EcoGreen Fine Chemicals Group Limited
中怡精細化工集團有限公司 *

(incorporated in the Cayman Islands with limited liability)
(Stock code: 2341; Website: www.ecogreen.com)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "**Board**") of EcoGreen Fine Chemicals Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively "**EcoGreen**" or the "**Group**") for the year ended 31 December 2010 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Revenue	*2*	**908,251**	728,494
Cost of goods sold		**(683,495)**	(541,383)
Gross profit		**224,756**	187,111
Other (losses)/gains - net		**(424)**	258
Selling and marketing costs		**(23,653)**	(20,023)
Administrative expenses		**(36,596)**	(30,332)
Operating profit	*3*	**164,083**	137,014
Finance costs - net	*4*	**(11,906)**	(16,036)
Profit before income tax		**152,177**	120,978
Income tax expense	*5*	**(22,108)**	(13,296)
Profit for the year		**130,069**	107,682
Attributable to:			
Equity holders of the Company		**130,103**	107,471
Non-controlling interests		**(34)**	211
Profit for the year		**130,069**	107,682
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
- Basic	*6*	**28.0 Cents**	23.1 Cents
- Diluted	*6*	**27.3 Cents**	22.9 Cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**130,069**	107,682
Other comprehensive income:		
Currency translation differences	**31**	(9)
Cash flow hedge		
- Fair value change for the year	**814**	130
- Transfer to finance costs	**1,936**	2,134
Other comprehensive income for the year	**2,781**	2,255
Total comprehensive income for the year	**132,850**	109,937
Attributable to:		
Equity holders of the Company	**132,884**	109,726
Non-controlling interests	**(34)**	211
Total comprehensive income for the year	**132,850**	109,937

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	Note	**2010**	2009
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Land use rights		**9,541**	9,851
Property, plant and equipment		**397,316**	384,191
Intangible assets		**52,687**	57,173
Investment in an associate		**1,750**	1,750
Available-for-sale financial assets		**200**	400
		461,494	453,365
Current assets			
Inventories		**115,489**	72,176
Trade receivables	*8*	**290,313**	203,227
Prepayment and other receivables		**99,598**	45,488
Pledged bank deposits		**57,961**	27,122
Cash and cash equivalents		**524,409**	514,744
		1,087,770	862,757
Total assets		**1,549,264**	1,316,122
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		**49,232**	49,232
Share premium		**181,841**	181,841
Other reserves		**65,515**	58,852
Retained earnings			
- Proposed final dividend	*7*	**15,434**	12,274
- Others		**645,488**	538,284
		957,510	840,483
Non-controlling interests		**3,468**	3,502
Total equity		**960,978**	843,985

	Note	2010	2009
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**184,820**	100,119
Derivative financial instruments		**–**	917
Deferred tax liabilities		**10,500**	10,500
		195,320	111,536
Current liabilities			
Trade payables and bills payable	*9*	**157,107**	72,824
Current income tax liabilities		**5,766**	3,886
Borrowings		**205,661**	252,666
Derivative financial instruments		**668**	1,833
Accruals and other payables		**22,802**	28,396
Amount due to a director		**962**	996
		392,966	360,601
Total liabilities		**588,286**	472,137
Total equity and liabilities		**1,549,264**	1,316,122
Net current assets		**694,804**	502,156
Total assets less current liabilities		**1,156,298**	955,521

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND HONG KONG ACCOUNTING STANDARDS ("HKASs")

New and amended standards adopted by the Group

HKFRS 3 (Revised)	Business combinations
HKAS 27 (Revised)	Consolidated and separate financial statements
HK Interpretation 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

The Group has classified certain bank borrowings (all obtained during the year) where the relevant loan agreements contain repayment on demand clauses as current liabilities as at 31 December 2010. The Group has no such bank borrowings as at 31 December 2009, comparative information has not been re-presented. Apart from this, the adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 17 (Amendment)	Leases
HKAS 36 (Amendment)	Impairment of assets
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations
HK(IFRIC) 9	Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement
HK(IFRIC) 16	Hedges of a net investment in a foreign operation
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(IFRIC) 18	Transfers of assets from customers

The adoption of the above new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

HKAS 12 (Amendment)	Deferred tax: Recovery of underlying assets[1]
HKAS 24 (Revised)	Related party disclosures[2]
HKAS 32 (Amendments)	Classification of rights issues[3]
HKFRS 9	Financial instruments[4]
HK(IFRIC) 14 (Amendment)	Prepayment of a minimum funding requirement[2]
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments[5]

1 effective for annual periods beginning on or after 1 January 2012
2 effective for annual periods beginning on or after 1 January 2011
3 effective for annual periods beginning on or after 1 February 2010
4 effective for annual periods beginning on or after 1 January 2013
5. effective for annual periods beginning on or after 1 July 2010

The Group has commenced accessing the potential impact of the above new and revised standards, amendments or interpretations but is not yet in a position to determine whether they would have a significant impact on its results and financial position are prepared and presented.

2. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

The Group is principally engaged in the manufacturing of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products and the trading of natural materials and fine chemicals. Turnover for the Group represents revenue from sale of goods.

	2010	2009
	RMB'000	*RMB'000*
Sale of goods (net of value-added tax)	**908,251**	728,494

(b) Segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. The Executive Directors have determined the operating segments based on these reports. The Executive Directors consider the business from product perspective.

For the year ended 31 December 2010, the Group has organised into two main operating segments:

(1) manufacturing and selling of fine chemicals; and

(2) trading of natural materials and fine chemicals.

The segment results for the year ended 31 December 2010 are as follows:

	2010	2009
	RMB'000	RMB'000
Revenue		
Manufacturing	**828,351**	655,959
Trading	**79,900**	72,535
Total revenue	**908,251**	728,494
Segment results		
Manufacturing	**194,185**	160,926
Trading	**6,918**	6,162
Unallocated corporate expense – net	**(37,021)**	(30,074)
Finance cost, net	**(11,906)**	(16,036)
Income tax expense	**(22,108)**	(13,296)
Profit for the year	**130,068**	107,682

The segment assets and liabilities as at 31 December 2010 and capital expenditure for the year then ended are as follows:

	2010 RMB'000	2009 RMB'000 (Note)
Segment assets		
Manufacturing	**922,216**	746,125
Trading	**35,642**	21,583
Pledged bank deposits	**57,961**	27,122
Cash and cash equivalents	**524,409**	514,744
Other corporate assets	**9,036**	6,548
Total assets	**1,549,264**	1,316,122
Segment liabilities		
Manufacturing	**162,327**	97,343
Trading	**15,100**	7,251
Bank borrowings	**370,161**	321,015
Deferred tax liabilities	**10,500**	10,500
Current income tax liabilities	**5,766**	3,886
Other corporate liabilities	**24,433**	32,142
Total liabilities	**588,287**	472,137

	2010 RMB'000	2009 RMB'000
Capital expenditure		
Manufacturing	**56,833**	43,407
Trading	**113**	98
	56,946	43,505

Note: Certain other corporate assets amounted to RMB41,090,000 have been reallocated to segment manufacturing and trading assets to conform to current year presentation.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as pledged bank deposits, cash and cash equivalents, taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, land use rights, and intangible assets.

Other segment items charged/(credited) in the consolidated income statements are as follows:

	Manufacturing		Trading	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation	**31,087**	26,136	**120**	107
Amortisation	**11,406**	8,778	**–**	–
Provision for/(reversal of) impairment of intangible assets	**6,000**	(856)	**–**	–
Provision for/(reversal of) impairment of inventories	**1,001**	(255)	**109**	(5,721)
Write-down of inventories	**332**	1,396	**–**	–
Provision for impairment of trade receivables	**1,192**	109	**–**	17
Reversal of impairment of other trade receivables	**–**	(3,000)	**–**	–

The Group's sales within the two operating segments are made to customers in three main geographical areas.

	2010	2009
	RMB'000	RMB'000
Turnover		
- Mainland China	**571,643**	484,267
- Europe	**173,265**	143,138
- Asia (excluding Mainland China)	**85,802**	56,546
- Others	**77,541**	44,543
	908,251	728,494

Sales are allocated based on the places/countries in which customers are located.

	2010	2009
	RMB'000	RMB'000
Total assets		
- Mainland China	**1,477,821**	1,250,453
- Hong Kong	**67,041**	63,784
- Others	**4,402**	1,885
	1,549,264	1,316,122

Total assets are allocated based on where the assets are located.

No geographical analysis of capital expenditure is presented as substantially all of the Group's capital expenditure was incurred in respect of assets located in Mainland China.

