was a Deputy Managing Director of China Venturetechno International Co., Ltd and was a Division Chief in People's Bank of China for seven years. Mdm. Man graduated from the College of Finance and Economy of Shanxi province with a bachelor's degree in finance and obtained a master's degree in banking and finance from the Graduate School of the People's Bank of China. Mdm. Man completed a legal studies programme at Columbia University Law School in the United States in 1986.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Mok Henry Wing Kai, aged 42, is the qualified accountant and company secretary of the Group. Mr. Mok has over 17 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.

• REPORT OF THE DIRECTORS •

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 29.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately RMB13 million to expand its business. Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's authorised and issued share capital are set out in note 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and the note 25 to the financial statements, respectively.

• REPORT OF THE DIRECTORS •

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Gu Chu Jun, *Chairman*
Hu Xiao Hui, *Vice-chairman, Chief Executive Officer and President*
Zhang Xi Han, *Chief Operating Officer*
Liu Cong Meng
Xu Wan Ping
Chen Chang Bei
Su Xue Zhi (retired on 29 April 2002)

Independent non-executive directors:

Fan Jia Yan
Margaret Man

In accordance with the Company's Articles of Association, Messrs. Zhang Xi Han and Chen Chang Bei retire by rotation and, being eligible, will offer themselves for re-election.

All of the directors have entered into service contracts with the Company for a fixed term of three years commencing 1 June 2000, which may be terminated by either party thereto giving to the other six months prior notice in writing, which notice period shall not expire until after the first two years.

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

• REPORT OF THE DIRECTORS •

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2002, the interests of the directors, chief executive and their associates in the ordinary shares of the Company as recorded in the register maintained by the Company under Section 29 of Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

	Number of shares held
Name of director	**Corporate interest**
Gu Chu Jun ("Mr. Gu")	625,940,000 *(Note)*

Note: These shares were beneficially owned by Greencool Capital Limited which is entirely owned by Mr. Gu.

SHARE OPTIONS AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than disclosed in note 24 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive or their respective associates, of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any other associated corporation and none of the directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

• REPORT OF THE DIRECTORS •

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital:

Name of shareholder	Number of shares	Approximate shareholding percentage
Greencool Capital Limited *(Note)*	625,940,000	62.6%

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

DIRECTORS' INTERESTS IN CONTRACTS

(a) On 28 June 2000, Mr. Gu granted, in consideration of HK$10, the Company an option (the "Tianjin Option") to purchase all of his interest in the Tianjin Greencool Factory which, at the date of issue of the Company's prospectus upon listing dated 5 July 2000 (the "Prospectus"), was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option can be exercisable solely at the discretion of the Company during the three-year period commencing on 28 June 2000, being the date of the relevant deed of option, at a price which is equivalent to 80 per cent. of Mr. Gu's interest in the Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company, but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with International Financial Reporting Standards) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable. The exercise and non-exercise of the Tianjin Option would also constitute connected transactions subject to the provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") requiring reporting announcement and shareholders' approval.

(b) Pursuant to a trademark licensing agreement entered between the Company and Greencool Thermo-Tech Holdings Limited dated 28 June 2000, Greencool Thermo-Tech Holdings Limited also agreed to grant the Company a licence to use the trademarks (as listed in paragraph 8 of Appendix V of the Company's prospectus dated 5 July 2000) in the two registered classes in the PRC upon its acquisition of the same for nil consideration for a period of ten years commencing 28 June 2000.

(c) During the year, the Group sold CFC-free refrigerants of approximately RMB23,077,000 to Guangdong Kelon Electrical Holdings Co., Ltd., in which Mr. Gu ultimately has an equity interest of approximately 21%.

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

CONNECTED TRANSACTIONS

(a) Pursuant to a purchase agreement dated 20 May 1998, Beijing Greencool Environmental Protection Engineering Co., Ltd. ("Beijing Greencool") appointed Greencool Canada Inc. ("GCI"), a company incorporated in Canada with limited liability and wholly owned by Mr. Gu, as the agent to purchase equipment from overseas markets. These new equipment is used for the CFC replacement engineering work. Total purchase amounts under this agreement were US$2,863,000 (equivalent to approximately RMB23.7 million). During the year, property, plant and equipment of approximately RMB9,999,000 were acquired from GCI, of which RMB8,500,000 was paid in the previous years and resulted in a balance payable of RMB1,499,000 to GCI as at 31 December 2002. Pursuant to the agreement, GCI also agreed to provide auxiliary services to the Group, including design, installation and testing of the purchased equipment. The directors confirmed that GCI has not charged and will not charge any fees in providing such services.

