EcoGreen Fine Chemicals Group Limited

中怡精細化工集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2341)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2006

The board of directors (the "Board") of EcoGreen Fine Chemicals Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively "EcoGreen" or the "Group") for the year ended 31 December 2006 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

	Note	**2006**	**2005**
Turnover	*2*	532,975	384,417
Cost of goods sold		(362,975)	(250,994)
Gross profit		170,000	133,423
Other gains – net	*3*	4,952	1,967
Selling and marketing costs		(22,123)	(18,268)
Administrative expenses		(41,767)	(32,285)
Operating profit		111,062	84,837
Finance costs		(6,645)	(6,864)
Profit before income tax		104,417	77,973
Income tax expense	*4*	(8,982)	(6,923)
Profit for the year		95,435	71,050

Attributable to:			
Equity holders of the Company		95,440	71,120
Minority interest		(5)	(70)
		95,435	71,050
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	*5*	20.7 Cents	16.8 Cents
– diluted	*5*	20.6 Cents	N/A
Dividends	*6*	14,226	9,605

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

(All amounts in RMB thousands unless otherwise stated)

	Note	**2006**	**2005**
ASSETS			
Non-current assets			
Property, plant and equipment		216,012	184,144
Land use rights		8,851	4,955
Intangible assets		29,261	22,705
Available-for-sale financial assets		400	400
		254,524	212,204
Current assets			
Inventories		38,932	33,306
Trade receivables	*7*	114,904	101,771
Prepayments and other receivables		25,819	40,558
Available-for-sale financial assets		100	300
Pledged bank deposits		47,626	–
Bank deposits with original maturity over three months		–	3,122
Cash and cash equivalents		312,990	257,908
		540,371	436,965
Total assets		794,895	649,169

EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		48,778	48,778
Other reserves		209,970	209,747
Retained earnings			
– Proposed final dividend		10,493	5,720
– Others		263,595	180,540
		532,836	444,785
Minority interest		224	229
Total equity		533,060	445,014
LIABILITIES			
Non-current liabilities			
Borrowings		11,698	5,000
Deferred income on government grants		–	20
		11,698	5,020
Current liabilities			
Borrowings		123,138	117,824
Trade payables and bills payable	*8*	91,808	48,061
Accruals and other payables		28,231	30,568
Deferred income on government grants, current portion		19	114
Amount due to a director		141	159
Amount due to a related company		3,880	–
Current income tax liabilities		2,920	2,409
		250,137	199,135
Total liabilities		261,835	204,155
Total liabilities and equity		794,895	649,169
Net current assets		290,234	237,830
Total assets less current liabilities		544,758	450,034

Notes:

1. **Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

New standards, amendments to existing standards and interpretations:

(a) In 2006, the Group adopted the following amendments to existing standards and interpretation that are effective in 2006 and relevant to the Group's operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts

The adoption of these amendments to existing standards and interpretation had no material impact on the Group for the year ended 31 December 2006.

(b) The following new standard, amendments to existing standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment) and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

(c) The following new standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods. The Group has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these new standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these new standards and interpretations to existing standards, if applicable, in the accounts for the year ended 31 December 2006.

HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after 1 January 2009)
HK (IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006)
HK (IFRIC)-Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)
HK (IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)
HK (IFRIC)-Int 12	Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008)

The Group plans to adopt the above new standards and interpretations to existing standards when they become effective.

2. Turnover and segment information

(a) Turnover

The Group is principally engaged in the manufacturing of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products and the trading of natural materials and fine chemicals. Turnover for the Group represents revenue from sale of goods.

	2006	**2005**
Sale of goods (net of value-added tax)	532,975	384,417

(b) Segment information

Primary reporting format – business segment

As at 31 December 2006, the Group is organised into two main business segments:

(1) manufacturing and selling of fine chemicals; and

(2) trading of natural materials and fine chemicals.

