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; Website: www.ecogreen.com)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Note	**2011**	2010
		RMB'000	RMB'000
Revenue	2	**1,074,688**	908,251
Cost of goods sold		**(837,734)**	(683,495)
Gross profit		**236,954**	224,756
Other losses - net		**(9,488)**	(424)
Selling and marketing costs		**(29,093)**	(23,653)
Administrative expenses		**(47,896)**	(36,596)
Operating profit	3	**150,477**	164,083
Finance costs - net	4	**(8,599)**	(11,906)
Share of loss of an associate		**(59)**	–
Profit before taxation		**141,819**	152,177
Taxation	5	**(23,084)**	(22,108)
Profit for the year		**118,735**	130,069
Profit attributable to:			
Owners of the Company		**119,058**	130,103
Non-controlling interests		**(323)**	(34)
Profit for the year		**118,735**	130,069
Earnings per share attributable to owners of the Company during the year (expressed in RMB per share)			
- Basic	6	**24.6 Cents**	28.0 Cents
- Diluted	6	**24.4 Cents**	27.3 Cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	RMB'000	RMB'000
Profit for the year	**118,735**	130,069
Other comprehensive (losses)/income:		
Currency translation differences	**(65)**	31
Cash flow hedge		
- Fair value change for the year	–	814
- Transfer to finance costs	–	1,936
Other comprehensive (losses)/income for the year	**(65)**	2,781
Total comprehensive income for the year	**118,670**	132,850
Attributable to:		
Owners of the Company	**118,993**	132,884
Non-controlling interests	**(323)**	(34)
Total comprehensive income for the year	**118,670**	132,850

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	**2011**	2010
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		**9,310**	9,541
Property, plant and equipment		**387,922**	397,316
Intangible assets		**44,795**	52,687
Investment in associates		**6,691**	1,750
Deferred income tax assets		**5,215**	–
Available-for-sale financial assets		**200**	200
		454,133	461,494
Current assets			
Inventories		**151,306**	115,489
Trade receivables	*8*	**362,122**	290,313
Prepayment and other receivables		**128,436**	99,598
Derivative financial instruments		**2,838**	–
Pledged bank deposits		**110,988**	57,961
Cash and cash equivalents		**581,724**	524,409
		1,337,414	1,087,770
Total assets		**1,791,547**	1,549,264
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**50,872**	49,232
Share premium		**200,383**	181,841
Other reserves		**64,703**	65,515
Retained earnings			
- Proposed final dividend	*7*	**13,635**	15,434
- Others		**747,097**	645,488
		1,076,690	957,510
Non-controlling interests		**3,145**	3,468
Total equity		**1,079,835**	960,978

	Note	2011	2010
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**114,696**	184,820
Derivative financial instruments		**973**	–
Deferred income tax liabilities		**14,000**	10,500
		129,669	195,320
Current liabilities			
Trade payables and bills payable	*9*	**241,784**	157,107
Current income tax liabilities		**5,281**	5,766
Borrowings		**299,297**	205,661
Derivative financial instruments		**5,445**	668
Accruals and other payables		**29,322**	22,802
Amount due to a director		**914**	962
		582,043	392,966
Total liabilities		**711,712**	588,286
Total equity and liabilities		**1,791,547**	1,549,264
Net current assets		**755,371**	694,804
Total assets less current liabilities		**1,209,504**	1,156,298

NOTES:

1. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards and interpretations adopted by the Group

(i) The following new amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

HKAS 24 (Revised)	Related party transactions
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 34 (Amendment)	Interim financial reporting
HKFRS 3 (Amendment)	Business combinations
HKFRS 7 (Amendment)	Financial instruments: Disclosures

(ii) The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2011 but are not relevant to the Group's operations:

HKAS 32 (Amendment)	Classification of rights issues[1]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendment)	First-time adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters[4]
HK(IFRIC)-Int 13 (Amendment)	Customer loyalty programmes[3]
HK(IFRIC)-Int 14 (Amendment)	Prepayment of a minimum funding requirement[3]
HK(IFRIC)-Int 1 (Amendment)	Extinguishing financial liabilities with equity instruments[2]