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2010	2009
	RMB'000	RMB'000
Amortisation of prepaid operating lease payments	**310**	110
Depreciation	**31,207**	26,243
Amortisation of intangible assets	**11,096**	8,668
Provision for/(reversal of) impairment of intangible assets	**6,000**	(856)
Write-down of inventories	**332**	1,396
Provision for/(reversal of) impairment of inventories	**1,110**	(5,977)
Provision for impairment of trade receivables	**1,192**	126
Reversal of impairment of other receivables	**–**	(3,000)
Net foreign exchange (gains)/losses	**(1,082)**	557

4. FINANCE COSTS - NET

	2010	2009
	RMB'000	RMB'000
Interest expense on:		
- Bank borrowings wholly repayable within five years	**(18,594)**	(19,196)
- Government loans wholly repayable within five years	**(399)**	(529)
- Government loans not wholly repayable within five years	**–**	(106)
Net foreign exchange gains on financing activities	**1,687**	188
	(17,306)	(19,643)
Less: amount capitalized on qualifying assets	**2,527**	1,425
Finance costs	**(14,779)**	(18,218)
Finance income		
- Interest income on short term bank deposits	**2,873**	2,182
Net finance costs	**(11,906)**	(16,036)

Finance cost capitalised during the year have been calculated by applying a capitalisation rate of 5.2% (2009:6.1%) per annum on expenditure of qualifying assets.

5. INCOME TAX EXPENSE

	2010	2009
	RMB'000	RMB'000
Current tax		
- Mainland China enterprise income tax	**22,108**	16,296
Deferred tax		
- Reversal of withholding tax on dividends distributed/ to be distributed by the PRC subsidiaries	**–**	(3,000)
	22,108	13,296

Notes:

(a) Hong Kong Profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

(b) Mainland China enterprise income tax

The subsidiaries established in Xiamen, Fujian Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 22% (2009: 20%). In November 2006, Xiamen Doingcom Chemical Co. Ltd. transformed itself from a domestic enterprise to a wholly foreign owned enterprise. It has obtained approval from Mainland China Tax Bureau to be exempted from enterprise income tax for two years starting from the first year of profitable operations, followed by a 50% reduction in enterprise income tax for the following three years, Xiamen Doingcom Chemical Co. Ltd. has commenced to enjoy its tax holiday starting from year 2007.

(c) Overseas income taxes

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from British Virgin Islands income tax.

(d) Mainland China value-added tax

The subsidiaries established in Mainland China are subject to Mainland China value-added tax ("VAT") at 17% (2009: 17%) of revenue from sale of goods in Mainland China and entitled to a VAT export refund at 9% to 13% (2009: 8% to 13%) from sale of goods outside Mainland China. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(e) Withholding tax

Pursuant to the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed/to be distributed by those subsidiaries and an associate established in Mainland China in respect of earnings generated from 1 January 2008.

6. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**130,103**	107,471
Weighted average number of ordinary shares in issue *(thousands)*	**465,210**	465,210
Basic earnings per share *(RMB per share)*	**28.0 Cents**	23.1 Cents

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company mainly comprise the share options. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average monthly market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**130,103**	107,471
Weighted average number of ordinary shares in issue *(thousands)*	**465,210**	465,210
Adjustments assuming the exercise of share options *(thousands)*	**11,292**	4,172
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**476,502**	469,382
Diluted earnings per share *(RMB per share)*	**27.3 Cents**	22.9 Cents

7. DIVIDENDS

A final dividend in respect of the year ended 31 December 2010 of HK3.8 cents per share, totalling approximately of RMB15,434,000, is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect such dividend payable.

	2010	2009
	RMB'000	RMB'000
Interim dividend paid of HK0.88 cents (2009: HK0.8 cents) per ordinary share	**3,583**	3,279
Proposed final dividend of HK3.8 cents (2009: HK3.0 cents) per ordinary share	**15,434**	12,274
	19,017	15,553

8. TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally around 60 to 90 days. For certain customers with good credit histories, an extended period up to 180 days is allowed. The aging analysis of trade receivables is as follows:

	2010	2009
	RMB'000	RMB'000
0 to 30 days	**80,759**	69,233
31 to 60 days	**72,602**	53,726
61 to 90 days	**66,796**	39,024
91 to 180 days	**72,890**	43,182
181 to 365 days	**198**	107
Over 365 days	**-**	187
	293,245	205,459
Less: Provision for impairment of trade receivables	**(2,932)**	(2,232)
	290,313	203,227

9. TRADE PAYABLES AND BILLS PAYABLE

	2010 RMB'000	2009 RMB'000
Trade payables	**30,330**	18,955
Bills payable	**126,777**	53,869
	157,107	72,824

The aging analysis of trade payables and bills payable was as follows:

	2010 RMB'000	2009 RMB'000
0 to 30 days	**35,574**	15,730
31 to 60 days	**33,212**	9,496
61 to 90 days	**25,362**	14,842
91 to 180 days	**62,645**	32,262
181 to 365 days	**10**	163
Over 365 days	**304**	331
	157,107	72,824

FINAL DIVIDEND

The Directors will propose at the annual general meeting to be held on 6 June 2011 payment of final dividend of HK3.8 cents per share for the year ended 31 December 2010 to be payable in cash on 20 June 2011 to shareholders whose names are listed on the register of members of the Company on 6 June 2011. Together with the interim dividend of HK0.88 cents (2009: HK0.8 cents) per share, this will bring the total dividend distribution for the year to HK4.68 cents (2009: HK3.8 cents) per share.

