**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)*
*Website: www.ecogreen.com*
**(Stock Code: 2341)**

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the "Board") of EcoGreen Fine Chemicals Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively "EcoGreen" or the "Group") for the six months ended 30 June 2008 together with the comparative figures for the previous year as follows:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*For the six months ended 30 June 2008*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Turnover | *3* | **346,000** | 287,959 |
| Cost of good sold | | **(229,004)** | (187,799) |
| Gross profit | | **116,996** | 100,160 |
| Other gains/(losses) – net | | **12,177** | (2,405) |
| Selling and marketing costs | | **(14,512)** | (11,499) |
| Administrative expenses | | **(24,672)** | (16,713) |
| Operating profit | *4* | **89,989** | 69,543 |
| Finance costs | | **(6,629)** | (3,625) |
| Profit before income tax | | **83,360** | 65,918 |
| Income tax expense | *5* | **(2,990)** | (4,868) |
| Profit for the period | | **80,370** | 61,050 |
| Attributable to: | | | |
| Equity holders of the Company | | **80,301** | 61,080 |
| Minority interest | | **69** | (30) |
| | | **80,370** | 61,050 |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share) | | | |
| – Basic | *6* | **17.1 cents** | 13.2 cents |
| – Diluted | | **16.6 cents** | 12.6 cents |
| Dividends | *7* | **4,920** | 4,537 |

* *For identification purpose only*

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET**
*As at 30 June 2008*

| | Notes | **30 June 2008 (Unaudited)** ***RMB'000*** | 31 December 2007 (Audited) *RMB'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **349,464** | 336,839 |
| Land use rights | | **8,699** | 8,741 |
| Intangible assets | | **41,419** | 40,347 |
| Available-for-sale financial assets | | **400** | 400 |
| | | **399,982** | 386,327 |
| **Current assets** | | | |
| Inventories | | **94,289** | 45,489 |
| Trade receivables | *8* | **182,424** | 165,653 |
| Prepayments and other receivables | | **43,670** | 46,216 |
| Pledged bank deposits | | **31,579** | 32,158 |
| Cash and cash equivalents | | **432,041** | 275,226 |
| | | **784,003** | 564,742 |
| **Total assets** | | **1,183,985** | 951,069 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | | **49,443** | 49,653 |
| Other reserves | | **241,226** | 240,651 |
| Retained earnings | | | |
| – Proposed dividend | | **4,920** | 14,760 |
| – Others | | **427,752** | 357,171 |
| | | **723,341** | 662,235 |
| **Minority interest in equity** | | **3,141** | 1,572 |
| **Total equity** | | **726,482** | 663,807 |

| | Notes | 30 June 2008 (Unaudited) RMB'000 | 31 December 2007 (Audited) RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **280,884** | 58,121 |
| **Current liabilities** | | | |
| Borrowings | | **86,670** | 98,272 |
| Trade payables and bills payable | *9* | **56,314** | 54,890 |
| Accruals and other payables | | **30,229** | 34,704 |
| Derivative financial instruments | | **–** | 37,837 |
| Amount due to directors | | **1,141** | 1,467 |
| Current income tax liabilities | | **2,265** | 1,971 |
| | | **176,619** | 229,141 |
| **Total liabilities** | | **457,503** | 287,262 |
| **Total liabilities and equity** | | **1,183,985** | 951,069 |
| **Net current assets** | | **607,384** | 335,601 |
| **Total assets less current liabilities** | | **1,007,366** | 721,928 |

*Notes*

1. **Basis of preparation**

This unaudited condensed consolidated interim financial information of the Company has been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

These condensed consolidated interim financial information were approved for issue on 9 September 2008.

2. **Accounting polices**

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, a number of new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2008.

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements[1] |
| HKAS 23 (Revised) | Borrowing Costs[1] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[1] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[1] |
| HKFRS 3 (Revised) | Business Combinations[2] |
| HKFRS 8 | Operating Segments[1] |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes[3] |

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of the new or revised standards or interpretation will have no material impact on the results and the financial position of the Group.

3. **Turnover and segment information**

(a) *Sales*

The Group is principally engaged in the production of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products and supply of natural materials and fine chemicals.