The segment results for the year ended 31 December 2006 are as follows:

	Manufacturing	**Trading**	**Total**
Turnover	419,904	113,071	532,975
Operating profit	111,589	2,819	114,408
Unallocated corporate expenses			(3,346)
Finance costs			(6,645)
Profit before income tax			104,417
Income tax expense			(8,982)
Profit for the year			95,435

The segment results for the year ended 31 December 2005 are as follows:

	Manufacturing	**Trading**	**Total**
Turnover	306,918	77,499	384,417
Operating profit	91,548	1,747	93,295
Unallocated corporate expenses			(8,458)
Finance costs			(6,864)
Profit before income tax			77,973
Income tax expense			(6,923)
Profit for the year			71,050

Other segment items included in the consolidated income statement are as follows:

	Manufacturing		**Trading**	
	2006	**2005**	**2006**	**2005**
Depreciation	11,106	6,053	55	34
Amortisation	4,084	2,646	–	–
Impairment of product development costs/goodwill	4,450	755	–	–
Provision for/(reversal of) impairment of inventories	175	130	(31)	35
Reversal of provision for impairment of trade receivables	124	716	38	194

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Manufacturing	**Trading**	**Unallocated**	**Total**
Assets	407,016	27,263	360,616	794,895
Liabilities	145,370	15,499	100,966	261,835
	261,646	11,764	259,650	533,060
Capital expenditure	61,312	716	–	62,028

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Manufacturing	**Trading**	**Unallocated**	**Total**
Assets	374,554	13,257	261,358	649,169
Liabilities	104,424	8,339	91,392	204,155
	270,130	4,918	169,966	445,014
Capital expenditure	79,141	65	–	79,206

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, land use rights, and intangible assets, including additions resulting from acquisitions through business combinations.

Secondary reporting format – geographical segment
The Group's two business segments operate in three main geographical areas.

	2006	**2005**
Turnover		
– Mainland China	345,380	246,387
– Europe	126,822	71,426
– Asia (excluding Mainland China)	43,554	44,207
– Others	17,219	22,397
	532,975	384,417

Sales are allocated based on the places/countries in which customers are located.

	2006	2005
Total assets		
– Mainland China	739,824	613,917
– Hong Kong	54,656	34,879
– Unallocated	415	373
	794,895	649,169

Total assets are allocated based on where the assets are located.

No geographical analysis of capital expenditure is presented as substantially all of the Group's capital expenditure was incurred in respect of assets located in Mainland China.

3. Other gains – net

	2006	2005
Interest income from bank deposits	3,136	1,480
Amortisation of deferred income on government grants	115	114
Others	1,701	373
	4,952	1,967

4. Income tax expense

	2006	2005
Current taxation		
– Mainland China enterprise income tax	8,982	6,923

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

The subsidiaries established in Xiamen, Fujian Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% (2005: 15%). In February 2002, Xiamen Sinotek Enterprise Development Co., Ltd. transformed from a domestic enterprise to a wholly foreign owned enterprise and is exempted from payment of enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction in enterprise income tax for the following three years. In August 2003, Xiamen Doingcom Chemical Co., Ltd. was accredited as a New High Technology Enterprise and accordingly is exempted from payment of enterprise income tax for two years starting from year 2003. In November 2006, Xiamen Doingcom transformed from a domestic enterprise to a wholly foreign owned enterprise. It has obtained approval from Mainland China Tax Bureau to be exempted from enterprise income tax for two years starting from the first year of profitable operations, followed by a 50% reduction in enterprise income tax for the following three years, Xiamen Doingcom has not yet commenced to enjoy its tax holiday in year 2006.

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income tax.

5. Earnings per share

Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	**2005**
Profit attributable to equity holders of the Company	95,440	71,120
Weighted average number of ordinary shares in issue *(thousands)*	461,000	424,326
Basic earnings per share *(RMB per share)*	20.7 Cents	16.8 Cents

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company mainly comprise the share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average monthly market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006
Profit attributable to equity holders of the Company	95,440
Weighted average number of ordinary shares in issue *(thousands)*	461,000
Adjustments assuming the exercise of share options *(thousands)*	2,818
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	463,818
Diluted earnings per share *(RMB per share)*	20.6 Cents

Diluted earnings per share for the year ended 31 December 2005 is not presented as the potential ordinary shares were anti-dilutive.

