

The directors ("the Directors") of EcoGreen Fine Chemicals Group Limited ("the Company") are pleased to present their annual report together with the audited financial statements of the Company and of its subsidiaries (collectively "the Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in Note 10 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 41.

An interim dividend of HK0.8 cents per share, amounting to a total of about HK\$3,688,000 (equivalent of approximately RMB3,885,000), was paid to shareholders 16 November 2005.

The Directors recommend the payment of a final dividend of HK1.2 cents per share to the shareholders whose names appear on the register of members on 25 May 2006. Together with the interim dividend, this will bring the total dividend distribution for the year to HK2 cents (2004: HK1.75 cents) per share, resulting in an aggregate dividend of about HK\$9,220,000 (equivalent of approximately RMB9,643,000) for the year ended 31 December 2005.

RESERVES

Details of movements in reserves of the Group during the year are set out in the consolidated statement of change in equity on page 42. Details of movements in other reserves of the Group and of the Company during the year are set out in Note 17 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB179,000 (2004: 212,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 6 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 16 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2005 amounted to RMB274,371,000 (2004: RMB217,331,000).

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

During the year ended 31 December 2005, the Company had not redeemed and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under 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 financial positions of the Group for the past five financial years is set out on page 93.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Yang Yirong (*Chairman & President*)

Mr. Gong Xionghui

Ms. Lu Jiahua

Mr. Lin Like (appointed on 16 September 2005)

Mr. Ho Wan Ming (resigned on 16 September 2005)

Mr. Lin Zhigang (resigned on 16 September 2005)

Non-executive Directors

Mr. Feng Tao (appointed on 16 September 2005)

Mr. Han Huan Guang (appointed on 16 September 2005)

Mr. Yang Chiming (resigned on 16 September 2005)

Independent Non-executive Directors

Mr. Yau Fook Chuen

Mr. Wong Yik Chung, John

Dr. Zheng Lansun

In accordance with article 108(A) of the Company's articles of association, Mr. Yau Fook Chuen and Mr. Wong Yik Chung, John will retire from office by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

In accordance with article 112 of the Company's articles of association, Mr. Lin Like, Mr. Feng Tao and Mr. Han Huan Guang will retire from office but, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

DIRECTORS *(Continued)*

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 non-executive Directors and independent non-executive Directors were appointed for an initial term of not more than 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

Details of the related party transactions are set out in Note 34 to the financial statements.

Save for the above, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at year-end 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 24 to 27.

DIRECTORS' EMOLUMENTS

Details of Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in Note 24 to the financial statements.

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 OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2005, the interests or 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")), which were recorded in the register maintained by the Company under Section 352 of the SFO; or which were 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 which were 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 of Director	Number of shares held				Total	% of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Yang Yirong	–	–	193,263,158 <i>(Note a)</i>	–	193,263,158	46.57%
Mr. Gong Xionghui	–	–	11,368,421 <i>(Note b)</i>	–	11,368,421	2.74%
Ms. Lu Jiahua	–	–	8,526,316 <i>(Note c)</i>	–	8,526,316	2.05%

Notes:

- (a) These shares were beneficially owned by Marietta Limited, a private company beneficially wholly-owned by Mr. Yang Yirong.
- (b) These shares were beneficially owned by Dragon Kingdom Investment Limited, a private company beneficially wholly-owned by Mr. Gong Xionghui.
- (c) These shares were beneficially owned by Sunwill Investments Limited, a private company beneficially wholly-owned by Ms. Lu Jiahua.

(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 certain participants pursuant to the approved Company's share option scheme. Information in relation to these share options during the year ended 31 December 2005 are set out in the following section under the heading "Share options".

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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

At 31 December 2005, Ms. Lu Jiahua held 5% equity interests in the registered share capital of Xiamen Doingcom Enterprise Limited, the Group's subsidiary of which 95% of its registered share capital are held by the Company indirectly.

Other than the interest disclosed above, a Director 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 31 December 2005.

