OPERATIONAL REVIEW

The Group is the leading natural product processing enterprise in the natural fine chemicals industry in the PRC and is principally engaged in the research and development, production and sales of fine chemical products. Using natural recyclable resources in the PRC as its major raw materials, including turpentine oil, various essential oils and various pharmaceutical plants, the Group produces and supplies the international flavor and fragrance enterprises, pharmaceutical enterprises and daily necessity chemical enterprises with high quality aroma chemicals (including synthetic aroma chemicals, natural aroma chemicals and pharmaceutical aroma chemicals), chiral pharmaceutical raw materials and pharmaceutical intermediates, and natural pharmaceutical raw materials. The fine chemicals of the Group are ultimately used in pharmaceutical industry, healthcare industry and personal care industry. With the support of the exclusive manufacturing technology, the Group's products have a leading position in the global natural fine chemicals market.

The Group's fine chemical products are categorized into three main groups, namely:

(i) Chiral pharmaceutical raw materials and pharmaceutical intermediates which are principally used in the production of the main compound raw material of various common pharmaceuticals. Currently, the chiral pharmaceutical raw material and pharmaceutical intermediates produced by the Group include α-Phenethyl alcohol (α-苯乙醇), L-Camphor (左旋樟腦), D-Bornelum (右旋龍腦) and 3-Phenylpropanal (3-苯丙醛), which are used as the main compound raw material of cardiovascular drug, antiviral drug, anti-depressants, antibiotics, anti-cancer drug and immune-enhancer drug;

(ii) Natural pharmaceutical raw materials which are used as functional ingredients in the production of modern Chinese herbal medicines and healthcare products. Presently, the natural pharmaceutical raw materials produced by the Group include Natural Cinnamic Aldehyde (天然肉桂醛), Eucalyptol (桉葉素) and Eugenol (丁香酚). These natural pharmaceutical 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;

(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. Aroma chemicals produced by the Group mainly include Dihydromyrcenol (二氫月桂烯醇), 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; and

EcoGreen commits to exploit the natural resources to manufacture fine chemical products which are functional ingredients and intermediates in the production of aroma chemicals, natural pharmaceuticals and chiral pharmaceuticals.

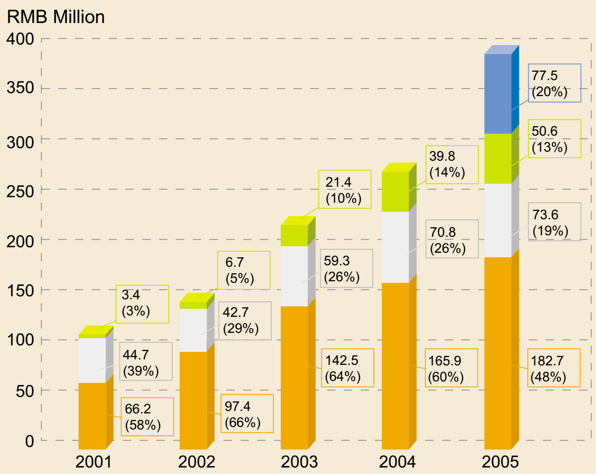
(iv) Product trading which is to cater the robust demand from the Group's existing clients and to enhance its sale services so as to strengthen client relationships during the period under review. Due to the multi-species feature of aroma chemicals, the Group has also explored the integrated sales operation for those aroma chemicals not manufactured by EcoGreen. This product trading is a direct effective means for undertaking marketing research activities and it also strengthened the Group's position as a fine chemicals integrator of the industry.

Product Diversification

Leveraged on its advanced production technologies and techniques, the Group's strong research and development capabilities and the cooperation with the international industrial enterprises, the Group has been devoting more efforts in accelerating production technology advancement and new product development, in order to respond the market demand in a timely manner and swiftly adjust its product mix.