6. Dividends

During the year ended 31 December 2006, a final dividend for the year ended 31 December 2005 of RMB5,720,000 (HK$0.012 per share) and an interim dividend for the year ended 31 December 2006 of RMB3,733,000 (HK$0.008 per share), were paid by the Company, totalling RMB9,453,000 (2005: RMB11,535,000).

A final dividend in respect of the year ended 31 December 2006 of HK$0.023 per share, totalling RMB10,493,000, is to be proposed at the annual general meeting on 21 May 2007. These financial statements do not reflect this dividend payable.

	2006	**2005**
Interim dividend paid of HK$0.008 (2005: HK$0.008) per ordinary share	3,733	3,885
Proposed final dividend of HK$0.023 (2005: HK$0.012) per ordinary share	10,493	5,720
	14,226	9,605

7. Trade receivables

The credit period granted by the Group to its customers is generally 60 to 90 days. The aging analysis of trade receivables is as follows:

	2006	**2005**
0 to 30 days	46,985	43,382
31 to 60 days	40,072	32,086
61 to 90 days	28,122	19,742
91 to 180 days	512	3,180
181 to 365 days	137	4,409
Over 365 days	512	570
	116,340	103,369
Less: Provision for impairment of trade receivables	(1,436)	(1,598)
	114,904	101,771

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

8. **Trade payables and bills payable**

As at 31 December 2006, the aging analysis of trade payables and bills payable was as follows:

	2006	2005
0 to 30 days	20,660	10,310
31 to 60 days	21,017	19,126
61 to 90 days	18,230	7,996
91 to 180 days	30,647	9,480
181 to 365 days	84	483
Over 365 days	1,170	666
	91,808	48,061

FINAL DIVIDEND

The Directors will propose at the annual general meeting to be held on 21 May 2007 payment of final dividend of HK2.3 cents per share on 1 June 2007 for the year ended 31 December 2006 to be payable in cash to shareholders whose names are listed on the register of members of the Company on 21 May 2007. Together with the interim dividend of HK0.8 cent (2005: HK0.8 cent) per share, this will bring the total dividend distribution for the year to HK3.1 cents (2005: HK2 cents) per share.

CLOSURE OF REGISTERS OF MEMBERS

The transfer books and register of members of the Company will be closed from Wednesday, 16 May 2007 to Monday, 21 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 15 May 2007.

BUSINESS REVIEW

In 2006, the global fine chemical industry witnessed exponential expansion due to favourable economic environment. Downstream industries using the Group's products, such as the flavour and fragrance industry, food and beverage industry, personal care industry, household care industry and pharmaceutical industry, all maintained their growth momentum. This coupled with other favourable factors such as the migration of the industry to emerging countries and the increase in domestic consumption power has fuelled the rapid development of the fine chemical industry in emerging countries, in particular the PRC. As such, the Group's three major business segments all recorded actual growth.

In 2006, the Group recorded a faster average growth rate compared with the previous few years in terms of business performance. Turnover reached RMB533,000,000, an increase of 39% from the previous year. Profit attributable to shareholders rose RMB24,320,000 or 34% from the previous year to RMB95,440,000. Earnings per share were approximately RMB20.7 cents.

Sales and Marketing

During the year under review, the Group manufactured over 40 fine chemical products. The analysis of turnover and gross profit of the Group's various products for the years ended 31 December 2006 and 31 December 2005 are as follows:

	Turnover		**Gross Profit**	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aroma chemicals	261,309	182,718	83,118	58,840
Natural extracts	97,666	73,600	35,520	26,718
Intermediates	60,929	50,600	41,480	38,307
Trading and resource management	113,071	77,499	9,882	9,558
Turnover/gross profit of the Group	532,975	384,417	170,000	133,423

Aroma Chemicals

Aroma chemicals continued to be the Group's core business during the year under review, and generated significant and stable income for the Group. During the year under review, since aroma chemicals are primarily used as functional ingredient in many daily supplie, demand for such downstream products in China and the international market continued to rise, generating more sales for the Group. For the year ended 31 December 2006, sales of aroma chemicals significantly surged 43% to RMB261,309,000, accounting for 49% of the Group's turnover (2005: 48%) and a gross profit margin of 31.8% (2005: 32.2%). Dihydromyrcenol was an important contributor which brought a revenue of RMB83,918,000 to the Group. Its sales increased 56% over the corresponding period last year and accounted for 32% of the total revenue for this product category.