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

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

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

The independent non-executive directors of Greencool Technology Holdings Limited has confirmed that for the financial year of 2002:

(a) the continuing connected transactions (the "Transactions") relating to purchases of refrigerants from the Tianjin Greencool Factory pursuant to the Exclusive Distribution Agreement have been entered into by the Group in the usual and ordinary course of its business;

(b) save for the delayed deliveries as referred to in the Company's announcement dated 7 May 2002, the Transactions have been entered into on normal commercial terms (to the extent that there are comparable transactions) 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.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest customer accounted for 16.7% of total turnover during the year. Aggregate turnover attributable to the Group's five largest customers represented 36.5% of the total turnover for the year.

The Group's sole supplier accounted for 100% of total purchase during the year. At 31 December 2002, Mr. Gu had a beneficial interest in that supplier. All transactions between the Group and the supplier concerned were carried out on normal commercial terms.

COMPETING INTEREST

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 of Hong Kong Limited or any other stock exchanges 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) hold, whether individually or taken together, 10% or more of the issued shares in the Company or Mr. Gu and his associates are otherwise regarded as substantial shareholders of the Company under the GEM Listing Rules or the rules of the relevant securities exchange, he will not and will procure that his associates will not directly or indirectly carry on or be engaged or concerned or interested in: (a) the business of replacement of CFC and CFC-free refrigerants using Greencool Refrigerants and the distribution of Greencool Refrigerants in the PRC; and/or (b) any other business in the PRC that is similar to any member of the Group as described in the Company's prospectus dated 5 July 2000.

Saved as disclosed above, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates (as defined in the GEM Listed Rules) had any conflict of interest nor an interest in a business which competes or may compete with the business of the Group in the PRC.

• REPORT OF THE DIRECTORS •

SPONSOR'S INTERESTS

To the best knowledge of ING Bank, N.V. ("ING Bank"), the Company's sponsor, its directors, employees or associates (as referred to in Note 3 to the Rule 6.35 of the GEM Listing Rules) held 10,000 shares in the Company as at 31 December 2002.

Pursuant to the agreement dated 12 November 2001, ING Bank N.V. had been retained to act as the Company's sponsor for the period up to 31 December 2002 in return for an annual advisory fee payable on a quarterly basis.

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied with the broad practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year ended 31 December 2002.

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

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

• REPORT OF THE DIRECTORS •

AUDITORS

During the year, Messrs. Arthur Andersen & Co., who acted as auditors of the Company since the incorporation of the Company on 10 January 2000, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

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

On behalf of the Board

Gu Chu Jun
Director

Hong Kong, 18 March 2003

• AUDITORS' REPORT •

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Deloitte Touche Tohmatsu

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

We have audited the financial statements on pages 29 to 63 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18 March 2003

• CONSOLIDATED INCOME STATEMENT •

FOR THE YEAR ENDED 31 DECEMBER 2002

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

	Notes	2002 RMB'000	2001 RMB'000
Turnover	3	**321,420**	516,330
Cost of sales and services		**(128,524)**	(105,604)
Gross profit		**192,896**	410,726
Other operating income	4	**19,202**	25,871
Distribution costs		**(26,933)**	(28,431)
Administrative expenses		**(81,797)**	(68,801)
Profit from operations	5	**103,368**	339,365
Finance costs	8	**(6,230)**	(4,430)
Profit before taxation		**97,138**	334,935
Taxation	9	**(14,450)**	(20,593)
Net profit for the year		**82,688**	314,342
Dividends	10	**–**	159,000
Earnings per share	11		
Basic		**RMB8.3 cents**	RMB31 cents
Diluted		**RMB8.3 cents**	RMB31 cents