CLOSURE OF REGISTERS OF MEMBERS

The transfer books and register of members of the Company will be closed from Wednesday, 1 June 2011 to Monday, 6 June 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 31 May 2011.

CHAIRMAN'S STATEMENT

Review

On behalf of the Board of Directors (the "**Board**"), I would like to present the Group's financial results for the year ended 31 December 2010 to our shareholders. During the year, the Group recorded turnover of approximately RMB908 million, representing an increase of 25% compared with 2009. Earnings before interest, tax, depreciation and amortisation ("**EBITDA**") was RMB214 million, up 23% from RMB174 million the previous year. Profit attributable to shareholders increased 21% to RMB130 million. Basic earnings per share reached RMB0.280, compared with RMB0.231 in 2009. To thank our shareholders for their enduring support, the Board proposed declaring a final dividend of HK3.8 cents per share. Together with the interim dividend of HK0.88 cents per share, the total dividend for the year was HK4.68 cents per share, compared with HK3.8 cents previously.

2010 was an extraordinary year. Thanks to looser monetary policy and economic stimulus measures introduced by various governments, the global economy started to stabilize following the peak of the financial crisis. Emerging economies, in particular China, stood out with their rapid recovery, while the U.S. and developed countries in Europe also showed signs of moderate recovery and stabilization. The cost of raw materials and prices of finished products climbed to varying degrees as global demand for basic necessities still managed to increase markedly compared with 2009. This occurred despite the fact that economic recovery remained modest and loose liquidity fuelled inflation in emerging economies. During the year, the general business environment raised fresh hopes, but companies continued to face challenges and mounting pressure on the operational front. In the flavor and fragrance industry, most key players around the world saw their customer orders returning to normal levels. The size of orders placed with the Group also grew alongside improved customer demand while our production output and product prices increased as the year wore on. Turnover rose 25 percentage points year-on-year. This showed that the Group's business bounced back following the slowdown in 2009.

The recovery of the Group's business was driven mainly by the robust leadership of the Board, the collective efforts of all employees and our industry reputation. Other supportive factors included advanced technologies and skills, refined management, adequate financial support and effective risk control. Leveraging on the growth opportunities arising from the industry consolidation prompted by the global financial crisis, our Group proactively reinforced cooperation with its global clients and successfully enhanced its position in the global market.

During the year under review, sales revenue from our main product dihydromyrcenol and its woody derivative aroma chemicals continued to grow, accounting for approximately 25% of total global supply, making the Group one of the three largest suppliers in the world for this product category. Sales revenue from new aroma chemicals, including flora, green, dairy and fruity notes, also grew consistently. These products are expected to become new growth drivers in the future. Meanwhile, the food additives segment in the natural extract category also expanded gradually, with its clientele diversifying from renowned international food processors to downstream restaurant chains.

The Group's main clients include some of the biggest multinational flavor and fragrance companies. Amid mounting demand and soaring costs in 2010, the Group respected its commitment to providing the best service possible to clients and maintaining good communications with its customers to the benefit of both parties. In keeping with the past, the Group ensured steady supplies and timely delivery. Its goods were of the highest quality. By offering comprehensive solutions for research and development, procurement, production and supply chain management, the Group secured the trust and support of its clients. Our clientele, which largely consists of multinational manufacturers, has broadened to include some local end-user chains.

The core competitive advantage of the Group lies mainly in its capacity to achieve and maintain technological advancement. During the year, we successfully developed new, cutting edge technology by collaborating with a renowned university in China. The first industrial reactor using this technology has been built and will begin trial operations in March 2011. It will then be launched officially and begin contributing to the Group's revenue in 2011. We aim to gradually upgrade all existing facilities for our main products with this new technology in order to raise production output and improve cost efficiency. Effective implementation of the new technology is expected to strengthen our industrial capabilities for a significant period of time.

Meanwhile, our Group has also completed the construction and installation work for the first phase of the Changtai expansion in Fujian Province. A trial run will be conducted in April 2011. Phase I of the Changtai Plant, which begins production soon, will mainly engage in the production of the new aroma chemical series, and some special chemicals including pharmaceutical intermediates, agrochemical and other functional chemicals. All of these new products will contribute to the business growth of the Group.

