



FU JI Food and Catering Services Holdings Limited

福記食品服務控股有限公司

(incorporated in the Cayman Islands with limited liability)



Interim Report

2004/2005

The directors (the "Directors") of FU JI Food and Catering Services Holdings Limited (the "Company") herein present the interim report (the "Interim Report"), which includes the unaudited condensed combined income statements, statements of changes in equity and cash flow statements of the Company and its subsidiaries (together the "Group"), for the six months period ended 30 September 2004 (the "Relevant Period"), together with the corresponding period last year (the "Comparative Relevant Period") and the unaudited condensed combined balance sheets as at 30 September and 31 March 2004 (together the "Balance Sheet Dates"). The Interim Report is prepared based on the assumption that the current structure of the Group had been in existence throughout the Relevant Period under review and the Comparative Relevant Period, and as at the Balance Sheet Dates.

FINANCIAL HIGHLIGHTS

Combined Results

	Six months ended 30 September		
	2004 Unaudited RMB'000	2003 Unaudited RMB'000	Changes %
Turnover	194,635	95,775	103
Profit from operations	85,593	39,532	117
Profit attributable to shareholders	69,960	31,960	119
Earnings per share (RMB cents)			
— Basic	17.5	8.0	119
— Diluted	16.3	N/A	N/A

The board of Directors did not declare any interim dividend for the six months ended 30 September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Reorganisation

Pursuant to the Group reorganisation (the "Reorganisation") in preparation for the public listing of the Company's shares, the Company acquired the entire issued share capital of Sky Achieve Limited ("Sky Achieve"), the intermediate holding company of the Group, on 26 November 2004 and became the holding company of the Group. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKSE") on 17 December 2004. Further details of the Reorganisation are set out in the Company's prospectus dated 7 December 2004 (the "Prospectus").

Corporate Profile

FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (together the "Group") is a leading food and catering services provider in the People's Republic of China (the "PRC"). It operates three principal complimentary lines of business, namely catering services, Chinese restaurants and convenience food, in Shanghai and Suzhou, by adopting a centralised and standardised mode for the procurement and processing of food ingredients, as well as logistics arrangement. During the Relevant Period, the Group operates three Chinese restaurants, two in Shanghai and one in Suzhou; provides catering services as well as produces and sells convenience food under its brand, "FU JI Home Kitchen", in Shanghai and Suzhou.

Business Review

Capitalising on the organic growth of its catering services and the Chinese restaurants business, together with the launch of convenience food business, the Group saw strong growth in revenue and earnings during the Relevant Period. Its turnover increased 103% to approximately RMB195 million, and net profit was up 119% to approximately RMB70 million. Basic earnings per share were RMB17.5 cents (six months ended 30 September 2003: RMB8.0 cents.). As the dividend for the financial year ending 31 March 2005, if any, will be prorated for the period of time in the year during which the Company is listed, the board of Directors did not declare any interim dividend for the Relevant Period (six months ended 30 September 2003: nil).

The Group has set its corporate goal of becoming an integrated food service enterprise with a strategic focus on institutional catering, which is highly complimentary to another two business segments — Chinese restaurants and convenience food. To achieve this goal, the Group implemented various growth strategies, which have been successful as reflected in the strong performance of its catering business.

The performances of the Group's business are analysed as follows:

Catering Services

For the six months ended 30 September 2004, catering services achieved segment turnover and segment results of approximately RMB90 million and RMB50 million respectively, representing 139% and 134% increase compared with the corresponding period last year. Such remarkable performance was achieved because the Group was able to retain existing customers with expanding workforces and at the same time secure new sizeable contracts.

The Group's catering business is sub-divided into four categories, namely institutional in-house catering services, on-site dining services, event-base catering services and business lunch delivery services. Commencing the operation of the central processing center in Shanghai — Sunqiao Processing Centre (with a maximum daily capacity of 80,000 sets of meals) — in April 2004 represented a significant step forward in the business expansion. It enhanced the Group's capability of centralised production and management to achieve higher degree of standardisation and economies of scale. In addition, with greater production capacity, the Group is in a better position to further expand its business scopes and gain new business opportunities from catering services, with a particular focus on large institutional clients, with the synergistic support from the other two business lines. During the Relevant Period, the Group successfully secured new contracts (in terms of number of meals provided) including the Shanghai Police Bureau (approximately 4,000 sets of meals daily), ASE Group (approximately 2,800 sets of meals daily) and Delphi (approximately 2,800 sets of meals daily), further strengthening the foundation of the Group's catering business.

Chinese Restaurants

During the Relevant Period, since the Group additionally operated in Puxi, Shanghai its third Chinese restaurant which contributed turnover and operating profits of approximately RMB17,906,000 and RMB7,675,000, respectively, and there has been increase in both the average number of customers and their average spending for the other two Chinese restaurants, namely Shanghai Pudong Restaurant and Suzhou Xinqu Restaurant, as a result of constantly revising and improving the menus as well as bringing the freshest ingredients to its customers, this business segment saw healthy growth and recorded turnover and results of approximately RMB86 million and RMB25 million respectively, representing an increase of 48% and 77% compared with the corresponding period last year.