1 effective for annual periods beginning on or after 1 February 2010
2 effective for annual periods beginning on or after 1 July 2010
3 effective for annual periods beginning on or after 1 January 2011
4 effective for annual periods beginning on or after 1 July 2011

(b) New standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

HKAS 1 (Amendment)	Presentation of financial statements[2]
HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets[1]
HKAS 19 (Amendment)	Employee benefits[3]
HKAS 27 (Revised 2011)	Separate financial statements[3]
HKAS 28 (Revised 2011)	Associates and joint ventures[3]
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities[4]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures[5]
HKFRS 9	Financial instruments[5]
HKFRS 10	Consolidated financial statements[3]
HKFRS 11	Joint arrangements[3]

HKFRS 12	Disclosures of interest in other entities[3]
HKFRS 13	Fair value measurements[3]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface min[3]

[1] effective for annual periods beginning on or after 1 January 2012
[2] effective for annual periods beginning on or after 1 July 2012
[3] effective for annual periods beginning on or after 1 January 2013
[4] effective for annual periods beginning on or after 1 January 2014
[5] effective for annual periods beginning on or after 1 January 2015

The Group has commenced assessing the potential impact of these new and revised standards, amendments or interpretations but is not yet in a position to determine whether they would have a significant impact on its results and financial position are prepared and presented.

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 the sale of goods.

	2011	2010
	RMB'000	*RMB'000*
Sale of goods (net of value-added tax)	**1,074,688**	908,251

(b) Segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. The Executive Directors have determined the operating segments based on these reports. The Executive Directors consider the business from product perspective.

For the year ended 31 December 2011, the Group has organised itself into two main operating 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 2011 are as follows:

	2011 **RMB’000**	2010 RMB’000
Revenue		
Manufacturing	**938,412**	828,351
Trading	**136,276**	79,900
Total revenue	**1,074,688**	908,251
Segment results		
Manufacturing	**203,672**	194,185
Trading	**4,188**	6,918
Unallocated corporate expense – net	**(57,383)**	(37,020)
Finance cost, net	**(8,599)**	(11,906)
Income tax expense	**(23,084)**	(22,108)
Share of loss of an associate	**(59)**	–
Profit for the year	**118,735**	130,069

The segment assets and liabilities as at 31 December 2011 and capital expenditure for the year then ended are as follows:

	2011 **RMB’000**	2010 RMB’000
Segment assets		
Manufacturing	**1,050,913**	922,216
Trading	**22,184**	35,642
Pledged bank deposits	**110,988**	57,961
Cash and cash equivalents	**581,724**	524,409
Other corporate assets	**25,738**	9,036
Total assets	**1,791,547**	1,549,264
Segment liabilities		
Manufacturing	**210,856**	162,327
Trading	**38,998**	15,100
Bank borrowings	**405,923**	370,161
Deferred tax liabilities	**14,000**	10,500
Current income tax liabilities	**5,281**	5,766
Other corporate liabilities	**36,654**	24,432
Total liabilities	**711,712**	588,286

	2011	2010
	RMB'000	RMB'000
Capital expenditure		
Manufacturing	**27,659**	56,833
Trading	**100**	113
	27,759	56,946

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as pledged bank deposits, cash and cash equivalents, taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

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

	Manufacturing		**Trading**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation	**31,691**	31,087	**123**	120
Amortisation	**9,963**	11,406	**–**	–
Provision for impairment of intangible assets	**3,499**	6,000	**–**	–
Provision for impairment of inventories	**17,168**	1,001	**–**	109
Provision for /(reversal of) impairment of trade receivables	**1,082**	1,192	**(94)**	–

The Group's sales within the two operating segments are made to customers in three main geographical areas.