We are still using botanic essential oils, which are rich natural products in China, as major raw materials, of which turpentine accounts for the largest share. Gum turpentine has an inelastic demand in the market place with its extensive application. As a naturally renewable resource, supply is affected by weather conditions and manpower needs for tapping. In 2010, the market price of gum turpentine hovered at historic highs due to rising demand and anticipated inflation. This added considerable pressure to our operations in the areas of raw material procurement, inventory management, production costs and operation funding. Nevertheless, we still managed to secure a stable supply of raw materials thanks to our long-standing national procurement network, our chain management strategies and our upstream integration plan. Furthermore, we carefully controlled our raw material inventory, and established a new, orderly price adjustment mechanism for sales of finished products with the support and understanding of our clients. Therefore, we limited the impact of raw material cost fluctuations on our profitability to some extent, and hope to maintain stable profit margins for related products in the medium- to long-term. Meanwhile, moves to introduce new products with higher margins helped to mitigate some of the negative impact caused by rising costs. In 2010, our gross profit margin fell by just 1 percentage point to 24.7%, compared with 25.7% in 2009. High raw material prices have also curbed or even eliminated some industry peers, in particular those who proved unable to consolidate their raw material resources or suffered from poor management operation systems, ineffective economies of scale or outdated technology. This phenomenon will help our Group to grow further.

With regards to production expansion, technological innovation and strategic procurement of raw materials in the coming years, we completed a new three-year syndicated loan of US$31 million in 2010 at relatively low cost, with the support of some international banks in Hong Kong. This helped the Group to effectively secure funding for development of our existing business and served as a natural hedge against future foreign exchange risk on our export income given expectations that the renminbi will continue to appreciate against other currencies.。

By upholding its “people-oriented” and “technology-led” business philosophy, while adhering to the principle of “green chemistry” standards in its operations, our Group strictly complied with various domestic and international industry rules and regulations, and used fully-automatic, state-of-the-art production facilities. Our Group therefore maintained safe production and operations during the year.

Under the technology-intensive business model, the Group recruits high caliber personnel with relevant academic qualifications. The number of staff per unit output is relatively low in our plants. We have therefore offered attractive remuneration which surpasses the industry average in China. The impact of the minimum wage law, introduced by the Chinese government in 2010, on the Group’s financials was very limited. The staff turnover rate was also relatively low. To retain and employ more talent for our development needs, we will conduct timely reviews and adjust salary levels and incentives for our workforce in line with the growth of our business and improvement of social living standards. In addition, our Group will continue to commit resources to specific areas where necessary to boost production output, maintain a safe working environment and improve environmental protection.

Outlook

2010 was a year of robust rebound for the Group, following multiple challenges brought by the economic crisis in 2009. With regards to 2011, we have seen further signs of economic recovery in the U.S., fueled by the latest round of quantitative easing policies (QE2) by Washington. At the same time, the world’s second-biggest economy, China, is expected to continue expanding at a rate of over 7 percent. It would appear that the global economy is on the road to steady recovery. However, many uncertainties and challenges remain, including the ongoing sovereign debt crisis in Europe, geopolitical turmoil in the Middle East, the fallout from the Japanese earthquake which struck in March, and anticipated inflation around the world. All these factors will cast a shadow over economic recovery. In 2011, we see dangers as well as opportunities. Therefore, we are cautiously optimistic about the future of the global industry, while remaining strongly confident in the growth potential of our Group. We will remain highly vigilant to the many risks that abound.

We expect the Group to benefit from a steady increase in flavour and fragrance product prices driven by growing demand and anticipated inflation. We also see the sovereign debt crisis in Europe, geopolitical turmoil in the Middle East and earthquake disaster in Japan potentially speeding up restructuring of global industry. We may be in a position to better capture new opportunities spurred by industry consolidation given we are based in China, a country which enjoys both political and economic stability. As a major aroma chemical supplier with global influence, our Group will strive as always to play to its strengths and seize business opportunities. We are on the right side of the global supply chain for the flavor and fragrance industry to benefit from transformations within the global industry. We hope to meet market demand with our enlarged product and service portfolio, backed by a larger scale of production and advanced technologies. In so doing, we will be able to continue enhancing our comprehensive competitiveness.