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 16 February 2004, disclosed in accordance with the Listing Rules:

- 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.
- 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.
- Total number of shares available for issue under the Scheme and percentage of issued share capital as at 31 December 2005*

The number of shares available for issue under the Scheme is 36,075,000 shares, representing 7.8% of the issued share capital as at 31 December 2005.
- 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.
- 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.
- 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.

SHARE OPTIONS (Continued)

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:

- 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;
- 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
- the nominal value of the Company's shares.

9. *The remaining life of the Scheme*

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

The following table discloses details of share options outstanding as at 31 December 2005 under the Scheme and the movements during the year.

Type of Grantee	Balance as at 1 January 2005	Granted during the year	Exercised during the year	Cancelled during the year	Balance as at 31 December 2005 <i>(Notes a & b)</i>
Category 1 – Directors					
Mr. Gong Xionghui	4,000	–	–	–	4,000
Ms. Lu Jiahua	3,500	–	–	–	3,500
Mr. Lin Zhigang (Note c)	3,000	–	–	–	3,000
Mr. Ho Wan Ming (Note c)	2,000	–	–	–	2,000
Mr. Yang Chiming (Note d)	800	–	–	(800)	–
Mr. Yau Fook Chuen	400	–	–	–	400
Mr. Wong Yik Chung, John	400	–	–	–	400
Dr. Zheng Lansun	400	–	–	–	400
	14,500	–	–	(800)	13,700
Category 2 – Employees under continuous employment contract					
	11,000	–	–	(3,000)	8,000
Category 3 – Other participants					
	14,375	–	–	–	14,375
Total	39,875	–	–	(3,800)	36,075

SHARE OPTIONS (Continued)

Notes:

- (a) The outstanding options as at 31 December 2005 were granted on 8 June 2004. 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 9 June 2004 to 7 June 2014 at a price of HK\$1.37 per ordinary share.
- (b) No options were granted during the year ended 31 December 2005. The value of the options granted during the year ended 31 December 2004 was RMB6,143,000, based on the Black-Scholes valuation model. The significant inputs into the model were share price of HK\$1.34 at the grant date, exercise price of HK\$1.37, standard deviation of expected share price returns of 35%, expected life of options of 2 to 4 years, expected dividend paid out rate of 1.89% and annual risk-free interest rate of 1.96% to 3.13%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the most recent year. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.
- (c) Mr. Lin Zhigang and Mr. Ho Wan Ming resigned as Directors on 16 September 2005. Thereafter, they both worked within the Group as top management.
- (d) Mr. Yang Chiming resigned on 16 September 2005.

INTEREST AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER SFO

As at 31 December 2005, 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, which were notified to the Company pursuant to Division 2 and 3 of Part XV of the SFO; or which were 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	Type of interest held	Number of shares held	% of the issued share capital
Marietta Limited	Beneficial owner (Note a)	193,263,158	41.92%
Neon Liberty Capital Management, LLC	Investment manager	46,258,000	10.03%
UBS AG	Person having a security interest in shares	46,258,000	10.03%
Cheah Cheng Hye	Interest of a controlled corporation (Note b)	39,600,000	8.59%
Value Partners Limited	Investment manager	39,600,000	8.59%
Neon Liberty Emerging Markets Fund, Ltd.	Beneficial owner	27,510,000	5.97%

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

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 Value Partners Limited, approximately 32.77% of the issued share capital of which is registered in the name of and beneficially owned by Mr. Cheah Cheng Hye.

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 31 December 2005.

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 20.3% and 34.9% 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 31 December 2005, which do not constitute connected transactions subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules, are set out in Note 34 to the financial statements.

In the opinion of the Directors, save for disclosed above, the Group did not enter into any connected transactions defined under the Listing Rules during the year ended 31 December 2005.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with most of the Code on Corporate Governance Practices ("the CG Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005, save for the code provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and with certain deviations from code provisions A.2.1, A.4.2 and E.2.1 of the CG Code. Information on the deviations and further information on the Company's corporate governance practices is set out in the "Corporate Governance Report" as set out on pages 19 to 23.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of the annual report.

AUDITORS

The accompanying financial statements 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, 12 April 2006