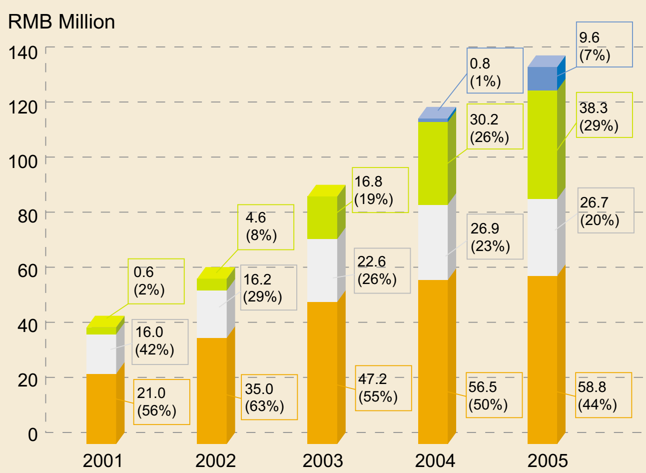
During the year under review, approximately 30 types of fine chemical products were produced. An analysis of the Group's turnover by product types and the gross profit of the Group's products for the year ended 31 December 2005 and 31 December 2004 is as follows:

Turnover Breakdown by Products



- Trading products
- Chiral pharmaceuticals raw materials and pharmaceuticals intermediates
- Natural pharmaceutical raw materials
- Aroma chemicals

Gross Profit Breakdown by Products



- Trading products
- Chiral pharmaceuticals raw materials and pharmaceuticals intermediates
- Natural pharmaceutical raw materials
- Aroma chemicals

Chiral pharmaceutical raw material and pharmaceutical intermediates

During the year under review, the sales of all chiral pharmaceutical raw material and pharmaceutical intermediates of the Group has achieved a stable growth. For the year ended 31 December 2005, the sales of chiral pharmaceutical raw material and pharmaceutical intermediates increased by 27% to RMB50.6 million, from RMB39.8 million in the previous year. It accounted for 13% (2004: 14%) of the Group's turnover. Gross profit also increased by 27% to RMB38.3 million from RMB30.2 million in the previous year, it accounted for 29% (2004: 26%) of the Group's gross profit. The growth of chiral pharmaceutical raw material and pharmaceutical intermediates in 2005 was mainly attributable to α - Phenylethyl alcohol (α -苯乙醇), 3-Phenylpropanal Aldehyde (3-苯丙醛) and Intermediary polysaccharide (T110), which outperformed within its category. Chiral pharmaceutical raw material and pharmaceutical intermediates produced by the Group have been well recognized by the market and the final drugs produced were new drugs in the pharmaceutical market. Increasing demand for these final drugs also contributed to a substantial growth in the demand for chiral pharmaceutical raw material and pharmaceutical intermediates.




EcoGreen strives to provide the building blocks in the production of environmental friendly natural products for healthcare, personal care, household and pharmaceutical purposes.

Natural pharmaceutical raw materials

During the year under review, the Group's natural pharmaceutical raw materials posted a progressive growth. The sales increased by 4% to RMB73.6 million in the year ended 31 December 2005 from RMB70.8 million in the previous year. It accounted for 19% (2004: 26%) of the Group's turnover. Gross profit of natural pharmaceutical raw materials remained flat at RMB26.7 million, it accounted for 20% (2004: 23%) of the Group's gross profit. Natural Cinnamic Aldehyde (天然肉桂醛) and Eucalyptol (桉葉素) are two of the Group's most typical natural pharmaceutical raw materials.

Aroma chemicals

The sale of aroma chemicals increased by 17% to RMB182.7 million in the year ended 31 December 2005 from RMB156.1 million in the previous year. It accounted for 48% (2004: 56%) of the Group's turnover. Gross profit also increased by 4% to RMB58.8 million, from RMB56.5 million in the previous year, it accounted for 44% (2004: 50%) of the Group's gross profit. As at 31 December 2005, 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). The growth of these three typical products was mainly driven by the Group's expansion of the processing capacity in October 2004 and the continuously growing demand for these downstream products in the mainland China and the international market. As these aroma chemicals are mainly used 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, comparing with that of last year, the Group's direct sales recorded nearly two-fold growth, it also stimulates the sales in the year under review.