• CONSOLIDATED BALANCE SHEET •

AT 31 DECEMBER 2002

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

	Notes	2002 RMB'000	2001 RMB'000
Non-current assets			
Property, plant and equipment	*12*	**51,103**	44,216
Intangible asset	*13*	**144,000**	156,000
Long term trade receivables	*15*	**8,433**	–
		203,536	200,216
Current assets			
Inventories	*16*	**158,774**	31,118
Trade receivables	*15*	**44,267**	96,666
Deposits, prepayments and other receivables		**14,051**	15,262
Investment securities	*17*	**4,394**	5,980
Amounts due from related companies	*18*	**1,024**	229,983
Pledged bank deposits		**23,176**	–
Bank balances and cash		**1,031,033**	850,621
		1,276,719	1,229,630
Current liabilities			
Other payables and accrued charges		**57,411**	27,551
Amounts due to related companies	*21*	**17,002**	6,963
Taxation payables		**12,727**	20,078
Bank loans	*22*	**68,000**	80,000
		155,140	134,592
Net current assets		**1,121,579**	1,095,038
Net assets		**1,325,115**	1,295,254
Capital and reserves			
Share capital	*23*	**106,000**	106,000
Reserves		**1,219,115**	1,189,254
Shareholders' funds		**1,325,115**	1,295,254

The financial statements on pages 29 to 63 were approved and authorised for issue by the Board of Directors on 18 March 2003 and are signed on its behalf by:

Gu Chu Jun
Director

Chen Chang Bei
Director

• BALANCE SHEET •

AT 31 DECEMBER 2002
(Expressed in thousands of Renminbi ("RMB"))

	Notes	2002 RMB'000	2001 RMB'000
Non-current assets			
Property, plant and equipment	12	**857**	1,212
Investments in subsidiaries	14	**1,271,547**	1,146,706
		1,272,404	1,147,918
Current assets			
Deposits, prepayments and other receivables		**387**	2,968
Bank balances and cash		**59,022**	151,003
		59,409	153,971
Current liabilities			
Other payables and accrued charges		**2,399**	6,699
Amounts due to subsidiaries		**4,536**	–
		6,935	6,699
Net current assets		**52,474**	147,272
Net assets		**1,324,878**	1,295,190
Capital and reserves			
Share capital	23	**106,000**	106,000
Reserves	25	**1,218,878**	1,189,190
Shareholders' funds		**1,324,878**	1,295,190

Gu Chu Jun
Director

Chen Chang Bei
Director

• CONSOLIDATED STATEMENT OF CHANGES IN EQUITY •

FOR THE YEAR ENDED 31 DECEMBER 2002
(Expressed in thousands of Renminbi ("RMB"))

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2001	106,000	429,961	353,394	162	250,493	1,140,010
Currency realignment not recognised in the consolidated income statement	–	–	–	(98)	–	(98)
Net profit for the year	–	–	–	–	314,342	314,342
2000 final dividend paid	–	–	–	–	(53,000)	(53,000)
2001 interim dividend paid	–	–	–	–	(106,000)	(106,000)
At 1 January 2002	106,000	429,961	353,394	64	405,835	1,295,254
Currency realignment not recognised in the consolidated income statement	–	–	–	173	–	173
Net profit for the year	–	–	–	–	82,688	82,688
2001 final dividend paid	–	–	–	–	(53,000)	(53,000)
At 31 December 2002	106,000	429,961	353,394	237	435,523	1,325,115

• CONSOLIDATED CASH FLOW STATEMENT •

FOR THE YEAR ENDED 31 DECEMBER 2002
(Expressed in thousands of Renminbi ("RMB"))

