



The directors ("the Directors") of EcoGreen Fine Chemicals Group Limited ("the Company") are pleased to present their annual report together with the audited accounts of the Company and of its subsidiaries (collectively "the Group") for the year ended 31st December 2004.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 3rd March 2003 as an exempted company with limited liability under the Companies Law of the Cayman Islands. On 16th February 2004, the Company acquired the entire issued share capital of EcoGreen Fine Chemicals Limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 32 to the accounts. Details of the Reorganisation and the basis of preparation of the consolidated accounts of the Group are set out in Notes 1 and 2 to the accounts.

Shares of HK\$0.10 each in the share capital of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 9th March 2004 ("the Listing Date").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activities of the Company's subsidiaries are the research and development, production and sale of fine chemicals products from natural resources for use in aroma chemicals and pharmaceutical products.

An analysis of the Group's performance for the year by geographical segments is set out in Note 3 to the accounts.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 28 of the annual report.

The directors recommend the payment of a final dividend of HK1.75 cents (equivalent of approximately RMB1.855 cents) per share to the shareholders whose names appear on the register of members on 18th May 2005, totalling HK\$7,262,500 (equivalent of approximately RMB7,698,000).

RESERVES

Details of movements in reserves of the Group and of the Company during the year are set out in Note 28 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB212,000 (2003: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 26 to the accounts.

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

There were no purchases, sales or redemptions of the Company's listed shares by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66 of the annual report.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Yang Yirong (*Chairman & President*)

Mr. Gong Xionghui

Ms. Lu Jiahua

Mr. Ho Wan Ming

Mr. Lin Zhigang (appointed on 12th February 2004)

Non-executive Director

Mr. Yang Chiming

Independent Non-executive Directors

Mr. Yau Fook Chuen (appointed on 12th February 2004)

Mr. Wong Yik Chung, John (appointed on 12th February 2004)

Dr. Zheng Lansun (appointed on 12th February 2004)

**DIRECTORS** *(Continued)*

In accordance with articles 108(A) of the Company's articles of association, Mr. Ho Wan Ming and Mr. Yang Chiming will retire from office by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

Mr. Ho Wan Ming has entered into a service contract with the Company for an initial term of three years commencing from 1st January 2004.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The independent non-executive Directors were appointed for an initial term of one year and will be renewable automatically for successive term of one year until terminated by not less than three months' notice in writing served by either party on the other.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report and other than in connection with the Group's reorganisation in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 14 to 17 of the annual report.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors or chief executives of the Company or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of the Company's share option scheme, details of which are set out in the following section under the heading "Share options".

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December 2004, the interests and short positions of the Directors, chief executives and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(a) Long positions in ordinary shares of HK\$0.10 each of the Company

Name	Nature of interest	Number of issued ordinary shares held	Percentage of the Company's issued share capital
Mr. Yang Yirong	Interest of a controlled corporation (<i>Note a</i>)	193,263,158	46.57%
Mr. Yang Chiming	Interest of a controlled corporation (<i>Note b</i>)	14,210,526	3.42%
Mr. Gong Xionghui	Interest of a controlled corporation (<i>Note c</i>)	11,368,421	2.74%
Ms. Lu Jiahua	Interest of a controlled corporation (<i>Note d</i>)	8,526,316	2.05%
Mr. Ho Wan Ming	Interest of a controlled corporation (<i>Note e</i>)	7,105,263	1.71%
Mr. Lin Zhigang	Interest of a controlled corporation (<i>Note f</i>)	5,684,211	1.37%

Notes:

- (a) These shares are registered in the name of and beneficially owned by Marietta Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Yang Yirong. Under the SFO, Mr. Yang Yirong is deemed to be interested in all the shares held by Marietta Limited.
- (b) These shares are registered in the name of and beneficially owned by Rowe Investments Ltd., the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Yang Chiming. Under the SFO, Mr. Yang Chiming is deemed to be interested in all the shares held by Rowe Investments Ltd.
- (c) These shares are registered in the name of and beneficially owned by Dragon Kingdom Investment Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Gong Xionghui. Under the SFO, Mr. Gong Xionghui is deemed to be interested in all the shares held by Dragon Kingdom Investment Limited.
- (d) These shares are registered in the name of and beneficially owned by Sunwill Investments Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Ms. Lu Jiahua. Under the SFO, Ms. Lu Jiahua is deemed to be interested in all the shares held by Sunwill Investments Limited.
- (e) These shares are registered in the name of and beneficially owned by Veazey Finance Corp., the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Ho Wan Ming. Under the SFO, Mr. Ho Wan Ming is deemed to be interested in all the shares held by Veazey Finance Corp.
- (f) These shares are registered in the name of and beneficially owned by Active Wealth Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Lin Zhigang. Under the SFO, Mr. Lin Zhigang is deemed to be interested in all the shares held by Active Wealth Limited.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)***(b) Interest in share options of the Company**

Share options, being unlisted physically settled equity derivatives, to subscribe for the ordinary shares of the Company were granted to Directors, chief executives, employees and advisors pursuant to the approved Company's share option scheme. Information in relation to these share options during the year ended 31st December 2004 are set out in the following section under the heading "Share options".

(c) Interest in registered share capital of a Company's subsidiary

At 31st December 2004, Ms. Lu Jiahua held 5% equity interests in the registered share capital of Xiamen Doingcom Enterprise Limited., a 95% owned subsidiary of the Company.

Other than the interest disclosed above, the directors and chief executive also hold nominee shares in certain subsidiaries held in trust for the Group solely for the purpose of ensuring that the relevant subsidiary has more than one member.

Other than as disclosed above, neither the Directors nor any chief executives, nor any of their associates, had any interests or short positions in the shares, underlying shares, or debentures of the Company or its associated corporation as at 31st December 2004.

SHARE OPTIONS

The following is a summary of the Company's share option scheme ("the Scheme"), which was approved and adopted pursuant to a written resolution of the shareholders of the Company passed on 16th February 2004, disclosed in accordance with the Listing Rules:

1. Purpose of the Scheme

The Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group.

2. Participants of the Scheme

All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders and advisers or consultants of the Group are eligible to participate in the Scheme.

3. Total number of shares available for issue under the Scheme and percentage of issued share capital as at 31st December 2004

The number of shares available for issue under the Scheme is 39,875,000 shares representing 9.61% of the issued share capital as at 31st December 2004.

SHARE OPTIONS *(Continued)*

4. *Maximum entitlement of each participant*

Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) under the Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the issued share capital.

5. *The period within which the shares must be taken up under an option*

An option must be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of option is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option is made, subject to the provisions for early termination thereof.

6. *The minimum period for which an option must be held before it can be exercised*

Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Scheme for the holding of an option before it can be exercised.

7. *The period within which payments or calls must or may be made or loans for such purposes must be repaid and the amount payable on application or acceptance of the option*

An option may be accepted by a participant within 21 days from the date of the offer for the grant of the option and the amount payable on acceptance of the grant of an option is HK\$1.

8. *The basis of determining the exercise price*

The exercise price is determined by the Directors and being not less than the highest of:

- a. the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange for trade in one or more board lots of the Company's shares on the date of the offer for the grant;
- b. the average closing price of the Company's shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of the offer for the grant; and
- c. the nominal value of the Company's shares.

9. *The remaining life of the Scheme*

The Scheme will end on 15th February 2014, after which no option can be granted under the Scheme. However, options that remain outstanding as at 15th February 2014 can be exercised until their respective expiry dates.

SHARE OPTIONS *(Continued)*

The following table discloses details of share options outstanding as at 31st December 2004 under the Scheme and the movements during the year.

