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 2004

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast 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.

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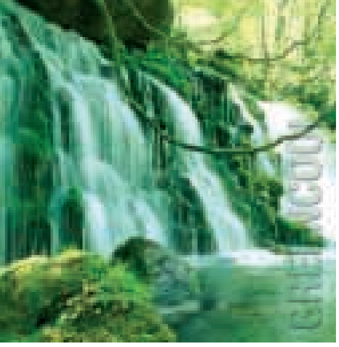


CORPORATE INFORMATION

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
Wang, Jing Shi

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
Wang, Jing Shi

AUTHORISED REPRESENTATIVE
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

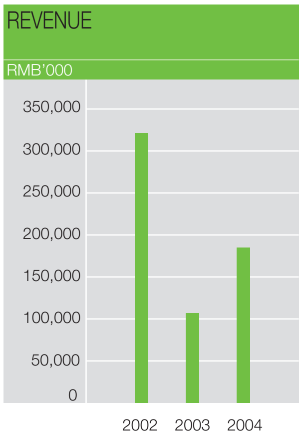
Hong Kong Branch Share
Registrar and Transfer Office
Hong Kong Registrars Limited
Rooms 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

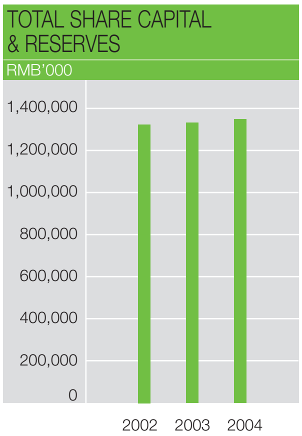
PRINCIPAL BANKER
Citic Ka Wah Bank Ltd.

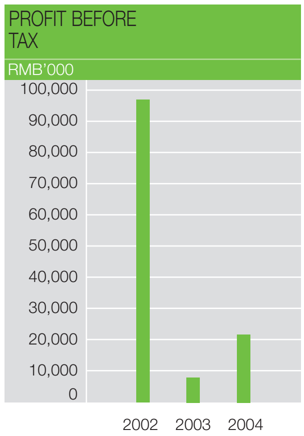
INVESTOR RELATIONS CONSULTANT
Strategic Financial Relations (China) Limited

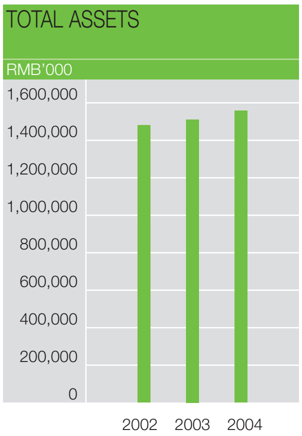
FINANCIAL HIGHLIGHT

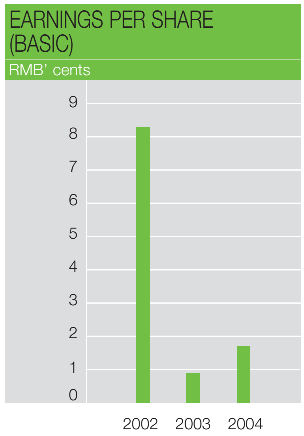
FINANCIAL HIGHLIGHT

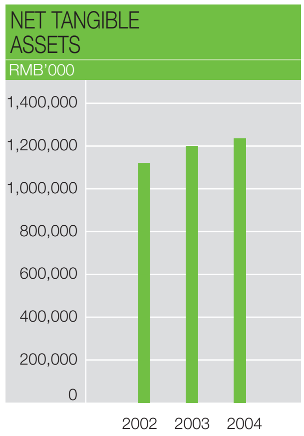


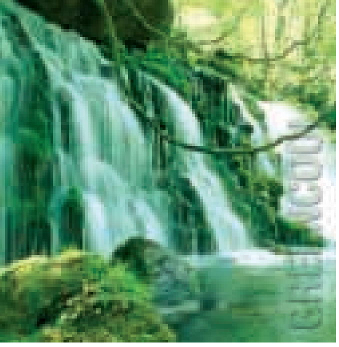












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BUSINESS TERRITORIES OF GREENCOOL

BUSINESS TERRITORIES OF GREENCOOL

CHAIRMAN'S STATEMENT

HIGHLIGHTS FOR THE TWELVE MONTH PERIOD

- Turnover achieved approximately RMB184.8 million for the twelve months ended 31st December 2004, representing a increase of approximately 73% as compared with the same period in 2003

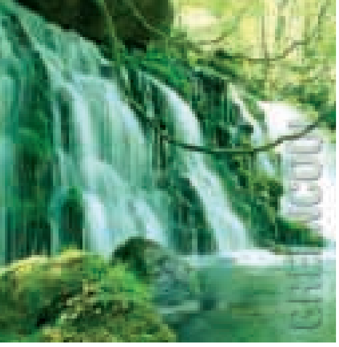
- Although profit from operations remained largely unchanged when compared with 2003, net profit for the year, after taking into account the release of discount on an acquisition, increased to approximately RMB16.6 million, representing an approximately 93% increase compared with the same period of 2003

- No final dividend is proposed

CHAIRMAN'S STATEMENT

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

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



CHAIRMAN'S STATEMENT

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

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

The growing PRC economy with the population in general pursuing a higher quality of life presents tremendous prospects for the environmental protection industry. With its strong financial standing and solid foundations in the refrigeration industry and its vision to build a CFC-free China, the Group is dedicated to offering high quality services products to its customers.

More stringent internal controls will also be put into place to improve the Group's corporate governance standards. In particular, we have, in 2005, established a remuneration committee and a nomination committee.

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

Gu Chu Jun
Chairman

23 March 2005

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 2004.

