Fufeng Group Limited
阜豐集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 546)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

ANNUAL RESULTS

The board of directors (the "Directors" or the "Board") of Fufeng Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") prepared under Hong Kong Financial Reporting Standards ("HKFRS") for the year ended 31 December 2006, together with the comparative figures for the year ended 31 December 2005, as follows:

Consolidated Income Statement
For the year ended 31 December 2006

	Note	Year ended 31 December 2006 RMB'000	2005 RMB'000
Revenue	3	**1,787,247**	1,296,408
Cost of sales		**(1,432,105)**	(978,792)
Gross profit		**355,142**	317,616
Other income		**19,223**	11,402
Selling and marketing expenses		**(61,806)**	(47,236)
Administrative expenses		**(40,529)**	(34,943)
Other operating expenses		**(7,376)**	(1,222)
Operating profit		**264,654**	245,617
Finance costs		**(14,846)**	(9,337)
Profit before income tax		**249,808**	236,280
Income tax expense	4	**(9,325)**	(113)
Profit for the year attributable to shareholders		**240,483**	236,167
Dividends	5	**156,210**	12,581
Basic and diluted earnings per share (in RMB cents)	6	**20.04**	19.68

Consolidated Balance Sheet
As at 31 December 2006

	Note	As at 31 December 2006 RMB'000	2005 RMB'000
Non-current assets			
Leasehold land payments		**64,918**	55,733
Property, plant and equipment		**1,288,340**	510,957
Deferred income tax assets		**601**	—
		1,353,859	566,690
Current assets			
Inventories		**148,077**	91,327
Trade and other receivables	7	**357,814**	236,002
Restricted bank deposits		**23,500**	3,000
Cash and cash equivalents		**41,094**	73,947
		570,485	404,276
Current liabilities			
Trade, other payables and accruals	8	**610,573**	340,602
Amounts due to related parties		**—**	4,290
Income tax payable		**4,244**	407
Current portion of deferred income		**5,198**	4,373
Borrowings		**414,630**	43,510
		1,034,645	393,182
Net current (liabilities)/assets		**(464,160)**	11,094
Total assets less current liabilities		**889,699**	577,784
Non-current liabilities			
Deferred income		**27,599**	24,765
Borrowings		**335,000**	206,900
Deferred income tax liabilities		**707**	113
		363,306	231,778
Net assets		**526,393**	346,006
Represented by:			
Share capital		**123,372**	—
Reserves:			
- Proposed dividends		**96,114**	—
- Other reserves		**306,907**	346,006
Shareholders' equity		**526,393**	346,006

Notes to the Consolidated Financial Statements
For the year ended 31 December 2006

1. Reorganisation and basis of presentation

Fufeng Group Limited (the "Company"), formerly known as China Fufeng Fermentation Technology Group Company Limited, was incorporated in the Cayman Islands on 15 June 2005 as an exempted company with limited liability and changed to its current name on 31 August 2006.

山東阜豐發酵有限公司 (Shandong Fufeng Fermentation Co., Ltd.) ("Shandong Fufeng") is a limited liability company established in the People's Republic of China (the "PRC") on 9 June 1999. 寶雞阜豐生物科技有限公司 (Baoji Fufeng Biotechnologies Co., Ltd.). ("Baoji Fufeng") is a limited liability company established in the PRC on 24 September 2004. 內蒙古阜豐生物科技有限公司 (Neimenggu Fufeng Biotechnologies Co., Ltd.) ("Inner Mongolia Fufeng") is a limited liability company established in the PRC on 31 March 2006. All Shandong Fufeng, Baoji Fufeng and Inner Mongolia Fufeng are engaged in the manufacture and sales of fermentation-based food additive and biochemical products and starch-based products. On 15 July 2006, in consideration for the shareholders transferring the entire issued share capital in Acquest Honour Holdings Limited ("Acquest Honour", the then ultimate holding company of Shandong Fufeng, Baoji Fufeng and Inner Mongolia Fufeng) to the Company (the "Reorganisation"), (i) an aggregate of 1,199,900,000 Shares of the Company were allotted and issued to the shareholders; and (ii) the aggregate of 100,000 nil-paid shares of the Company previously issued to each of them were credited as fully-paid. Shandong Fufeng, Baoji Fufeng, Inner Mongolia Fufeng and the Company were ultimately owned by the same shareholders with identical relative shareholdings immediately before and after the Reorganisation.