Given the intense competition this business segment faces in Shanghai and Suzhou, the Group will stick to the strategy of scalable chain operation targeting upper-middle corporate and high net worth customers in order to maintain its competitive edges.

Convenience Food

Seeing promising potential in the niche market of home-styled Chinese dishes, the Group launched a brand new business in February 2004 introducing its “FU JI Home Kitchen” brand products to China’s modern working class in Shanghai and Suzhou. For the six months ended 30 September 2004, sales from convenience food amounted to approximately RMB19 million and results at approximately RMB10 million.

The Group’s Chinese restaurants and processing centers currently serve as the production platform for “FU JI Home Kitchen” products, which are available in the Group’s restaurants and a catering site. Such complementary logistics arrangements enable sharing of resources among the businesses.

Other Developments

During the Relevant Period, with a strong belief in food safety, the Group appointed Intertek Testing Services, a leading international testing, inspection and certification organisation, to monitor and supervise the Group’s catering and restaurant operations, making sure the Group’s production processes are in accordance with

the required safety standards. In addition, an experienced human resources director was recruited to streamline the Group's human resources policies, strategies, planning and control, with particular focus on the training of the Group's employees.

Outlook

The Group aspires to become China's best-managed food and catering services provider who serves fresh, healthy and modern Chinese foods to corporations, households and working individuals. Thanks to the successful initial public offering and the placing of the Company's new shares, the Group has adequate financial capacities to capitalise on the growth of the food services industry, in particularly the institutional catering industry in the PRC.

The Group strongly believes that the catering services business will become a major growth driver for its revenue and earnings, and will drive its future business development. To support its growth, the Group will set up more processing centres in other areas with huge potential. Hence, apart from the two processing centres, with maximum daily production capacity of 100,000 and 50,000 sets of meals respectively, in Suzhou and Kunshan, Jiangsu Province, the Group plans to establish 3 more processing centers in Songjiang, Wuxi and Shenzhen, with each having an expected maximum daily production capacity of 100,000 sets of meals. These facilities in the pipeline will replicate the proven operational platforms in Shanghai and Suzhou to ensure the smooth advance of the business in these areas.

In order to further strengthen the Group's operations in the Chinese restaurants business, the Group is planning to open its fourth restaurant in Suzhou and two additional coming forward in Puxi, Shanghai and Wuxi.

The Group's cost advantage has been one of its key competitive advantages. To further promote the cost effectiveness, the Group will expand its operational scale to maximise economies of scale. Apart from this, the Group will establish sourcing and initial processing centers, which will not only enhance the quality of food materials, but also lower material costs, thus achieving greater economies of scale.

Encouraged by the rewarding results and the favourable perspectives of the consumer market in the PRC, and in view of the increasing demand for home-styled, easy-to-cook dishes from the modern working classes in Shanghai and Suzhou, the Group plans to enhance distribution by setting up sales outlets for the "FU JI Home Kitchen" brand products in higher density, middle class residential communities in these two areas.

Looking forward, the Group believes both the catering services and convenience food segments will gain importance as major growth drivers of the Group's business in terms of revenue and profit contributions.

Liquidity and Financial Resources

The Group's financial position is sound with a stable cash flow. As at 30 September 2004, the Group's total shareholders' equity amounted to RMB240,308,000, representing an increase of 41% compared with 31 March 2004. As at the end of September 2004, the Group's cash and bank deposits totaled RMB65,517,000 (31 March 2004: RMB33,781,000). The Group's net current assets were RMB7,363,000 (31 March 2004: RMB6,416,000). Taking into account the above, the available bank loans and other loans, and the proceeds from the initial public issue and placing of the Company's new shares subsequent to the balance sheet date, management believes that the Group will have adequate resources to settle debts and provide funding to meet its daily operational and capital expenditure.

The Group's monetary assets, debts and transactions are principally denominated in Hong Kong dollars, Renminbi and US dollars. Due to the minimal fluctuation in the exchange rates among the currencies, the Group believes that its exposure to exchange-rate movement is limited.

Capital Structure

During the Relevant Period, the share capital represents the issued share capital of Sky Achieve. Subsequent to the balance sheet date, on 26 November 2004, the Group completed the Reorganisation to rationalise the Group's structure in preparation for the listing of the Company's share on the HKSE. After the Reorganisation, the share capital is represented by the issued share capital of the Company of 400,000,000 with par value of HK\$0.01 each.

As at the end of September 2004, except for the short term loans of several banks, which bore fixed annual rates ranging from 5.31% to 5.84% (31 March 2004: from 5.31% to 7.01%); the convertible notes (the "Note") and the other long term loan payable (the "Other Loan") (RMB100,376,000 in total) (31 March 2004: RMB91,740,000), the Group did not have any major borrowings. As at 30 September 2004, the Group's total assets were approximately RMB388,074,000 (31 March 2004: RMB306,251,000). Based on the above, the Group's gearing ratio was approximately 26% (31 March 2004: 30%).

