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. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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. Baoji Fufeng Biotechnologies Co., Ltd. ("Baoji Fufeng") is a limited liability company established in the PRC on 24 September 2004. 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 consolidated financial statements before the acquisition date consist of the consolidated financial statements of 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 consolidated financial statements of the Company and its subsidiaries (together, the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The Group's consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments.

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.

At the date of this report, 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.

The principal accounting policies adopted are set out below:

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheets, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company and other companies comprising the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(d) Leasehold land payments

Leasehold land payments are up-front prepayments made for the usage of the leasehold land in the PRC and are expensed in the income statement on a straight-line basis over the periods of the lease or when there is impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment except for construction in progress is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant	15~20 years
Machinery	8~10 years
Furniture and fixtures	5~8 years
Vehicles	5~8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Construction in progress includes plant under construction and machinery under installation and testing and which, upon completion, management intends to hold as property, plant and equipment. They are carried at cost which includes cost of construction, plant and equipment and other direct cost plus borrowing costs that used to finance these projects during the construction period less accumulated impairment losses if any. No depreciation is provided for construction in progress. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(l) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) Pension obligations

In accordance with the rules and regulations in the PRC, the employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by Shandong Provincial, Shaanxi Provincial and Inner Mongolia Autonomous Regional governments. The Shandong Provincial, Shaanxi Provincial and Inner Mongolia Autonomous Regional governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under the plan described above. Contributions to these plans are expensed as incurred and other than these monthly contributions, the Group has no further obligation for the payment of retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government.

The Group's contributions to the defined contribution retirement benefit plan are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(q) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of property, plant and equipment are included in liabilities as deferred government grants and are credited to the income statement over the periods and in the proportions in which depreciation on these assets is charged.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(s) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved and declared by the Company's shareholders or directors, where appropriate.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(i) Credit risk

The Group has no significant concentration of credit risk. The carrying amount of cash and bank balances and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

(ii) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash balances and available credit facilities to meet obligation when they arise. The Group's liquidity risk management is designed to meet this objective.

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets or liabilities other than bank borrowings. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2006, the Group has borrowings at fixed rates and coniable rates.

The Group manages its cash flow interest-rate risk by using cross-currency interest rate swaps. Such cross-currency interest-rate swaps have the economic effect of converting interest of borrowings from floating rates with denomination in United States dollars("US$") to fixed rates with denomination in RMB. Under such swaps, the Group agrees with other parties to exchange, at specified intervals (primarily monthly), the difference between fixed contract rates and floating-rate interest amounts denominated in US$ which is calculated by reference to the agreed notional amounts.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Foreign exchange risk

The Group operates mainly in the PRC and most of the Group's transactions, assets and liabilities are denominated in RMB. Foreign currencies are however received from sales of products and proceeds of borrowings in US$. Foreign currencies are also required to pay dividends in Hong Kong Dollars ("HK$") and to settle the Group's borrowings in US$. RMB is not freely convertible into other foreign currencies. Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's cash and cash equivalents and borrowings as at 31 December 2006 and 2005 denominated in foreign currencies, mainly US$ and HK$ are disclosed in notes 20 and 23.

The Group does not consider that there is a high exchange risk between RMB and US$ or between RMB and HK$.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and bank balances and trade and other receivables; and financial liabilities including current borrowings and trade and other payables approximate their fair values because of the short maturity of these instruments.

The fair value of the non-current borrowings is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the balance sheet date and the historical experience of manufacturing and selling products of similar nature.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. For the deferred government grants relating to the acquisition of property, plant and equipment, the periodic credits to income statement will also be increased under above mentioned circumstances as such grants are credited to the income statement over the periods and in the proportions in which depreciation on these assets is charged.

(b) Critical judgements in applying the Group's accounting policies

(i) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(ii) Borrowing costs eligible for capitalisation

The borrowing costs that are directly attributable to the acquistion, construction or production of a qualifying assets are those borrowing costs that would have been avoided if the expenditrue on the qualifying asset had not been made. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.

Borrowing costs capitalised into property, plant and equipment are shown in note 15.

5. SEGMENT INFORMATION

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	2005
	RMB'000	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.