The Reorganisation has been accounted for in accordance with Accounting Guideline 5, paragraph 5, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which requires the use of a principle similar to that for a reverse acquisition as set out in Hong Kong Financial Reporting Standards 3 "Business Combinations". The Reorganisation, for accounting purposes, was effected through the acquisition of the Company by Acquest Honour. The financial statements before the acquisition date consists of the consolidated financial statements of the Acquest Honour and its subsidiaries, as the predecessor reporting entity. Upon the acquisition of the Company, its assets and liabilities were recorded at their fair values and the effect of the acquisition, including the elimination of the share capital of Acquest Honour, was reflected in shareholders' equity.

2. Summary of significant accounting policies

The Group's consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments. The Group's consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The preparation of the Group's consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The accounting policies adopted are consistent with those as described in the Accountants' Report as set out in the Company's Prospectus dated 25 January 2007.

At the date of this announcement, the HKICPA has issued the following new standard and interpretation that are relevant to the Group's operation but not yet effective and has not been early adopted by the Group. The Group has considered the potential effect of these standards and interpretations.

- HK(IFRIC) – Int 8, "Scope of IFRS 2", effective for annual periods beginning on or after 1 May 2006. HK(IFRIC) – Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. Management is currently assessing the impact of the interpretation but does not expect there will be a material effect to the Group's results or financial position; and
- HKFRS 7, "Financial instruments: Disclosures" and a complementary amendment to HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007. These require the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk, and disclosures about the level of an entity's capital and how it manages capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

3. Revenue

The Group is principally engaged in the manufacture and sales of corn-based biochemical products, including glutamic acid, monosodium glutamate ("MSG"), fertilisers, xanthan gum, starch sweeteners and corn refined products. Turnover and revenue for the years ended 31 December 2006 and 2005 is analysed as follows:

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Glutamic acid	**1,050,090**	754,403
MSG	**199,441**	176,894
Corn refined products	**227,390**	184,633
Fertilisers	**134,824**	113,990
Xanthan gum	**139,620**	66,488
Starch sweeteners	**35,882**	—
	1,787,247	1,296,408

The Group is principally engaged in a single business segment. More than 90% of the Group's turnover and operating profit are earned within the PRC and all operating assets of the Group are located in the PRC. Therefore, no business segment or geographical segment is presented.

4. Income tax expense

	Year ended 31 December 2006 RMB'000	2005 RMB'000
PRC enterprise income tax ("EIT")		
– Current	**9,332**	—
– Deferred	**(7)**	113
	9,325	113

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands and is exempted from payment of the Cayman Islands income tax.

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit in Hong Kong for the years ended 31 December 2006 and 2005.

PRC EIT is calculated based on the effective tax rate on assessable profit of subsidiaries established in the PRC in accordance with PRC tax laws and regulations.

5. Dividends

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Dividends declared by Acquest Honour to its then shareholders	**60,096**	12,581
Proposed final dividend by the Company of RMB5.79 cents per share	**96,114**	—
	156,210	12,581

Pursuant to a resolution by the Board on 17 April 2007, the Directors have recommended the payment of a final dividend in respect of the year ended 31 December 2006 of RMB 5.79 cents per share, amounting to a total dividend of RMB 96,114,000. These financial statements have not reflected this dividend payable.

6. Earnings per share

Basic earnings per share for each of the years ended 31 December 2006 and 2005 is calculated by dividing the profit for the year attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year adjusted for as if the shares issued by the Company for acquiring Acquest Honour had been outstanding throughout the year.

As there are no potentially dilutive securities, there is no difference between the basic and diluted earnings per share.

7. Trade and other receivables

	As at 31 December 2006 RMB'000	2005 RMB'000
Accounts receivable (a)	**82,783**	32,221
Notes receivable (b)	**244,190**	191,370
Prepayments	**21,803**	6,678
Deposits and other receivables	**9,038**	5,733
	357,814	236,002

(a) As at 31 December 2006 and 2005, the aging analysis of accounts receivable was as follows:

	As at 31 December 2006 RMB'000	2005 RMB'000
Within 3 months	**77,055**	31,877
Over 3 months	**5,728**	344
	82,783	32,221

The Group sells its products to customers and received settlement either in cash or in form of bank acceptance notes upon delivery of goods. The bank acceptance notes are usually with maturity dates within six months. Major customers with good repayment history are normally offered credit terms for not more than three months.