(b) *Segment information*

Primary reporting format – business segment

As at 30 June 2008, 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 six months ended 30 June 2008 are as follows:

| | **Manufacturing (Unaudited)** ***RMB'000*** | **Trading (Unaudited)** ***RMB'000*** | **Total (Unaudited)** ***RMB'000*** |
|---|---|---|---|
| Turnover | **305,800** | **40,200** | **346,000** |
| Operating profit | **87,176** | **1,621** | **88,797** |
| Unallocated corporate income – net | | | **1,192** |
| Finance costs | | | **(6,629)** |
| Profit before income tax | | | **83,360** |
| Income tax expense | | | **(2,990)** |
| Profit for the period | | | **80,370** |

The segment results for the six months ended 30 June 2007 are as follows:

| | Manufacturing (Unaudited) *RMB'000* | Trading (Unaudited) *RMB'000* | Total (Unaudited) *RMB'000* |
|---|---|---|---|
| Turnover | 255,714 | 32,245 | 287,959 |
| Operating profit | 77,666 | 243 | 77,909 |
| Unallocated corporate expenses – net | | | (8,366) |
| Finance costs | | | (3,625) |
| Profit before income tax | | | 65,918 |
| Income tax expense | | | (4,868) |
| Profit for the period | | | 61,050 |

Other segment items included in the income statements are as follows:

| | **Manufacturing Six months ended 30 June** | | **Trading Six months ended 30 June** | |
|---|---|---|---|---|
| | **2008 (Unaudited)** ***RMB'000*** | 2007 (Unaudited) *RMB'000* | **2008 (Unaudited)** ***RMB'000*** | 2007 (Unaudited) *RMB'000* |
| Depreciation | **7,101** | 5,573 | **46** | 48 |
| Amortisation | **1,780** | 1,149 | **–** | – |
| Provision for/(reversal of) impairment of inventories | **1,252** | 635 | **(1)** | 3 |
| Provision for/(reversal of) impairment of trade receivables | **(34)** | (54) | **(18)** | 27 |

*Secondary reporting format – geographical segment*

The Group's two business segments operate in three main geographical areas.

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Turnover | | |
| – Mainland China | **240,212** | 193,225 |
| – Europe | **52,962** | 42,357 |
| – Asia (excluding Mainland China) | **36,629** | 38,511 |
| – Others | **16,197** | 13,866 |
| | **346,000** | 287,959 |

**4. Operating profit**

Operating profit is stated after charging and crediting the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Charging** | | |
| Depreciation | **7,319** | 5,792 |
| *Less:* Amount included in product development cost | **(172)** | (171) |
| | **7,147** | 5,621 |
| Amortisation of: | | |
| – intangible assets | **1,732** | 1,114 |
| – prepaid operating lease payments | **48** | 35 |
| Realised and unrealised loss on interest rate swaps – net | **–** | 3,514 |
| Net exchange loss | **–** | 752 |
| **Crediting** | | |
| Interest income from bank deposits | **1,513** | 1,861 |
| Amortisation of deferred income on government grants | **–** | 19 |
| Realised and unrealised gain on interest rate swaps – net | **6,956** | – |
| Net exchange gain | **3,593** | – |

**5. Income tax expense**

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Current income tax | | |
| – Mainland China enterprise income tax | **2,990** | 4,868 |

No Hong Kong profits tax was 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 18% (2007: 15%). In November 2006, Xiamen Doingcom Chemical Co. Ltd. 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 Chemical Co. Ltd. has commenced to enjoy its tax holiday starting from year 2007.

## 6. Earnings per share attributable to equity holders of the Company

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period attributable to equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share are based on:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit attributable to equity holders of the Company | **80,301** | 61,080 |

| | **Six months ended 30 June<br>Number of shares<br>(in thousands)** | |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **468,394** | 462,905 |
| Weighted average number of ordinary shares – Effect of dilution of share options | **15,020** | 20,185 |
| | **483,414** | 485,090 |

## 7. Dividends

| | **Six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Interim dividend proposed of HK1.2 cents (2007: HK1 cents) per ordinary share | **4,920** | 4,537 |

During the six months ended 30 June 2008, a 2007 final dividend of HK3.5 cents, shown as RMB3.16 cents, (2006 final: HK2.30 cents, shown as RMB2.28 cents) per ordinary share, totalling HK$16,366,000, shown as RMB14,700,000 was paid in May 2008 (six months ended 30 June 2007: HK$10,603,000, shown as RMB10,493,000).