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, sale of CFC-free refrigerants, as well as manufacture and sale of refrigeration trucks in the People's Republic of China (the "PRC").

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group expended an aggregate of approximately RMB17.4 million on property, plant and equipment. In addition, the Group acquired property, plant and equipment of approximately RMB213.7 million on acquisition of a business. Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 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 26 and note 30 to the financial statements, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

Business Review

The Group is principally engaged in conversion engineering, which represents the replacement of chlorofluorocarbon ("CFC") and less energy-efficient CFC-free refrigerants with Greencool Refrigerants in refrigeration and air-conditioning systems, and the distribution of Greencool Refrigerants in China.

In 1991, China signed the Montreal Protocol which requires the entire country to completely eliminate CFC substances by 2010. Greencool Refrigerants are CFC-free and a good substitute for CFC refrigerants due to its energy saving effect and drop-in features that avoid substantial modification to existing cooling systems.

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

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

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

Financial Performance

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

The Group's total turnover mainly comprised approximately RMB96 million from conversion engineering income, RMB67 million from sales of refrigeration trucks and parts, RMB17 million from sales of CFC-free refrigerants, and RMB5 million from agency entering fees.

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

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

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

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

Outlook

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

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

In future, the Directors will consider new products and new business that may provide additional benefits to and synergy with the Group's existing business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a very strong financial position with approximately RMB1,350 million shareholders' fund as at 31 December 2004 (2003: RMB1,334 million) and RMB1,237 million net tangible assets (2003: RMB1,200 million).

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

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

Short term borrowings and gearing ratio

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

The Group's gearing ratio, measured in terms of total bank borrowings divided by shareholders fund, was 1.78% as at 31 December 2004 (2003: 5.62%). As of 31 December 2004, the Group's cash and cash equivalent, net of total bank borrowings and excluding pledge bank deposits, amounted to approximately RMB954 million (2003: RMB1,040 million).

Trade receivables

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

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

COST OF SALES

The Group's cost of sales relates mainly to the cost of materials for refrigeration trucks and the cost of Greencool Refrigerants purchased from Greencool Refrigerant (China) Co., Ltd ("Tianjin Greencool Factory"). Under the exclusive distribution agreement dated 28 June 2000 (the "Exclusive Distribution Agreement"), Tianjin Greencool Factory will supply R405a and R411 refrigerants at RMB111 and RMB86 per kilogramme respectively, for the period from 1 July 2000 to 31 December 2003. The Group is in discussions with Tianjin Greencool Factory to try and secure an agreement from Tianjin Greencool Factory that, notwithstanding prices of CFC-free refrigerants supplied by Tianjin Greencool Factory should rise from 1 January 2004, for there to be no increase in prices. If and when such an agreement is reached, the Company will make such announcement as required under the Rules Governing the Listing of Securities on the GEM.

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

Administrative expenses include mainly operating lease rentals, depreciation, staff costs, travelling expenses, and others. The operating lease rentals of land and buildings amounted to approximately RMB7.6 million (2003: RMB10.2 million), staff costs including directors' remuneration amounted to approximately RMB35.2 million (2003: RMB35.7 million).

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

CONTINGENT LIABILITIES

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

EXPOSURE TO FLUCTUATION OF FOREIGN EXCHANGE RATES

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

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

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

HUMAN RESOURCES

Staff number

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

Remuneration policies and labour relations

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

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

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

Training

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

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

Independent non-executive directors:

Fan Jia Yan
Margaret Man
Wang Jing Shi (appointed on 23 September 2004)

In accordance with the Company's Articles of Association, Mr. Gu Chu Jun, Mr. Fan Jia Yan and Mr. Wang Jing Shi will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

All of the directors (other than Mr. Wang Jing Shi) have entered into service contracts with the Company for a fixed term of three years commencing on 1st June, 2003. As for Mr. Wang Jing Shi (who was only appointed in September 2004), his service contract is for a fixed term of three years commencing 23 September 2004. In respect of the executive directors' service contracts, these 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. In respect of the independent non-executive directors, the terms of appointment are such that either party may terminate the appointment after the first two years by three months' prior notice in writing.

The following are the monthly salary details of the Directors:

(a)	Gu Chu Jun	HK$206,000
(b)	Hu Xiao Hui	HK$90,000
(c)	Zhang Xi Han	HK$60,000
(d)	Liu Cong Meng	HK$50
(e)	Xu Wan Ping	HK$60,000
(f)	Chen Chang Bei	HK$75,000
(g)	Fan Jia Yan	HK$30,000
(h)	Margaret Man	HK$30,000
(i)	Wang Jing Shi	HK$30,000

Each of the executive directors is entitled to a thirteenth month bonus and a discretionary bonus provided that the total amount of bonuses payable for such year shall not exceed 5% of the audited consolidated net profit after taxation and minority interests, but before extraordinary and exceptional items and the payment of such bonus. The amount of any annual salary increase and the bonus payable under such service contracts is at the sole discretion of the board of directors provided that the respective parties to such service contracts may not vote or be counted in the quorum in respect of any such determination of the board of directors in relation to him. Each of the directors will also be entitled to all reasonable out-of-pocket expenses and medical expenses.

The salary of the directors (both executive and independent non-executive) were determinated through arm's length negotiation and by reference to the then prevailing market rates.

Save as disclosed above, 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).

DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Gu Chu Jun, aged 45, has been the chairman and an executive director of the Company since 2000. He graduated with a master's degree in engineering from Tianjin University, the PRC. He is the inventor and patent rights holder of Greencool refrigerants and has over 20 years of experience in the refrigeration engineering and refrigerant industry. Mr. Gu is also the founder of the Greencool Group. Prior to founding the Greencool Group, he taught at Tianjin University and devoted himself to the research of thermodynamics and refrigeration engineering. As at the Latest Practicable Date, Mr. Gu owned approximately 63.6% of the shares in the Company. Other than his directorship in the Company, Mr. Gu is also the chairman of Hefei Meiling Company Limited, Guangdong Kelon Electrical Holdings Company Limited and Yangzhou Yaxing Motor Coach Co., all of which are companies listed in the PRC. In addition, Guangdong Kelon Electrical Holdings Company Limited also has its H Shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Hu Xiao Hui, aged 38, is the vice-chairman, president and chief executive officer of the Company. He has been an executive director of the Company since 2000. 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 is also a director of Yangzhou Yaxing Motor Coach Co., a company listed in the PRC.

Mr. Zhang Xi Han, aged 38, is the vice-president and chief operating officer of the Company. He has been an executive director of the Company since 2000. Mr. Zhang holds a master's degree in low temperature and refrigerating engineering. He joined the Greencool Group in 1993 after obtaining his master's degree, and now is responsible for overall the engineering, marketing and management of the Group.

Mr. Liu Cong Meng, aged 60, has been an executive director of the Company since 2000. He is also the president and chief executive officer of Guangdong Kelon Electrical Holdings Company Limited (listed in Hong Kong). Mr. Liu graduated from Beijing University, and is well experienced in economic management, environmental protection and international cooperation. Before joining the Greencool Group, Mr. Liu held such official posts as a diplomat of the Chinese embassies in countries such as the United States of America, and the head of the Department of International Cooperation of the Ministry of Agriculture of the PRC. He was, for an extended period, responsible for handling the bilateral and the multilateral cooperation between the PRC and international organizations such as the World Bank and other related countries. Mr. Liu was a member of the Pacific Economic Cooperation Committee (PECC) and a guest foreign consultant of the Policy Advisory Council of the Australian Centre for International Agriculture Research (ACIAR) of the Australian Government.

Mr. Xu Wan Ping, aged 41, has been an executive director and vice president of the Company since 2000 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 ten years of experience in management.

Mr. Chen Chang Bei, aged 52, has been an executive director and compliance officer of the Company since 2000. Mr. Chen holds a master's degree of Arts from the Shangdong University, the PRC and a master's degree of Arts from York University, Canada. 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 59, has been an independent non-executive director of the Company since 2000. He was an executive director of The Hongkong Chinese Bank, Limited in 1993. Mr. Fan joined CITIC Group in 1980 and 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 50, has been an independent non-executive director of the Company since 2000. She is Executive Vice President in CITIC Ka Wah Bank Ltd which she joined in 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.

Mr. Wang Jing Shi, aged 73, has been an independent non-executive director of the Company since September 2004. He was the deputy governor of the Agricultural Bank of China between April 1982 and April 1993. He was the managing director of the board of directors of China Southern Securities Co. Ltd. between August 1992 and March 1997 and retired in December 1997.

Qualified Accountant and Company Secretary

Mr. Mok Henry Wing Kai, aged 44, is the qualified accountant and company secretary of the Group. Mr. Mok has over 19 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 Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Mok Joined the Group in 2000.

DISCLOSURE OF DIRECTORS' INTERESTS

As at 31 December 2004, the interests of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") relating to securities transactions by directors, were as follows:

Aggregate long positions in shares and underlying shares

				Number of shares held		
Director	**Name of company**	**Class of shares**	**Number of options held**	**Beneficial owner**	**Held by controlled corporation**	**Aggregate percentage of long position**
Gu Chu Jun	The Company	Ordinary	10,000,000 underlying shares representing 1% of the shares then in issue *(Note 1)*	10,000,000 underlying shares representing 1% of the shares then in issue *(Note 1)*	625,940,000 ordinary shares representing approximately 62.6% of the shares then in issue *(Note 2)*	63.6% *(Note 3)*
Gu Chu Jun	Greencool Capital Limited	Ordinary		104 shares representing 100% of the shares then in issue	—	—

Notes:

1. These are the underlying shares of the Company in respect of which an option was granted to Mr. Gu Chu Jun (details of which are set out below). The percentage was calculated on the basis of 1,000,000,000 shares in issue as at 31 December 2004.

2. These shares were held through Greencool Capital Limited, a company beneficially owned as to 100% by Mr. Gu Chu Jun.

3. Based on 1,000,000,000 shares in issue as at 31 December 2004.

SHARE OPTIONS

Particulars of the Company's share options are also set out in note 29 to the financial statements.

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

Name of Director	Date of grant	Percentage of vested options	Exercise price per share	Exercisable period	Outstanding number of share options at 1 January 2004 and 31 December 2004
			HK$		
Gu Chu Jun	28.6.2000	100%	2.18	28.6.2000 to 27.6.2005	10,000,000
Liu Cong Meng	28.6.2000	100%	2.18	28.6.2000 to 27.6.2005	3,400,000
	26.9.2000	100%	1.68	26.9.2000 to 25.9.2005	20,000,000
Xu Wang Ping	28.6.2000	100%	2.18	28.6.2000 to 27.6.2005	3,400,000
	26.9.2000	100%	1.68	26.9.2000 to 25.9.2005	20,000,000
Zhang Xi Han	28.6.2000	100%	2.18	28.6.2000 to 27.6.2005	3,400,000
	26.9.2000	100%	1.68	26.9.2000 to 25.9.2005	20,000,000
Total					80,200,000

The abovementioned options were outstanding as at 1 January 2004 and remained outstanding as at 31 December 2004. None of the above options were exercised, cancelled or lapsed during the year ended 31 December 2004. Such options constitute unlisted physically settled equity derivatives.

Save as disclosed herein, none of the directors and chief executives or their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following substantial shareholder and person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

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

DIRECTORS' INTERESTS IN CONTRACTS

(a) The refrigerants used by the Group ("Greencool Refrigerants") are exclusively sourced from Greencool Refrigerant (China) Co., Limited (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 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. During the year, the Group made no purchase of Greencool Refrigerants from Tianjin Greencool Factory.