	2011	2010
	RMB'000	RMB'000
Turnover		
- Mainland China	**657,405**	571,643
- Europe	**175,398**	173,265
- Asia (excluding Mainland China)	**109,378**	85,802
- Others	**132,507**	77,541
	1,074,688	908,251

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

	2011	2010
	RMB'000	RMB'000
Total assets		
- Mainland China	**1,725,912**	1,477,821
- Hong Kong	**58,286**	67,041
- Others	**7,349**	4,402
	1,791,547	1,549,264

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. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2011	2010
	RMB'000	RMB'000
Amortisation of prepaid operating lease payments	**231**	310
Depreciation	**31,814**	31,207
Amortisation of intangible assets	**9,732**	11,096
Provision for impairment of intangible assets	**3,499**	6,000
Provision for impairment of inventories	**17,168**	1,110
Provision for impairment of trade receivables	**988**	1,192
Net foreign exchange gains	**(5,694)**	(1,884)

4. FINANCE COSTS - NET

	2011 **RMB'000**	2010 RMB'000
Interest expense on:		
- Bank borrowings wholly repayable within five years	**(28,248)**	(18,594)
- Government loans wholly repayable within five years	**(93)**	(399)
Net foreign exchange gains on financing activities	**11,602**	1,687
	(16,739)	(17,306)
Less: amount capitalised on qualifying assets	**3,533**	2,527
Finance costs	**(13,206)**	(14,779)
Finance income		
- Interest income on short term bank deposits	**4,607**	2,873
Net finance costs	**(8,599)**	(11,906)

Finance cost capitalised during the year have been calculated by applying a capitalisation rate of 4.3% (2010:5.2%) per annum on expenditure of qualifying assets.

5. TAXATION

	2011 **RMB'000**	2010 RMB'000
Current income tax		
- Mainland China enterprise income tax	**24,799**	22,108
Deferred income tax	**(1,715)**	–
	23,084	22,108

Notes:

(a) Hong Kong Profits tax

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

(b) Mainland China enterprise income tax

The subsidiaries in Mainland China are subject to Mainland China enterprise income tax at rates of 24% to 25%. Two of the PRC subsidiaries, Xiamen Doingcom Chemical Co. Ltd. and Xiamen Doingcom Biotechnology Co., Ltd. have 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. and Xiamen Doingcom Biotechnology Co., Ltd. commenced to enjoy its tax holiday starting from year 2007 and 2008 respectively.

(c) Overseas income taxes

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.

(d) Withholding tax

Pursuant to the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed/to be distributed by those subsidiaries and associates established in Mainland China in respect of earnings generated from 1 January 2008.

6. 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.

	2011	2010
Profit attributable to equity holders of the Company *(RMB'000)*	**119,058**	130,103
Weighted average number of ordinary shares in issue *(thousands)*	**483,211**	465,210
Basic earnings per share *(RMB per share)*	**24.6 Cents**	28.0 Cents

Diluted

Diluted earnings per share is calculated by 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.

	2011	2010
Profit attributable to equity holders of the Company *(RMB'000)*	**119,058**	130,103
Weighted average number of ordinary shares in issue *(thousands)*	**483,211**	465,210
Adjustments assuming the exercise of share options *(thousands)*	**4,854**	11,292
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**488,065**	476,502
Diluted earnings per share *(RMB per share)*	**24.4 Cents**	27.3 Cents

7. DIVIDENDS

A final dividend in respect of the year ended 31 December 2011 of HK3.48 cents per share, totaling approximately of RMB13,635,000, is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect such proposed dividend.

	2011	2010
	RMB'000	RMB'000
Interim dividend paid of HK1.2 cents (2010: HK0.88 cents) per ordinary share	**4,760**	3,583
Proposed final dividend of HK3.48 cents (2010: HK3.8 cents) per ordinary share	**13,635**	15,434
	18,395	19,017

8. TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally around 60 to 90 days. For certain customers with good credit histories, an extended period up to 180 days is allowed. The aging analysis of trade receivables is as follows:

	2011	2010
	RMB'000	RMB'000
0 to 30 days	**84,756**	80,759
31 to 60 days	**68,254**	72,602
61 to 90 days	**47,759**	66,796
91 to 180 days	**128,302**	72,890
181 to 365 days	**36,709**	198
Over 365 days	**262**	-
	366,042	293,245
Less: Provision for impairment of trade receivables	**(3,920)**	(2,932)
	362,122	290,313