## 8. Trade receivables

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

| | **30 June 2008 (Unaudited)** *RMB'000* | 31 December 2007 (Audited) *RMB'000* |
|---|---|---|
| 0 to 30 days | **67,096** | 60,902 |
| 31 to 60 days | **58,657** | 54,627 |
| 61 to 90 days | **38,732** | 35,451 |
| 91 to 180 days | **17,954** | 15,853 |
| 181 to 365 days | **1,713** | 150 |
| Over 365 days | **304** | 754 |
| | **184,456** | 167,737 |
| *Less:* Provision for impairment of trade receivables | **(2,032)** | (2,084) |
| | **182,424** | 165,653 |

## 9. Trade payables and bills payable

The aging analysis of trade payables and bills payable was as follows:

| | **30 June 2008 (Unaudited)** *RMB'000* | 31 December 2007 (Audited) *RMB'000* |
|---|---|---|
| 0 to 30 days | **18,501** | 11,194 |
| 31 to 60 days | **14,547** | 31,071 |
| 61 to 90 days | **6,871** | 4,150 |
| 91 to 180 days | **15,000** | 7,676 |
| 181 to 365 days | **128** | 28 |
| Over 365 days | **1,267** | 771 |
| | **56,314** | 54,890 |

## INTERIM DIVIDEND

The Directors have resolved to pay an interim dividend of HK1.2 cents, equivalent to approximately RMB1.05 cents, per share for the six months ended 30 June 2008 (six months ended 30 June 2007: HK1 cents, equivalent to approximately RMB0.97 cents, per share) to the shareholders whose names appear on the register of members of the Company on 24 October 2008.

## CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from 22 October 2008 to 24 October 2008, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 21 October 2008.

## CHAIRMAN'S STATEMENT

### Review

During the period under review, the gloomy subprime mortgage crisis of the United States did not show signs of eliminating, but instead continued to worsen. The lagging trend of the overall growth of the global economy was evident, while prices of basic commodities such as crude oil and foodstuff were constantly on the rise. The pressure brought by rising prices of basic commodities has spread to production, spending and the service sector, with inflation increasingly overhanging economic growth. In addition to such stringent global economic condition, PRC enterprises were also confronted with pressure from the appreciation of Renminbi (RMB) and the tightening currency policy under the implementation of macroeconomic austerity measures by the government to suppress overheated economic growth.

Uncertainties in the macro economy increased in the first six months of the year, with various unfavourable factors continuing to affect the economy, directly increasing the pressure of production and operating costs for enterprises. Despite the challenges from the uncertainties in the global economy, the Group still recorded double-digit growth in both turnover and net profit for the first six months of the year, manifesting our solid business foundation, our effective cost controls and our commitment to enhance competitiveness.

Despite the fluctuations in the global economy, causing consumer confidence in developed economies of Europe and the United States to fall in light of the credit crisis, the Group's products in the downstream industry mainly focused on the fast-moving consumer products market and the manufacture of daily necessities such as food and beverages, personal care products and family care products, which are largely unaffected by the economic cycle. Furthermore, since the demand of newly emerged economies and developing countries is still continuing to grow, as the standard of living improves, the Group's products will be more extensively applied in daily necessities. Therefore, the current downturn of the global economy has minimal impact on the demand of the Group's products.

During the period, as far as operating environment is concerned, the Group faced similar challenges as those faced by players in the same industry and other manufacturers in the region, including the appreciation of RMB, the reduction in the rate of export tax refund of the PRC and the continuous surge in commodity prices. The Group has timely anticipated the changes in the aforementioned various costs when formulating its annual orders, and has adjusted its selling prices accordingly. At the same time, the Group also enhanced its value efficiency for its customers through improving service and maintaining quality, and further strengthened its collaborative relationship with customers so as to secure more orders. On the other hand, the Group also focused on reducing finance costs and controlling risks through enhancing cost controls, streamlining process workflow and optimizing capital structure, so as to minimize the pressure on overall costs. All these measures have been successful to various degrees during the period, contributing to the outstanding performance of the principal businesses of the Group for the first half of the year.

In respect of expansion of production capacity, expansion works for Phase III of the Haicang Plant has been completed in the first half of the year, and has commenced trial production in the second quarter as scheduled. The new multi-functional workshop is mainly used for the production of the brand new food flavour chemicals product line. In addition, the food ingredients factory located at Xinglin in Xiamen has commenced trial production as scheduled. The Xinglin Plant uses seafood, mushrooms and meat as raw materials to produce unique quality natural extracts, to use in food additives or seasonings for functional food. Following trial production in the first half of the year, the two projects have already started to contribute to sales and gross profit of the Group.