(b) On 28 June 2000, Mr. Gu Chu Jun ("Mr. Gu") granted, in consideration of HK$10, the Company an option (the "Tianjin Option") to purchase all of his interest in Greencool Refrigerant (China) Co., Limited (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. Both Mr. Gu and Tianjin Greencool Factory have agreed to extend the option period for a further three-year period commencing on 28 June 2003 while all other terms of the Tianjin Option remain unchanged.

(c) 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, a company incorporated in BVI with limited liability and is owned as to 100% by Mr. Gu, also agreed to grant the Company a licence to use the trademarks (as listed in paragraph 8 of Appendix V of the Prospectus) in the two registered classes in the PRC upon its acquisition of the same for nil consideration for a period of ten years commencing 28 June 2000.

(d) During the year, Guangdong Kelon Electrical Holdings Co., Ltd. ("Kelon") collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of the Group from 50 authorised engineering units of the Group. No commission, fees or charges were paid by the Group to Kelon. Mr. Gu ultimately has an equity of approximately 26.43% interest in Kelon.

Details of the above transactions are set out in note 37 to the financial statements.

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.

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest customer accounted for 21.4% of total turnover during the year. Aggregate turnover attributable to the Group's five largest customers represented 46.2% of the total turnover for the year.

The Group's largest supplier accounted for 12.8% of total purchases during the year. Aggregate turnover attributable to the Group's five largest suppliers represented 25.7% of the total purchases for the year.

COMPETING INTEREST

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

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

Pursuant to the Deed of Non-competition Undertaking dated 28 June 2000 entered into between Mr. Gu and the Company, Mr. Gu has undertaken that at any time during which securities of the Company are listed on the Stock Exchange or any other stock exchange recognized under the Securities and Futures Ordinance (Chapter 333 of the Laws of Hong Kong) and for so long as Mr. Gu and his associates (as defined in the GEM Listing Rules) hold, whether individually or taken together, 10 per cent. or more of the issued shares in the Company or Mr. Gu & his associates are otherwise regarded as substantial shareholders of the Company under the GEM Listing Rules or the rules of the relevant securities exchange, he will not and will procure that his associates will not directly or indirectly carry on or be engaged or concerned or interested in: (a) the business of replacement of CFC and CFC-free refrigerants using Greencool Refrigerants in and the distribution of Greencool Refrigerants the PRC; and/or (b) any other business in the PRC that is similar to any member of the Group as described in the Prospectus dated 5 July 2000.

Saved as disclosed above, none of the directors or the management shareholders as defined in the GEM Listing Rules (as defined in the GEM Listing Rules) of the Company and their respective associates had an interest in a business which competes or may compete with the business of the Group in the PRC.

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

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

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

For the year ended 31 December 2004, the Company was in compliance with Rules 5.34 to 5.45 of GEM Listing Rules concerning the board practices and procedures.

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

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

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee has three members which are all independent non-executive directors, namely Mr. Fan Jia Yan (who is chairman of the audit committee), Ms. Man Margaret and Mr. Wang Jing Shi.

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

1. reviewed and commented on the Company's annual report, half-yearly report and quarterly reports;

2. reviewed and commented on the Company's internal control systems;

3. met with external auditors and discussed the financial matters of the Company arose during the course of the audits for the year ended 31 December 2004; and

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

AUDITORS

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

On behalf of the Board

Director
Hong Kong
23 March 2005

REPORT OF THE AUDITORS

Deloitte.
德勤

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

We have audited the financial statements on pages 24 to 64 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 Group as at 31 December 2004 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
23 March 2005

CONSOLIDATED INCOME STATEMENT

(For the year ended 31 December 2004)

	Notes	2004 RMB'000	2003 RMB'000
Turnover	4	**184,845**	106,834
Cost of sales and services		**(100,340)**	(45,426)
Gross profit		**84,505**	61,408
Other operating income	6	**12,138**	30,985
Distribution costs		**(24,904)**	(25,784)
Administrative expenses		**(61,148)**	(56,059)
Profit from operations	7	**10,591**	10,550
Release of discount on acquisition	10	**14,862**	–
Finance costs	11	**(3,572)**	(2,517)
Profit before taxation		**21,881**	8,033
Taxation	12	**(5,260)**	591
Net profit for the year		**16,621**	8,624
Dividend	13	**–**	–
Earnings per share – basic	14	**RMB1.7 cents**	RMB0.9 cent

CONSOLIDATED BALANCE SHEET

(At 31 December 2004)

	Notes	**2004** **RMB'000**	2003 RMB'000
Non-current assets			
Property, plant and equipment	15	**264,735**	44,218
Intangible asset	16	**120,000**	132,000
		384,735	176,218
Current assets			
Inventories	18	**117,523**	129,920
Trade receivables	19	**30,439**	17,095
Deposits, prepayments and other receivables		**15,389**	12,672
Investment securities	20	**6,617**	14,577
Amounts due from related companies	21	**22**	238
Pledged bank deposits		**25,939**	46,206
Bank balances and cash		**977,729**	1,114,560
		1,173,658	1,335,268
Current liabilities			
Trade payables	23	**27,029**	–
Other payables and accrued charges	24	**120,273**	77,241
Amounts due to related companies	26	**16,996**	16,658
Taxation payables		**13,240**	9,015
Bank loans	27	**24,000**	75,000
		201,538	177,914
Net current assets		**972,120**	1,157,354
Net assets		**1,356,855**	1,333,572
Capital and reserves			
Share capital	28	**106,000**	106,000
Reserves		**1,244,193**	1,227,572
Shareholders' funds		**1,350,193**	1,333,572
Non-current liability			
Deferred tax liabilities	31	**6,662**	–
		1,356,855	1,333,572