The detailed terms of the Note and the Other Loan were set out in the interim financial report (the "Interim Accounts") as set out on pages 9 to 24 of the Interim Report and the Prospectus.

Charge on Assets and Contingent Liabilities

As at 30 September 2004, the Group did not have any charges on assets and any significant contingent liabilities (31 March 2004: nil).

Change in the Group's Structure

During the Relevant Period, there has been no change in the Group's structure and Sky Achieve has owned the entire issued share capital of two operating subsidiaries, namely FU JI United (Suzhou) Catering Co. Ltd. and FU JI United (Shanghai) Catering Ltd..

Employment

As at 30 September 2004, the Group employed approximately 830 employees in China and Hong Kong (31 March 2004: 801 employees). All employees are remunerated according to their performance, experience and prevailing market rates. On-the-job and professional training are provided as well. The Group provided retirement benefits in the form of the Mandatory Provident Fund entitlement to employees in Hong Kong. A similar scheme is also provided for the employees in China. Details concerning the retirement benefit schemes are set out in the Prospectus.

Corporate Governance

The Company strives to maintain a high level of corporate governance in the financial reporting, management structures and internal control procedures of the Group. Apart from the establishment of the audit committee (the "Audit Committee") on 26 November 2004 with written terms of reference pursuant to the Appendix 14 of the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"), the Company established on 6 December 2004 the Executive Committee and the Human Resource Committee for the Group's day-to-day management, implementation of the Group's operating and human resource strategies and the matters relating to compensation of the employees (including the Directors). In addition, the Group will implement voluntary quarterly reporting disclosure commencing from the first quarter of the financial year 2006 in order to enhance the Group's financial reporting transparency.



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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF FU JI FOOD AND CATERING SERVICES HOLDINGS LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 9 to 24.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2004.

CCIF CPA Limited
Certified Public Accountants
Hong Kong,
30 December 2004

Chan Wai Dune, Charles
Practising Certificate Number P00712

**UNAUDITED CONDENSED COMBINED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

		Six months ended 30 September	
	Note	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Turnover	4	194,635	95,775
Other revenue		1,602	4,015
Cost of inventories consumed		(72,114)	(35,967)
Staff costs		(6,505)	(3,759)
Operating lease rentals		(7,490)	(5,116)
Depreciation		(12,638)	(7,062)
Fuel and utility costs		(5,219)	(3,204)
Other operating expenses		(6,678)	(5,150)
Profit from operations	4	85,593	39,532
Finance costs		(1,948)	(475)
Profit from ordinary activities before taxation	5	83,645	39,057
Income tax expense	6	(13,685)	(7,097)
Profit attributable to shareholders		69,960	31,960
Earnings per share			
— basic	7(a)	RMB17.5 cents	RMB8.0 cents
— diluted	7(b)	RMB16.3 cents	N/A

The notes on 13 to 24 form part of the interim financial report.

**UNAUDITED CONDENSED COMBINED BALANCE SHEET
AT 30 SEPTEMBER 2004**

	Note	At 30 September 2004 RMB'000 (Unaudited)	At 31 March 2004 RMB'000 (Audited)
Non-current assets			
Fixed assets	8	141,954	152,297
Construction in progress	9	148,867	52,975
		290,821	205,272
Current assets			
Inventories	10	2,127	1,276
Accounts receivable	11	5,161	7,547
Deposits, prepayments and other receivables		24,448	58,375
Cash and cash equivalents		65,517	33,781
		97,253	100,979
Current liabilities			
Bank loans	12	42,500	50,400
Accounts payable	13	6,576	6,273
Receipts in advance		5,674	5,949
Due to a director		936	2,248
Accruals and other payables		15,750	14,799
Current taxation		18,454	14,894
		89,890	94,563
Net current assets		7,363	6,416
Total assets less current liabilities		298,184	211,688
Non-current liabilities			
Convertible notes	14	33,072	16,536
Other loan payable	15	24,804	24,804
		57,876	41,340
NET ASSETS		240,308	170,348
CAPITAL AND RESERVES			
Capital	16	2	2
Reserves		240,306	170,346
		240,308	170,348

The notes on 13 to 24 form part of the interim financial report.

**UNAUDITED CONDENSED COMBINED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

	Six months ended 30 September	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash inflows from operating activities	72,282	23,862
Net cash outflows used in investing activities	(82,922)	(26,216)
Net cash inflows from/(used in) financing activities	42,376	(217)
Net increase/(decrease) in cash and cash equivalents	31,736	(2,571)
Cash and cash equivalents at 1 April	33,781	8,482
Cash and cash equivalents at 30 September	65,517	5,911

The notes on 13 to 24 form part of the interim financial report.