9. TRADE PAYABLES AND BILLS PAYABLE

	2011 RMB'000	2010 RMB'000
Trade payables	**18,077**	30,330
Bills payable	**223,707**	126,777
	241,784	157,107

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

	2011 RMB'000	2010 RMB'000
0 to 30 days	**27,796**	35,574
31 to 60 days	**73,254**	33,212
61 to 90 days	**53,193**	25,362
91 to 180 days	**86,660**	62,645
181 to 365 days	**147**	10
Over 365 days	**734**	304
	241,784	157,107

FINAL DIVIDEND

The Board has proposed a final dividend of HK3.48 cent (2010: HK3.8 cents) per ordinary share for the year ended 31 December 2011. Together with the interim dividend of HK1.2 cents (2010: HK0.88 cents) per share (having been paid on 21 October 2011), the total dividend for the year ended 31 December 2011 amounted to HK4.68 cents (2010: HK4.68 cents) per share, representing a total of RMB18.4 million (2010: RMB19.0 million). Subject to shareholders' approval at the forthcoming annual general meeting to be held on 28 June 2012, the proposed final dividend will be paid on or around 3 August 2012.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Tuesday, 26 June 2012 to Thursday, 28 June 2012 (both days inclusive), during which period no transfer of shares will be effected, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration 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 4:30 p.m. on Monday, 25 June 2012.

The transfer books and register of members of the Company will be closed from Monday, 9 July 2012 to Wednesday, 11 July 2012 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at the aforementioned address not later than 4:30 p.m. on Friday, 6 July 2012.

CHAIRMAN'S STATEMENT

Review

On behalf of the Board of Directors (the "**Board**"), I would like to present the Group's financial results for the year ended 31 December 2011 to our shareholders. During the period, the Group recorded turnover of approximately RMB1,075 million, representing an increase of 18% compared with 2010. Earnings before interest, tax, depreciation and amortisation ("**EBITDA**") were RMB212 million, slightly decreased by 1% from RMB214 million in 2010. Profit attributable to shareholders decreased by 8% to RMB119 million. Basic earnings per share reached RMB24.6 cents, down 12% compared with RMB28.0 cents in 2010. To thank our shareholders for their enduring support, the Board has proposed a final dividend of HK3.68 cents per share for the year ended 31 December 2011. Together with the interim dividend of HK1.20 cents per share, the total dividend for the year was HK4.68 cents per share, compared with HK4.68 cents in the previous year.

2011 was a volatile year for the global economy. After experiencing the systemic defaults in the global financial crisis in 2008-2009, which was triggered by the subprime crisis in the U.S., the financial and economic systems around the world were still facing evolving systemic risks in 2011. Recovery of the global economy was under threat due to the earthquake in Japan, geopolitical instability in the Middle East, global inflation, downgrade of the U.S. credit rating and European sovereign debt crisis and various measures by different governments to help revive their respective economies. The operating environment was more turbulent and more difficult to predict. Fortunately, from the analysis of various full-year macro-economic data, the demand for global necessities in this year has been recovering, though slowly but steadily.

Looking back at 2011, despite continuous high pressure from raw material prices amid the high inflation and the worldwide recovery in the first half, the Group adopted proactive resources management and flexible product pricing strategy to secure solid year-on-year growth, with turnover for the first half year increased by 32% and profit increased by 25%. Gross profit margin was maintained at the same level as that of 2010, while the rising pressure of raw materials and other production costs was mitigated. However, in the second half, liquidity of the markets in China and overseas shrank in various degrees due to the launch of China's macro-economic control measures and the deepening of Europe's sovereign debt crisis. As a result, the Group faced a completely different challenge in respect of raw materials and products as compared to the first half. Fortunately, the Group was well prepared in its financial and capital management and was able to maintain stable operations with its ample cash-on-hand and multi-layered currencies and interest rates measures, coupled with continuous perfection of internal control, helping the Group steer clear from the impact of liquidity crunch in the market and sustaining stable operation. Nevertheless, in the second half of this financial year, the Group’s revenue shrank by 9% compared to the first half as a result of large-scale destocking by downstream customers to relieve their capital pressure and lower their operational risk following the liquidity crunch of banks in Europe and the U.S. The result was a temporary fall in the demand for upstream products from the Group in the supply chain, with certain products recording negative growth, compared with the first half of the year. Also, the price of the Group’s key raw material gum turpentine had a sharp fall in a short time due to China’s macro-economic control measures causing monetary tightening and downstream customers temporarily cutting inventory levels and causing panic. The price of gum turpentine has fallen more than a half from the historic high levels in the beginning of the year. As raw material prices have declined sharply, the average selling price of the Group’s core aroma chemicals business also fell under a new pricing mechanism, resulting in the negative impact on the results of the second half. This resulted in a net increase in revenue by 18% as compared to 2010.