Natural Extracts (Also known as Natural Pharmaceutical Raw Materials)

The Natural Extracts division includes the Group's existing natural pharmaceutical raw materials , and food seasonings produced with natural extraction and purification technology, in particular, seafood and meat extracts.

During the year under review, the Group's natural extract business maintained steady growth because demand for downstream products rose steadily on the back of improving living standard and increasing health consciousness, pushing up market demand for the Group's products, coupled with the recognized product quality of the Group. Turnover of this business category increased 33% to RMB97,666,000, accounting for 18% (2005:19%) of the Group's sales. Gross profit margin was 36.4%, similar to 36.3% of last year. The performance of Natural Cinnamic Aldehyde was relatively more outstanding under this business category. This product contributed a revenue of RMB28,138,000 to the Group and its sales increased 44% over the corresponding period last year and accounted for 29% of the total revenue for this product category.

Intermediates (Also known as Chiral Pharmaceutical Raw Materials and Pharmaceutical Intermediates)

Besides the existing Chiral Pharmaceutical Raw Materials and Pharmaceutical Intermediates, intermediates also include agrochemical intermediates used for regulating the growth of plants recently developed with similar technologies.

During the year under review, orders for the Group's intermediate products maintained steady. Turnover increased 20% from the corresponding period last year to RMB60,929,000, accounting for 12% (2005:13%) of the Group's sales. Gross profit margin dropped to 68.1% from 75.7% of the corresponding period last year. However, the gross profit margin of this product category of the Group was still higher than its peers in the industry. 3-Phenylpropanal Aldehyde is the major product of the intermediate business segment. Sales for this product category accounted for 45% of the overall sales of this business category and contributed a revenue of RMB27,618,000 to the Group.

Trading and Resource Management (Also known as Trading Products)

Trading and resource management segment is only a supplement to the Group's core business. In the past, comprised mainly the operation of certain integrated sales of the raw materials of aroma chemicals. During the year, taking into account the persistent high market prices of upstream raw materials and the increase in the demand for certain raw materials not produced by the Group, the Group has accordingly repositioned such business on the effective management of relevant strategic resources, including mainly gum turpentine and other special botanic essential oils and their byproducts. For the year ended 31 December 2006, sales of the Group's trading and resource management business amounted to RMB113,071,000, accounting for 21% of the Group's turnover, and contribution to gross profit was approximately RMB9,882,000. As well as being a necessary supplement to the Group's core business, this business segment also brought sales and profit contribution to the Group during the year under review.

For the trading and resource management business, the major objective of integrated sales is to improve the quality of the Group's sales services so as to satisfy the customer demands and to provide a more comprehensive product portfolio and value-added services to its clients, which will in turn enhance the status of the Group and "DOINGCOM" brand in the industry.

Operations

Although China's macro economic environment and the international flavour and fragrance sector in 2006 were satisfactory, uncertainties arising from high raw material prices, Renminbi appreciation and interest rate hikes adversely affected a majority of different sectors. Such factors also created more upward pressure on the operating cost of the businesses engaged by the Group. However, leveraging on its solid foundation in the industry, the Group proactively adopted various effective measures in its operating strategy, and adjusted product prices on a timely basis to minimise the impact of the fluctuation in the costs of raw materials. In addition, through the application of innovative technology in Phase II expansion of the Xiamen plant, the Group increased its processing capacity by half, while effectively controlled the overall production costs, and enhanced the Group's competitiveness as well as mitigated operating exposures under rising costs in the industry around the world.