UNAUDITED CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Paid-up capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Merger reserve RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Balance at 1 April 2004	2	43,184	(20,184)	147,346	170,348
Net profit for the period	—	—	—	69,960	69,960
Balance at 30 September 2004	<u>2</u>	<u>43,184</u>	<u>(20,184)</u>	<u>217,306</u>	<u>240,308</u>
Balance at 1 April 2003	23,000	—	—	64,732	87,732
Net profit for the period	—	—	—	31,960	31,960
Balance at 30 September 2003	<u>23,000</u>	<u>—</u>	<u>—</u>	<u>96,692</u>	<u>119,692</u>

The notes on 13 to 24 form part of the interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. GROUP REORGANISATION

FU Ji Food and Catering Services Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 April 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's ultimate holding company is Million Decade Limited, a company which was incorporated in the British Virgin Islands.

Pursuant to a group reorganisation on 26 November 2004 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE"), the Company became the holding company of the companies now comprising the Group through the acquisition of the entire issued share capital of Sky Achieve Limited, the then holding company of the Group. Further details of the group reorganisation are set out in the Company's prospectus dated 7 December 2004 (the "Prospectus").

The Company's shares have been listed on the Main Board of the HKSE since 17 December 2004.

2. BASIS OF PRESENTATION

The unaudited combined interim financial report is prepared as if the current group structure had been in existence throughout the period commencing from 1 April 2003 to 30 September 2004, or from the respective dates of incorporation/registration of the companies now comprising the Group where this is a shorter period. All material intra-group transactions and balances have been eliminated on combination.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated/registered outside Hong Kong, have substantially the same characteristics as a Hong Kong private company), the particulars of which are set out below:

Name of company	Place and date of incorporation	Attributable equity interest		Issued/registered capital	Principal activities
		Direct	Indirect		
Sky Achieve Limited ("Sky Achieve")	British Virgin Islands ("BVI") 2 January 2003	100%	—	Ordinary share capital US\$200	Investment holding
Fu Ji United (Suzhou) Catering Co. Ltd. 福記聯合(蘇州)餐飲有限公司 ("Suzhou Fu Ji") (note (i))	People's Republic China 21 July 1999	—	100%	Registered and paid-up capital US\$968,500	Operation of a Chinese restaurant and provision of catering services
Fu Ji United (Shanghai) Catering Ltd.* 福記聯合(上海)餐飲有限公司 ("Shanghai Fu Ji") (note (ii))	People's Republic China ("PRC") 22 March 2001	—	100%	Registered and paid-up capital RMB15,000,000	Operation of Chinese restaurants and provisions of catering services

* The English name of Shanghai Fu Ji established in the PRC appearing herein is only an English translation of its official Chinese name for identification purpose only.

Notes:

- (i) Suzhou Fu Ji is a wholly foreign-owned enterprise ("WFOE") with an operating period up to 14 January 2024.
- (ii) Shanghai Fu Ji is a wholly foreign-owned enterprise with an operating period up to 21 March 2021.

3. PRINCIPAL ACCOUNTING POLICIES

The interim financial report have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on the HKSE, including compliance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies have been consistently applied by the Group and are consistent with these adopted in the audited combined financial statements for the three years ended 31 March 2004 and the three months ended 30 June 2004 as set out in appendix I of the Prospectus.

4. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. Geographical segment information is not presented as the Group operates predominantly in the PRC.

An analysis of the Group's turnover and results by business segments is as follows:

	Six months ended 30 September	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Turnover		
— Chinese restaurant business	86,248	58,138
— Catering services business	89,831	37,637
— Convenience food business	18,556	—
	<u>194,635</u>	<u>95,775</u>
Segment results		
— Chinese restaurant business	25,242	14,274
— Catering services business	49,956	21,353
— Convenience food business	10,303	—
	<u>85,501</u>	<u>35,627</u>
Unallocated (expenses)/income, net	92	3,905
Profit from operations	85,593	39,532
Finance costs	(1,948)	(475)
Taxation	(13,685)	(7,097)
Profit attributable to shareholders	<u>69,960</u>	<u>31,960</u>
Depreciation and amortisation		
— Chinese restaurant business	8,969	6,924
— Catering services business	3,607	138
— Convenience food business	—	—
— Unallocated items	62	—
	<u>12,638</u>	<u>7,062</u>
Provision for bad and doubtful debts		
— Chinese restaurant business	161	231
— Catering services business	61	—
— Convenience food business	—	—
	<u>222</u>	<u>231</u>

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

		Six months ended 30 September	
		2004	2003
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a)	Finance costs		
	Interest on bank loans wholly repayable within five years	664	475
	Interest on convertible notes and other loan payable	1,284	—
		<u>1,948</u>	<u>475</u>
(b)	Other items		
	Interest income	(138)	—
	Cost of inventories consumed	72,114	35,967
	Depreciation of fixed assets	12,638	7,062
	Operating leases charges in respect of premises	7,490	5,116
		<u>7,490</u>	<u>5,116</u>

6. INCOME TAX

Income tax expenses represents:

		Six months ended 30 September	
		2004	2003
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
	Current period tax expense	13,685	7,097

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2003 and 2004.