	2002 RMB'000	2001 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**97,138**	334,935
Adjustments for:		
Interest income	**(9,563)**	(22,495)
Interest expense	**6,230**	4,430
Depreciation	**5,679**	3,888
Amortisation of intangible asset	**12,000**	12,000
Allowance for doubtful debts	**2,020**	2,579
Unrealised holding loss on investment securities	**1,586**	116
Loss on disposal of property, plant and equipment	**206**	–
Gain on disposal of investment securities	**–**	(4)
Operating cash flows before movements in working capital	**115,296**	335,449
(Increase) decrease in inventories	**(127,656)**	27,866
Decrease (increase) in trade receivables	**41,946**	(13,038)
Decrease (increase) in deposits, prepayments and other receivables	**1,211**	(3,345)
Decrease (increase) in amounts due from related companies	**228,959**	(229,983)
Increase in other payables and accrued charges	**11,950**	12,688
Increase (decrease) in amounts due to related companies	**10,039**	(24,622)
Net cash generated from operations	**281,745**	105,015
PRC Enterprise Income Tax paid	**(3,891)**	(516)
Interest paid	**(6,230)**	(4,430)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**271,624**	100,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**9,563**	22,495
Proceeds on disposal of property, plant and equipment	**297**	–
Purchase of property, plant and equipment	**(13,069)**	(22,062)
Increase in pledged bank deposits	**(23,176)**	–
Proceeds on disposal of investments securities	**–**	200
Purchase of investment securities	**–**	(1,678)
NET CASH USED IN INVESTING ACTIVITIES	**(26,385)**	(1,045)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(53,000)**	(159,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**192,239**	(59,976)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**770,621**	830,695
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**173**	(98)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**963,033**	770,621
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,031,033**	850,621
Bank loans	**(68,000)**	(80,000)
	963,033	770,621

1. GENERAL

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for using the equity method. The carrying amount of such investments is reduced to recognised any impairment in the value of individual investments.

Revenue recognition

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

Service income is recognised when services are rendered.

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

Property, plant and equipment

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Exclusive distribution right for CFC-free refrigerants

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

Inventories

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

Investment securities

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other financial assets

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

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

Impairment

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other financial liabilities and equity instruments

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

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

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

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

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

Provisions

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

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Retirement benefits scheme

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

Borrowing costs

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

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

Operating leases

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

The Group maintains its books and records in Renminbi.

Foreign currency transactions are translated into Renminbi at the applicable rates of exchange quoted by The People's Bank of China ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Renminbi at the applicable rates of exchange quoted by The People's Bank of China ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

3. TURNOVER AND SEGMENT INFORMATION

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

	2002	2001
	RMB'000	*RMB'000*
Conversion engineering income	**219,647**	476,726
Sales of CFC-free refrigerants	**101,773**	39,604
	321,420	516,330

Business segments

The Group's turnover and net profit for the year are almost entirely derived from the conversion engineering of large-scale CFC-free air-conditioning systems and sales of CFC-free refrigerants. In the opinion of directors, these activities constitute one business segment since the products are related and are subject to common risks and returns.

Geographical segments

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

4. OTHER OPERATING INCOME

	2002	2001
	RMB'000	*RMB'000*
Interest income	**9,563**	22,495
Others	**9,639**	3,376
	19,202	25,871

5. PROFIT FROM OPERATIONS

	2002	2001
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Allowance for doubtful debts	**2,020**	2,579
Amortisation of intangible asset, included in distribution costs	**12,000**	12,000
Auditors' remuneration	**1,060**	1,400
Cost of inventories	**108,073**	99,027
Depreciation	**5,679**	3,888
Loss and disposal of property, plant and equipment	**206**	–
Minimum lease payments under operating leases in respect of office premises	**8,303**	6,045
Staff costs, including directors' remuneration *(note 6)*	**37,354**	11,520
Unrealised holding loss on investment securities	**1,586**	116
and after crediting:		
Gain on disposal of investment securities	**–**	4

Note: As at 31 December 2002, the Group has approximately 800 (2001: 800) employees.

6. DIRECTORS' REMUNERATION

	2002	2001
	RMB'000	*RMB'000*
Directors		
Fees:		
Executive	**–**	–
Independent non-executive	**–**	–
	–	–
Other emoluments for executive directors:		
Salaries and other benefits	**6,839**	7,800
Retirement benefits scheme contributions	**38**	–
	6,877	7,800
Other emoluments for independent non-executive directors	**721**	576
	7,598	8,376

Emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
	RMB'000	*RMB'000*
Executive directors		
Nil to RMB1,000,000	**4**	4
RMB1,000,001 to RMB1,500,000	**2**	2
RMB2,500,001 to RMB3,000,000	**1**	1
Independent non-executive directors		
Nil to RMB1,000,000	**2**	2
	9	9

6. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2002, other emoluments, included contributions to retirement benefit scheme, paid to seven executive directors were RMB2,851,000, RMB1,253,000, RMB1,046,000, RMB827,000, RMB827,000, RMB72,000 and RMB1,000 respectively (2001: RMB2,966,000, RMB1,241,000, RMB1,011,000, RMB837,000, RMB837,000, RMB837,000 and RMB71,000 respectively).