The financial statements on pages 24 to 64 were approved and authorised for issue by the Board of Directors on 23 March 2005 and are signed on its behalf by:

Gu Chu Jun	**Chen Chang Bei**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended 31 December 2004)

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

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31 December 2004)

	Note	**2004** *RMB'000*	2003 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**21,881**	8,033
Adjustments for:			
Interest income		**(11,415)**	(10,841)
Interest expense		**3,572**	2,517
Depreciation		**10,619**	8,848
Amortisation of intangible asset		**12,000**	12,000
Allowance for doubtful debts of trade receivables		**834**	761
Allowance for doubtful debts of other receivables		**527**	–
Gain on disposal of investment securities		**(123)**	–
Discount on acquisition released to income		**(14,862)**	–
Unrealised holding loss (gain) on investment securities		**6,983**	(10,183)
Loss on disposal of property, plant and equipment		**–**	330
Write-back of allowance for bad debts		**(328)**	(4,868)
Operating cash flows before movements in working capital		**29,688**	6,597
Decrease in inventories		**31,216**	28,854
(Increase) decrease in trade receivables		**(5,770)**	39,712
(Increase) decrease in deposits, prepayments and other receivables		**(2,272)**	1,379
Decrease in amounts due from related companies		**216**	786
Increase in trade payables		**7,368**	–
(Decrease) increase in other payables and accrued charges		**(2,526)**	19,830
Increase (decrease) in amounts due to related companies		**338**	(344)
Net cash generated from operations		**58,258**	96,814
Interest paid		**(3,572)**	(2,517)
PRC Enterprise Income Tax paid		**(1,693)**	(3,121)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**52,993**	91,176
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**11,415**	10,841
Acquisition of assets and liabilities	32	**(154,168)**	–
Purchase of property, plant and equipment		**(17,438)**	(2,293)
Decrease (increase) in pledged bank deposits		**20,267**	(23,030)
Proceeds on disposal of investment securities		**1,100**	–
NET CASH USED IN INVESTING ACTIVITIES		**(138,824)**	(14,482)

	2004 *RMB'000*	2003 *RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of bank loans	**(75,000)**	(41,000)
Bank loans raised	**24,000**	48,000
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(51,000)**	7,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(136,831)**	83,694
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,114,560**	1,031,033
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**–**	(167)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**977,729**	1,114,560
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**977,729**	1,114,560

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 31 December 2004)

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (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 CFC-free refrigerants in refrigeration and air-conditioning systems, and sale of CFC-free refrigerants, as well as manufacture and sale of refrigeration trucks in the People's Republic of China (the "PRC").

These financial statements are presented in Renminbi (RMB) since that is the currency in which the majority of the transactions are denominated.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the International Accounting Standards Board issued a number of new or revised International Financial Reporting Standards ("IFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new IFRS but is not yet in a position to determine whether these IFRS would have a significant impact on how its results of operations and financial position are prepared and presented. These IFRS may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, except for the revaluation of investments, and in accordance with IFRS.

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

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

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

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtained benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets, liabilities and contingent liabilities on the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets, liabilities and contingent liabilities on the date of acquisition (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 into line with those used by the Group.

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

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.

Discount on acquisition

Discount on acquisition arising on acquisition of a business represents the excess of the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities at the date of acquisition over the cost of the acquisition. Discount on acquisition is recognised in income statement immediately.

Investments in subsidiaries

The results and assets and liabilities of subsidiaries are incorporated in the Company's financial statements using equity method of accounting.

Property, plant and equipment

Construction in progress represents assets in the course of construction for production. They are carried at cost, less any recognised impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes all construction expenditure and other direct costs, attributable to such projects. Costs on completed construction works are transferred to other appropriate category of property, plant and equipment.

No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use.

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is charged to write off the cost of property, plant and equipment other than construction in progress 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 other than construction in progress are as follows:

Land	50 years
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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment securities *(Continued)*

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.

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 of tangible and intangible assets excluding goodwill

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.

3. 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits 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 that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Company 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

Transactions in currencies other than RMB are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when fair value was determined. Gains and losses arising on exchange are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value is recognised directly to equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. TURNOVER

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

	2004 ***RMB'000***	2003 *RMB'000*
Conversion engineering income	**96,067**	86,445
Sales of refrigeration trucks and parts	**66,531**	–
Sales of CFC-free refrigerants	**17,220**	18,282
Agency entering fees	**5,027**	2,107
	184,845	106,834

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

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

(i) *Income statement*

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(ii) *Balance sheet*

	Provision of engineering services and sale of CFC-free refrigerants *RMB'000*	Manufacture and sale of refrigeration trucks *RMB'000*	Consolidated *RMB'000*
ASSETS			
Segment assets	280,320	260,691	541,011
Unallocated corporate assets			1,017,382
Consolidated total assets			1,558,393
LIABILITIES			
Segment liabilities	70,221	75,165	145,386
Unallocated corporate liabilities			62,814
Consolidated total liabilities			208,200

(iii) *Other information*

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segment

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.

6. OTHER OPERATING INCOME

	2004	2003
	RMB'000	*RMB'000*
Interest income	**11,415**	10,841
Write-back of allowance for bad debts	**–**	4,868
Gain on disposal of investment securities	**123**	–
Unrealised holding gain on investment securities	**–**	10,183
Others	**600**	5,093
	12,138	30,985

7. PROFIT FROM OPERATIONS

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

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

8. DIRECTORS' REMUNERATION

	2004 RMB'000	2003 RMB'000
Directors		
Fees:		
Executive	–	–
Independent non-executive	–	–
	–	–
Other emoluments for executive directors:		
Salaries and other benefits	6,768	6,768
Retirement benefits scheme contributions	38	38
	6,806	6,806
Other emoluments for independent non-executive directors	939	826
	7,745	7,632

Emoluments of the directors were within the following bands:

	Number of directors 2004	2003
Executive directors		
Nil to RMB1,000,000	3	3
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	3	2
	9	8

8. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2004, other emoluments, including contributions to retirement benefit scheme, paid to six (2003: six) executive directors were RMB2,852,000, RMB1,253,000, RMB1,046,000, RMB827,000, RMB827,000 and RMB1,000 respectively (2003: RMB2,852,000, RMB1,253,000, RMB1,046,000, RMB827,000, RMB827,000 and RMB1,000 respectively).