Shanghai Fu Ji, a wholly owned subsidiary of the Company located within Pudong District in Shanghai of the PRC, is subject to PRC income tax at a preferential income tax rate of 15%, and hence the provision for PRC income tax is calculated based on the preferential income tax rate of 15% on the assessable profit of Shanghai Fu Ji.

For Suzhou Fu Ji, another wholly owned subsidiary of the Company established in the PRC, the provision for PRC income tax is calculated based on the statutory income tax rate of 33% on the assessable profit of Suzhou Fu Ji.

The Group had no significant potential deferred tax assets/liabilities for the six months ended 30 September 2003 and 2004.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2004 is based on the combined profit attributable to ordinary shareholders of approximately RMB69,960,000 (six months ended 30 September 2003: RMB31,960,000) and on the assumption that 400,000,000 ordinary shares had been in issue throughout the periods.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 September 2004 is based on the combined profit after taxation but before interest on the convertible notes of approximately RMB70,298,000 and the weighted average number of approximately 430,940,000 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's convertible notes.

There were no dilutive potential ordinary shares in existence during the six months ended 30 September 2003, and therefore diluted earnings per share is not presented for the six months ended 30 September 2003.

(c) Reconciliation

Weighted average number of ordinary shares used in calculating basic earnings per share

Deemed issue of ordinary shares for no consideration

Weighted average number of ordinary shares used in calculating diluted earnings per share

Six months ended
30 September
2004
Number of shares

400,000,000

30,940,000

430,940,000

8. FIXED ASSETS

	Six months ended 30 September 2004 (Unaudited) RMB'000	Year ended 31 March 2004 (Audited) RMB'000
Cost		
At 1 April	192,371	121,480
Additions	2,295	4,007
Transfer from construction in progress (note 9)	—	66,884
	<u>194,666</u>	<u>192,371</u>
At 30 September/31 March		
Depreciation		
At 1 April	40,074	23,799
Charge for the year/period	12,638	16,275
	<u>52,712</u>	<u>40,074</u>
At 30 September/31 March		
Net book value		
At 30 September/31 March	<u>141,954</u>	<u>152,297</u>

9. CONSTRUCTION IN PROGRESS

	Six months ended 30 September 2004 (Unaudited) RMB'000	Year ended 31 March 2004 (Audited) RMB'000
At 1 April	52,975	26,476
Additions	95,892	93,383
Transfer to fixed assets (<i>note 8</i>)	—	(66,884)
	<u>148,867</u>	<u>52,975</u>
At 30 September/31 March	<u><u>148,867</u></u>	<u><u>52,975</u></u>

10. INVENTORIES

Inventories represent:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Raw materials, at cost	<u>2,127</u>	<u>1,276</u>

11. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Within 1 month	2,488	2,466
Over 1 month but less than 3 months	2,362	2,764
Over 3 months but less than 6 months	311	2,317
After 6 months	<u>1,243</u>	<u>1,497</u>
	<u>6,404</u>	9,044
Less: Provision for bad and doubtful debts	<u>(1,243)</u>	<u>(1,497)</u>
	<u><u>5,161</u></u>	<u><u>7,547</u></u>

Customers are normally granted credit terms of 30 days to 180 days, depending on the credit worthiness of individual customers.

12. BANK LOANS

Bank loans are repayable as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Within 1 year	<u>42,500</u>	<u>50,400</u>

At 31 March 2004 and 30 September 2004, the bank loans were analysed as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Bank loans secured by:		
— joint corporate guarantees (<i>note a</i>)	8,500	8,500
— corporate guarantee by Shanghai Fu Ji	20,000	—
— corporate guarantee by Sky Achieve	14,000	—
— others (<i>note b</i>)	—	37,000
	<u>42,500</u>	<u>45,500</u>
Unsecured bank loans	—	4,900
	<u>42,500</u>	<u>50,400</u>

- (a) The bank loan of RMB5,000,000 is secured by joint corporate guarantees put up by Suzhou Fu Ji and by China National Investment and Guaranty Company Limited Shanghai Branch (中國經濟技術投資擔保有限公司上海分公司), an independent third party.

The remaining bank loan of RMB3,500,000 is secured by joint corporate guarantees put up by Suzhou Fu Ji and Shanghai Forunite Ecological Food Company Limited (上海福記聯合生態食品有限公司) ("Ecological Food"), in which Mr. Wei Dong, a director of the Company, had controlling interest until 24 February 2004. On 24 February 2004, Mr. Wei Dong has transferred all his interest in this company to an independent third party.

On 11 November 2004, the corporate guarantee put up by Ecological Food was released and replaced by corporate guarantee provided by Suzhou Fu Ji.