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

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2001: four) executive directors of the Company, whose emoluments are included in note 6 above. The details of the aggregate emoluments of the remaining one (2001: one) highest paid individual are as follows:

	2002	2001
	RMB'000	*RMB'000*
Basic salaries and allowances	**1,033**	1,023
Retirement benefits scheme contributions	**13**	–
	1,046	1,023

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

	2002	2001
	RMB'000	*RMB'000*
Nil to RMB1,000,000	**1**	1
RMB1,000,001 to RMB1,500,000	**3**	3
RMB2,500,001 to RMB3,000,000	**1**	1
	5	5

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

8. FINANCE COSTS

	2002	2001
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**6,230**	4,395
Others	**–**	35
	6,230	4,430

9. TAXATION

	2002	2001
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	**14,450**	20,593

Pursuant to the relevant income tax laws of the PRC applicable to enterprises with foreign investment and foreign enterprises, the Group's PRC subsidiaries are subject to PRC Enterprise Income Tax at rates ranging from 7.5% to 15% (2001: 15% to 24%). The Group's certain PRC subsidiaries are foreign investment enterprises of production nature established in the PRC. Accordingly, these subsidiaries are entitled to tax exemption for the first two years of profitable operations and 50% tax reduction in the following three years of operations. In addition, a PRC subsidiary is a foreign investment enterprise of production nature and is located in New and High Technology Development Zone in the PRC. Accordingly, this subsidiary is entitled to tax exemption for the first three years of operations and 50% tax reduction in the following three years of operations.

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

9. TAXATION *(Continued)*

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

	2002	2001
	RMB'000	*RMB'000*
Profit before taxation	**97,138**	334,935
Tax rates of 15% applicable to the Group's subsidiaries in the PRC (2001: 15%)	**14,571**	50,240
Tax benefit arising from the relevant income tax laws of the PRC applicable to foreign investment enterprises in the PRC	**(121)**	(29,647)
Taxation charge to the consolidated income statement	**14,450**	20,593

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

10. DIVIDENDS

	2002	2001
	RMB'000	*RMB'000*
Interim dividend of HK$ nil (2001: HK$0.10, equivalent to RMB0.106) per share	**–**	106,000
Proposed final dividend of HK$ nil (2001: HK$0.05, equivalent to RMB0.053) per share	**–**	53,000
	–	159,000

11. EARNINGS PER SHARE

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

	2002	2001
	RMB'000	*RMB'000*
Net profit for the year for the purposes of basic and diluted earnings per share	**82,688**	314,342
	'000	*'000*
Weighted average number of shares for the purpose of basic earnings per share	**1,000,000**	1,000,000
Effect of dilutive potential shares on share options	**578**	23,178
Weighted average number of shares for the purpose of diluted earnings per share	**1,000,578**	1,023,178

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	**Machinery**	**Motor vehicles**	**Office equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP					
COST					
At 1 January 2002	10,060	15,477	20,550	3,955	50,042
Reclassification	–	(106)	–	106	–
Additions	238	224	1,577	11,030	13,069
Disposals	–	–	(580)	–	(580)
At 31 December 2002	10,298	15,595	21,547	15,091	62,531
DEPRECIATION					
At 1 January 2002	–	1,049	4,189	588	5,826
Provided for the year	609	939	3,180	951	5,679
Eliminated on disposals	–	–	(77)	–	(77)
At 31 December 2002	609	1,988	7,292	1,539	11,428
NET BOOK VALUES					
At 31 December 2002	9,689	13,607	14,255	13,552	51,103
At 31 December 2001	10,060	14,428	16,361	3,367	44,216

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Total *RMB'000*
THE COMPANY			
COST			
At 1 January 2002	1,346	620	1,966
Additions	–	48	48
At 31 December 2002	1,346	668	2,014
DEPRECIATION			
At 1 January 2002	532	222	754
Provided for the year	269	134	403
At 31 December 2002	801	356	1,157
NET BOOK VALUES			
At 31 December 2002	545	312	857
At 31 December 2001	814	398	1,212

13. INTANGIBLE ASSET

	RMB'000
COST	
At 1 January 2002 and 31 December 2002	180,000
AMORTISATION	
At 1 January 2002	24,000
Provided for the year	12,000
At 31 December 2002	36,000
NET BOOK VALUE	
At 31 December 2002	144,000
At 31 December 2001	156,000

13. INTANGIBLE ASSET *(Continued)*

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

The directors are of the opinion that the underlying value of the intangible asset was not less than its carrying value at 31 December 2002.

