



# Directors' Report

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The directors of EcoGreen Fine Chemicals Group Limited ("the Company") ("the Directors") are pleased to present their first report together with the audited accounts of the Company for the period ended 31st December 2003 and the audited proforma consolidated accounts of the Company and its subsidiaries ("the Group") for the year ended 31st December 2003.

## 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 33 to the proforma consolidated accounts. Details of the Reorganisation and the basis of presentation of the accounts of the Company and the proforma consolidated accounts of the Group are set out in Note 1 to the accounts.

Shares of HK\$0.10 each in the share capital of the Company ("Shares", each a "Share") 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 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 business and geographical segments is set out in Note 3 to the proforma consolidated accounts.

## RESULTS AND DIVIDENDS

Apart from the change in share capital of the Company as set out in Note 3 to the Company's accounts, no other transactions were carried out by the Company during the period from 3rd March 2003 (date of incorporation) to 31st December 2003.

The results of the Group for the year are set out in the proforma consolidated accounts on page 33.

No dividend has been paid or declared by the Company since its incorporation. The directors do not recommend the payment of a final dividend by the Company for the period.

During the year, dividends of RMB7,600,000 (2002: RMB23,750,000) were paid by a subsidiary of the Company out of the subsidiary's retained earnings which were attributable to the Group.

## RESERVES

There was no movement in the reserve of the Company during the period from 3rd March 2003 (date of incorporation) to 31st December 2003. As at 31st December 2003, the Group had no reserves available for distribution to its shareholders.

Movements in reserves of the Group during the year are set out in Note 28 to the proforma consolidated accounts.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 12 to the proforma consolidated accounts.

## SHARE CAPITAL

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

## 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 four financial years is set out on page 72.

## SHARE OPTIONS

Pursuant to a written resolution of the shareholders of the Company passed on 16th February 2004, a share option scheme ("the Share Option Scheme") was approved and adopted.

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

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Company must not in aggregate exceed 10% of the Shares of the Company in issue on the Listing Date.

### SHARE OPTIONS *(Continued)*

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in the Company in issue as at the date of the shareholder's approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Company must not in aggregate exceed 30% of the Shares in issue from time to time.

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 Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the Shares in issue.

An option must be exercised in accordance with the terms of the Share Option 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. 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.

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 Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors but shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange for trade in one or more board lots of the Shares on the date of the offer for the grant;
- (b) the average closing price of the 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 a Share.

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

As at the date of approval of the accounts, no options had been granted under the Share Option Scheme.

### DIRECTORS

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

#### Executive Directors

Mr. Yang Yirong ( <i>Chairman &amp; President</i> )	(appointed on 24th March 2003)
Mr. Gong Xionghui	(appointed on 28th October 2003)
Ms. Lu Jiahua	(appointed on 28th October 2003)
Mr. Ho Wan Ming	(appointed on 28th October 2003)
Mr. Lin Zhigang	(appointed on 12th February 2004)

#### Non-executive Director

Mr. Yang Chiming	(appointed on 28th October 2003)
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#### Independent Non-executive Directors

Dr. Zheng Lansun	(appointed on 12th February 2004)
Mr. Yau Fook Chuen	(appointed on 12th February 2004)
Mr. Wong Yik Chung, John	(appointed on 12th February 2004)

In accordance with articles 108(A) of the Company's articles of association, Mr. Gong Xionghui and Ms. Lu Jiahua will retire from office by rotation and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

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 or the other.

### DIRECTORS' SERVICE CONTRACTS

Each of Mr. Yang Yirong, Mr. Gong Xionghui, Ms. Lu Jiahua, Mr. Lin Zhigang and Mr. Ho Wan Ming, all being executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1st January 2004, and will continue thereafter for successive terms of one year until terminated by not less than three month's 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 Shares on the Main Board of The Stock Exchange, no contracts of significance in relation to the Group's business to which the Company, 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 period or at any time during the period.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

The Company became a listed company on 9th March 2004. The interests and short positions of the Directors and chief executives 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 the Directors or the chief executives were taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules as at the date of this report, were as follows:

### Interests in ordinary Shares:

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES

(Continued)

Notes: (Continued)

- (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.

Save as disclosed above, as at the date of this report, to the knowledge of the Company, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the Shares or the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

The Company became a listed company on 9th March 2004. The interests and short positions of the persons, other than Directors and chief executives of the Company, in the Shares and underlying Shares and debentures 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 as at the date of this report, were as follows:

### Interests in ordinary Shares:

Name	Personal interests (held as beneficial owner)	Number of ordinary Shares		Percentage of the Company's issued shares capital
		Corporate interests (interest of controlled corporation)	Total	
New Margin Venture Capital Co. Ltd.	21,315,789	–	21,315,789	5.14%
Sino-Alliance International, Ltd. (Note)	–	21,315,789	21,315,789	5.14%
Shanghai Alliance Investment, Ltd. (Note)	–	21,315,789	21,315,789	5.14%

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES** *(Continued)*

Note: These Shares are registered in the name of New Margin Venture Capital Co. Ltd., the entire issued share capital of which is beneficially owned by Sino-Alliance International, Ltd. which is wholly owned by Shanghai Alliance Investment, Ltd., an investment vehicle of Shanghai Municipal Government. Under the SFO, Sino-Alliance International, Ltd. and Shanghai Alliance Investment, Ltd. are deemed to be interested in all the Shares held by New Margin Venture Capital Co. Ltd.

Save as disclosed above, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES" above, had registered an interest or short position in the Shares or underlying shares and debentures of the Company that was required to be recorded pursuant to section 336 of the SFO and the Company had not been notified of any person's interests and short positions in the Shares or underlying shares or debentures of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO as at the date of this report.

### **ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES**

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate and neither the Directors or the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

### **MANAGEMENT CONTRACTS**

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

The percentage of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
– the largest customer	5%
– five largest customers combined	21%
Purchases	
– the largest supplier	13%
– five largest suppliers combined	42%

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.

## CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31st December 2003, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 32 to the proforma consolidated accounts.

In the opinion of the Directors, there were no other related party transactions, which also constitute connected transactions under the Listing Rules, entered into by the Group the year ended 31st December 2003.

## 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 in the period between the Listing Date and the date of this report.

## 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 and internal control system of the Group and to provide comments and advice to the Board. The audit committee has reviewed the audited accounts of the Company and audited proforma consolidated accounts of the Group for the year ended 31st December 2003.

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

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

## SUBSEQUENT EVENTS

Saved as disclosed in the notes to the proforma consolidated accounts, no other significant event has taken place subsequent to 31st December 2003.

## 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, 20th April 2004