For the year ended 31 December 2004, other emoluments paid to three (2003: two) independent non-executive directors were RMB413,000, RMB413,000 and RMB113,000 respectively (2003: RMB413,000, RMB413,000 and Nil) 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.

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included four (2003: four) executive directors of the Company, whose emoluments are included in note 8 above. The details of the aggregate emoluments of the remaining one (2003: one) highest paid individual are as follows:

	2004 ***RMB'000***	2003 *RMB'000*
Basic salaries and allowances	**1,033**	1,033
Retirement benefits scheme contributions	**13**	13
	1,046	1,046

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

	2004 ***RMB'000***	2003 *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.

10. RELEASE OF DISCOUNT ON ACQUISITION

The discount on acquisition of RMB14,862,000 arose on the Group's acquisition of manufacturing and production facilities and machineries for refrigeration trucks, together with liabilities, land and property in August 2004 (see note 32). The amount is released to the income statement during the year.

11. FINANCE COSTS

	2004 **RMB'000**	2003 *RMB'000*
Interest on bank borrowings wholly repayable within five years	**3,572**	2,517

12. TAXATION

	2004 **RMB'000**	2003 *RMB'000*
PRC Enterprise Income Tax charge (credit)		
– Current year	**5,918**	3,863
– Overprovision in prior years	**–**	(4,454)
	5,918	(591)
Deferred tax credit *(note 31)*	**(658)**	–
	5,260	(591)

Pursuant to the relevant income tax laws of the PRC applicable to enterprises with foreign investment and foreign enterprises, the Group's PRC subsidiaries with foreign investment are subject to PRC Enterprise Income Tax at rates ranging from 7.5% to 15% (2003: 7.5% to 15%). Certain of the Group's PRC subsidiaries are foreign investment enterprises of production nature established in the PRC. Accordingly, these subsidiaries are entitled to tax exemption for the first two years of profitable operations and 50% tax reduction in the following three years of operations. In addition, one of the Group's PRC subsidiaries is a foreign investment enterprise of production nature and is located in New and High Technology Development Zone in the PRC. Accordingly, this subsidiary is entitled to tax exemption for the first three years of operations and 50% tax reduction in the following three years of operations.

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

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

12. TAXATION *(Continued)*

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

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

13. DIVIDEND

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

14. EARNINGS PER SHARE

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP							
COST							
At 1 January 2004	10,298	–	15,595	22,861	15,487	–	64,241
Additions	5,530	182	–	1,223	322	10,181	17,438
Acquisition	201,000	–	11,403	865	430	–	213,698
At 31 December 2004	**216,828**	**182**	**26,998**	**24,949**	**16,239**	**10,181**	**295,377**
DEPRECIATION							
At 1 January 2004	1,493	–	4,437	10,510	3,583	–	20,023
Provided for the year	2,412	38	2,372	3,654	2,143	–	10,619
At 31 December 2004	**3,905**	**38**	**6,809**	**14,164**	**5,726**	**-**	**30,642**
NET BOOK VALUES							
At 31 December 2004	**212,923**	**144**	**20,189**	**10,785**	**10,513**	**10,181**	**264,735**
At 31 December 2003	8,805	–	11,158	12,351	11,904	–	44,218

The Group's buildings are situated in the PRC and are held under land use right for 50 years expiring in 2054.

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

	Motor vehicles *RMB'000*	**Office equipment** *RMB'000*	**Total** *RMB'000*
THE COMPANY			
COST			
At 1 January 2004	1,346	680	2,026
Additions	–	6	6
At 31 December 2004	**1,346**	**686**	**2,032**
DEPRECIATION			
At 1 January 2004	1,070	491	1,561
Provided for the year	269	137	406
At 31 December 2004	**1,339**	**628**	**1,967**
NET BOOK VALUES			
At 31 December 2004	**7**	**58**	**65**
At 31 December 2003	276	189	465

16. INTANGIBLE ASSET

	RMB'000
COST	
At 1 January 2004 and 31 December 2004	180,000
AMORTISATION	
At 1 January 2004	48,000
Provided for the year	12,000
At 31 December 2004	**60,000**
NET BOOK VALUE	
At 31 December 2004	**120,000**
At 31 December 2003	132,000

Intangible asset represents the exclusive distribution right (see note 37(a)) in the PRC of CFC-Free refrigerants manufactured by Greencool Refrigerant (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 2004.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	RMB'000	*RMB'000*
Share of net identifiable assets of subsidiaries	**1,061,036**	1,031,076
Amounts due from subsidiaries	**268,890**	263,832
	1,329,926	1,294,908

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 2004 are set out in note 38.

18. INVENTORIES

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

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

19. TRADE RECEIVABLES

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

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

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.

20. INVESTMENT SECURITIES

	THE GROUP	
	2004	2003
	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")	**6,617**	13,600
– GZITIC Hualing Holdings Limited	**–**	977
	6,617	14,577
Cost of listed marketable securities	**5,102**	6,096

21. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP	
	2004	2003
Name of related companies	***RMB'000***	*RMB'000*
Kelon	**22**	26
Tianjin Greencool Factory	**–**	49
洋浦格林柯爾製冷劑有限公司	**–**	163
	22	238

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.

