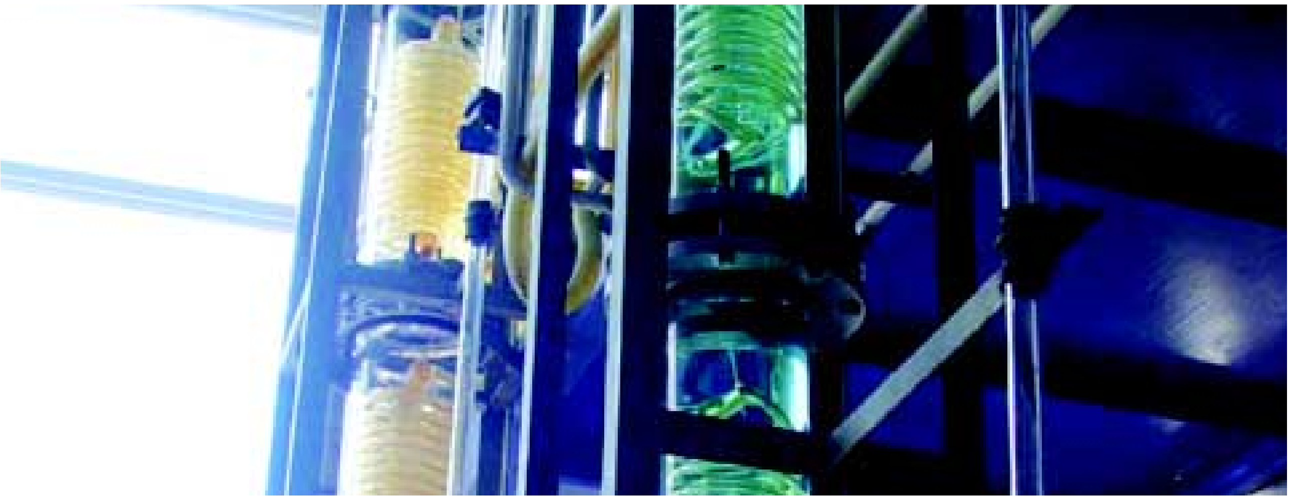


EcoGreen is the leading natural fine chemicals company in the PRC and is principally engaged in the research and development, production and sales of fine chemical products. Using botanic essential oils as raw material, the fine chemical products are extensively applied in pharmaceutical industry, healthcare industry and personal care industry.

The Group's fine chemical products are broadly categorised into three main product groups, namely (i) chiral pharmaceuticals raw materials and pharmaceutical intermediates which are principally used in the production of chiral pharmaceuticals, (ii) natural pharmaceutical raw materials which are used as functional ingredients in the production of healthcare products, and (iii) aroma chemicals which are broadly used as ingredients in flavor and fragrance products to be applied in a wide range of personal care products, cosmetics and household products.

Operational Review

Product Diversification

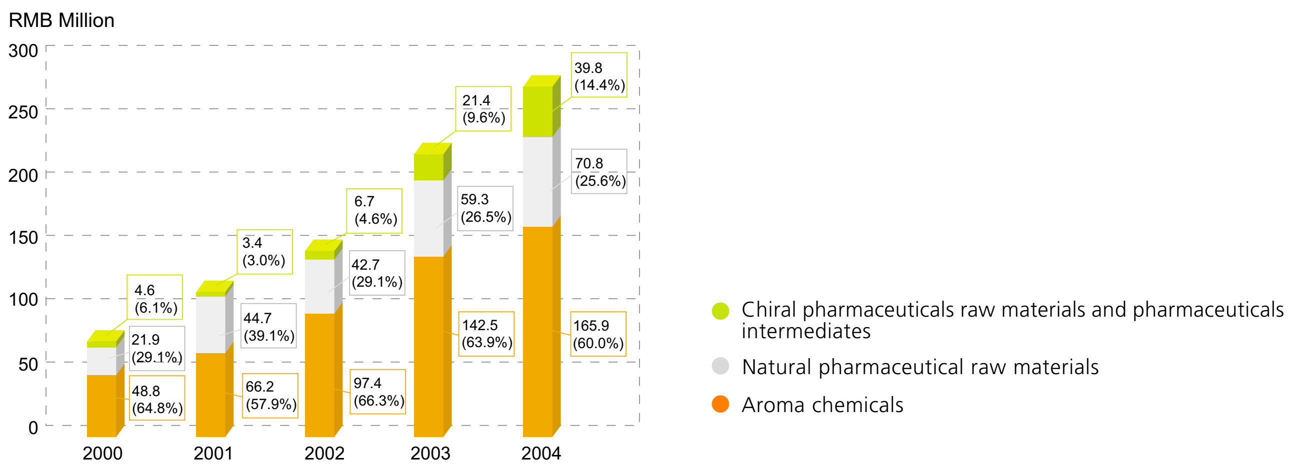
Leveraged on its advanced production technologies and techniques, the Group is well positioned to develop new products in a timely manner and swiftly adjust its product mix in accordance with the market demand. During the year under review, approximately 30 types of fine chemical products were produced. An analysis of the Group's turnover by product types and the gross profit of the Group's products for the year ended 31st December 2004 and 31st December 2003 is as follows:

	Turnover 2004 ***RMB'000***	**Gross profit 2004** ***RMB'000***	Turnover 2003 *RMB'000*	Gross profit 2003 *RMB'000*
Chiral pharmaceuticals raw materials and pharmaceutical intermediates	**39,837**	**30,180**	21,374	16,777
Natural pharmaceutical raw materials	**70,813**	**26,861**	59,253	22,618
Aroma chemicals	**165,841**	**56,395**	142,525	47,164
Group's turnover/gross profit	**276,491**	**113,436**	223,152	86,559

Chiral pharmaceuticals raw materials and pharmaceutical intermediates ("the Chiral products")

The sales of Chiral products increased by 86.0% to reach RMB39.8 million in the year ended 31st December 2004 compare to RMB21.4 million in the previous year. It accounted for 14.4% (2003: 9.6%) of the Group's turnover. Chiral products are principally used as raw material in the production of chiral drugs. As at 31st

Turnover Breakdown by Products



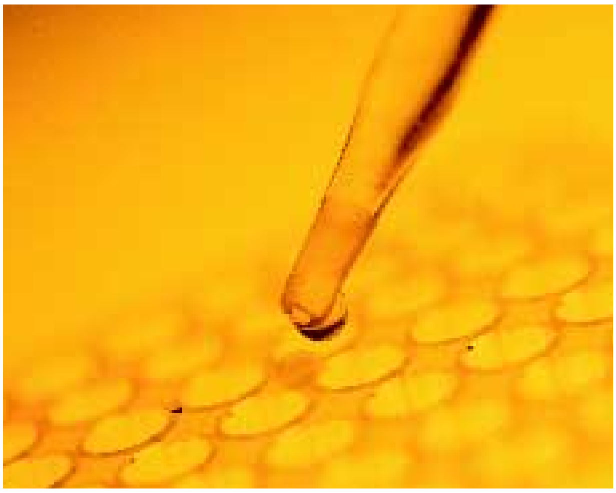
December 2004, the Group produced α-Phenylethyl alcohol (α-苯乙醇), L-camphor (左旋樟腦), D-bornel (右旋龍腦), Intermediary polysaccharide (T110), 3-Phenylpropanal (3-苯丙醛) and Resveratrol (白藜蘆醇). The sales of Chiral products was under substantial growth in 2004. Especially for the latter two products which were launched in previous year, the customers' responses to these products were very positive and encouraging. During the year under review, the Group's new Chiral products were progressively recognised by the pharmaceutical markets and there was a strong demand from pharmaceutical traders and manufacturers which included international reputable enterprises. As a result of it, the turnover of the Chiral products increased 86.0% to approximately RMB39.8 million.