6. OTHER INCOME

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest income	**1,043**	207
Amortisation of deferred income	**7,363**	7,345
Sales of waste products	**8,438**	2,008
Others	**2,379**	1,842
	19,223	11,402

7. OPERATING PROFIT

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

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	**(29,513)**	(105)
Raw materials and consumables used	**1,336,507**	883,585
Employee benefit expenses *(Note 8)*	**71,693**	63,912
Depreciation	**55,004**	29,845
Amortisation of leasehold land payments	**1,615**	1,474
Transportation expenses	**50,576**	38,118
Utilities purchased	**12,155**	12,835
Travelling and office expenses	**7,979**	6,833
Realised loss of derivative financial instruments	**2,451**	—
Write-down of inventories	**4,005**	—
Auditors' remuneration	**1,848**	157
Others	**27,496**	25,539
Total cost of sales, selling and marketing expenses, administrative expenses and other operating expenses	**1,541,816**	1,062,193

8. EMPLOYEE BENEFIT EXPENSES INCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Wages, salaries and allowance	**66,672**	60,734
Pension costs-defined contribution plans	**5,021**	3,178
	71,693	63,912

The employees of the Group's subsidiaries established in the PRC participated in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group was required to make monthly contributions to these plans at the rates of 19%, 20% and 19% of the employees' basic salary for Shandong Province, Shaanxi Province and Inner Mongolia Autonomous Region, respectively, for the years ended 31 December 2006 and 2005.

9. FINANCE COSTS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest expense		
Bank borrowings wholly repayable within 5 years	**39,317**	8,403
Other borrowings wholly repayable within 5 years	**—**	1,939
	39,317	10,342
Less: amount capitalised in property, plant and equipment	**(18,952)**	(1,005)
	20,365	9,337
Finance income – Net foreign exchange gains on financing activities	**(5,519)**	—
Net finance costs	**14,846**	9,337

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax ("EIT")		
– Current	**9,332**	—
– Deferred *(Note 17)*	**(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.

10. INCOME TAX EXPENSE *(continued)*

Effective from 19 April 2004, Shandong Fufeng was approved to be a foreign-invested limited liability company. In accordance with the relevant tax laws and regulations in the PRC and a local tax authority approval dated 21 April 2004, effective from 19 April 2004, Shandong Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax reduction from PRC state EIT of 30% and a full exemption from local EIT of 3% during its approved operating period of twelve years, commencing from the first year with cumulative taxable profit. Accordingly, the effective tax rates for Shandong Fufeng for the years ended 31 December 2006 and 2005 are 15% and zero, respectively.

Baoji Fufeng was set up on 24 September 2004 as a foreign-invested limited liability company in Baoji, Shaanxi Province. As Baoji Fufeng is entitled to the preferential tax treatment for Opening Up of Western China for its production of glutamic acid and corn processing in Shaanxi Province, the applicable reduced preferential state EIT rate under this policy is 15% up to 31 December 2010 and the local EIT rate is zero during its approved operating period of twelve years. In addition, being a foreign-invested limited liability company and in accordance with the relevant tax laws and regulations and a local tax authority approval dated 31 May 2005, Baoji Fufeng is entitled to a two-year full exemption followed by a three-year 50% tax deduction from PRC state EIT, commencing from the first year with cumulative taxable profit since its establishment. Accordingly, the effective tax rate for Baoji Fufeng for the years ended 31 December 2006 and 2005 is zero. Baoji Fufeng entered into its first profit making year during the year ended 31 December 2005.

Inner Mongolia Fufeng was set up as a foreign-invested limited liability company on 31 March 2006 in Huhhot, Inner Mongolia Autonomous Region. As Inner Mongolia Fufeng is entitled to the preferential tax treatment for Opening Up of Western China for its production of glutamic acid and corn processing in Inner Mongolia Autonomous Region, the applicable reduced preferential state EIT rate under this policy is 15% up to 31 December 2010 and the local EIT rate is zero during its approved operating period of twelve years. Accordingly, the effective tax rate for Inner Mongolia Fufeng for the period from its date of establishment to 31 December 2006 is 15%.