Based on the above, we plan to cope with future challenges and capture new opportunities by using the following strategies and measures:

Consolidating supply chain

Leveraging on its leading position in turpentine processing, the Group will channel resources towards our terpenic aroma chemicals operations. We will continue with our upstream integration along the supply chain by building strategic partnerships with raw material suppliers and collaborating with upstream forestry owners to development renewable resources in a sustainable way. By moving our management of raw material procurement closer to its primary source, we can secure a safe and steady supply of raw materials in the long run. We can also try to lock in costs of major raw materials through quarterly stockpiling on site, to achieve greater returns from better economies of scale in raw material resource management.

Innovative technology to boost production efficiency

Our unique, innovative technology and industry experience form our core competence. From 2011 onwards, the Group will incorporate the latest global technologies in its production and achieve large-scale commercialization. This revolutionary technological advancement will significantly boost our production efficiency and curb energy consumption, thus bringing down production costs. Such advancements can be introduced to existing facilities to greatly enhance productivity and minimize related capital expenditure.

Balanced expansion of production facilities

Phase I of the Changtai Plant will commence production in the first half of 2011. The plant will mainly produce special chemicals including a new series of aroma chemicals and pharmaceutical intermediates, agrochemical and other functional chemicals. This will lay a solid foundation for new business in the realm of special chemicals. The output of our Xinglin Plant is also expected to increase further as new clients in the food additives sector appear and we launch new products.

Effective operation management system

We will reinforce our operation management and internal controls to meet with market requirements in corporate governance, so as to strengthen risk controls and support long-term business growth. All those measures will include, but not be limited to, conducting regular reviews on management duties and performance, strategy and risk management, as well as corporate governance. We will take effective steps to further control costs, working capital and capital expenditure, while refining the capital structure to control risk, and boost the Group's overall profitability.

Adhering to the principles of green chemistry

The Group adheres to its principles of green chemistry and will remain committed to serving as a role model for green chemistry players in the industry. We will continue our efforts with regards to energy saving, consumption and emission reduction. While seeking to boost our overall competitiveness, the Group will also comply strictly with both domestic and international standards (especially European REACH) in the fine chemical industry. We will also adhere to all environmental and resource protection regulations. By doing this, we can meet the requirements of all international customers in terms of supplier qualifications and fulfill our corporate social responsibilities.

Merger and acquisition

While developing our existing business, we will continue to explore opportunities for faster business expansion through horizontal mergers and acquisitions that create synergies. We will prioritize vertical integration of resources and horizontal acquisition of businesses of a similar nature. We aim to develop markets with strong demand, insufficient supply or weaker competition to achieve greater expansion along our existing industry chain and rapid and sustainable growth of our businesses.

We see a future full of opportunities. Based on our solid business foundations, we will offer our clients a larger variety of products and value-added services. By leveraging on our industry reputation, solid clientele and advanced production technologies, we can ensure faster business expansion and greater global market share. Apart from organic growth of our existing business, we also look forward to partnerships and merger opportunities to grow our scale and the value of our overall business. We will also step up efforts to ward off risks and confront challenges. By doing this, we will have full confidence in our future.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2010, both the aroma chemicals business and flavour chemicals business recorded a prosperous growth. The growth for our three major products within the manufacturing business reached 26%. The Group's turnover for the year was RMB908 million, an increase of 25% from the previous year. Excluding contributions from the supplementary trading and resource management business, core growth for our three major products even reached 26%. Profit attributable to shareholders increased to RMB130 million by 21% from the previous year. Basic earnings per share were approximately RMB28.0 cents.

Manufacturing

(i) Aroma Chemicals

Aroma Chemicals continued to be the Group's core products during the year under review, and constituted a stable and major income source for the Group. Aroma chemicals are primarily used as functional ingredients and key components in many daily consumer goods, with a combined positive effect of its diversified applications and the development in the emerging markets, market demand continued to rise, the aroma chemical products continued to be the major growth driver of the Group's operation.

For the year ended 31 December 2010, with increases in both orders placed by existing customers and on the selling prices, turnover of aroma chemicals increased by 32% to RMB641 million (2009: RMB487 million), accounting for 70% of the Group's turnover (2009: 67%) and a gross profit margin of 24.3% (2009: 24.2%).Dihydromyrcenol was the major contributor which brought a revenue of RMB172 million to the Group. Its sales was up 35% over previous year and accounted for 27% of the total revenue on this product category.

In addition, certain new aroma and food flavour chemicals launching in preceding years are getting well received by the market. The new series of products have already contributed RMB196 million to the Group's revenue, with a profit margin amounted to approximately 33%, which is higher than the profit margin of our fragrance chemicals products and represents one of our new sources in profitability for our future growth.