Natural pharmaceuticals raw materials

During the year under review, all the Group's natural pharmaceuticals raw materials posted a progressive growth. The sales of it increased by 19.4% to reach RMB70.8 million in the year ended 31st December 2004 from RMB59.3 million in the previous year. It accounted for 25.6% (2003: 26.6%) of the Group's turnover. As at 31st December 2004, the Group mainly produced Natural Cinnamic Aldehyde (天然肉桂醛), Eucalyptol (桉葉素), Eugenol (丁香酚) and Eucalyptus Globulus Oil (桉葉油), etc. Natural pharmaceuticals raw materials are used as functional ingredients in the production of natural pharmaceuticals like skin medicine, pharmaceuticals for refreshing and relief of fatigue, pain releasing analgesic for relief of muscle aches, fatigue refresher and medicated oil for nasal discomfort. The general improvement in living standards, awareness of healthcare has led to the growing demand for those downstream products in the PRC and in the global market.

Aroma chemicals

The sales of aroma chemicals increased by 16.4% to reach RMB165.8 million in the year ended 31st December 2004 compare to RMB142.5 million in the previous year. It accounted for 60.0% (2003: 63.9%) of the Group's turnover. As at 31st December 2004, aroma chemicals produced by the Group mainly include Dihydromyrcenol (二氫月桂烯醇), Dihydromyrcene (二氫月桂烯), Natural Citronellal (天然香茅醛) and Natural Citronellol (天然香茅醇), etc. Aroma chemicals are broadly used as ingredients in flavour and fragrance products which are applied in a wide range of personal care products, cosmetics and fragrance products. The Group's customers include the global top 10 multinational fragrance and



flavour manufacturers and intermediate traders. As these aroma chemicals are mainly applied as functional ingredients or intermediates for a wide range of daily necessities. The growing demand for these downstream products in the PRC and the international market bring more customers to the Group. Additionally, existing customers had placed larger-sized orders with the Group also stimulate the sales in the year under review.

Customer Base Expansion

The Group has established a solid and diversified customer base with over 150 customers, including major multinational manufacturers and intermediate traders of pharmaceuticals, flavour and fragrance products. During the year 2004, turnover generated from the Group's five largest customers reduced from 22.8% to 18.2%. It minimises the adverse impact of any over-exposure to a particular customer, industry or any significant seasonal fluctuation in sales pertaining to any particular industry. The Group's extensive customer base is the result of the Group's distinguished product quality and renowned reputation, coupled with its intimate relationship with customers.

Production Capacity Improvement

The Group's existing production facilities have a site area of approximately 27,000 sq. m. and an aggregate gross floor area of approximately 8,400 sq. m. located in Xiamen, Fujian Province, the PRC. After the technology advancement and productivity enhancement of the production facilities at the existing Haicang Plant were completed in October 2004, the annual processing capacity of botanic essential oils of the Group increased from 9,500 metric tonnes to 11,000 metric tonnes.

Research and Development Capabilities Advancement

For the year ended 31st December 2004, product development costs incurred and capitalised by the Group amounted to approximately RMB3.6 million (2003: RMB6.2 million) whereas the Group's amortisation of product development costs amounted to RMB2.2 million (2003: RMB2.2 million), representing 1.3% (2003: 2.8%) and 0.8% (2003: 1.0%), respectively, of the Group's turnover.

With the availability of sophisticated ancillary facilities and the abundant resources provided by a number of PRC academic and research institutes, the Group bolstered its research and development capability through the collaborations with some leading academic and research institutes in the PRC, including Xiamen University, Nanjing University, The Shanghai Institute of Organic Chemistry of Chinese Academy of Sciences and The Guangzhou Institute of Chemistry of Chinese Academy of Sciences.

During the year, the strategic acquisition of SFC will strengthen the Group's R&D in pharmaceutical intermediates and other fine chemicals products. SFC had 26 employees, more than half of which were R&D experts including senior engineers and experienced researchers of the former China Academy of Science Shanghai Organic Chemistry Research Institute with extensive experience in the R&D of organic fine chemicals. In addition, SFC had developed and owned production technologies for certain chiral pharmaceutical raw materials and pharmaceutical intermediates and other fine chemicals products, out of which more than 20 production technologies had already been commercialized by way of licensing to certain local and overseas pharmaceutical chemicals and pharmaceutical products manufacturers. The Group will deploy the SFC's existing R&D result, goodwill and production resources of its cooperative plant without incurring additional and significant R&D costs. In addition, the acquisition will speed up the Group's commercial launching of pharmaceutical intermediates and enable the Group to broaden its existing products portfolio. The Group will use SFC as the technical platform for its rapid expansion of chiral pharmaceutical raw materials and pharmaceutical intermediates businesses in the near future.