Due to the sharp volatility of raw materials during the year, the market price of turpentine and related finished products has dropped significantly since the second half of 2011. Based on the actual market condition, management has assessed the net realisable value of the Group's inventories, and a provision for impairment of inventories of RMB17.2 million has been made for the year ended 31 December 2011. As the provision was recognised in "cost of sales" in the consolidated income statement, it has a negative impact of 1.6% on the Group's gross profit margin for the year under review. While in March 2012, the market prices of these products have increased. This demonstrates the Groups' ability to maintain a stable profitability under the turbulent operating environment.

During the year, the Group mainly produced aroma chemical products which are turpentine-based and continued to develop petroleum-based products. Sales of woody and grassy derivative aroma chemicals and various food additives launched in recent years grew consistently, accounting for more than 20% of the Group’s total revenue for the year. Apart from expanding its product mix, the Group continued to strengthen its co-operation and interaction with customers during the year, adhering to the business practice of stable supply, timely delivery and top quality. To win the trust and support from its customers, the Group also provided value-added service of total solutions including research and development, procurement, production and supply chain management to its customers.

During the period under review, labor costs and management staff wages in the mainland increased by over 28% due to the additional recruitment of new staff for the completion of Changtai Plant. Meanwhile, rising inflation has led to the sharp increase of indirect costs, management expenses and related welfare expenses, eroding part of the Group’s gross profit. Nevertheless, the Group’s effort in enhancing product value, lifting operational efficiency and stringently controlling costs paid off, mitigating the negative impact of rising costs to the minimum.

In the year under review, the Group continued to strengthen its financial position. As at 31 December 2011, total net cash, being cash and cash equivalents less total borrowings, amounted to RMB168 million, with full-year net cash from operating activities of approximately RMB61.9 million as compared to RMB44.4 million in the corresponding period last year. Meanwhile, gearing ratio lowered from 40.8% last year to 38.5%. The continuous improvement of the Group's financial management enabled the Group to remain financially sound at a time of extreme volatility in raw material costs. The Group will continue to enhance its financial position, particularly in view of the further tightening of liquidity of banks around the world.

Outlook

Although the economic recovery of the global economy, in particular Europe and the U.S., is beset by uncertainties, the actual market demand for daily necessities such as the Group's products is still growing steadily. The panic inventory destocking in the second half of 2011 should be eased off in the upcoming years, as long as the euro-zone debt crisis does not get out of control under the cooperation of countries, market liquidity stays at reasonable levels and a majority of enterprises gradually regain their confidence to continue operation. In addition, development of emerging markets will continue to drive the development of the global flavor and fragrance industry. Overall, the Group is optimistic towards the operation in the upcoming year and will closely monitor market changes and remain proactive. Also, the Group has entered a mature phase in respect of human resources, international markets, supply chain management, green chemical technology and production, after over 10 years in the business development. The Group is in a strong position to cope with the challenge and sustain development in a time of turbulence of the international economic environment.

In China, prices of gum turpentine, as the Group's key raw material and renewable resource, were unprecedentedly volatile in the last 2-3 years, offering the Group the opportunity to accelerate vertical integration of the turpentine supply chain in 2012.

The Group has recently started to plan major product lines, and targets to put the plan into implementation in 2012. The Group will further reduce cost of its aroma chemicals (fragrance) business, as a key component of household, personal health care and hygiene consumer products, to raise its competitiveness. The Group will seek strategic partnership to expand its product mix to important areas including food and oral hygiene. As a part of extending the industry value chain, providing solutions to the household and hygiene industry will also become a focus for us. In addition, we are also developing chemicals with pharmaceutical and other functions among the product mix of the turpentine based value chain. All these will help the Group secure strategic advantages in the development of the turpentine based value chain and increase for a larger global market share. With regard to new product mix using petroleum-chemicals as raw material, the Group will strive for breakthroughs, to prepare a solid foundation for future expansion.