Product Trading

For the year ended 31 December 2005, sales from product trading were RMB77.5 million, accounting for the Group's turnover of 20%, while its gross profit were RMB9.6 million, it accounting for the Group's gross profit of 7% (2004: 1%). Although the integrated sales operation of aroma chemicals does not count as the Group's core business, the trading activities of related products also contributed to the Group's sales and gross profit during the year under review. Under the customer-oriented principle, the Group is committed to enhance its quality of sales services for stronger customer relationships, while commencing the new integrated sales operation with a great variety of aroma chemicals to cater the increasing demand of the Group's existing customers. Through this new operation, the Group can offer its customers with comprehensive product portfolios, including those aroma chemicals not manufactured by EcoGreen. Although the gross profit of this trading activity was lower than that generated from the sales of the Group's processed products, it is strategically important for the Group to diversify its products under the same brandname without utilizing the Group's processing capacity. This is also the most effective and direct means for undertaking marketing research activities of the Group.

Marketing Strategy

During the year, apart from recruiting more sales and marketing professionals specialized in fine chemicals market, the Group also strengthened the promotion of its own brand "DOINGCOM" in selected overseas markets. To make further development of the Group in the future and strengthen the good relationship built up with its existing clients, the Group also actively developed strategic trading partnership with major multinational flavour and fragrance manufacturers.

Taking into account the Group's major clientele comprised of industrial corporations with considerate market shares, rapid growth in number of clients may not be seen in the future. Therefore, the Group put great emphases on the consolidation of client relationship and development of integrated sales and marketing business through the provision of better services, larger quantities and wider product ranges to its existing clients so as to strengthen its position as a fine chemicals integrator of the industry.

Clients' loyalty towards the brand "DOINGCOM" had been greatly enhanced by its quality products and professional services rendered. The Group maintained close partnership with several multi-national corporations to provide timely reasonable solutions according to clients' requirement. Apart from enhancing clients' value, the Group also continued to grasp on new business opportunities. With the implementation of proper marketing strategies, both the Group and its clients were able to achieve win-win situations and on-going development.

Diversified Client Base

Over the years, the Group has already established a solid clientele all over the world. With premium product quality and stable supply, the Group has successfully maintained the client relationships over the years. During the year under review, the number of clients increased with the enhancement of production capability and the launch of new products. Our client portfolio is also becoming more diversified including the world top ten multinational flavour and fragrance manufacturers, major household and personal care product manufacturers, renowned natural pharmaceutical plants, leading pharmaceutical plants and intermediate traders. Apart from minimizing the adverse impact from over concentration on specific customers and industries, the diversification of client base can also mitigate the sales effect brought by any specific industries and any significant seasonal fluctuations. The number of the Group's clients reached 150 until now.

Turnover generated from the Group's five largest clients increased from 18% to 25% in 2005. The increase was primarily due to the fact that one of those clients commenced trading with the Group in mid-2005, which contributed to larger amount of sales. Excluding the contribution from that client, turnover from the other four largest clients accounted for 18%, which is at a comparative level with last year.

Expanded Production Capability

The existing production facility of the Group is located at Xiamen, Fujian Province, Mainland China. It has a site area and a gross construction area of approximately 27,000 sq.m. and 8,400 sq.m. respectively. As disclosed in the prospectus of the Group when listing, approximately RMB73,776,000 of the proceeds from initial public offer would be used for the construction of new plant and installation of machinery and equipment, while the remaining construction cost would be financed by internal funds and bank borrowings of the Company. The preliminary construction plan outline was commenced at the end of 2003 with the planning and design duly finalized in early 2005. In view of the ever-changing commodity market or downstream products market, after taking due consideration and in-depth research on the global demand of the Group's product mix in the future and the estimated gross profit of products, and in view of the needs of international industrial cooperation, the Group revised the original construction plan strategically.

The Group decided to advance the significant technical upgrade of its existing production workshop at Xiamen Haicang Plant half year earlier by applying the recent research and development breakthrough in chemical and intensified technology, and to commence the Phase II expansion, making the annual processing capacity of the botanic essential oil greatly enhanced from 11,000 metric tonnes since October 2005 to 16,000 metric tonnes, thus also expanding the room for development of the production capacity of new products. Meanwhile, the newly established thermal heat generating plant situated at the newly developed area in Haicang, Xiamen has served a direct stable supply of steam and gas for the plant, hence the Group's Haicang Plant is no longer supplying steam by itself using crude oil as fuel.