In view of the changes in the global and domestic capital markets, with the strong support of overseas banks, the Group completed the adjustments on its existing loan structure in the first half of the year, increasing middle to long term borrowings in foreign currencies, in particular, US dollars, and reducing the proportion of loans in RMB, so as to better capitalise on the significant decrease in costs from the difference in interest rates between foreign currencies and RMB, and at the same time flexibly and effectively hedge the exposure of the continued appreciation of RMB. The gain is reflected in the results for the first half of the year.

**Prospects**

The Group understands that the key to competitiveness is the advantage in low costs, and sustainable cost advantage is dependent on advanced technology and product innovations, high value-added business model as well as efficient management. All these are the directions that the Group is focusing on to ensure we can maintain our competitive edges in the future capricious market. The Group is committed to strive for excellence in all aspects and to improve existing production process to reduce costs. Industry-Universities-Research mechanism will be applied to speed up the innovation of new products to meet the urgent demand of various markets; for the supply chain management, Ecogreen will combine its edges in brand, technology and market to implement the strategy of consolidating the aroma chemicals industry chain; as for sales and marketing, customer management and marketing services will be enhanced, in particular the production and marketing of new food flavour chemicals, with an aim to generating more contribution to operating income.

Looking forward into the second half of the year, the Group estimates that the operating environment will remain challenging and the downward trend may sustain in the global economy, while factors such as the macroeconomic austerity measures in the PRC, the tightening up of credit globally and high commodity prices will persist. Nonetheless, in view of the increases in both quantity and price of customer orders, the Group is prudent and optimistic towards the result of the second half of the year, and expects that sales for the remaining half year will increase compared with the corresponding period last year at a similar growth rate as before.

The Group remains highly confident towards the development of the existing business in the long run. Since the flavour and fragrance and the fine chemicals industries worldwide are still undergoing long-term growth, with the Group's existing foundation, outstanding reputation, stable clientele and advanced production facilities in the PRC, we believe that as long as we can capture the opportunities in this challenge, enhance interactions with customers, speed up expansion of the principal business and proactively seek for co-operations and acquisitions and mergers, the Group will be able to strengthen its capabilities amidst the challenging operating environment. Building on the solid business foundation and our efforts in striving for excellence, we are confident that the Group will be able to overcome all challenges and continue to grow.

## MANAGEMENT DISCUSSION AND ANALYSIS

**Business Review**

During the period under review, the business of the Group recorded healthy growth. Sales volume and average prices of the major products of the Group also increased, and benefited from the optimization of product mix, turnover reached RMB346 million, an increase of 20.2% as compared with the corresponding period in 2007. Despite fluctuations in the global economic environment, the Group continued the growth momentum from the previous years. During the period, facing the pressure on costs arising from the increasing prices of the major raw materials and the fluctuation in RMB exchange rate, through various effective measures to control direct costs or to transfer costs, the Group successfully achieved a gross profit margin of 33.8%, which was just a slight decrease from 34.8% of the corresponding period last year.

For sales and marketing costs, the expenses represented 4.2% of sales, a slight increase over 4.0% of the corresponding period last year, which was mainly due to the increase in expenditure of transportation costs for the period. Administrative expenses increased by RMB7.8 million compared with the corresponding period last year, among which RMB6.7million was attributable to the handling fee paid to the financial institution for the financing of a club loan of the Group raised in the period. Benefited from the adoption of more cost-efficient measures by the Group, other administrative expenses did not record any substantial increases. The expenses represented 7.1% of sales, a slight increase from 6.1% of the corresponding period last year. Excluding the handling fee paid to the financial institution for the club loan, administrative expenses only represented 5.2% of sales.

As for other gains, the structural interest rate swap between the Group and a commercial bank was early terminated in the first half of 2008. The original term of the swap was 5 years, however, since the financial market became increasingly volatile following the subprime mortgage crisis, the Group seized the opportunity to redeem the interest rate swap in order to reduce relevant risks. A net realised gain from the termination of the swap amounting to approximately RMB7 million was recognised and included in other gains. In addition, the Group successfully obtained a USD33 million club loan during the period. The proceeds from the loan will contribute to the continued development of the Group. Moreover, since the loan was denominated in US dollars, as a result of the rise in the exchange rate of RMB, after eliminating other translation loss within the Group, the translation gain from the US dollar loan still recorded a net translation gain of RMB3.6 million.

As for finance costs, the increase in finance costs for the period was also attributable to the interest expenses on the USD33 million club loan successfully obtained by the Group in the period.