(b) As at 31 December 2006 and 2005, notes receivable were all bank acceptance notes aged less than six months and RMB216,815,000 (2005: RMB181,147,000) were negotiated to the Group's suppliers for accounts payable and payables for leasehold land, property, plant and equipment. As at 31 December 2006 and 2005, the amount of notes receivable pledged as security for the Group's borrowings were nil and RMB15,510,000 respectively.

8. Trade, other payables and accruals

	As at 31 December 2006 RMB'000	2005 RMB'000
Accounts payable (a)	**227,374**	169,354
Notes payable (b)	**27,249**	3,020
Advances from customers (c)	**61,217**	27,914
Payables for leasehold land, property, plant and equipment	**255,724**	97,123
Other payables and accruals	**39,009**	43,191
	610,573	340,602

(a) As at 31 December 2006 and 2005, the aging analysis of accounts payable is as follows:

	As at 31 December 2006 RMB'000	2005 RMB'000
Within 3 months	**221,479**	167,325
3 to 6 months	**2,961**	1,167
6 to 12 months	**2,237**	316
Over 1 year	**697**	546
	227,374	169,354

As at 31 December 2006, RMB216,815,000 (2005: RMB181,147,000) notes receivable were negotiated to the Group's suppliers for accounts payable and payables to leasehold land, property, plant and equipment.

(b) As at 31 December 2006 and 2005, notes payable were all bank acceptance notes with maturity dates within six months and aged less than six months.

(c) Advances from customers represented cash advances received from customers for purchase of the Group's products and would be settled when sales were incurred.

9. Events after the balance sheet date

(a) On 10 January 2007, a pre-IPO share option scheme was approved by the shareholders of the Company. As at the date of this announcement, pursuant to the scheme, options to subscribe for an aggregate of 96,000,000 shares of the Company has been granted to certain executive Director, senior management, employees and a company which is wholly-owned by an executive Director.

The consideration for the grant of each such option was HK\$1.00 and the subscription price for the shares pursuant to the exercise of these options are all equivalent to the offer price in connection with the initial listing of the shares of the Company (the "Listing") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Such options may be exercised within a period of three or four years from the expiry of two and a half years or half a year from the date of Listing.

(b) On 8 February 2007, the Company issued 400,000,000 shares of HK\$0.10 each through a public offer of the Company's shares in Hong Kong and an international placing of the Company's shares with institutional and professional investors (the "International Placing") at a consideration of HK\$2.23 per share, totalling HK\$892,000,000(approximately RMB884,953,000). The shares of the Company were then listed on the Stock Exchange on the same date. Upon the Listing, US\$40,000,000 (approximately RMB312,000,000) of current borrowings were repaid.

On 12 February 2007, the Company issued additional 60,000,000 shares of HK\$0.10 each through exercising the Over-allotment Option by the underwriters in respect of the Listing, at a consideration of HK\$2.23 per share, totalling HK\$133,800,000 (approximately RMB132,930,000).

(c) On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the new "EIT Law"). The new EIT Law reduces the enterprise income tax rate for foreign-invested enterprises from 33% to 25% with effect from 1 January 2008. The new EIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these consolidated financial statements are approved for issue, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

Management Discussion and Analysis

Business review

Sales and marketing

According to the China Fermentation Industry Association, the Group was the largest glutamic acid manufacturer and the second largest xanthan gum manufacturer in the PRC in terms of production volume both in 2005 and 2006.

In 2006, glutamic acid continued to be one of the major products of the Group. As the economy and income levels in the PRC continued to grow, it is expected that the per capita consumption of MSG will grow in tandem, thus driving the sales of glutamic acid and MSG. In addition, the full year operation of Baoji Plant Phase II in the year 2006 increased the production volume of glutamic acid which was fully absorbed by the market. Following the adjustments and testing of new MSG production facilities in the Group's Junan Plant Phase II in November 2006, the Group's production of MSG was further increased.