According to the new development plan, the Phase III of the new factory construction project includes construction of new fine chemical production facilities, a multi-functional workshop, a workshop with GMP standard, a series of storage tanks and a water recycled system. It is expected that the new factory construction project can further enhance the production capacity of aroma chemicals, chiral pharmaceutical raw materials and pharmaceutical intermediates, including natural botanic materials. As a result, apart from increasing the annual processing volume of botanic essential oil from 16,000 metric tonnes to 20,000 metric tonnes, the new factory will be well equipped with multi-functional production facilities which will expand room for the development of marine extracts and product portfolio.

In addition to the market demand, production technology and international industrial cooperation factors, the above revision has also taken into account that a reasonable expansion based on its existing advanced production equipment and public utilities would save time and investment for the building of a new production capacity, to a very large extent, which helped to achieve the greatest economies of scale with the minimum level of investment.

Research enhancement and efficiency development

During the period under review, the Group was committed to the set up and consolidation of research and development institutes. By recruiting professors from the Chinese Academy of Science and Doctorate degree holders who has worked in the multinational fine chemical enterprise in United States, the Group strengthened the research and development capability of further processing of natural products and expanded the scope of research and development of the product range of natural extracts. Also, on the other hand, through the acquisition of Shanghai Fine Chemicals Limited ("SFC"), a pharmaceutical research and development center specializing in chiral pharmaceutical raw materials and pharmaceutical intermediates, the Group would be able to integrate the production know-how, research outcomes and reputation of chiral pharmaceuticals raw materials and pharmaceutical intermediates and other fine chemical products which are developed and possessed by SFC with the Group's advanced production facilities and technology. This will serve as a new driver for the rapid development of the Group's chiral pharmaceutical raw materials and pharmaceutical intermediates business.

Once the acquisition of SFC was completed, the Group speeded up the consolidation of SFC's businesses. After such reorganisation, SFC was positioned as the platform of the Group's chiral pharmaceuticals raw materials and pharmaceutical intermediates business. With the support from the Group, SFC successfully transformed from a scientific research oriented company to a market driven high technology fine chemical enterprise which combines with its strong development strength. By the end of this year, SFC achieved key breakthrough in areas of clients, scientific researches and innovative products which contributed to the leaping results.

In short, the Group has already strengthened its research and development capability, recruited scientific research professionals, merged with research and development institutions and acquired new technologies during this year. On the other hand, the Group has also laid down its future research direction and plan after due verification, with effective approach for implementation. For the year ended 31 December 2005, the capitalised product development costs, and patents and technical know-how acquired pursuant to the acquisition of SFC were approximately RMB8.3 million in total (2004: RMB3.6 million). The amortization of product development costs of the Group was RMB2.5 million (2004: RMB2.2 million).

OUTLOOK

The healthy and stable development of global economy, the increasing household income and consumption demand, the emergence of new living concept, the continuous upgrade of overall living standard, and the public concern on the importance of personal health and environment protection, all together have further boosted the demand on the pharmaceutical, health care and personal care products made of natural resources. Besides, the products of the Group have been widely used in the pharmaceutical, health care and personal care industries, and the Group has developed diversified consumption levels and extensive consumer base, thus, the demand for the Group's products will maintain a stable growth in the future.

With product diversification remains as the Group's strategy, the Group is actively participating in the development of new technology and new products for aroma chemicals, together with the cooperation with international enterprises, it is expected that the solid development base for botanic essential oil processing will be enhanced. On the other hand, the Group is deploying more resources to explore the opportunities of developing chiral pharmaceutical raw materials and pharmaceutical intermediates, high-end Chinese pharmaceutical herbal extracts, marine extracts and natural food additives. The Group is also seeking for the development of sectors such as modern botanic raw materials, marine extracts, natural food exempted from side-effects and environmental friendly health care products, aiming at producing high value-added pharmaceutical raw materials, chiral pharmaceutical raw material and pharmaceutical intermediates, and the natural functional food raw materials which are extensively used in making green food and natural health care products nowadays.