22. 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.

23. TRADE PAYABLES

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

	2004 ***RMB'000***	2003 *RMB'000*
Within 90 days	**13,407**	–
Between 90-180 days	**13,622**	–
	27,029	–

24. OTHER PAYABLES AND ACCRUED CHARGES

	2004 RMB'000	2003 RMB'000
Other payables and accrued charges	**92,104**	77,241
Consideration payable	**28,169**	—
	120,273	77,241

25. OTHER FINANCIAL LIABILITIES

Other payables and accrued charges and consideration payable

The balance principally comprises amounts outstanding for ongoing costs.

The directors consider that the carrying amount of other payables and accrued charges and consideration payable approximates to their fair value.

26. AMOUNTS DUE TO RELATED COMPANIES

	THE GROUP	
	2004	2003
Name of related companies	***RMB'000***	*RMB'000*
Greencool Canada Inc. ("GCI")	**15,163**	15,163
Tianjin Greencool Factory	**1,833**	–
格林柯爾科技(深圳)發展有限公司	**–**	1,495
	16,996	16,658

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

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

27. BANK LOANS

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

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

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

28. SHARE CAPITAL

	2004 & 2003	
	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

	2004 & 2003
	RMB'000
Shown in the financial statements as	106,000

29. 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 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.

The financial impact of share options granted is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

29. 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 January 2004 and 31 December 2004	Number of share options outstanding at 1 January 2003 and 31 December 2003
Mr. Gu	28.6.2000	28.6.2000-27.6.2005	2.18	10,000,000	10,000,000
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
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
				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.

30. RESERVES

THE GROUP

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

The staff and workers' bonus and welfare fund can only be utilised for special bonuses or collective welfare of the employees of the individual PRC subsidiary, and assets acquired through this fund shall not be taken as the Group's assets. As of 31 December 2004, the reserve funds, included in accumulated profits, amounted to approximately RMB84,739,000 (2003: RMB84,739,000). Under IFRS, appropriations to the staff and workers' bonus and welfare fund are treated as expenses and the balance of this fund is regarded as a liability of the Group.

The capital reserve represents the difference between the fair values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued in accordance with the corporate reorganisation of the Group for listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 13 July 2000.

	Share premium	**Capital reserve**	**Accumulated profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
THE COMPANY				
At 1 January 2003	429,961	502,621	286,296	1,218,878
Net profit for the year	–	–	8,624	8,624
At 1 January 2004	429,961	502,621	294,920	1,227,502
Net profit for the year	–	–	16,621	16,621
At 31 December 2004	**429,961**	**502,621**	**311,541**	**1,244,123**

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.

30. RESERVES

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

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

31. DEFERRED TAX LIABILITIES

THE GROUP

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current year.

	Fair value adjustments of property, plant and equipment	**Allowance for doubtful debts of other receivables**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	–	–	–	–
Acquisition of assets and liabilities	(6,769)	526	(1,077)	(7,320)
Credit to income statement *(note 12)*	192	–	466	658
At 31 December 2004	**(6,577)**	**526**	**(611)**	**(6,662)**

At the balance sheet date, the Group has unused tax losses of RMB55 million (2003: RMB32 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward for up to five years

32. ACQUISITION OF ASSETS AND LIABILITIES

In August 2004, the Group acquired the manufacturing and production facilities and machineries for refrigeration trucks, together with liabilities, land and property at a consideration of RMB184,648,000.

	Book value *RMB'000*	Generally accepted accounting principles adjustments *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
NET ASSETS ACQUIRED:				
Property, plant and equipment	193,186	–	20,512	213,698
Inventories	46,697	(27,878)	–	18,819
Trade receivables	3,976	4,104	–	8,080
Deposits, prepayments and other receivables	2,567	–	(1,595)	972
Bank balances and cash	2,311	–	–	2,311
Trade payables	(19,661)	–	–	(19,661)
Other payables and accrued charges	(44,428)	27,039	–	(17,389)
Deferred tax liabilities	–	(1,077)	(6,243)	(7,320)
	184,648	2,188	12,674	199,510
Discount on acquisition				(14,862)
				184,648
Satisfied by:				
– cash				156,479
– consideration payable				28,169
				184,648
Net cash outflow arising on acquisition				
– cash consideration paid				(156,479)
– bank balances and cash acquired				2,311
				(154,168)

32. ACQUISITION OF ASSETS AND LIABILITIES *(Continued)*

During the year, the acquired assets and liabilities contributed RMB66,531,000 to the Group's turnover, and a profit of RMB2,844,000 to the Group's result.

It is not impracticable to disclose the revenue and profit or loss of the combined entity for the year as though the acquisition for the assets and liabilities during the period had been completed on 1 January 2005 as the revenue and profit and loss of the business for the period from 1 January 2005 to the date of acquisition was not obtainable.

33. 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 RMB1,527,000 (2003: RMB1,569,000) are charged to the consolidated income statement as they fall due.

34. CAPITAL COMMITMENTS

At the balance sheet date, the Group was contracted for but not provided for acquisition of property, plant and equipment amounting to approximately RMB19,069,000 (2003: RMB155,000).

35. 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**	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**6,417**	4,859	**917**	757
In the second to fifth year inclusive	**4,989**	1,286	**649**	9
	11,406	6,145	**1,566**	766

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.

36. CONTINGENT LIABILITIES

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

37. RELATED PARTY TRANSACTIONS

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

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

For the years ended 31 December 2004 and 31 December 2003, the Group did not purchase any Greencool Refrigerants 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 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 16); 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.