(ii) Natural Extracts

In respect of the Natural Extracts products, apart from existing natural pharmaceutical raw materials, the Group has been actively engaged in the development of food additives business for the production of food ingredients, fast food, frozen food and pet nutrition food, which is produced with purification and bio-conversion technologies from natural produces. Natural extracts mainly include seafood, meat and mushroom extracts.

During the year under review, the Group's natural extract products maintained steady growth. The market demand for existing natural pharmaceutical raw materials just remained stable. Despite the sale of the new food additives business was up 70% over previous year, this business has still been advancing towards the economies of scale. Turnover from sale on Natural Extracts sustained at RMB127 million (2009: RMB113 million), accounting for 14% (2009:15%) of the Group's sales. Gross profit margin amounted to 23.8%, (2009:26.4%). The performance of Natural Cinnamic Aldehyde was relatively outstanding among other Natural Extracts. This product contributed revenue of RMB43.2 million to the Group and its sales surged by 11% over the corresponding period last year and accounted for 34% of the total revenue for this product category.

(iii) Intermediates

Besides the chiral pharmaceuticals and intermediates, the Group also applies similar advanced technologies of synthesis to produce agrochemical intermediates, which will later be turned into the kind of eco-pesticide.

During the year under review, due to the restriction of the co-operative production capacity and the slow-down of the market demand, orders for the Group's intermediate products maintained steady growth. Turnover increased 7% year-on-year to RMB60.3 million (2009: RMB56.2 million), accounting for 7% (2009: 8%) of the Group's sales. Gross profit margin was 48.9% (2009: 56.1%). The gross profit margin of this product category of the Group was still higher than its general peers in the industry. 3-Phenylpropanal Aldehyde is the major intermediate produced by the Group. Sales for this product accounted for 37% of the overall sales of this product category and contributed revenue of RMB22.1 million to the Group.

Trading

The trading products include gum rosin, gum turpentine and other special botanic essential oils and their by-products. This year, revenue from the Group's trading business was up 10% year-on-year to RMB79.9 million, accounting for 9% of the Group's turnover. The contribution to gross profit was approximately RMB9.0 million.

Financial Review

Turnover

The Group's recorded a stable growth of 25% in its turnover for the year ended 31 December 2010, which amounted to RMB908 million. The Group's Phase III expansion of Haichang Plant was completed in 2008. It contributed to the new production capacity in the preceding years and resulted in the sustainable growth of the Group's revenue. Meanwhile, the rise in the selling prices of the existing products also contributed to the increase in the Group's operating income. Geographically, domestic sales of the Group's fine chemical products increased 18% from 2009 whereas overseas sales of the Group's fine chemical products increased by 38%.

Gross Profit

During the year under review, the Group's gross profit totaled RMB225 million, up 20%. Gross profit margin slightly dropped to 24.7% from 25.7% in 2009. Besides the strict cost control measures taken by the Group, the price of some products has been raised so as to shift partial cost pressure to customers. The strike in the raw material prices led to the slightly slump of the gross profit margin.

By the products category, the gross profit margin of aroma chemicals sustained at 24.3% in 2010 from 24.2% in 2009, while natural extracts decreased from 26.4% in 2009 to 23.8% this year. The profit margin of intermediates decreased from 56.1% in 2009 to 48.9%. The gross profit margin of trading products increased from 11.2% in 2009 to 11.3%.

Operating Income and Expense

The selling and marketing expenses in 2010 accounted for 2.6% of the Group's turnover (2009: 2.7%), while administrative expenses represented 4.0% of turnover (2009: 4.2%). The Group's operation expense has dropped thanks to effective cost-cutting measures.

Finance Costs – Net

The net finance costs decreased by approximately RMB4.1 million compared with last year's. This was mainly attributable to the Group's net foreign exchange gains on financing activities of RMB1.7 million (2009: RMB0.2 million) in this year. Besides, interest expense capitalized been increased to RMB2.5 million from RMB1.4 million in 2009.

Income Tax Expense

Income tax expense of the Group in 2010 was RMB22.1 million representing an increase of RMB8.8 million compared with that of previous year. Effective tax rate of the Group is 14.5% (2009: 11.0%)

Profit for the Year

Profit for the year in 2010 was RMB130 million, representing a increase of 21% compared with RMB107 million in 2009. EBITDA for the year was RMB214 million, an increase of 23% from 174 million in 2009.

Liquidity and Financial Resources

During the year under review, the Group's primary source of funding mainly involved the cash generated from operating activities. For the year ended 31 December 2010, net cash generated from operating activities amounted to RMB44.4 million (2009: RMB179.3 million). With the financial resources obtained from the Group's operations, the Group had utilized RMB56.9 million (2009: RMB43.5 million) in the investing activities. During the year under review, the net cash inflow from financing activities amounted to RMB22.2 million (2009: net cash outflow of RMB7.7 million).