- (b) The bank loan of RMB37,000,000 as at 31 March 2004 was secured by a property of and corporate guarantee put up by 蘇州工業園區信息港管理發展有限公司, an independent third party. This bank loan was subsequently discharged on 30 June 2004.

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Within 1 month	1,776	927
Over 1 month but less than 3 months	2,053	2,620
Over 3 months but less than 6 months	1,388	2,012
After 6 months	1,359	714
	<u>6,576</u>	<u>6,273</u>

14. CONVERTIBLE NOTES

On 30 December 2003, Sky Achieve and an independent investor (the "Investor") entered into the subscription agreement whereby Sky Achieve agreed to issue and the Investor agreed to subscribe for the convertible notes (the "Note"). Under the subscription agreement, the Investor would subscribe for the Note in two tranches of US\$2,000,000 each. The first and the second tranches of the Note were issued on 16 January 2004 and 7 June 2004, respectively. As at 31 March 2004 and 30 September 2004, the Note was RMB16,536,000 (equivalent to US\$2,000,000) and RMB33,072,000 (equivalent to US\$4,000,000), respectively.

The Note, which bears interest at 2.5% per annum, is due on 16 July 2007 and secured by corporate guarantees put up by Shanghai Fu Ji and Suzhou Fu Ji and personal guarantees put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming. Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming are the shareholders of the Company with Mr. Wei Dong and Ms. Yao Juan also being the Directors of the Company.

On 22 November 2004, the Company, Sky Achieve and the Investor entered into an agreement supplement to the subscription agreement whereby, amongst other terms, the Company and all of the original parties to the above-mentioned subscription agreement agreed that the conversion rights of the Note be amended to carry conversion rights into equity shares in the Company instead of Sky Achieve, and the personal guarantees in respect of repayment obligation put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming was released upon the listing of the Company on 17 December 2004.

The Investor has undertaken to the Company and HKSE that, within the 6 months from 17 December 2004, it will not exercise the conversion rights attached to the Note and will not transfer the Note to any third parties.

15. OTHER LOAN PAYABLE

On 30 December 2003, Sky Achieve and the Investor entered into a loan agreement whereby the Investor agreed to advance a loan for the sum of US\$3,000,000 to Sky Achieve. The loan bears interest at 7.8% per annum within 6 months, 7.0% after 6 months to 12 months, 6.5% after 12 months to 18 months and 6.0% after 18 months to 24 months from the date of drawdown, is due on 16 January 2006 and secured by corporate guarantees put up by Shanghai Fu Ji and Suzhou Fu Ji and personal guarantees put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming. The personal guarantees in respect of repayment obligation put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming was released upon the listing of the Company on 17 December 2004.

16. CAPITAL

Capital represents issued share capital of Sky Achieve as at 31 March 2004 and 30 September 2004.

Movements in the share capital of the Company during the period up to the date of this interim financial report:

- (a) On 8 April 2004, the Company was incorporated with an authorized share capital of HK\$100,000 (approximately RMB106,000) divided into 10,000,000 shares of HK\$0.01 each, one of which was allotted and issued at par, nil paid, to the initial subscriber and such share were subsequently transferred at nil consideration to Mr. Wei Dong on 29 April 2004.
- (b) On 29 April 2004, 69 shares, 25 shares and 5 shares of the Company were allotted and issued, nil paid, to Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming, respectively.
- (c) Pursuant to resolutions in writing of all the shareholders of the Company passed on 26 November 2004, the authorized share capital of the Company was increased from HK\$100,000 (approximately RMB106,000) to HK\$20,000,000 (approximately RMB21,200,000) by the creation of an additional 1,990,000,000 shares of HK\$0.01 each.
- (d) On 26 November 2004, conditional on the share premium account of the Company being credited as a result of the issued of new shares to the public as mentioned in note (e) below, a total of 299,999,900 shares of HK\$0.01 each were allotted as fully paid at par to the shareholders whose names appeared on the register of members of the Company on 26 November 2004 in proportion to their respective shareholdings by way of capitalizing the sum of HK\$2,999,999 (approximately equivalent to RMB3,180,000) standing to the credit of the share premium account of the Company.
- (e) On 17 December 2004, 100,000,000 shares of HK\$0.01 each were issued under the public offer and placing of the Company's shares at HK\$3.10 per share. The total consideration amounted to HK\$310,000,000 (approximately equivalent to RMB328,600,000) before the related issue expenses.

17. COMMITMENTS

- (a) Capital commitments outstanding at 31 March 2004 and 30 September 2004 not provided for in the interim financial report were as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Authorised but not contracted for in respect of purchase of an office premise located in Pudong, Shanghai, the PRC	17,473	—

- (b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2004 (Unaudited) RMB'000	At 31 March 2004 (Audited) RMB'000
Within 1 year	11,888	12,976
After 1 year but within 5 years	52,977	51,026
After 5 years	24,121	29,505
	88,986	93,507

The Group leases a number of properties under operating leases. The leases run for periods from 3 years to 10 years, with an option to review the lease when all terms are renegotiated. None of the leases includes contingent rentals.