In the upcoming year, the Group will strive to increase the efficiency of existing production facilities, while optimizing the operating system at the same time. In respect of production facilities, the Group expects the new Changtai Plant will have increased production capacity, the cooperation plant in Huanggang Hubei will basically complete construction and the main plant in Haicang will step up technological upgrade. In respect of technological upgrade, not only will the new generation “Super-jet” reaction technology be gradually used in production in phases, other production process of various products will also gradually be optimized. It is expected that the production capacity and efficiency will be enhanced in various aspects of the operating system, while effectively reducing energy and raw material consumption. All these upgrading efforts will further reduce the cost of production, significantly increase competitiveness of the Group, and effectively reduce the carbon footprint, making greater contribution for sustainable development in the industry.

Although the global economy remained volatile in 2011, the global food and food additives industry is doing well against an inflationary background. The food business of the Group’s downstream customers was recording double-digit growth and this upward trend is expected to be maintained in the upcoming year. Therefore, the Group is confident in increasing efforts in the development of the natural extracts and food additives business, aiming at extension of downstream asset chain with its own brand, while paying attention to food safety, natural, organic and green issues. The Group expects to increase market share and enhance profitability at the same time.

The Group’s past stable development was mainly achieved through organic growth. The Group has effortlessly explored merger and acquisition opportunities in the past few years, with the principle that there should be synergies with the Group’s industry strategy and the potential value of the Group could be fully uncovered. Today, the Group’s industrial layout has provided the conditions for us to achieve the related goals in the upcoming years, with confidence. In the past decade, the industry has witnessed the startup stage of the Group and its steady growth in the aroma chemicals business. The next decade will be an era of sustainable growth for EcoGreen. I am full of confidence and expectation for the future of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2011, both the aroma chemicals business and flavour chemicals business recorded a slight growth. The Group's turnover for the year was RMB1,075 million, an increase of 18% from the previous year. Excluding contributions from the supplementary resource management and trading business, sales of our three major products has increased by 13%. Profit attributable to shareholders dropped to RMB119 million by 8% from the previous year. Basic earnings per share were approximately RMB24.6 cents.

Manufacturing

(i) Aroma Chemicals

For the year ended 31 December 2011, turnover of aroma chemicals increased by 15% to RMB734 million (2010: RMB641 million), accounting for 68% of the Group's turnover (2010: 70%) and a gross profit margin of 22.1% (2010: 24.3%). The product price of Dihydromyrcenol, as an important contributor of the aroma chemicals business, was adjusted downward in the second half due to the sharp decline of raw material prices. The total sales of Dihydromyrcenol was slightly reduced by 3% from the previous year.

Aroma Chemicals continued to be the Group's core products during the year under review, and constituted a stable and major income source for the Group. Aroma chemicals are primarily used as functional ingredients and key components in many daily consumer goods, with a combined positive effect of its diversified applications and the development in the emerging markets, market demand continued to rise, the aroma chemical products continued to be the major growth driver of the Group's operation. In addition, certain aroma and food flavour chemicals launching lately were further recognized by the customers and well received in the market. The new series of products have already contributed RMB230 million (2010: RMB196 million) to the Group's revenue, with a profit margin amounted to approximately 30%, which is higher than the profit margin of our fragrance chemical products and represents one of the sources in the growth of Group's profitability.

(ii) Natural Extracts

In respect of the Natural Extracts products, apart from existing natural pharmaceutical raw materials, the Group has been actively engaged in the development of food additives business for the production of food ingredients, fast food, frozen food and pet nutrition food, which is produced with purification and bio-conversion technologies from natural produces. Natural extracts mainly include seafood, meat and mushroom extracts.

During the year under review, the Group's natural extract products maintained steady growth. Turnover from sales of Natural Extracts increased by 9% to RMB138 million (2010: RMB127 million), accounting for 13% (2010:14%) of the Group's sales. Gross profit margin amounted to 26.1%, (2010:23.8%). This is due to the scarcity of resources of certain products, which have high gross profit margins.