10. INCOME TAX EXPENSE *(continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**249,808**	236,280
Tax calculated at PRC statutory rate of 33%	**82,437**	77,972
Effect of tax exemption	**(71,864)**	(75,889)
Expenses not deductible for tax purposes	**267**	454
Income not subject to tax	**(1,515)**	(2,424)
	9,325	113

A new PRC enterprise income tax law has been enacted subsequent to the year end. For details, please refer to note 32.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid and payable to the directors of the Company by the Group in respect of their services rendered for managing the business of the Group for the years ended 31 December 2006 and 2005 are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries and allowances	**372**	144
Pension costs-defined contribution plan	**17**	15
	389	159

There was no bonus paid to the directors of the Company for the years ended 31 December 2006 and 2005.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

No independent non-executive director was appointed during the years ended 31 December 2006 and 2005. Accordingly, there was no emolument paid to non-executive directors. The emoluments by individual director are as follows:

(i) Salaries and allowances

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Li, Xuechun	**25**	21
Feng, Zhenquan	**26**	22
Wu, Xindong	**24**	20
Yan, Ruliang	**24**	20
Xu, Guohua	**23**	20
Li, Deheng	**25**	22
Li, Hongyu	**23**	19
Wang, Longxiang	**202**	N/A*
	372	144

(ii) Pension costs-defined contribution plan

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Li, Xuechun	**3**	3
Feng, Zhenquan	**2**	2
Wu, Xindong	**2**	2
Yan, Ruliang	**2**	2
Xu, Guohua	**2**	2
Li, Deheng	**2**	2
Li, Hongyu	**2**	2
Wang, Longxiang	**2**	N/A*
	17	15

* The individual was not appointed as the director during the year ended 31 December 2005.

No director waived or agreed to waive any remuneration for the years ended 31 December 2006 and 2005.

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five highest paid individuals consisted of:

	Year ended 31 December	
	2006	2005
Number of directors	**1**	—
Number of employees	**4**	5
	5	5

Details of the emoluments to the above non-director individuals are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries and allowances	**1,418**	604
Pension costs-defined contribution plan	**18**	8
	1,436	612

There were no bonus paid to the above non-director individuals for the years ended 31 December 2006 and 2005.

The remuneration paid to each of above non-director individuals for the years ended 31 December 2006 and 2005 fell within the banding of nil to HK$1,000,000.

For the years ended 31 December 2006 and 2005, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

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

(a) No dividends has been paid by the Company since its incorporation. Dividends presented for the years ended 31 December 2006 and 2005 included dividends declared by Acquest Honour to its then shareholders before it became a subsidiary of the Company. The dividends paid by Acquest Honour in the years ended 31 December 2006 and 2005 were RMB 64,386,000 and RMB 38,291,000, respectively.

(b) Pursuant to a resolution by the board of directors on 17 April 2007, the directors have recommended the payment of a final dividend in respect of the year ended 31 December 2006 of RMB5.79 cents per share, amounting to a total dividend of RMB96,114,000. These financial statements have not reflected this dividend payable.

13. 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.

14. LEASEHOLD LAND PAYMENTS – THE GROUP

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Cost		
At beginning of the year	**59,626**	43,349
Additions	**10,800**	16,277
At end of the year	**70,426**	59,626
Amortisation		
At beginning of the year	**(3,893)**	(2,419)
Charge for the year	**(1,615)**	(1,474)
At end of the year	**(5,508)**	(3,893)
Net book value		
At end of the year	**64,918**	55,733

Leasehold land payments represent the prepaid operating lease payments for the medium term leasehold land (10 to 50 years) in the PRC where the manufacturing plants of Shandong Fufeng, Baoji Fufeng and Inner Mongolia Fufeng are located.