The Group has commenced production of xanthan gum since 2003. Although the Group had recorded growth in the sales of xanthan gum in the past, turnover of xanthan gum experienced a significant growth in the year 2006 as a result of production capacity expansion.

With the commencement of the operation of Inner Mongolia Plant Phase I, the geographical coverage of the Group in the PRC further expanded and the sales of the products is expected to increase accordingly.

Since establishment, the Group has obtained various awards and below are two representative awards obtained in respect of year 2006.

- The Group was awarded Leading Enterprise in Food Industry for year 2005-2006 by China National Food Industry Association in the year 2006.
- The brand of "福瑞" was awarded the Most Market Competitive Brand for the year 2006 by the Ministry of Commerce in January 2007.

Production

Since the commencement of its business, the Group has developed into a highly vertically integrated enterprise from the production of corn starch to the production of corn-based biochemical products, such as glutamic acid, MSG, xanthan gum and starch sweeteners.

The Group is also aware of its environmental protection responsibility. The Group has installed a waste water treatment system in each of its existing fully-operational plants. Such treatment system not only minimises the negative environmental impact from the discharge of waste water during the production process, but also enables the Group to utilise certain waste to produce fertilisers at low capital investment and operating cost.

The Group has increased its production capacity by building new production plants and production facilities in order to satisfy the increasing market demand for its products.

Research and development

Research and development is an important component for the future growth of the Group. Currently, there are 36 personnel in the research and development department with qualifications in various relevant disciplines including fermentation engineering, biological technology, applied biology and food engineering. The Group continues its cooperation with various research institutions on new products development, with the aim to explore means of refining the Group's production technologies and developing new products by leveraging on both parties' research and development capacity.

In 2006, the Group was one of the participants in drafting the fermentative organic fertilizers industry standard to be promulgated by the National Development and Reform Commission.

Financing

Following the development of Inner Mongolia Plant Phase I, the bank borrowings of the Group increased significantly to RMB749.6 million (2005: RMB250.4 million) as at 31 December 2006. The increase in bank borrowings led to the increase in interest expenses of the Group in the year 2006. Among the total bank borrowings, current borrowings amounted to approximately 55% as at 31 December 2006 (2005: 17%). Approximately RMB312.0 million of loan borrowed from ABN AMRO Bank ("ABN AMRO Loan") was repaid upon listing of the Company in February 2007.

Financial Review

Results for the year

The profit attributable to the shareholders of the Company for the year 2006 was RMB240.5 million, at a similar level of that for the year 2005.

Turnover

The turnover of the Group was about RMB1,787.2 million for the year 2006 which represents the growth of 38% or RMB490.8 million as compared with that in 2005. The growth was mainly in two folds: 1) due to the expansion of the market; and 2) due to the full year contribution of Baoji Plant Phase II (which commenced production in November 2005) in the year 2006.

Glutamic Acid

The turnover of glutamic acid for the year 2006 was RMB1,050.1 million, which represents a growth of 39% or RMB295.7 million as compared with that in 2005. The growth is mainly due to the increase in production capacity with the production commencement of the Baoji Plant Phase II in November 2005 and Inner Mongolia Plant Phase I in December 2006.

Glutamic acid remained to be the major product of the Group which accounted for 59% of the turnover in the year 2006.

MSG

The turnover of MSG for the year 2006 was RMB199.4 million which represents a growth of 13% or RMB22.5 million from that of the year 2005. It is mainly because of the over 100% utilisation of MSG facilities.

Xanthan gum

The turnover of xanthan gum for the year 2006 was RMB139.6 million which represents a growth of 110% or RMB73.1 million from that of the year 2005. The substantial growth is mainly due to the increase in production capacity of 4,000 metric tonnes following the expansion of xanthan gum production facilities in September 2006 which doubled the overall production capacity of xanthan gum.

Fertilisers

The turnover of fertilisers for the year 2006 was RMB134.8 million which represents a growth of 18% or RMB20.8 million from that of the year 2005. The growth was mainly contributed by the full year operation of Baoji Plant Phase II in the year 2006 which increased the sales volume of fertilisers. Such effect was partially offset by the decrease in selling prices of fertilisers.

Starch sweeteners

The Group commenced the production of starch sweeteners in July 2006. The turnover of starch sweeteners amounted to RMB35.9 million which accounted for about 2% of the turnover for the year 2006.