Customers

Over the years, the Group has established a solid clientele distributed around the globe, and a relatively diversified client portfolio, including global top ten multinational flavour and fragrance manufacturers, major household and personal care product manufacturers, natural pharmaceutical plants, raw pharmaceutical plants and intermediate traders. Operating edges such as premium product quality and reliable supply have enabled the Group to maintain the long-term good collaborative relationship with clients. To date, the number of the Group's clients exceeded 150. Turnover generated from the Group's five largest clients increased from 25% to 31% in 2006.

In order to facilitate further development in the future and strengthen the good relationship with existing clients, the Group also proposed reasonable solutions according to clients' needs on a timely basis, and actively sought for strategic partnerships with major multinational flavour and fragrance manufacturing enterprises.

The Group's "DOINGCOM" brand has built up strong reputation amongst international peers.

Production

During the year under review, the Group actively capitalized on the Phase II expansion completed in 2005 and upgraded its production facilities and developed new workflow technology, pushing overall production efficiency, and reached a capacity utilisation rate of over 80%. The Phase III expansion commenced in the year is expected to be put in operation in the beginning of 2008, upon which the annual processing capacity of botanic essential oils will increase from currently 16,000 metric tonnes to 20,000 metric tonnes. The new Phase can produce various new products for the Group and enrich its product mix so as to provide a better foundation for the Group's business growth during the year. Looking ahead into future business and product development, aside from the completion of Phase III construction according to schedule, the Group will also further expand its production capacity according to the middle to long term market demands on a cautious and timely basis, as well as continue to aggressively develop new workflow technologies, so as to further lift its integrated production capability and efficiency.

Research and Development

The Group has always been putting great efforts on the research and development of new products. During the year under review, the Group focused on strengthening its own research and development team by adopting a number of professional technological research backbones and recruiting a large number of professionals with master degree from oversea universities and post-doctor qualification. The Group's research and development centre at Xiamen and its Shanghai research and development team currently employ around 45 research and development staff with expertise and extensive experience, accounting for about 18% of total headcount.

On the other hand, the Group successfully initiates new research and development projects through new strategic alliances with international peers. Leveraging on the advanced facilities and underlying resources of various academic and research institutes in China, the Group further strengthened its research capability through joint research and development and acquisition of proprietary technological know-how. Such institutes include Nanjing University, Xiamen University, Shanghai University of T.C.M., South China University of Technology, Jiangnan University, Guangdong Ocean University, Chinese Academy of Sciences, Shanghai Organic Chemistry Institute and Chinese Academy of Sciences, Guangzhou Chemistry Institute.

For the year ended 31 December 2006, costs of the Group's product development, merger and acquisition of technology capitalised totalled to approximately RMB14,980,000 (2005: RMB4,316,000), amortisation of costs of product development amounted to RMB3,974,000 (2005: RMB2,536,000) and impairment of product development cost of RMB4,500,000 (2005: nil).

Outlook

The Group is optimistic to the operating environment and prospect of the coming year.

Despite the performance of the global economy still looks somewhat uncertain, mainly clouded by factors such as high oil price and rising interest rate, we expect the economy of China, Hong Kong and other emerging countries and in particular the fine chemical industry will still maintain strong growth momentum. In the downstream industries of fast-moving consumer goods and daily necessities, the Group's products are mainly applied as functional ingredients and key components such as flavour and fragrance products, food and beverage products, personal and household healthcare products and pharmaceutical products. These fast-moving consumer goods and daily necessities are less sensitive to cyclical economic fluctuations than other industries. Besides, demand for upstream products remains strong in light of the continued global trend of industry migration. Therefore, the Group's business still has large room for development.

The construction of Phase III project is expected to be completed in stages. The objective of the first phase will be to have a brand new and advanced multifunctional production workshop completed and put into operation at the end of 2007. The new multifunctional workshop will be equipped with multifunctional fine chemical installation technology that are the most advanced in the world and environmental friendly. The workshop will have multi-purpose reactor, precision separation & extraction unit, Special purpose unit and Clean production zone. In line with Phase III project, the Group will continue to step up its efforts in market exploration, international cooperation, research and development of technologies and its integration and development with SFC, so as to expand its new high value-added product series such as aroma chemicals, natural extracts and intermediates.