As at 31 December 2010, the Group had cash and cash equivalents of approximately RMB524 million (2009: RMB515 million). The average inventory turnover days, average trade receivable turnover days and average trade payable turnover days were 52 days, 100 days and 61 days respectively (2009: 54 days, 100 days and 48 days).

The Group's financial position remains very solid and healthy during the year under review. As at 31 December 2010, the net current assets and the current ratio of the Group were approximately RMB695 million (2009: RMB502 million) and 2.8 (2009: 2.4) respectively.

As at 31 December 2010, the Group had borrowings of approximately RMB390 million (2009: RMB353 million). Among them, outstanding short-term borrowings amounted to RMB206 million (2009: RMB253 million). As at 31 December 2010, the Group's ratio of total borrowings to total equity, was approximately 41% (2009: 42%) and the Group's net cash balance, being cash and cash equivalents less borrowings amounted to RMB134 million (2009: RMB162 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.

Charge on assets

As at 31 December 2010, bank deposits of RMB58.0 million (2009: RMB27.1 million) were pledged to secure the Group's bank borrowings. As at 31 December 2009, bank deposits of RMB27.1 million and certain property, plant and equipment of the Group with an aggregate net book value of about RMB84.9 million were pledged to secure the Group's bank borrowings.

Contingent liabilities

As at 31 December 2010, the Group had no significant contingent liabilities.

Capital commitment

As at 31 December 2010, the Group had capital commitments of approximately RMB25.2 million (2009: RMB21.3 million) in respect of purchases of property, plant and equipment, construction-in-progress, product development projects and land use rights.

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 2010, the Group's borrowings of approximately RMB192 million and RMB180 million were denominated in Renminbi and United States dollars, respectively. The Group's pledged bank deposit and cash and cash equivalents denominated in Renminbi amounted to RMB58.0 million and RMB510 million respectively of the total balance, with the remaining balance of approximately RMB14.0 million mainly 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. The Group will conduct periodic review of its exposure to foreign exchange risk and may use proper financial instrument and financing arrangement for hedging purpose when considered appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 358 full-time employees, among whom 353 were based in the PRC. For the year under review, the total employment costs incurred for 2010 including directors' emoluments amounted to RMB30.3 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 properly rewarded on a performance-related basis under the Group's salary and bonus system. The Group has adopted a share option scheme for the purpose of providing incentives and rewards to the management, key technician and other eligible participants who contribute to the success of the Group's operations.

CORPORATE GOVERNANCE

The Company has adopted and applied the code provisions (the "**Code Provisions**") set out in the Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the then prevailing Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2010. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the year under review, the Company has complied with the Code Provisions of the CG code save for the following:

Segregation of Rules of Chairman and Chief Executive Officer ("CEO")

The Company has not yet adopted A.2.1. Under the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and would not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The Company does not presently have any officer with the title CEO. At present, Mr. Yang Yirong, being the Chairman and the President of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considered that, due to the nature and extent of the Group's operations, Mr. Yang is the most appropriate chief executive because he possesses in-depth knowledge and experience in fine chemicals business and is able to ensure the sustainable development of the Group. Besides, he is the founder, the chairman and the controlling shareholder of the Group since its establishment and till now. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make the necessary amendments.

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

During the year ended 31 December 2010, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all the Directors have confirmed that they have complied with all the relevant requirements as set out in the Model Code throughout the year ended 31 December 2010.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the accounting policies, accounting standards and practices adopted by the Group and the consolidated financial statements and results of the Group for the year ended 31 December 2010.

REMUNERTION COMMITTEE

The Remuneration Committee of the Board has reviewed remuneration policy and packages of the Directors and senior management for the year ended 31 December 2010.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the designated website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.ecogreen.com). The 2010 annual report containing all the information required by The Listing Rules will be despatched to shareholders and will be published on the aforementioned websites in due course.

By order of the Board
EcoGreen Fine Chemicals Group Limited
Yang Yirong
Chairman & President

Hong Kong, 25 March 2011

* *For identification purpose only*

As at the date of this announcement, the Board of Directors of the Company comprises of five executive Directors, namely Mr. Yang Yirong (Chairman), Mr. Gong Xionghui, Ms. Lu Jiahua, Mr. Lin Like and Mr. Han Huan Guang, one non-executive Directors, namely Mr. Feng Tao and three independent non-executive Directors, namely Dr. Zheng Lansun, Mr. Yau Fook Chuen and Mr. Wong Yik Chung, John.