Corn refined products

Following the full year operation of Baoji Plant Phase II, the turnover of corn refined products increased by 23% or RMB42.8 million as compared with that in 2005. Such increase was a result of the increase in production of glutamic acid during the period.

Cost of sales

The cost of sales of the Group was RMB1,432.1 million for the year 2006, representing an increase of 46% or RMB453.3 million as compared with that of 2005. The increase in cost of sales is higher than that of turnover because of the increase in cost of corn kernels which was partially offset by the decrease in cost of coal.

Corn Kernels

Corn kernels are the principal raw materials in the production of principal products of the Group. For the year 2006, corn kernels represented approximately 53% (2005: 49%) of the total production cost. The Group purchased corn kernels domestically. The three production plants of the Group were strategically located in corn-rich provinces in order to ensure stable supply of corn kernels.

The average cost of corn kernels of the Group for the year 2006 was RMB1,190 per metric tonnes, representing an increase of 12% or RMB125 per metric tonnes from that of the year 2005 of RMB1,065 per metric tonnes. The large number of new corn-processing plants set up in the PRC and the anticipation of high usage of corn kernels by the production of ethanol had driven up the demand for corn kernels in the PRC. Being one of the major basic foods and in view of the recent government's policy to control the corn-processing industry, the Directors expected that the price of corn kernels will stabilize in the year 2007.

Coal

Coal, being another major raw material, represented approximately 13% of the total production cost of the Group for the year 2006 (2005: 14%). The average cost of coal of the Group for the year 2006 was RMB315 per metric tonnes, representing a decrease of 9% or RMB30 per metric tonnes from that of the year 2005. As the Group generates electricity in-house, the Baoji Plant and Inner Mongolia Plant are also strategically located in coal rich provinces in order to reduce the cost of production. With the commencement of Inner Mongolia Plant Phase I in December 2006, the Directors expected that the cost of coal used in production will further be lowered.

Gross profit

Set out below are the gross profits of the Group's major products for the year 2005 and 2006:

	2006 (RMB'000)	**%**	2005 (RMB'000)	%
Glutamic acid	**222,925**	**21**	209,222	28
MSG	**31,883**	**16**	39,554	22
Xanthan gum	**50,864**	**36**	18,620	28
Fertilisers	**23,602**	**18**	33,530	29

The gross profit of the Group for the year 2006 was RMB355.1 million which represents a growth of 12% or RMB37.5 million from that of the year 2005. The gross profit margin decreased from 25% in the year 2005 to 20% in the year 2006 which was mainly due to the decrease in average unit selling price and the increase in price of major raw materials, partially offset by the decrease in average purchase cost of coal.

Other income

Other income of the Group increased by 69% or RMB7.8 million from RMB11.4 million in the year 2005 to RMB19.2 million in the year 2006. The increase was mainly due to the increase in sales of waste products.

Staff cost

Staff cost of the Group increased by 12% or RMB7.8 million from RMB63.9 million in the year 2005 to RMB71.7 million in the year 2006. The increase was mainly due to the full year operation of Baoji Plant Phase II which increased the number of staff in year 2006.

Depreciation

Depreciation of the Group increased by 84% or RMB25.2 million from RMB29.8 million in the year 2005 to RMB55.0 million in the year 2006. The increase was mainly due to the full year operation of Baoji Plant Phase II in the year 2006.

Finance cost

Finance cost of the Group increased by 59% or RMB5.5 million from RMB9.3 million in the year 2005 to RMB14.8 million in the year 2006. The increase was mainly due to the increase in bank borrowings to finance the construction of Inner Mongolia Plant Phase I.

Final Dividend

The Directors recommended the payment of a final dividend of RMB5.79 cents per ordinary share for the year ended 31 December 2006 subject to the approval by the shareholders of the Company at the forthcoming annual general meeting. The pay-out ratio is about 40% based on profit attributable to shareholders in the year 2006. The financial statements have not reflected this dividend payable.

Liquidity and financial resources

During the year, the Group's source of fund was cash generated from operating activities and bank borrowings. As at 31 December 2006, the Group's cash and cash equivalent and restricted bank deposits were RMB64.6 million (2005: RMB76.9 million) whereas current bank borrowings were about RMB414.6 million (2005: RMB43.5 million) and non-current bank borrowings were about RMB335.0 million (2005: RMB206.9 million).