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	RMB'000	*RMB'000*
Share of net identifiable assets of subsidiaries	**1,013,304**	917,750
Amounts due from subsidiaries	**258,243**	228,956
	1,271,547	1,146,706

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

Particulars of the Company's subsidiaries at 31 December 2002 are set out in note 30.

15. TRADE RECEIVABLES

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Trade receivables are repayable as follows:		
Within one year	**44,267**	96,666
In the second to fifth year inclusive	**8,433**	–
	52,700	96,666
Less: Amount due within one year shown as current assets	**(44,267)**	(96,666)
Amount due after one year	**8,433**	–

15. TRADE RECEIVABLES *(Continued)*

The aged analysis of trade receivables is as follows:

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Within 90 days	**17,509**	58,770
Between 90 to 180 days	**22,186**	30,845
Between 181 days to 365 days	**7,289**	12,330
Over 365 days	**13,015**	–
	59,999	101,945
Less: Allowance for doubtful debts	**(7,299)**	(5,279)
	52,700	96,666

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

16. INVENTORIES

The Group

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

17. INVESTMENT SECURITIES

	The Group	
	2002	2001
	RMB'000	*RMB'000*
Investment held-for-trading		
Listed marketable equity securities in Hong Kong, at market value		
– Guangdong Kelon Electrical Holdings Co., Ltd. ("Kelon")	**3,613**	5,034
– GZITIC Hualing Holdings Limited	**781**	946
	4,394	5,980
Cost of listed marketable securities	**6,096**	6,096

18. AMOUNTS DUE FROM RELATED COMPANIES

	The Group	
	2002	2001
Name of related company	***RMB'000***	*RMB'000*
順德市格林柯爾企業發展有限公司	**712**	–
Yangpu Greencool Refrigerant Co., Ltd.	**163**	–
Kelon	**149**	–
Tianjin Greencool Factory	**–**	229,983
	1,024	229,983

Mr. Gu Chu Jun ("Mr. Gu"), the Chairman of the Company, has beneficial interests in the above related companies.

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

19. OTHER FINANCIAL ASSETS

Deposits, prepayments and other receivables

The carrying amount of these assets approximates their fair values.

Bank balances and cash

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

Credit risks

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

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

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

20. OTHER FINANCIAL LIABILITIES

Other payables and accrued charges

The balance principally comprises amounts outstanding for property, plant and equipment and ongoing costs.

21. AMOUNTS DUE TO RELATED COMPANIES

	The Group	
	2002	2001
Name of related company	***RMB'000***	*RMB'000*
Greencool Canada Inc. ("GCI")	**16,662**	6,663
Beijing Huazhao Green Energy Refrigerant Engineering Co., Ltd.	**300**	300
Tianjin Greencool Factory	**40**	–
	17,002	6,963

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

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

22. BANK LOANS

All of the Group's borrowings are in Renminbi, and carry interest at rates ranging from 5.31% – 5.52% (2001: 4.65% – 5.59%) per annum.

At 31 December 2002, the Group's bank loans of RMB22,000,000 are secured by pledged bank deposit of approximately RMB23,176,000 and the remaining bank loans of RMB46,000,000 are unsecured.

At 31 December 2001, an amount of bank loan of RMB50,000,000 which was granted by Agricultural Bank of China, Shenzhen Branch, was guaranteed by a stand-by letter of credit amounting to HK$50,000,000 issued by the Citic Ka Wah Bank ("CKW"). This letter of credit was issued by CKW pursuant to a banking facility of HK$100,000,000 granted to the Group, which was secured by pledged fixed deposits amounting to 50% of the facility utilised and personal guarantee from Mr. Gu. The other RMB30,000,000 was granted by Bank of Communications, Nanjing Branch and was unsecured.