37. RELATED PARTY TRANSACTIONS *(Continued)*

(b) On 28 June 2000, Mr. Gu granted, in consideration of HK$10, the Company an option (the "Tianjin Option") to purchase all of his interest in the Tianjin Greencool Factory which, as 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 exercised 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% of Mr. Gu's interest in the Tianjin Greencool Factory as appraised by a valuer jointly appointed by Mr. Gu and the Company, but in any event not exceeding the amount determined by multiplying the audited consolidated profit after taxation and minority interests (in accordance with IFRS) of the Group comprising the Tianjin Greencool Factory and the companies through which Mr. Gu holds his interest in the Tianjin Greencool Factory for the financial year immediately prior to the exercise of the Tianjin Option by 12. The Tianjin Option is non-transferable. Both Mr. Gu and Tianjin Greencool Factory have agreed to extend the option period for further three-year period commencing on 28 June 2003 while all other terms of the Tianjin Option remain unchanged.

(c) 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 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.

(d) During the year ended 31 December 2004, Kelon collected the agency entering fees and the receivables on sales of CFC-free refrigerants on behalf of the Group from 50 (2003: 1,050) authorised engineering units of the Group. No handling fee was paid by the Group to Kelon for the year ended 31 December 2004. During the year ended 31 December 2003, the Group paid a handling fee of RMB1,575,000 to Kelon in this regard. Mr. Gu ultimately has an equity of approximately 26.43% (2003: 21%) interest in Kelon.

(e) During the year ended 31 December 2003, 江西格林柯爾 and Tianjin Greencool Factory executed corporate guarantees to banks to secure loans amounted to RMB20,000,000 and RMB12,000,000 respectively, granted to the Group. No commission, fees or charges were paid to any persons in respect of these guarantees. Mr. Gu has an equity interest in 江西格林柯爾 and Tianjin Greencool Factory.

38. SUBSIDIARIES

Name of company	Place and nature 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 – limited liability company	100%	US$100	Investment holding
Greencool Everrise Holdings Limited	British Virgin Islands – limited liability company	100%	US$100	Investment holding
Greencool Pacific Holdings Limited	British Virgin Islands – limited liability company	100%*	US$10,000	Investment holding
Greencool Technology Inc.	British Virgin Islands – limited liability company	100%	US$10,000	Investment holding
GTT Assets Management Limited	British Virgin Islands – limited liability company	100%*	US$100	Investment holding
SEMIRED Capital Limited	British Virgin Islands – limited liability company	100%*	US$100	Investment holding
SIMOG Capital Limited	British Virgin Islands – limited liability company	100%*	US$100	Investment holding
Beijing Greencool Environmental Protection Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	100%	US$12,090,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

38. SUBSIDIARIES *(Continued)*

Name of company	Place and nature 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 – wholly foreign owned enterprise	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 – wholly foreign owned enterprise	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 – wholly foreign owned enterprise	100%	HK$2,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Hainan Greencool Environmental Protection Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	100%	US$12,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems

38. SUBSIDIARIES *(Continued)*

Name of company	Place and nature 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
Hubei Greencool Environmental Protection Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	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 – wholly foreign owned enterprise	100%	US$6,999,964	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Shanghai Greencool Environmental Protection Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	100%	US$5,499,994	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Shangqiu Greencool Refrigeration Truck Co., Ltd.	PRC – domestic limited liability company	100%	RMB200,000,000	Manufacture and sale of refrigeration trucks

38. SUBSIDIARIES *(Continued)*

Name of company	Place and nature 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
Tianjin Greencool Environmental Protection Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	100%	US$8,400,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Wuhan Greencool Refrigerants Replacement Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	100%	RMB10,000,000	Sale of CFC-free refrigerants and the conversion engineering of large-scale CFC-free air-conditioning systems
Zhuhai Greencool Refrigeration Engineering Co., Ltd.	PRC – wholly foreign owned enterprise	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 2004 or at any time during the year.

39. BALANCE SHEET OF THE COMPANY

	Notes	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	15	**65**	465
Investments in subsidiaries	17	**1,329,926**	1,294,908
		1,329,991	1,295,373
Current assets			
Deposits, prepayments and other receivables		**392**	435
Bank balances and cash		**22,681**	39,797
		23,073	40,232
Current liabilities			
Other payables and accrued charges		**2,707**	1,869
Amounts due to subsidiaries		**234**	234
		2,941	2,103
Net current assets		**20,132**	38,129
Net assets		**1,350,123**	1,333,502
Capital and reserves			
Share capital	28	**106,000**	106,000
Reserves	30	**1,244,123**	1,227,502
Shareholders' funds		**1,350,123**	1,333,502

FINANCIAL SUMMARY

	Year ended 31 December				
	2000	2001	2002	2003	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
RESULTS					
Turnover	363,897	516,330	321,420	106,834	**184,845**
Cost of sales and services	(67,724)	(105,604)	(128,524)	(45,426)	**(100,340)**
Gross profit	296,173	410,726	192,896	61,408	**84,505**
Other operating income	16,916	25,871	19,202	30,985	**12,138**
Distribution costs	(15,048)	(28,431)	(26,933)	(25,784)	**(24,904)**
Administrative expenses	(28,824)	(68,801)	(81,797)	(56,059)	**(61,148)**
Profit from operations	269,217	339,365	103,368	10,550	**10,591**
Release of discount on acquisition	–	–	–	–	**14,862**
Finance costs	(93)	(4,430)	(6,230)	(2,517)	**(3,572)**
Profit before taxation	269,124	334,935	97,138	8,033	**21,881**
Taxation	–	(20,593)	(14,450)	591	**(5,260)**
Net profit for the year	269,124	314,342	82,688	8,624	**16,621**

	At 31 December				
	2000	2001	2002	2003	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	1,206,459	1,429,846	1,480,255	1,511,486	**1,558,393**
Total liabilities	(66,449)	(134,592)	(155,140)	(177,914)	**(208,200)**
Net assets	1,140,010	1,295,254	1,325,115	1,333,572	**1,350,193**