18. MATERIAL RELATED PARTY TRANSACTIONS

During the current period under review and subsequent to 30 September 2004, the following material related party transactions took place:

- (a) *Guarantees given by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming in respect of the subscription agreement*

On 30 December 2003, Sky Achieve and the Investor entered into the subscription agreement whereby Sky Achieve agreed to issue and the Investor agreed to subscribe for the Note. Pursuant to this subscription agreement, each of Shanghai Fu Ji, Suzhou Fu Ji, Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming has, unconditionally and irrevocably, agreed to provide guarantees, on a joint and several basis, to the Investor the due and punctual discharge of all obligations (whether actual or contingent) which are or may at any time be required to be performed (including, without limitation, the payment of any monies due, owing or payable) by Sky Achieve in favour of or to the Investor pursuant to the subscription agreement and other agreements incidental to this subscription agreement.

Under the subscription agreement, the Investor would subscribe for the Note in two tranches of US\$2,000,000 each. The first and the second tranches of the Note were issued on 16 January, 2004 and 7 June, 2004, respectively. The Note under non-current liabilities as at 31 March 2004 and 30 September 2004 was RMB16,536,000 (equivalent to US\$2,000,000) and RMB33,072,000 (equivalent to US\$4,000,000), respectively.

These personal guarantees in respect of repayment obligation put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming were released upon the listing of the Company on 17 December 2004.

- (b) *Guarantees given by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming in respect of a loan agreement dated 30 December 2003*

On 30 December 2003, Sky Achieve and the Investor also entered into a loan agreement whereby the Investor agreed to advance a loan for the sum of US\$3,000,000 to Sky Achieve. The loan will be due on 16 January 2006. Each of Mr. Wei Dong, Ms. Yao Juan, Mr. Wei Ming, Shanghai Fu Ji and Suzhou Fu Ji has agreed to guarantee the obligations of Sky Achieve under the loan agreement in favour of the Investor. The loan was advanced by the Investor to Sky Achieve on 16 January 2004, Sky Achieve's indebtedness to the Investor as at 31 March 2004 and 30 September 2004 was RMB24,804,000 (equivalent to US\$3,000,000) which was included in other loan payable under non-current liabilities.

These personal guarantees in respect of repayment obligation put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming were released upon the listing of the Company on 17 December 2004.

- (c) *Shareholders' Loan Agreement*

Shanghai Fu Ji and Suzhou Fu Ji (together, the "Borrowers") had entered into a loan agreement (the "Shareholders' Loan Agreement") with Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming (together, the "Lenders") on 16 January 2004 whereby the Lenders agreed to advance, in aggregate, an interest free and unsecured loan for a total sum of RMB43,184,500 to the Borrowers (the "Shareholders' Loan"). The Shareholders' Loan will be due on 16 January 2020 with the Borrowers' right to extend for a further 20 years save and except that upon the Lenders having made their payment in whole or in part to Sky Achieve in respect of the promissory notes given by each of them for their allotment of an aggregate of 100 shares in the issued share capital of Sky Achieve on 16 January 2004, a principal amount of the Shareholders' Loan equal to the amount of such payment by the Lenders shall become repayable forthwith. In addition, the Borrowers may, at their sole discretion, repay the Shareholders' Loan in whole or in part at any time after the date of the Shareholders' Loan Agreement to all or any of the Lenders. As at 31 March 2004 and 30 September 2004, this Shareholders' Loan has been set off against the relevant promissory notes on the group level.

- (d) *Promissory notes*

On 16 January 2004, Sky Achieve allotted and issued an aggregate of 100 shares in Sky Achieve, as to 70 shares to Mr. Wei Dong, 25 shares to Ms. Yao Juan and 5 shares to Mr. Wei Ming at a total subscription price of US\$5,223,089 (approximately equivalent to RMB43,184,500). The shares were issued as fully paid by way of promissory notes given by each of Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming respectively. As at 31 March 2004 and 30 September 2004, these promissory notes have been set off against the Shareholders' Loan on the group level. The promissory notes is interest free and unsecured.

- (e) *Due to a Director*

As at 31 March 2004 and 30 September 2004, an amount of approximately RMB2,248,000 and RMB936,000 respectively was due to Mr. Wei Dong. The balance is unsecured, interest free and repayable on demand.

- (f) *Tax indemnity*

In accordance with the State Administration of Taxation Notice Regarding the Income Tax Rates of Domestic Invested Jointly Managed Enterprises in Pudong District, Shanghai (the "Pudong Tax Notice"), Shanghai Fu Ji was entitled to a preferential income tax rate of 15% before its conversion into a WFOE on 8 December 2003.