Financial Review

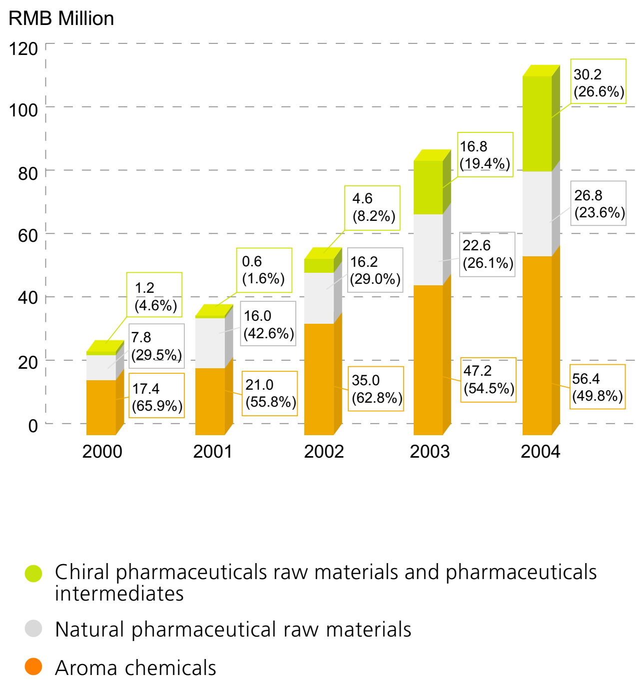
Financial Performance

The Group achieved a stable business growth for the year ended 31st December 2004. Turnover and profit attributable to shareholders reached RMB276.5 million and RMB64.1 million, respectively, representing a year-on-year increase of 23.9% and 17.2% as compared to RMB223.2 million and RMB54.7 million in 2003. The increase in profit was mainly attributable to the continued expansion of the Group's business and the increase in sales of the Group's fine chemical products.

The steady growth in the Group's turnover was mainly attributable to the overwhelming demands of the Group's new chiral pharmaceuticals raw material which was launched in the market in 2003 and the growing demand for downstream products in the PRC and the international market expedited the overall increase in the demand for the other Group's fine chemical products. In addition, the completion of the Group's productivity enhancement in October 2004 had also resulted in the increase of the production scale at end of the year.

The Group continued to focus on diversifying its customer base and extending its sales and distribution network. Geographically, local sales of the Group's fine chemical products surged by 26.6% as compared to that of 2003 whereas the overseas sales of the Group's fine chemical products increased by 12.3% as compared to that of 2003.

Gross Profit Breakdown by Products



During the year under review, the gross profit margin of the Group increased from 38.8% in 2003 to 41.0% in 2004. The improvement was attributable to the substantial increase in sales of chiral pharmaceuticals raw materials and pharmaceutical intermediates which have relatively higher profit margin than natural pharmaceutical raw materials and aroma chemicals. Coupled with the continuous improvement in productivity, material sourcing capability and production overhead control, the cost effectiveness of manufacture was enhanced.

Selling and distribution expenses as a percentage of sales decreased from 3.8% to 2.9%, mainly due to the tightening cost control. The increase of administrative expenses as a percent of sales from 7.6% to 10.6% was mainly due to the increased administrative expenses for organisational re-structuring and listing compliance following the Company's listing on the Stock Exchange. Resulting from the written off of the convertible bonds issuance costs, following the conversion of the convertible bonds in February 2004, finance cost recorded a RMB0.6 million increment when compared to last year. The Group's taxation charge in 2004 increased to RMB5.2 million, as one of the Group's principal subsidiaries was exempted for payment of enterprise income tax for 2002 and 2003 but it enjoys only a 50% reduction in enterprise income tax for the three years commencing from this year.