As at 31 December 2006 and 2005, the net book value of leasehold land pledged as security for the Group's borrowings amounted to approximately RMB33,051,000 and RMB34,552,000(Note 23), respectively.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

Year ended 31 December 2006

	Plant RMB'000	Machinery RMB'000	Furniture and fixtures RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2006	84,053	458,076	11,057	14,773	25,317	593,276
Additions	13,891	155,367	9,986	2,210	652,670	834,124
Transfers	167,160	332,830	678	542	(501,210)	—
Disposals	(1,015)	(6,524)	—	—	—	(7,539)
At 31 December 2006	264,089	939,749	21,721	17,525	176,777	1,419,861
Accumulated depreciation						
At 1 January 2006	(10,234)	(66,835)	(1,259)	(3,991)	—	(82,319)
Charge for the year	(4,402)	(46,209)	(2,226)	(2,167)	—	(55,004)
Disposals	765	5,037	—	—	—	5,802
At 31 December 2006	(13,871)	(108,007)	(3,485)	(6,158)	—	(131,521)
Net book value						
At 31 December 2006	250,218	831,742	18,236	11,367	176,777	1,288,340

Year ended 31 December 2005

	Plant RMB'000	Machinery RMB'000	Furniture and fixtures RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2005	59,444	255,760	2,274	11,548	12,432	341,458
Additions	842	75,010	8,783	3,225	165,487	253,347
Transfers	23,767	128,835	—	—	(152,602)	—
Disposals	—	(1,529)	—	—	—	(1,529)
At 31 December 2005	84,053	458,076	11,057	14,773	25,317	593,276
Accumulated depreciation						
At 1 January 2005	(7,686)	(43,955)	(397)	(1,812)	—	(53,850)
Charge for the year	(2,548)	(24,256)	(862)	(2,179)	—	(29,845)
Disposals	—	1,376	—	—	—	1,376
At 31 December 2005	(10,234)	(66,835)	(1,259)	(3,991)	—	(82,319)
Net book value						
At 31 December 2005	73,819	391,241	9,798	10,782	25,317	510,957

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2006 and 2005, the net book value of plant and machinery pledged as security for the Group's borrowings amounted to approximately RMB285,125,000 and RMB229,594,000, respectively (Note 23).

Depreciation expense included in the consolidated income statement is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Cost of sales	**51,484**	27,553
Administrative expenses	**3,520**	2,292
	55,004	29,845

During the years ended 31 December 2006 and 2005, there were amounts of RMB18,952,000 and RMB1,005,000 borrowing costs capitalised into property, plant and equipment respectively. Capitalisation rates of 9.36% and 6.10% were used, representing the borrowing costs of the loans used to finance the construction.

The Company

	Year ended 31 December 2006 Furniture and fixtures RMB'000	Period from 15 June 2005 (date of incorporation) to 31 December 2005 Furniture and fixtures RMB'000
Cost		
At beginning of the year/period	**14**	—
Additions	**—**	14
At end of the year/period	**14**	14
Accumulated depreciation		
At beginning of the year/period	**(1)**	—
Charge for the year/period	**(3)**	(1)
At end of the year/period	**(4)**	(1)
Net book value		
At end of the year/period	**10**	13

16. INVESTMENT IN SUBSIDIARIES – THE COMPANY

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Investment in a subsidiary (a)	**401,698**	—
Loan to a subsidiary (b)	**290,174**	—
Due to subsidiaries (c)	**1,715**	918

(a) Investment in a subsidiary

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Investment, at cost:		
Unlisted shares	**401,698**	—

The particulars of the Company's directly and indirectly owned subsidiaries are disclosed in note 30.

(b) Loan to a subsidiary

The loan to a subsidiary, Acquest Honour, is unsecured at the interest rate of LIBOR plus 3.5% margin per annum. The loan is repayable on demand and its carrying amount approximates its fair value.

(c) Due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand, and their carrying amounts approximate their fair values.

17. DEFERRED INCOME TAX – THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred income tax assets to be recovered within 12 months	**601**	—
Deferred tax liabilities:		
– Deferred income tax liability to be settled after more than 12 months	**(699)**	(113)
– Deferred income tax liability to be settled within 12 months	**(8)**	—
	(707)	(113)
Deferred income tax liabilities (net)	**(106)**	(113)

Deferred income tax is calculated on temporary differences under the liability method.