(iii) Intermediates

Besides the chiral pharmaceuticals and intermediates, the Group also applies similar advanced technologies of synthesis to produce agrochemical intermediates, which will later be turned into the kind of eco-pesticide.

During the year under review, turnover increased by 9% year-on-year to RMB65.5 million (2010: RMB60.3 million), accounting for 6% (2010: 7%) of the Group's sales. Gross profit margin was 46.4% (2010: 48.9%).

Resource management and trading business

This business is a necessary complement to the three main business categories listed above, in particular the aroma chemicals business. The Group has been striving for the integration of upstream turpentine resources and expansion of supply chain management, with a view of systemic competitiveness and meeting customer needs more effectively. This business mainly includes the trading operation of gum rosin, gum turpentine and other special botanic essential oils and their by-products. During the year, revenue from the resources management and trading increased by 71% to RMB136 million, accounting for 13% of the Group's revenue. The contribution to gross profit was approximately RMB7.88 million.

Financial Review

Turnover

The Group's recorded stable growth of 18% in its turnover for the year ended 31 December 2011, which amounted to RMB1,075 million. The Group's turnover in the first half was encouraging, with an increase by 32% compared with the last corresponding period. In the second half, raw material prices fell by almost 50% following the temporary destocking of downstream customers and sharp decline of raw material prices, triggering the decline in the prices of the Group's products. The inevitable downward adjustment of the prices of the Group's products resulted in the mere 6% increase of the turnover in the second half, compared with the corresponding period.

Gross Profit

During the year under review, the Group's gross profit totaled RMB237 million, increased by 5%. Gross profit margin decreased from 24.7% in 2010 to 22.0% in 2011. In light of the sharp volatility of cost of raw materials during the year, the market price of turpentine and related finished products has dropped significantly since the second half of 2011. Based on the actual market condition, management has assessed the net realisable value of the Group's inventories, and a provision for impairment of inventories of RMB17.2 million has been made for the year ended 31 December 2011. As the provision was recognised in "cost of sales" in the consolidated income statement, it has a negative impact of 1.6% on the Group's gross profit margin for the year under review.

By the products category, the gross profit margin of aroma chemicals decreased from 24.3% in 2010 to 22.4% in 2011, while natural extracts increased from 23.8% in 2010 to 26.1% this year. The profit margin of intermediates decreased from 48.9% in 2010 to 46.4% in 2011. The gross profit margin of resource management and trading products decreased from 11.3% in 2010 to 5.8% in 2011.

Operating Income and Expense

The selling and marketing expenses in 2010 accounted for 2.7% of the Group's turnover (2010: 2.6%). Under the Group's effective cost-cutting measures, the selling and marketing expenses to sales ratio remained stable.

In 2011, administrative expenses accounted for 4.5% of turnover (2010: 4.0%); a main reason of the increase was the increase in sales tax. In 2011, domestic and foreign enterprises received the same national treatment and local governments additionally taxed foreign enterprises urban maintenance and construction tax, and educational tax, resulting in additional expenses of RMB4.3 million, or 0.4% of turnover. In addition, the recruitment of extra staff for the new plant and the adjusted wages due to prices inflation led to the 28% increase of staff-related expenses.

Finance Costs – Net

As a significant portion of the Group's borrowings is denominated in United States dollars ("**US dollars**"), the depreciation of US dollars against Chinese Renminbi has led to an exchange gain of RMB11.6 million (2010: RMB1.7 million). However, the higher interest rates for bank loans obtained in China has resulted in an increase in finance cost; while at the same time, higher interest income was earned from the bank deposits, resulting in an overall drop in net finance cost by approximately RMB3.3 million as compared to last year.

Taxation

Tax expense of the Group in 2011 was RMB23.1 million (2010: RMB22.1 million). Effective tax rate of the Group is 16.3% (2010: 14.5%)

Profit for the Year

Profit for the year in 2011 was RMB119 million, representing a decrease of 8% compared with RMB130 million in 2010. EBITDA for the year was RMB212 million, which is considered stable as compared to RMB214 million in 2010.