Liquidity, Financial Resources and Capital Structure

During the year under review, the Group's primary source of funding included the net proceeds of RMB147.0 million received from the Listing and the cash generated from operating activities. Net cash inflow from operating activities increased by RMB51.0 million or 224.7% to approximately RMB73.7 million (2003: RMB22.7 million). The strengthening of the net cash surplus from operation was the result of the Group's tighter control in working capital management by maintaining the level of inventory at optimal stock level and keeping track of the overdue trade debts. With the financial resources obtained from the Group's operations, the Group had invested RMB34.8 million in the acquisition of the property, plant and equipment and had net cash outflow of RMB12.7 million for the repayment of bank borrowings during the year. As at 31st December 2004, the Group had cash and bank deposits of approximately RMB240.5 million (2003: RMB65.9 million) (including pledged bank deposits of RMB31.8 million (2003: nil)).

The Group's financial position became very solid during the year under review. As at 31st December 2004, the net current assets and the current ratio of the Group were approximately RMB183.7 million (2003: RMB40.9 million) and 2.14 (2003: 1.32), respectively. The Group's gearing ratio as at 31st December 2004, which is represented by the ratio of total borrowings to total assets, was approximately 26.4% (2003: 57.7%).

As at 31st December 2004, the Group had total assets of approximately RMB486.2 million (2003: RMB283.9 million), bank borrowings of approximately RMB78.0 million (2003: RMB90.6 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 RMB36.2 million (2003: RMB36.2 million), convertible bonds of RMB14.1 million (2003: RMB37.2 million), trade and other payables of approximately RMB36.2 million (2003: RMB33.7 million) and shareholders' equity of approximately RMB320.0 million (2003: RMB85.9 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 the construction of a new plant for the Haicang Plant phase II in Xiamen.

Charges on assets

As at 31st December 2004, bank deposit of approximately RMB31.8 million (2003: nil) and certain land and buildings of the Group with an aggregate net book value of about RMB6.0 million (2003: RMB37.2 million) were pledged to secure the Group's bank borrowings. As at 31st December 2003, certain bank borrowings of the Group were further secured by pledge of corporate guarantees provided by certain unrelated third parties of approximately RMB25.5 million and recoverable export tax rebate of approximately RMB3.1 million. These pledges were released upon the repayment of bank borrowings during the year.

Contingent Liabilities

Corporate guarantees in the amount of RMB1.5 million provided by the Group for bank loans of an unrelated third party as at 31st December 2003 were released during the year. As at 31st December 2004, neither the Group nor the Company had any contingent liabilities.

Capital Commitment

As at 31st December 2004, the Group had capital commitments of approximately RMB52.7 million (2003: RMB21.0 million) in respect of purchases of property, plant and equipment, construction-in-progress, product development costs, capital injection to a subsidiary and acquisition of SFC.

Treasury Policies and Exposure to Fluctuations in Exchange Rates

The Group's transactions are mainly denominated in Renminbi, United States dollars and Hong Kong dollars with its operation mainly in the PRC. As at 31st December 2004, all the Group's bank borrowings were denominated in Renminbi and Hong Kong dollars respectively, bearing interest at rates ranging from 1.4% to 6.1% per annum. The Group's cash and cash equivalents (comprise cash on hand, bank balances and time deposits within three months of maturity when acquired) denominated in Renminbi amounted to 72.4% of the total balance with the remaining balance denominated in Hong Kong dollars and United States dollars.

The Group's exposure to the foreign exchange fluctuations was minimal during the year under review and 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. Nevertheless, 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 31st December 2004, the Group has 208 full-time employees of which 203 are based in the PRC. During the year under review, the Group has restructured its human resources policies and procedures with a view to deploy the incentives and rewards of the remuneration system. After the re-engineering, the remuneration package offered to the staff is appropriate for the duties and more in line with the prevailing market terms. The Group has also established a more 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 on 16th February 2004 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Directors may, at their discretion, invite any employees or Directors of the Group and other selected participants as set out in the scheme, to subscribe for shares in the Company. During the year under review, 27 million share options were granted to directors and employees giving them the rights to subscribe for an aggregate of 27 million shares of the Company.