Exclusive innovative technology and industry experience remain to be the key to protecting the Group's core competitiveness and enable the Group to strengthen its partnership with leading international flavour and fragrance companies. The Group will continue to launch new product mix that caters for the market of fast-moving consumer goods and the needs of its major customers. New products are expected to bring new contribution to the profit of the Group.

Although the upward pressure of raw material costs is a reality the entire industry must face, the Group will continue to implement various proactive measures to cope with it. The Group will mainly focus on the implementation of strategies on resource management, which include strengthening the operating capacity of the resources management centre, carrying out forward integration in the supply chain management of raw material procurement, substantially increase the control on logistics and converting raw material procurement from a cost centre to a profit centre, so as to effectively control raw material costs and capture additional profit from resource management.

In respect of operating strategies, the global industry has coped with the increase in the prices of raw materials by lifting the prices of their products, and major clients from all over the world are beginning to accept the reality of rising product prices this year. The Group's major clients from around the globe are gradually accepting the rises in product prices. On the other hand, the Group will innovate and improve its existing techniques and technology on an ongoing basis to control cost. Under the premise of ensuring product quality, the Group will increase its production yield and improve its production efficiency. The workflow at all levels, including the frontline departments, the research and development department and the supporting departments will be redesigned to reduce the overall operating costs. The above measures will enable the Group to maintain its leading cost advantage and further enhance its competitiveness in the international market. In addition, the Group will also effectively manage the pressure arising from the appreciation of Renminbi on profit by strengthening its international trade management.

Through the strategic alliances with international flavour and fragrance companies, the Group timely captured the opportunity of transfer of international properties and successfully acquired a new base for development in the industry, which will provide ample room for long-term development of the Group.

FINANCIAL REVIEW

Turnover

Benefiting from the completion of the Group's Phase II expansion of Haicang Plant in October 2005 and the increasing demand of Group's products, the Group's turnover for the year ended 31 December 2006 amounted to RMB533,000,000, representing a rapid growth of 39%. Excluding the revenue from trading and resource management products, turnover reached RMB419.9 million, still achieving a steady growth of 37% when compared to last year. As the trading and resource management business have a lower profit margin, it has dragged down the overall gross profit margin of the Group to 31.9% from 34.7% as recorded in last year. Nevertheless, this non-core business has a certain profit contributions to the Group. Excluding the contribution from trading and resource management products, the gross profit of the Group's self-manufactured products was 38.1%, representing only a slight decrease of 2.2% from 40.3% as recorded in last year.

Analysing by the Group's products category, turnover of aroma chemicals reached RMB261.3 million, representing a year-on-year increase of 43% as compared to RMB182.7 million in 2005; turnover of natural extracts and intermediates reached RMB97.7 million and RMB60.9 million respectively, representing a year-on-year increase of 33% and 20% as compared to RMB73.6 million and RMB50.6 million respectively in 2005.

Geographically, local sales of the Group's fine chemical products surged by 40% as compared to that of 2005 whereas the overseas sales of the Group's fine chemical products increased by 36% as compared to that of 2005.

Gross Profit

During the year under review, the gross profit of the Group amounted to RMB170.0 million, representing a growth of 27%. The gross profit margin of the Group decreased from 34.7% in 2005 to 31.9% in 2006. The deterioration of the Group's gross profit margin was mainly attributable to lower profit margin of the trading and resource management business and the surging of raw materials prices. Nevertheless, the adverse effect caused by the pressure of production cost had been diminished after adopting effective measures in its operating strategy, as mentioned in the above section "Business review – operation".

Analysing by the Group's products category, the gross profit margin of aroma chemicals and natural pharmaceutical extracts remained steady at approximately 32% and 36% respectively in both years. The decrease of profit margin of intermediates from 76% in 2005 to 68% in 2006 was mainly attributable to the change of product mix in this category, within which the gross profit margin of individual products varied broadly from 55% to 95%. The gross profit margin of trading and resource management was decreased from 12% in 2005 to 9% in 2006. Despite the lower gross profit margin and relatively higher operating costs, the trading and resource management business facilitated the diversification of the Group's product mix, without utilizing the Group's existing production capacity and reinforce the Group's leading position in the natural fine chemicals industry in the PRC.