Movement of the deferred tax assets is as follows:

	Write-down of inventories RMB'000
1 January 2005 and 2006	—
Transfer to income statement *(Note 10)*	601
31 December 2006	**601**

Movement of the deferred tax liabilities is as follows:

	Interest capitalisation RMB'000
1 January 2005	—
Transfer to income statement *(Note 10)*	113
31 December 2005	113
Transfer to income statement *(Note 10)*	594
31 December 2006	**707**

A new PRC enterprise income tax law has been enacted subsequent to the year end. For details, please refer to note 32.

18. INVENTORIES – THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Raw materials	**88,047**	56,805
Work-in-progress	**18,812**	8,588
Finished goods	**41,218**	25,934
	148,077	91,327

As at 31 December 2006, finished goods included a write-down of RMB4,005,000 made during the year ended 31 December 2006 (2005: nil).

19. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December	
	2006	2005
	RMB'000	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

19. TRADE AND OTHER RECEIVABLES *(continued)*

The Group *(continued)*

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

	As at 31 December	
	2006	2005
	RMB'000	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, notes receivable were all bank acceptance notes aged less than six months, including amount of RMB216,815,000 (2005: RMB181,147,000) applied for negotiation with the Group's suppliers for settling the amounts payable to them. As at 31 December 2006, the amounts pledged as security for the Group's borrowings were nil (2005: RMB15,510,000) (Note 23).

(c) Trade and other receivables are unsecured and interest-free. The carrying amounts of trade and other receivables approximate their fair values.

The Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deposits and other receivables	**57**	18

20. CASH AND BANK BALANCES

The Group

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash and cash equivalents	**41,094**	73,947
Restricted bank deposits (a)	**23,500**	3,000
	64,594	76,947
Cash and bank balances denominated in		
– RMB	**49,408**	15,240
– US$	**13,238**	—
– HK$	**1,948**	61,707
	64,594	76,947

(a) The restricted bank deposits as at 31 December 2006 mainly included deposit of RMB21,000,000 (2005: RMB3,000,000) pledged as security for issuing bank acceptance notes to suppliers (Note 21(b)).

(b) The Group's cash and bank balances denominated in RMB were deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(c) The weighted average effective interest rate on cash placed with banks and deposits were 1.35% and 2.16% per annum for the years ended 31 December 2006 and 2005 respectively.

The Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Cash and cash equivalents	**13,241**	15

(a) The Company's cash and bank balances were mainly denominated in US$.

(b) The weighted average effective interest rate on cash placed with banks and deposits were 1.28% and 2.50% per annum for the years ended 31 December 2006 and 2005 respectively.

21. TRADE, OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December	
	2006	2005
	RMB'000	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	2005
	RMB'000	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

(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.

(d) As at 31 December 2006, notes receivable of RMB216,815,000 (2005: RMB181,147,000) were applied for negotiation with the Group's suppliers for settling the amounts payable to them.

(e) Trade and other payables are unsecured and interest-free. The carrying amounts of trade and other payables approximate their fair values.

21. TRADE, OTHER PAYABLES AND ACCRUALS *(continued)*

The Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Other payables and accruals	**1,938**	—

22. DEFERRED INCOME – THE GROUP

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deferred income	**32,797**	29,138
Less: Current portion included in current liabilities	**(5,198)**	(4,373)
	27,599	24,765

Deferred income includes government grants related to purchase of qualified domestic manufactured equipment and acquisition of certain property, plant and equipment, environment protection and technology improvement.

(a) Government grants related to purchase of qualified domestic manufactured equipment

It represents reduction in income tax granted to Shandong Fufeng in the year ended 31 December 2003 on purchase of certain qualified domestic manufactured equipment. It is recognised in the income statement over the years and in the proportions in which depreciation on these assets is charged. The maturity profile of the government grant credit is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
1 to 5 years	**4,365**	5,238
Less: Current portion included in current liabilities	**(873)**	(873)
	3,492	4,365

22. DEFERRED INCOME – THE GROUP *(continued)*

(a) Government grants related to purchase of qualified domestic manufactured equipment *(continued)*

The movement of the above government grant for the year ended 31 December 2006 is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of the year	**5,238**	6,111
Amortised as income *(Note 6)*	**(873)**	(873)
At end of the year	**4,365**	5,238