By enhancing the research and development capability of the Group and proactively facilitating technology cooperation with international enterprises, the Group, based on its existing product line, is striving for a quick launch of new products which have been highly recognized and demanded by the fine chemical products market, targeting to generate new growth in revenue, optimising its product portfolio, and further strengthening its foundation and maintaining its leading edge. Meanwhile, under the leadership of the Operation Consultant, Mr. José Antonio Rodriguez Gascón, the Group can establish closer strategic relationship with international enterprises, thus achieving comprehensive cooperation in respect of products, technologies and new business.

The Group is optimistic about its business outlook. Nevertheless, the future is full of challenges such as the pressure of high operation cost arising from the soaring raw materials cost, increasing interest rate and fluctuation of RMB exchange rate. To cope with such challenges, the Group will adopt a number of effective measures, including strategic reserve of raw materials, advancement of production technology and expansion of production scale, so as to enhance operating efficiency. The Group will also implement active operation strategies such as accelerating the development of high value-added products to optimise product mix; improving quality of sales services to maintain customer relationships; and timely increase of product prices. Looking forward, while the Group is full of confidence, it will still remain cautious and grasp every opportunity to bring fruitful returns for the shareholders.

FINANCIAL REVIEW

Financial Performance

The Group achieved a persistent stable business growth for the year ended 31 December 2005. Turnover and profit for the year reached RMB384.4 million and RMB71.1 million, respectively, representing a year-on-year increase of 39% and 16% as compared to RMB276.5 million and RMB61.4 million in 2004. The increase in profit was mainly attributable to the continued expansion of the Group's business and the increase of sales of the Group's fine chemical products.

	Turnover		Gross Profit		Gross Profit Margin	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000	**%**	%
Chiral pharmaceutical raw material and pharmaceutical intermediates	**50,600**	39,837	**38,307**	30,180	**76**	76
Natural pharmaceutical raw materials	**73,600**	70,813	**26,718**	26,861	**36**	38
Aroma chemicals	**182,718**	156,117	**58,840**	56,540	**32**	36
Product trading	**77,499**	9,724	**9,558**	778	**12**	8
Group's turnover/gross profit/ gross profit margin	**384,417**	276,491	**133,423**	114,359	**35**	41

Turnover

Benefiting from the completion of the Group's productivity enhancement in October 2004, the Group's further expansion of the existing production plant in October 2005 and the increasing demand of the Group's products, the Group's turnover reached RMB384.4 million for the year.

Analysing by the Group's products category, growing demand of the Group's chiral pharmaceuticals raw material and pharmaceutical intermediates resulted in the increase of turnover to RMB50.6 million, representing a year-on-year increase of 27% as compared to RMB39.8 million in 2004. The international market expedited the overall increase in the demand for the Group's aroma chemicals, turnover of aroma chemicals reached RMB182.7 million, representing a year-on-year increase of 17% as compared to RMB156.1 million in 2004. The turnover of the new trading business, which served as a value-added serviced to the Group's existing customers to provide them non-Group manufactured products, reached RMB77.5 million.

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 7% as compared to that of 2004 whereas the overseas sales of the Group's fine chemical products increased by 193% as compared to that of 2004.

Gross Profit

During the year under review, the gross profit of the Group amounted to RMB133.4 million, representing a growth of 17%. The gross profit margin of the Group decreased from 41% in 2004 to 35% in 2005. The deterioration of the Group's gross profit margin was mainly attributable to approximately 20% percent of revenue being arising from the Group's new trading business for which the non-Group's manufactured products were sold at a lower profit margin.

Analysing by the Group's products category, the gross profit margin of chiral pharmaceutical raw materials and pharmaceutical intermediates and natural pharmaceutical raw materials remained steady at approximately 76% and 36% as compared to 76% and 38% in 2004. The decrease of profit margin of aroma chemicals from 36% in 2004 to 32% in 2005 was mainly attributable to the increase of price of turpentine which is one of the major raw materials of the Group. Nevertheless, that adverse impact was substantially offset by the Group's continuous effort in improving the productivity, strategic material sourcing capability and production overhead control, the cost effectiveness of manufacture was enhanced. The gross profit margin of trading products was 12% in 2005. Despite the lower gross profit margin and relatively higher operating costs, the new trading business facilitated the diversification of the Group's product mix, without utilizing the Group's existing production capacity and reinforce the Group's leading position in the natural fine chemicals industry in the PRC.