As a result of the above major factors, profit attributable to the equity holders of the Company increased 31.3% to RMB80.3 million while net profit margin was 23.2%, an increase from 21.2% of the corresponding period last year. Excluding the non-major operating gain of the abovementioned interest swap gain of RMB7 million, net profit of the major operations would be RMB73.3 million, with net profit margin maintaining at 21.2%, a similar level to the corresponding period last year. Earnings per share for the period rose nearly 29.7% to RMB17.1 cents per share. The Board has resolved to declare an interim dividend of HK1.2 cents for the period ended 30 June 2008.

**Product Review**

*Aroma Chemicals*

Despite the unstable economic environment in the first half of the year, the aroma chemicals business continued to expand significantly, and continued to be the Group's core business, and constituted a significant and stable operating revenue for the Group. For the six months ended 30 June 2008, mainly as a result of increased orders from existing customers, sales increased 8% over the corresponding period last year, while there was an upward adjustment for prices due to the increased cost of raw materials, sales of aroma chemicals significantly surged 28% to RMB211.7 million, accounting for 61% of the Group's sales. Gross profit margin was 30.9%, slightly decreased from that of 32.4% recorded in the corresponding period last year. Dihydromyrcenol continued to be a major source of income which generated a revenue of RMB55.6 million to the Group, accounting for 26% of the total revenue of this product category. Some newly-launched food flavour chemicals such as allyl cyclohexylpropionate, allyl phenoxyacetate and dihydromyrcenyl acetate also became a new growth driver for turnover. Although formal production only commenced in the second quarter, the products have already contributed a revenue of RMB34.5 million to the Group for the period. Gross profit margin was 40%, and contribution to gross profit was RMB14.1 million, representing a more than twofold growth in terms of both sales revenue and contribution to gross profit compared with the corresponding period last year of a small scale production.

*Natural Extracts*

During the period under review, the downstream products market did not contract because of uncertain economy, instead, demand for natural extracts from emerging markets and developing countries still recorded stable growth, and the quality of the Group's products were highly received among users, together driving the natural extracts business of the Group to achieve stable growth, with turnover increasing 5% to RMB57.8 million, representing 17% of sales of the Group. Gross profit margin was 33.0%, a slight decrease compared with 35.3% of last year. The largest contribution to natural extracts was from natural cinnamic aldehyde, constituting an income of RMB16.8 million to the Group, and accounting for 29% of the total revenue of this product category. Certain newly-launched food additives such as chicken extracts and mushroom concentrates have been put into production in the second quarter. Although only generating a small contribution to income of the Group during the period, these new products have received positive responses from users.

*Intermediates*

During the period under review, business performance of the Group's intermediates was stable. Sales increased 3% from the corresponding period last year to RMB36,300,000, accounting for 11% of sales of the Group. Gross profit margin was 70.0%, similar to 70.3% of the corresponding period last year. The gross profit margin of the intermediates business of the Group was still higher than its peers in the industry. 3-phenylpropanal aldehyde, a major product of the intermediates, contributed an income of RMB14,100,000 to the Group, accounting for 39% of total revenue of this product category.

*Trading and Resource Management Products*

During the six months ended 30 June 2008, sales of the Group's trading and resource management products increased by 25% to RMB40.2 million from the corresponding period last year, representing 12% of turnover of the Group. Gross profit margin was 17.5%, a significant improvement from a gross profit margin of 7.5% of the corresponding period last year. The increase was mainly attributable to results of the Group's efforts on the resource management business, and the relatively higher gross profit margin of the new trading business. The contribution of gross profit from trading and resource management products was approximately RMB7 million, almost double that of the gross profit contribution of RMB2.4 million of the corresponding period last year. As a necessary complement to the core business of the Group, trading and resource management products also contributed to the Group's sales and earnings for the period under review.

**Financial review**

*Liquidity and Financial Resources*

During the period under review, the Group primary source of funding included the net proceeds from the club loans amounting to RMB225 million, credit facilities provided by its principal bankers and internally generated cash flows.

The Group's financial position was solid throughout the period. As at 30 June 2008, the net current assets and the current ratio of the Group were approximately RMB607.4 million (31 December 2007: approximately RMB335.6 million) and 4.4 (31 December 2007: 2.5), respectively. As at 30 June 2008, the Group had cash and cash equivalents of approximately RMB432 million (31 December 2007: approximately RMB275.2 million).

The Group will continue to maintain a sound finance position and with the positive cash inflow from operations and its available banking facilities, the Group has sufficient financial resources to meet its commitments, working capital requirements and future investments for expansion.