Operating Income and Expense

Other revenues include the interest income from bank deposits and the amortisation of deferred income on government grants. The increase of RMB3.0 million in other revenue was mainly due to the increase of the bank interest income during the year under review.

The increase of RMB3.9 million in selling and marketing expense was mainly due to the increase of transportation cost and packaging expenses for those increased export sales in the year under review. Selling and marketing expenses as a percentage of sales decreased from 4.8% to 4.2%.

The increase of RMB9.5 million in administrative expenses was mainly due to the increase of employment cost and discretionary management bonus by RMB5.3 million and the increase of impairment of product development cost by RMB4.5 million in the year under review. Administrative expenses for 2006 represented 7.8% of turnover (2005: 8.4%).

The finance expenses recorded RMB219,000 decrease when compared to last year, mainly due to the decrease of interest expense on convertible bonds which was fully repaid in 2005.

Income tax expense

Income tax expense of the Group for the year ended 31 December 2006 was RMB9.0 million, representing an increase of 30% as compared with RMB6.9 million in last year. The effective income tax rate was 8.6% (2005: 8.9%).

Profit for the year

Profit for the year ended 31 December 2006 was RMB95.4 million representing an increase of 34% as compared with RMB71.1 million last year. The net profit ratio of the Group decreased from 18.5% in last year to 17.9% in this year. If excluding the trading and resource management segment, the net profit ratio of the Group was 22.1% (2005: 22.6%).

Liquidity, Financial Resources and Capital Structure

During the year under review, the Group's primary source of funding mainly involved the cash generated from operating activities. With the financial resources obtained from the Group's operations, the Group had utilized RMB62.0 million (2005: RMB74.9 million) in the capital expenditure and paid dividend of RMB9.5 million (2005: 11.5 million) during the year. As at 31 December 2006, the Group had cash and bank deposits of approximately RMB360.6 million (2005: RMB261.0 million).

The Group's financial position remains very solid and healthy during the year under review. As at 31 December 2006, the net current assets and the current ratio of the Group were approximately RMB290.2 million (2005: RMB237.8 million) and 2.2 (2005: 2.2), respectively.

As at 31 December 2006, the Group had bank borrowings of approximately RMB101.0 million (2005: RMB86.7 million), government loans from State Development and Reform Commission, Xiamen Development Planning Commission and other Mainland China government bureaus to finance the Group's product development activities and expansion of production facilities of approximately RMB33.9 million (2005: RMB34.2 million). As at 31 December 2006, the Group's gearing ratio which is represented by the ratio of total borrowings to total shareholders' equity, was approximately 25% (2005: 28%) and the Group's net cash balance, being cash and cash equivalents plus pledged bank deposits less borrowings amounted to RMB225.8 million (2005: 138.2 million).

With the positive cash inflow from the Group's operations, its available banking facilities and its existing cash resources, the Group has very strong liquidity and sufficient financial resources to meet its commitments, working capital requirements and future investments for expansion.

Charges on assets

As at 31 December 2006, bank deposit of RMB47.6 million (2005: nil), certain property, plant and equipment of the Group with an aggregate net book value of about RMB92.1 million (2005: RMB32.2 million) and land use rights of RMB4.8 million (2005: RMB3 million) were pledged to secure the Group's bank borrowings.

Contingent Liabilities

As at 31 December 2006, neither the Group nor the Company had any significant contingent liabilities.

Capital Commitment

As at 31 December 2006, the Group had capital commitments of approximately RMB108.8 million (2005: RMB73.0 million) in respect of purchases of property, plant and equipment, construction-in-progress, product development projects and land use rights.