(b) Government grants related to acquisition of certain property, plant and equipment, environment protection and technology improvement

They represent grants from the government relating to the acquisition of certain property, plant and equipment, environment protection and technology improvement. They are recorded as deferred income and recognised in the income statement over the periods and in the proportions in which depreciation on these assets is charged or over the periods necessary to match them with the costs that they are intended to compensate. The maturity profile of these deferred government grants is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
1 to 10 years	**28,432**	23,900
Less: Current portion included in current liabilities	**(4,325)**	(3,500)
	24,107	20,400

22. DEFERRED INCOME – THE GROUP *(continued)*

(b) Government grants related to acquisition of certain property, plant and equipment, environment protection and technology improvement *(continued)*

The movement of the above government grant for the year ended 31 December 2006 is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
At beginning of the year	**23,900**	27,400
Granted during the year	**11,022**	2,972
Amortised as income *(Note 6)*	**(6,490)**	(6,472)
At end of the year	**28,432**	23,900

23. BORROWINGS

The Group

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings, secured	**530,630**	136,900
Long-term bank borrowings, unsecured	**120,000**	70,000
	650,630	206,900
Less: Current portion of long-term secured bank borrowings	**(305,630)**	—
Current portion of long-term unsecured bank borrowings	**(10,000)**	—
	335,000	206,900
Current		
Short-term bank borrowings, secured	**81,000**	33,510
Short-term bank borrowings, unsecured	**18,000**	10,000
Current portion of long-term secured bank borrowings	**305,630**	—
Current portion of long-term unsecured bank borrowings	**10,000**	—
	414,630	43,510

23. BORROWINGS *(continued)*

As at 31 December 2006, borrowings of RMB444,000,000 were denominated in RMB and included bank borrowings of RMB296,000,000 secured by leasehold land (Note 14), plant and machinery (Note 15). Borrowings of RMB305,630,000 for the Group and the Company were denominated in US$ and secured by following: (i) entire share capital of certain subsidiaries of the Group, including Acquest Honour, Summit Challenge Limited ("Summit Challenge"), Absolute Divine Limited ("Absolute Divine") and Expand Base Limited ("Expand Base"); (ii) a fixed and floating charge in relation to the land, book debts, stocks and shares, plant and machinery, licences, intellectual property and all undertakings belonged to the Company, Acquest Honour, Summit Challenge, Absolute Divine and Expand Base; (iii) a charge over the Company's bank account maintained with the lender; and (iv) corporate guarantees provided by Acquest Honour, Summit Challenge, Absolute Divine and Expand Base. The borrowings had a repayment term of 15 months from the date of the credit facility agreement dated 24 July 2006 but must be repaid in full on the date on which the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Note 32).

As at 31 December 2005, all the borrowings were denominated in RMB and included bank borrowings of RMB170,410,000, secured by leasehold land (Note 14), plant and machinery (Note 15) and notes receivable (Note 19(b)).

The maturity of non-current borrowings is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Between 1 and 2 years	**335,000**	206,900

The weighted average effective interest rates at the balance sheet dates were as follows:

	As at 31 December	
	2006	2005
Bank borrowings	**8.60%**	6.39%

23. BORROWINGS *(continued)*

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts As at 31 December	
	2006	2005
	RMB'000	RMB'000
Bank borrowings	**335,000**	206,900

	Fair values As at 31 December	
	2006	2005
	RMB'000	RMB'000
Bank borrowings	**336,044**	209,240

The fair values are based on cash flows discounted using a rate based on the market rate published by People's Bank of China (as at 31 December 2006: 6.30%; as at 31 December 2005: 5.76%).

The carrying amounts of current borrowings approximate their fair values.

The Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Current		
Current portion of long-term secured bank borrowings	**305,630**	—

As at 31 December 2006, borrowings of RMB305,630,000 were denominated in US$ and their terms and securities are described above.

As at 31 December 2006, the weighted average effective interest rate at the balance sheet date was 11.60%.