23. SHARE CAPITAL

	2002 & 2001	
	Number of shares	**Amount**
	'000	*HK$'000*
Authorised:		
Ordinary shares of HK$0.1 each	5,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each	1,000,000	100,000

	2002 & 2001
	RMB'000
Shown in the financial statements as	106,000

24. SHARE OPTIONS

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

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

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

24. SHARE OPTIONS *(Continued)*

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

Name of director	Date of Grant	Exercisable period	Exercise price *HK$*	Number of share options outstanding at 1.1.2002 and 31.12.2002	Number of share options outstanding at 1.1.2001 and 31.12.2001
Mr. Gu	28.6.2000	28.6.2000 – 27.6.2005	2.18	10,000,000	10,000,000
Zhang Xi Han	28.6.2000	28.6.2000 – 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 – 25.9.2005	1.68	20,000,000	20,000,000
Liu Cong Meng	28.6.2000	28.6.2000 – 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 – 25.9.2005	1.68	20,000,000	20,000,000
Xu Wan Ping	28.6.2000	28.6.2000 – 27.6.2005	2.18	3,400,000	3,400,000
	26.9.2000	26.9.2000 – 25.9.2005	1.68	20,000,000	20,000,000
				80,200,000	80,200,000

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

25. RESERVES

The Group

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

25. RESERVES *(Continued)*

The Group *(Continued)*

The staff and workers' bonus and welfare fund can only be utilised for special bonuses or collective welfare of the employees of the individual PRC subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31 December 2002, the reserve funds, included in accumulated profits, amounted to approximately RMB84,739,000 (2001: RMB62,284,000). Under IFRS, appropriations to the staff and workers' bonus and welfare fund are treated as expenses and the balance of this fund is regarded as a liability of the Group.

	Share premium	Capital reserve	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Company				
At 1 January 2001	429,961	502,621	101,266	1,033,848
Net profit for the year	–	–	314,342	314,342
2000 final dividend paid	–	–	(53,000)	(53,000)
2001 interim dividend paid	–	–	(106,000)	(106,000)
At 1 January 2002	429,961	502,621	256,608	1,189,190
Net profit for the year	–	–	82,688	82,688
2001 final dividend paid	–	–	(53,000)	(53,000)
At 31 December 2002	429,961	502,621	286,296	1,218,878

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

25. RESERVES *(Continued)*

The Company *(Continued)*

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

	2002	2001
	RMB'000	*RMB'000*
Share premium	**429,961**	429,961
Capital reserve	**502,621**	502,621
Accumulated profits	**286,296**	256,608
	1,218,878	1,189,190

26. RETIREMENT BENEFITS

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

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

The Group's contributions to the MPF Scheme in Hong Kong and retirement schemes in the PRC of RMB2,414,000 (2001: RMB484,000) are charged to the consolidated income statement as they fall due.

27. CAPITAL COMMITMENTS

At the balance sheet date, the Group was contracted for acquisition of property, plant and equipment amounting to approximately RMB13,672,000 (2001: RMB23,671,000).

28. OPERATING LEASE COMMITMENTS

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

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**5,788**	2,713	**1,179**	1,224
In the second to fifth year inclusive	**1,941**	139	**766**	175
	7,729	2,852	**1,945**	1,399

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

29. RELATED PARTY TRANSACTIONS

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

(a) Pursuant to a purchase agreement dated 20 May 1998, a subsidiary of the Company, namely Beijing Greencool Environmental Protection Engineering Co., Ltd. ("Beijing Greencool"), appointed GCI, a company incorporated in Canada with limited liability and wholly-owned by Mr. Gu, as the agent to purchase equipment from overseas markets. These new equipment is used for the CFC replacement engineering work. Total purchase amounts under this agreement were US$2,863,000 (equivalent to approximately RMB23.7 million). During the year, property, plant and equipment of approximately RMB9,999,000 were acquired from GCI, of which RMB8,500,000 was paid in the previous years and resulted in a balance payable of RMB1,499,000 to GCI as at 31 December 2002. Pursuant to the agreement, GCI also agreed to provide auxiliary services to the Group, including design, installation and testing of the purchased equipment. The directors confirmed that GCI has not charged and will not charge any fees in providing such services.

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

29. RELATED PARTY TRANSACTIONS *(Continued)*

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

During the year, the Group purchased Greencool Refrigerants from the Tianjin Greencool Factory amounting to approximately RMB230,023,000 (2001: RMB70,696,000).