Operating Income and Expense

Other revenues include the interest income from bank deposits and the amortisation of deferred income on government grants. The increase of RMB951,000 in other revenue was mainly due to the increase of the bank interest income during the year under review.

Selling and distribution expenses as a percentage of sales increased from 2.9% to 4.8%. The increase of RMB10.2 million in selling and distribution expense was mainly due to the increase of transportation cost and packaging expenses for those increased export sales in the year under review. Administrative expenses for 2005 represented 8.4% of turnover (2004: 12.2%). The decrease of RMB1.5 million in administrative expenses was mainly due to the cost saving measures adopted, including the decrease of staff and management bonus payment by RMB5.2 million in the year under review and resulting in the total employment cost decrease by RMB4.1 million. The finance expenses recorded RMB139,000 decrease when compared to last year, mainly due to the decrease of interest expense on convertible bonds which was partially converted in 2004 and was fully repaid in 2005.

Liquidity, Financial Resources and Capital Structure

During the year under review, the Group's primary source of funding included the net proceeds of RMB61.3 million received from the issuing and placing of new shares and the cash generated from operating activities. With the financial resources obtained from the Group's operations, the Group had invested RMB70.6 million in the acquisition of the property, plant and equipment, repaid RMB5.4 million (2004: RMB12.6 million) of bank borrowings and convertible bonds and paid RMB11.5 million (2004: nil) of dividend during the year. As at 31 December 2005, the Group had cash and bank deposits of approximately RMB261.0 million (2004: RMB240.5 million).

The Group's financial position remains very solid and healthy during the year under review. As at 31 December 2005, the net current assets and the current ratio of the Group were approximately RMB237.8 million (2004: RMB184.2 million) and 2.2 (2004: 2.2), respectively.

As at 31 December 2005, the Group had bank borrowings of approximately RMB86.7 million (2004: RMB78.0 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 RMB34.2 million (2004: RMB36.2 million) and convertible bonds of RMB nil (2004: RMB13.4 million) and other borrowings of RMB2 million (2004: Nil). As at 31 December 2005, the Group's gearing ratio which is represented by the ratio of total borrowings to total shareholders' equity, was approximately 28% (2004: 40%) and the Group's net cash balance, being cash and cash equivalents plus pledged bank deposits less borrowings amounted to RMB138.2 million (2004: 113.0 million).

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

Charges on assets

As at 31 December 2005, bank deposit of RMB nil (2004: RMB31.8 million), certain property, plant and equipment of the Group with an aggregate net book value of about RMB32.2 million (2004: RMB0.6 million) and land use rights of RMB4 million (2004: RMB3 million) were pledged to secure the Group's bank borrowings.

Contingent Liabilities

As at 31 December 2005, neither the Group nor the Company had any contingent liabilities.

Capital Commitment

As at 31 December 2005, the Group had capital commitments of approximately RMB73.0 million (2004: RMB49.7 million) in respect of purchases of property, plant and equipment, construction-in-progress and product development projects.

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 2005, the Group's bank borrowings of approximately RMB86.7 million were denominated in Renminbi. 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 RMB227.3 million of the total balance, with the remaining balance denominated in Hong Kong dollars and United States dollars.

The Group's foremost exposure to the foreign exchange fluctuations was caused by the revaluation of Renminbi during the year under review. The Group's export sales are, in majority, denominated in United States dollars. Nevertheless, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year. 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 31 December 2005, the Group has 245 full-time employees of which 239 are based in the PRC. For the year under review, the total employment costs incurred for 2005 including directors' emolument amounted to RMB17.2 million. The Group has established its human resources policies and procedures with a view to deploy the incentives and rewards of the remuneration system. The remuneration package offered to the staff is appropriate for the duties and in line with the prevailing market terms. Staff benefits, including medical coverage and provident funds, are provided to employees. The Group has also established effective performance evaluation system in which employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

The Group has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. During the year under review, no share options were granted to employees.