24. SHARE CAPITAL – THE GROUP AND THE COMPANY

The Company was incorporated in the Cayman Islands on 15 June 2005 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.10 each. On 15 July 2006, the authorised share capital was increased to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each. On 16 June 2005 and 10 July 2006, 1 share and 99,999 shares of HK$0.10 each were allotted and issued at nil-paid. On 15 July 2006, in consideration for the shareholders of Acquest Honour transferring the entire issued share capital in Acquest Honour to the Company, an aggregate of 1,199,900,000 shares of HK$0.10 each were allotted and issued to these shareholders, and the aggregate of 100,000 nil-paid shares previously issued were credited as fully-paid.

	Number '000	**Amount RMB'000**
At 31 December 2005	—	—
Issuance of shares for the Reorganisation	1,200,000	123,372
At 31 December 2006	**1,200,000**	**123,372**

25. RESERVES – THE GROUP AND THE COMPANY

The Group

	Share premium RMB'000 (a)	Capital reserve RMB'000 (b)	Statutory reserves RMB'000 (c)	Retained earnings RMB'000	Total RMB'000
1 January 2005	—	30,089	23,166	68,316	121,571
Profit for the year	—	—	—	236,167	236,167
Profit appropriation	—	—	22,636	(22,636)	—
Dividends to the then shareholders	—	—	—	(12,581)	(12,581)
Capitalisation of amount waived by shareholders	—	849	—	—	849
31 December 2005	—	30,938	45,802	269,266	346,006
Profit for the year	—	—	—	240,483	240,483
Profit appropriation	—	—	23,480	(23,480)	—
Dividends to the then shareholders	—	—	—	(60,096)	(60,096)
Share premium arising from the Reorganisation	278,326	—	—	—	278,326
Reserve arising from the Reorganisation	—	(401,698)	—	—	(401,698)
31 December 2006	**278,326**	**(370,760)**	**69,282**	**426,173**	**403,021**

(a) Share premium

Pursuant to the Companies Law of the Cayman Island and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provisions in the Articles of Association of the Company.

(b) Capital reserve

It mainly represents reserve arising from the Reorganisation and acquisition of Shandong Fufeng by Acquest Honour.

25. RESERVES – THE GROUP AND THE COMPANY *(continued)*

(c) Statutory reserves

In accordance with the PRC regulations and the Articles of the Association of the companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve fund must be maintained at a minimum of 25% of the entity's share capital after such issuance.

Prior to the conversion of Shandong Fufeng into a foreign-invested limited liability company on 19 April 2004, it was required to set aside 5% to 10% of its statutory net profit for the year to the statutory public welfare fund. The statutory public welfare fund is to be utilised to build or acquire capital items, for the entity's employees and cannot be used to pay off staff welfare expenses. Titles to these capital items remain with the entity. Pursuant to certain PRC regulations published in 2006, the balance of statutory public welfare fund brought forward from previous years shall be transferred to the statutory surplus reserve fund.

The Company

	Share premium RMB'000 (see (a) above)	Accumulated losses RMB'000	Total RMB'000
15 June 2005 (date of incorporation)	—	—	—
Loss for the year	—	(872)	(872)
31 December 2005	—	(872)	(872)
Issuance of shares for the Reorganisation	278,326	—	278,326
Loss for the period	—	(4,929)	(4,929)
31 December 2006	**278, 326**	**(5,801)**	**272,525**

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – THE GROUP

(a) Cash generated from operations

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**249,808**	236,280
Adjustments for:		
– Write-down of inventories	**4,005**	—
– Depreciation *(Note 15)*	**55,004**	29,845
– Amortisation of leasehold land payments *(Note 14)*	**1,615**	1,474
– Amortisation of deferred income *(Note 22)*	**(7,363)**	(7,345)
– Loss on sale of property, plant and equipment (b)	**440**	—
– Interest income *(Note 6)*	**(1,043)**	(207)
– Interest expense *(Note 9)*	**20,365**	9,337
– Net foreign exchange gains on financing activities *(Note 9)*	**(5,519)**	—
Changes in working capital:		
– Inventories	**(60,755)**	(37,729)
– Trade and other receivables	**(122,739)**	(144,667)
– Amounts due from related parties	**—**	1,117
– Restricted bank deposits	**(20,500)**	—
– Trade and other payables	**113,310**	136,772
Cash generated from operations	**226,628**	224,877