Treasury Policies and Exposure to Fluctuations in Exchange Rates

The Group's assets, liabilities, revenues and transactions are mainly denominated in Renminbi, United States dollars and Hong Kong dollars with its operation mainly in the PRC. As at 31 December 2006, the Group's borrowings of approximately RMB119.8 million were denominated in Renminbi. The Group's cash and bank deposits (comprise cash and cash equivalents and pledged bank deposits) denominated in Renminbi amounted to RMB326.5 million of the total balance, with the remaining balance denominated in Hong Kong dollars and United States dollars.

The Group's foremost exposure to the foreign exchange fluctuations was caused by the revaluation of Renminbi during the year under review. The Group's export sales are, in majority, denominated in United States dollars. Nevertheless, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year. The Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group has 254 full-time employees of which 248 are based in the PRC. For the year under review, the total employment costs incurred for 2006 including directors' emolument amounted to RMB22.4 million. The Group has established its human resources policies and procedures with a view to deploy the incentives and rewards of the remuneration system. The remuneration package offered to the staff is appropriate for the duties and in line with the prevailing market terms. Staff benefits, including medical coverage and provident funds, are provided to employees. The Group has also established effective performance evaluation system in which employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

The Group has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. During the year under review, 21.4 million share options were granted to directors, employees and consultants.

CORPORATE GOVERNANCE

The Company's corporate governance practice are based on the principles and the code provisions (the "Code Provisions") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the year under review, the Company has complied with most of the Code Provisions save for the deviations from the Code Provisions A.2.1, A.4.2 and E.2.1.

Segregation of Rules of Chairman and Chief Executive Officer ("CEO")

The Company has not yet adopted A.2.1. Under the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company does not presently have any officer with the title CEO. At present, Mr. Yang Yirong, being the Chairman and the President of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considered that, due to the nature and extent of the Group's operations, Mr. Yang is the most appropriate chief executive because he possesses in-depth knowledge and experience in fine chemicals business and is able to ensure the sustainable development of the Group. Besides, he is the founder, the chairman and the controlling shareholder of the Group since its establishment and till now. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make the necessary amendments.

Appointment, rotation and re-election of Directors

In order to ensure full compliance with the code provision A.4.2 of the CG Code, special resolutions had been proposed to amend Articles 108(A) and 112 of the Articles of Association of the Company. The amendments were approved by shareholders of the Company at the annual general meeting held on 25 May 2006.

In accordance with the CG Code and the Company's Articles of Association (after its amendment on 25 May 2006), all Directors are subject to retirement by rotation once every three years and being eligible, offer themselves for re-election.

Communication with Shareholders and Investor Relations

In order to ensure full compliance with the code provision E.2.1 of the CG Code, special resolution had been proposed to amend Article 72 of the Company's Articles of Association. The amendments were approved by shareholders of the Company at the annual general meeting held on 25 May 2006.

In accordance with the CG Code and the Company's Articles of Association (after its amendments on 25 May 2006), the Chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in opposite manner to that instructed in those proxies.

ANNUAL GENERAL MEETING

The 2007 annual general meeting ("the AGM") of the Company will be held at Sutie 3706, 37/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 21 May 2007 at 2:30 pm. The Notice of AGM will be published in The Standard and Hong Kong Econmic Times and despatched to shareholders of the Company on or about Friday, 27 April 2007.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the Group's consolidated financial statements for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group, including the accounting policies and practices adopted by the Group, in conjunction with the Group's external auditors.

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

During the year ended 31 December 2006, the Company had not redeemed and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange (www.hkex.com.hk) as well as the website of the Company (www.ecogreen.com). The 2006 annual report containing all the information required by The Listing Rules will be despatched to shareholders and will be published on the aforementioned websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises of five executive Directors, namely Mr. Yang Yirong (Chairman), Mr. Gong Xionghui, Ms. Lu Jiahua, Mr. Lin Like and Mr. Han Huan Guang, one non-executive Directors, namely Mr. Feng Tao and three independent non-executive Directors, namely Dr. Zheng Lansun, Mr. Yau Fook Chuen and Mr. Wong Yik Chung, John.

By order of the Board
EcoGreen Fine Chemicals Group Limited
Yang Yirong
Chairman & President

Hong Kong, 18 April 2007

"Please also refer to the published version of this announcement in The Standard."