As at 31 December 2006, the Group recorded net current liabilities of RMB464.2 million. However, upon the listing of the shares of the Company and the repayment of approximately RMB312.0 million ABN AMRO Loan in February 2007, the Company turned to net current asset position.

Recent Development and Future plan

The Group's objective is to maximise returns to its shareholders through exploiting its competitive advantage to grow further with a view to becoming the leading corn-based biochemical product manufacturer in the PRC. To achieve this, the Group will continue to expand production capacity, pursue product diversification, expand marketing and distribution network and strengthen technological advancement. The PRC MSG market has been under consolidation, and such process has speeded up in 2007. In order to capture this opportunity to further strengthen the Group's position the market, the Group would focus on increasing the production capacity of MSG this year. In addition, the Group will continuing expanding the capacity of xanthan gum.

Junan Plant

A new 50,000 metric tonnes MSG production facilities in Junan Plant Phase II commenced the adjustments and testing in November 2006 which increased the Group's overall production capacity of MSG to 75,000 metric tonnes.

Baoji Plant

The Group is planning for the construction of production facilities for 70,000 metric tonnes of MSG in the Baoji Plant.

Inner Mongolia Plant

Inner Mongolia Plant Phase I commenced the production in December 2006.

Inner Mongolia Plant Phase II started its preliminary development preparation in the first quarter of the year 2007 for 10,000 metric tonnes of xanthan gum and 80,000 metric tonnes of MSG production capacity.

Employees

As at 31 December 2006, the Group had about 1,140 employees. Employee's remuneration are paid in accordance with relevant policies in the PRC. Appropriate salaries and bonuses are paid which are commensurate with the actual practices of the Group. Other corresponding benefits include pension, unemployment insurance, housing allowance, etc..

Purchase, redemption or sales of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006 as the Company had not been listed on the Main Board of the Stock Exchange.

Corporate governance report

The listing of the shares of the Company on the Main Board of the Stock Exchange took place on 8 February 2007 and the Directors are of the opinion that the Company has complied with the code provision as set out in the Code on Corporate Governance Practice under Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules") since the listing of shares of the Company.

Use of Proceeds

After the listing of the shares of the Company, the Group was approached by Baoji local authorities and commenced the negotiation of an additional piece of land for the development of MSG facilities in Baoji Plant. With this new development, the Directors decided to amend the use of proceeds by reallocating 70,000 metric tonnes production capacity of MSG, with investment cost of about HK$120 million, originally planned for Inner Mongolia Plant Phase II to Baoji Plant. The Directors consider that the reallocation of production capacity could expand the geographical coverage of the Group in MSG to southwestern and northwestern markets in the PRC, where the Group has yet to have significant presence. The Directors consider that it should be more cost effective in terms of efficiency and cost of transportation to produce MSG closer to the market in southwestern and northwestern China and therefore is beneficial to the Group. The planned production capacity of MSG in Inner Mongolia Plant Phase II was adjusted to 80,000 metric tonnes accordingly. The related land in Inner Mongolia Plant Phase II will be used for future development of other bio-chemical products.

Audit Committee

The Company has established an audit committee in compliance with the Listing Rules. The audit committee comprises three independent non-executive directors, and is responsible for reviewing the Group's audit, interim and annual accounts of the Group and the system of internal control. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group.

Closure of register of members

The register of members of the Company will be closed from Friday, 1 June 2007 to Wednesday, 6 June 2007 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 31 May 2007.

Annual general meeting

The annual general meeting is expected to be held on Wednesday, 6 June 2007. A notice convening the annual general meeting will be published in the Standard (English) and the Hong Kong Economic Times (Chinese) and will be despatched to the shareholders of the Company in due course.

As at the date of this announcement, the executive Directors are Li Xuechun, Wang Longxiang, Wu Xindong, Yan Ruliang, Feng Zhenquan, Xu Guohua, Li Deheng, Li Hongyu and Gong Qingli and the independent non-executive Directors are Choi Tze Kit, Sammy, Chen Ning and Liang Wenjun.

By Order of the Board
Fufeng Group Limited
Li Xuechun
Chairman

Shandong, the PRC, 17 April 2007