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS – THE GROUP *(continued)*

(b) Proceeds from sale of property, plant and equipment

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Net book amount *(Notes 15)*	**1,737**	153
Loss on sale of property, plant and equipment	**(440)**	—
Proceeds received for prior year sales	**1,000**	7,329
Proceeds from sale of property, plant and equipment	**2,297**	7,482

27. RELATED PARTY TRANSACTIONS AND BALANCES

THE GROUP

(a) The directors are of the view that the following parties are considered to be related of the Group for the years ended 31 December 2006 and 2005:

Name	Relationship with the Group
Motivator Enterprises Limited	Ultimate holding company
Ever Soar Enterprises Limited	shareholder
Excel Energy Limited	shareholder
Hero Elite Limited	shareholder
Advanced Quality Limited	shareholder
Shanghai Union Strength Business Consulting Co., Ltd. ("Union Strength")	An entity 80% owned by a director (effective from the day when the Company appointed Gong Qingli as an executive director)

27. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

THE GROUP

(b) The directors are of the view that the following related party transactions were carried out in the ordinary course of business:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Service fees paid to a related party during the year		
Union Strength	**127**	1,068

The fees paid to Union Strength were principally for its corporate advisory services and were determined by the estimated time spent by its professionals for the services and their respective hourly rates.

(c) The directors are of the view that the following related party balances as at 31 December 2006 and 2005 were attributed to dividends payable.

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Amounts due to related parties		
Current		
Motivator Enterprises Limited	—	2,810
Ever Soar Enterprises Limited	—	736
Excel Energy Limited	—	230
Hero Elite Limited	—	257
Advanced Quality Limited	—	257
	—	4,290

These related party balances are all unsecured, interest-free with no fixed term of repayment and their carrying amounts approximate their fair values.

27. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

THE GROUP

(d) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries and allowances	**1,292**	690
Pension costs-defined contribution plan	**37**	14
	1,329	704

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

THE COMPANY

Please refer to note 16 for details for loan to a subsidiary and amounts due to subsidiaries.

28. COMMITMENTS

THE GROUP

Capital commitments

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Purchase of property, plant and equipment		
– Contracted but not yet incurred	**79,197**	5,198

THE COMPANY

As at 31 December 2006 and 2005, the Company had no material commitments.

29. CONTINGENT LIABILITIES

As at 31 December 2006 and 2005, the Group and the Company had no material contingent liabilities.

30. PARTICULARS OF SUBSIDIARIES

As at 31 December 2006, the Company has direct and indirect interests in the following wholly-owned subsidiaries:

Name	Place of incorporation/ establishment	Registered/ Issued and fully paid capital	Principal activities
Directly held:			
Acquest Honour	The British Virgin Islands ("BVI")	US$2	Investment holding
Indirectly held:			
Summit Challenge	BVI	US$1	Investment holding
Absolute Divine	BVI	US$1	Investment holding
Expand Base	BVI	US$1	Investment holding
Shandong Fufeng	PRC	RMB 90,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, xanthan gum, fertilisers, starch sweetener and other related products in the PRC.
Baoji Fufeng	PRC	HK$ 20,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers and other related products in the PRC.
Inner Mongolia Fufeng	PRC	HK$ 100,000,000	Manufacture and sales of glutamic acid, monosodium glutamate, corn refined products, fertilisers, starch sweetener and other related products in the PRC.

31. ULTIMATE HOLDING COMPANY

As at 31 December 2006, the directors of the Company regarded Motivator Enterprises Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

32. 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 report, 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. 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, 400,000,000 shares of HK$0.10 each of the Company were listed on the Stock Exchange which were issued through a public offer in Hong Kong and an international placing with institutional and professional investors at a consideration of HK$2.23 per share, totalling HK$892,000,000 (approximately RMB884,953,000). Upon the Listing, US$40,000,000 (approximately RMB312,000,000) of current borrowings were repaid by using the proceeds from the Listing.

On 12 February 2007, additional 60,000,000 shares of HK$0.10 each of the Company were listed on the Stock Exchange which were issued 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.

33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 April 2007.