*Capital Structure and Gearing Ratio*

As at 30 June 2008, the equity attributable to the Company's equity holders amounted to RMB723.3 million, representing RMB1.55 per share (31 December 2007: RMB662.2 million, representing RMB1.41 per share). Increase in shareholders' funds was mainly attributable to the profit generated in the period less payment of dividend during the period.

The Company secured a three-year club loans in March 2008 amounting to USD33 million, equivalent of RMB231.6 million, to strengthen its working capital and for the expansion plan. The Company bought back 2,278,000 shares from the open market during the first half of 2008.

Total borrowings as of 30 June 2008 increased by 135% to RMB367.6 million (31 December 2007: RMB156.4 million). The Group's gearing ratio (total debt over total assets) as at 30 June 2008, was increased from 16.4% at 31 December 2007 to 31.0%. However, the Group can maintain the net debt to equity ratio at a net cash surplus position, being cash and cash equivalents plus pledged and unpledged bank deposits less borrowings amounting to RMB96.1 million (31 December 2007: RMB151 million).

*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. Bank borrowings were denominated in Renminbi, United States dollars and Hong Kong dollars.

The Group's exposure to the foreign exchange fluctuations was caused by the revaluation of Renminbi during the period under review. Nevertheless, the Group has not experienced any material difficulties or effects on its operation or liquidity as a result of fluctuation in currency exchange rate during the period.

*Charge on assets*

As at 30 June 2008, bank deposit of RMB31.6 million (31 December 2007: RMB32.2 million), certain property, plant and equipment of the Group with an aggregate net book value of about RMB91 million (31 December 2007: RMB94.5 million) and land use rights of RMB2.4 million (31 December 2007: RMB2.4 million) were pledged to secure the Group's bank borrowings.

*Capital expenditure*

During the period under review, the Group invested approximately RMB20.0 million and RMB2.8 million respectively in the additions of property, plant and equipment and intangible assets compared to approximately RMB48.6 million and RMB9.9 million respectively for the same period last year.

*Capital Commitment*

As at 30 June 2008, the Group had capital commitments of approximately RMB20.5 million (31 December 2007: RMB19.6 million) in respect of purchases of property, plant and equipment, construction-in-progress, product development projects and land use rights.

*Contingent liabilities*

As at 30 June 2008, the Group did not have any contingent liabilities. The Company and its subsidiaries executed corporate guarantees as part of securities for the club loans and the general banking facilities granted to the Group.

**Employees and remuneration policy**

As at 30 June 2008, the Group has 345 full-time employees of which 341 are based in the PRC and 4 in the Hong Kong office.

Remuneration packages offered to the staff are in line with the prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of the Group's and the individual's performance. Besides salaries and bonus, staff are also entitled to other benefits, including participation in retirement benefits schemes and the share option schemes adopted by the Company pursuant to resolutions in writing of all the shareholders of the Company passed on 16 February 2004. 31,410,000 share options remained outstanding at the period end.

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008, with deviations from code provisions A.2.1 of the Code in respect of the separate role of chairman and chief executive officer ("CEO"). Under the code provisions A.2.1 of the Code, the roles of chairman and CEO should be separate and should 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.

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

The Company repurchased its 2,278,000 listed shares on the Stock Exchange during the six months ended 30 June 2008. Such shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by RMB210,000, the nominal value of these shares.

Details of the repurchase of shares during the six months ended 30 June 2008 are summarised as follows:

| Month of repurchases | Number of shares repurchased | Repurchase price per share Highest | Repurchase price per share Lowest | Aggregate consideration |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *RMB'000* |
| February 2008 | 2,000,000 | 2.48 | 2.25 | 4,310 |
| March 2008 | 278,000 | 2.43 | 2.30 | 591 |
| | 2,278,000 | | | 4,901 |

Except as disclosed above, neither the Company, nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

## REVIEW OF THE INTERIM FINANCIAL INFORMATION

The audit committee of the Company has reviewed with the management in relation to the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.

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

Hong Kong, 9 September 2008

*As at the date of this announcement, the executive Directors are Mr. Yang Yirong, Mr. Gong Xionghui, Ms. Lu Jiahua, Mr. Lin Like and Mr. Han Huan Guang; the non-executive Director is Mr. Feng Tao; and the independent non-executive Directors are Mr. Yau Fook Chuen, Mr. Wong Yik Chung, John and Dr. Zheng Lansun.*