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

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

– the Group is granted an exclusive distribution right (the "Exclusive Distribution Right") in the PRC of CFC-free refrigerants manufactured by the Tianjin Greencool Factory for 20 years commencing from 31 December 1999;

– the cost of the Exclusive Distribution Right was determined by the three parties to be RMB180,000,000, and has been reflected in the financial statements as an intangible asset (see note 13); and

– CFC-free refrigerants supplied by the Tianjin Greencool Factory to the Group for a period from 1 January 2000 to 31 December 2003 will be at pre-determined prices; and from 1 January 2004 onwards will be at prices calculated in accordance with pre-determined bases.

(c) During the year, the Group sold CFC-free refrigerants of RMB23,077,000 (2001: nil) to Kelon. These sales were carried out after negotiation between the Group and Kelon with reference to the estimated open market value.

29. RELATED PARTY TRANSACTIONS *(Continued)*

(d) On 28 June 2000, Mr. Gu granted, in consideration of HK$10, the Company an option (the "Tianjin Option") to purchase all of his interest in the Tianjin Greencool Factory which, at the date of issue of the Company's prospectus upon listing dated 5 July 2000 (the "Prospectus"), was approximately 83.7% of the registered capital of the Tianjin Greencool Factory. The Tianjin Option can be exercisable solely at the discretion of the Company during the three-year period commencing on 28 June 2000, being the date of the relevant deed of option, at a price which is equivalent to 80 per cent. of Mr. Gu's interest in the Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company, but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with IFRS) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable.

(e) Pursuant to a trademark licensing agreement entered between the Company and Greencool Thermo-Tech Holdings Limited dated 28 June 2000, Greencool Thermo-Tech Holdings Limited also agreed to grant the Company a licence to use the trademarks (as listed in paragraph 8 of Appendix V of the Company's Prospectus) in the two registered classes in the PRC upon its acquisition of the same for nil consideration for a period of ten years commencing 28 June 2000.

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

30. SUBSIDIARIES

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

30. SUBSIDIARIES *(Continued)*

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

30. SUBSIDIARIES *(Continued)*

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

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

30. SUBSIDIARIES *(Continued)*

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

* *Companies directly held by the Company.*

None of the subsidiaries had any debt securities outstanding at 31 December 2002 or at any time during the year.

31. COMPARTIVE FIGURES

Certain comparative figures of the consolidated cash flow statement for the year ended 31 December 2001 have been reclassified to conform with the requirements of IFRS.

• FINANCIAL SUMMARY •

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

	Year ended 31 December				
	1998	1999	2000	2001	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS					
Turnover	113	92,827	363,897	516,330	**321,420**
Cost of sales and services	(520)	(34,698)	(67,724)	(105,604)	**(128,524)**
Gross (loss) profit	(407)	58,129	296,173	410,726	**192,896**
Other operating income	–	2,084	16,916	25,871	**19,202**
Distribution costs	(930)	(5,853)	(15,048)	(28,431)	**(26,933)**
Administrative expenses	(5,479)	(12,817)	(28,824)	(68,801)	**(81,797)**
Other operating expenses	28	(243)	–	–	**–**
(Loss) profit from operations	(6,788)	41,300	269,217	339,365	**103,368**
Finance costs	–	(143)	(93)	(4,430)	**(6,230)**
(Loss) profit before taxation	(6,788)	41,157	269,124	334,935	**97,138**
Taxation	–	–	–	(20,593)	**(14,450)**
Net (loss) profit for the year	(6,788)	41,157	269,124	314,342	**82,688**

	At 31 December		
	2000	2001	**2002**
	RMB'000	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES			
Total assets	1,206,459	1,429,846	**1,480,255**
Total liabilities	(66,449)	(134,592)	**(155,140)**
Net assets	1,140,010	1,295,254	**1,325,115**

Notes:

(a) The results for each of the two years ended 31 December 1999 were extracted from the Company's prospectus dated 5 July 2000 which have been prepared on a combined basis as if the Company and its subsidiaries had been in existence throughout these years. The 1998 figures presented in the above summary were unaudited.

(b) The Company was incorporated on 10 January 2000. Accordingly, the only summaries of assets and liabilities of the Group that have been prepared are those set out above.