Grantees	Outstanding as at 1st January 2004	Number of share options		Outstanding as at 31st December 2004
		Granted during the year	Cancelled during the year	
	<i>(Notes a, b & c)</i>			
Category 1 – Director				
Mr. Gong Xionghui	–	4,000,000	–	4,000,000
Ms. Lu Jiahua	–	3,500,000	–	3,500,000
Mr. Lin Zhigang	–	3,000,000	–	3,000,000
Mr. Ho Wan Ming	–	2,000,000	–	2,000,000
Mr. Yang Chiming	–	800,000	–	800,000
Mr. Yau Fook Chuen	–	400,000	–	400,000
Mr. Wong Yik Chung, John	–	400,000	–	400,000
Dr. Zheng Lansun	–	400,000	–	400,000
	–	14,500,000	–	14,500,000
Category 2 – Employees under continuous employment contract	–	12,500,000	(1,500,000)	11,000,000
Category 3 – Others	–	14,375,000	–	14,375,000
Total	–	41,375,000	(1,500,000)	39,875,000

Notes:

- (a) On 8th June 2004, the Company granted a total of 41,375,000 share options to certain eligible participants as set out above, which entitled them to subscribe for a total of 41,375,000 ordinary shares of HK\$0.10 each in the Company. In accordance with the terms of the offer letters given by the Company to the grantees, the share options are exercisable in tranches for the period from 9th June 2004 to 7th June 2014 at a price of HK\$1.37 per ordinary share.
- (b) The closing price of the Company's shares immediately before 8th June 2004 on which the options were granted was HK\$1.35.
- (c) The Directors consider that it is not appropriate to disclose the value of options granted during the year, since any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

SHARE OPTIONS *(Continued)*

The financial impact of options granted is not recorded in the accounts of the Group until such time when the options are exercised. Upon the exercise of the options, the relevant number of shares issued are recorded by the Company as additional issued share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

INTEREST AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE ("SFO")

As at 31st December 2004, the interests and short positions of the persons, other than the Directors and chief executives of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to Division 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions in ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the Company's issued share capital
Marietta Limited	Beneficial owner <i>(Note a)</i>	193,263,158	46.57%
Neon Liberty Capital Management, LLC	Investment manager	37,366,000	9.00%
UBS AG	Person having a security interest in shares	33,216,000	8.00%
New Margin Venture Capital Co. Ltd.	Beneficial owner	21,315,789	5.14%
Sino-Alliance International Limited	Interest of a controlled corporation <i>(Note b)</i>	21,315,789	5.14%
Shanghai Alliance Investment Ltd.	Interest of a controlled corporation <i>(Note b)</i>	21,315,789	5.14%
Neon Liberty Emerging Markets Fund, Ltd.	Beneficial owner	20,754,482	5.00%

Notes:

- (a) These shares are registered in the name of and beneficially owned by Marietta Limited, the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Yang Yirong.
- (b) These shares are registered in the name of and beneficially owned by New Margin Venture Capital Co. Ltd., the entire issued share capital of which is beneficially owned by Sino-Alliance International Limited which is wholly owned by Shanghai Alliance Investment Ltd., an investment vehicle of Shanghai Municipal Government. Under the SFO, Sino-Alliance International Limited and Shanghai Alliance Investment Ltd. are deemed to be interested in all the shares held by New Margin Venture Capital Co. Ltd.

Other than as disclosed above, the Company has not been notified by any persons, other than the Directors and chief executives of the Company, who had interest or short positions in the shares or underlying shares of the Company as at 31st December 2004.



MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The Directors believe that the aggregate sales attributable to the Group's five largest customers were less than 30% of the total turnover. The aggregate purchases attributable to the Group's largest and the five largest suppliers were 9.5% and 37.4% respectively.

None of the Directors, their associates or any shareholder of the Company, which to the knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of the Group's five largest customers and five largest suppliers noted above.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December 2004, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 31 to the accounts.

In the opinion of the Directors, the Group did not entered into any connected transactions defined under the Listing Rules during the year ended 31st December 2004.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice ("the Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December 2004.

AUDIT COMMITTEE

The Company's audit committee, comprising three independent non-executive Directors, was formed on 16th February 2004 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control system, risk management systems, interim and annual reports of the Group and to provide comments and advice to the Board.

AUDITORS

The accompanying accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Directors

YANG YIRONG

Chairman & President

Hong Kong, 13th April 2005