Liquidity and Financial Resources

During the year under review, the Group's primary source of funding mainly included the cash generated from operating activities. For the year ended 31 December 2011, net cash generated from operating activities amounted to RMB61.9 million (2010: RMB44.4 million). The Group had net cash used in investing activities of RMB32.8 million (2010: RMB56.9 million). During the year under review, the net cash inflow from financing activities amounted to RMB28.3 million (2010: net cash inflow of RMB22.2 million).

As at 31 December 2011, the average inventory turnover days, average trade receivable turnover days and average trade payable turnover days were 58 days, 112 days and 87 days respectively (2010: 52 days, 100 days and 61 days).

The Group's financial position remains very solid and healthy during the year under review. As at 31 December 2011, the net current assets and the current ratio of the Group were approximately RMB755 million (2010: RMB695 million) and 2.3 (2010: 2.8) respectively.

As at 31 December 2011, the Group had borrowings of approximately RMB414 million (2010: RMB390 million). Among them, outstanding short-term borrowings amounted to RMB299 million (2010: RMB206 million). As at 31 December 2011, the Group's ratio of total borrowings to total equity, was approximately 38.5% (2010: 40.8%) and the Group's net cash balance, being cash and cash equivalents less borrowings amounted to RMB168 million (2010: RMB134 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.

Charge on assets

As at 31 December 2011, bank deposits of RMB111 million (2010: RMB58.0 million) were pledged to secure the Group's bills payable.

Contingent liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

Capital commitment

As at 31 December 2011, the Group had capital commitments of approximately RMB12.2 million (2010: RMB25.2 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 2011, the Group's borrowings of approximately RMB180 million and RMB219 million were denominated in Renminbi and United States dollars, respectively.

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 proper financial instrument and financing arrangement for hedging purpose when considered appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group had 430 full-time employees, among whom 424 were based in the PRC. For the year under review, the total employment costs incurred for 2011 including directors' emoluments amounted to RMB37.0 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 properly rewarded on a performance-related basis under the Group's salary and bonus system. The Group has adopted a share option scheme for the purpose of providing incentives and rewards to the management, key technician and other eligible participants who contribute to the success of the Group's operations.

CORPORATE GOVERNANCE

The Company has adopted and applied the code provisions (the "**Code Provisions**") set out in the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the then prevailing Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2011. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the year under review, the Company has complied with the Code Provisions of the CG code save for the following:

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.

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

During the year, the Company made the following purchases of its own shares on the Stock Exchange:

	Number of shares	Purchase consideration Per share		Aggregate Consideration
Month of purchase in 2011	**Purchased**	**Highest**	**Lowest**	**Paid**
		HK$	HK$	HK$
June	814,000	2.46	2.40	1,980,700
July	612,000	2.60	2.54	1,576,400
September	210,000	1.75	1.70	361,200
October	358,000	2.11	1.67	665,800
November	638,000	2.14	1.74	1,283,000
December	174,000	1.96	1.62	295,600

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all the Directors have confirmed that they have complied with all the relevant requirements as set out in the Model Code throughout the year ended 31 December 2011.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the accounting policies, accounting standards and practices adopted by the Group and the consolidated financial statements and results of the Group for the year ended 31 December 2011.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT

The figures in respect of the preliminary results announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditor, PricewaterhouseCoopers ("**PwC HK**"), to the amounts set out in the Group's audited consolidated financial statements. The work performed by PwC HK in respect of the preliminary results announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC HK on the preliminary results announcement.

REMUNERTION COMMITTEE

The Remuneration Committee of the Board has reviewed remuneration policy and packages of the Directors and senior management for the year ended 31 December 2011.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the designated website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.ecogreen.com). The 2011 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 April 2012.

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

Hong Kong, 29 March 2012

* *For identification purpose only*

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. Han Huan Guang and Mr. Lin Zhigang, one non-executive Directors, namely Mr. Feng Tao and three independent non-executive Directors, namely Mr. Yau Fook Chuen, Mr. Wong Yik Chung, John and Mr. Lau Wang Yip, Derrick.