Pursuant to the Foreign Investment Enterprise and Foreign Enterprise Income Tax Law, foreign invested enterprises in the PRC are subject to a statutory income tax rate of 33%. However, according to the written confirmation from the Tax Bureau (3 Branch) of Pudong District of Shanghai (the "Pudong Tax Bureau") dated 14 May 2004, Shanghai Fu Ji continued to be entitled to the preferential income tax rate of 15% after its conversion into the WFOE, and the Pudong Tax Bureau also confirmed that Shanghai Fu Ji had been reporting tax return in accordance with the relevant tax rules and that there was no overdue tax and no previous record of punishment for violating national tax law.

The PRC legal adviser of the Company advised that, based on their information, it is not unreasonable for Shanghai Fu Ji to pay the income tax at the preferential tax rate of 15%.

On the basis of the opinion provided by the PRC legal advisers and confirmation from the Pudong Tax Bureau, the directors of the Company are of the view that Shanghai Fu Ji, by paying income tax at the preferential tax rate of 15%, has satisfied all its income tax obligations under the current tax regime.

However, should the relevant tax authorities in future decide that Shanghai Fu Ji should pay tax at the statutory income tax rate of 33% per annum applicable to a WFOE, in the opinion of the PRC legal advisers, Shanghai Fu Ji will only be liable to pay any previously uncharged tax arising from the difference between the usual statutory income tax rate of 33% and the preferential tax rate of 15%, which is 18% in the amount of approximately RMB6,118,000 and RMB14,854,000 for the year ended 31 March 2004 and the six months ended 30 September, 2004, respectively, and will not be subject to any penalty.

Similarly, under local tax authority regulations in Suzhou, Suzhou Fu Ji was entitled to an income tax exemption for the two years from 1 January 2000 to 31 December 2001, as opposed to PRC national tax laws that Suzhou Fu Ji would have entitled to one year exemption. Suzhou Fu Ji has obtained a written confirmation from the Tax Bureau (4 Branch) of Suzhou Tax Bureau on 30 April 2004 confirming that Suzhou Fu Ji had no tax payment overdue. However, if the second year income tax exemption accorded by the local Suzhou authorities is subsequently revoked for whatever reason, Suzhou Fu Ji may be required to pay additional income tax for the period from 1 January 2001 to 31 December 2001 in the amount of approximately RMB3,744,000.

Each of Mr. Wei Dong and Million Decade Limited, which is an ultimate holding company of the Company and controlled by Mr. Wei Dong, has given joint and several indemnities to the Group in connection with, amongst other things, all losses the Group may incur relating to (i) any preferential tax treatment accorded to Shanghai Fu Ji on or before 31 March 2005 and/or (ii) any tax exemption granted to Suzhou Fu Ji on or before 31 March 2005 being revoked or withdrawn by the relevant authorities for whatever reasons.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

Subsequent to the balance sheet date, on 17 December 2004, the Company was listed on the Main Board of the HKSE. Accordingly, as at the date of this report, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were, as follows:

(i) Interest in the share capital of the Company

Number of Director	Types of Interests	Name of Shares	Position	Approximate Percentage of Interests
Wei Dong (<i>Note 1</i>)	Beneficial	285,000,000	Long	71.25%
Wei Dong (<i>Note 2</i>)	Beneficial	15,000,000	Short	3.75%
Yao Juan (<i>Note 3</i>)	Beneficial	285,000,000	Long	71.25%

(ii) Interest in the share capital of Million Decade Limited ("Million Decade Shares"), an associated corporation (within the meaning of the SFO)

Name of Director	Types of Interest	Approximate Percentage Holding of Million Decade Shares
Wei Dong (<i>Note 1</i>)	Controlled Corporation	100%

Notes :

- These shares are held by Million Decade Limited which is wholly-owned by Mr. Wei Dong. As Mr. Wei Dong is the husband of Ms. Yao Juan, therefore, he is deemed to be interested in all of the shares held by Million Decade Limited and Top Ample Limited under the SFO.
- These shares are the subject of the stock borrowing agreement dated 6 December 2004 entered into between Million Decade Limited and CAF Securities Company Limited.
- These shares are held by Top Ample Limited which is wholly-owned by Ms. Yao Juan. As Ms. Yao Juan is the wife of Mr. Wei Dong, therefore, she is deemed to be interested in all of the shares held by Top Ample Limited and Million Decade Limited under the SFO.

Save as disclosed above, as at the date of this report, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

Subsequent to the balance sheet date, on 17 December 2004, the Company was listed on the Main Board of the HKSE. Accordingly, as at the date of this report, the following interests and short positions of 5% or more of the issued share capital and underlying shares under equity derivatives of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Types of Interests	Number of Shares of the Company	Number of Underlying Shares of the Company	Position	Approximate percentage of Interests
Wei Dong (Note 1)	Beneficial	285,000,000	—	Long	71.25%
Wei Dong (Note 2)	Beneficial	15,000,000	—	Short	3.75%
Yao Juan (Note 3)	Beneficial	285,000,000	—	Long	71.25%
Min You Holdings Limited	Beneficial	3,250,000	36,645,726	Long	9.97%*
Aria Investment Partners II, L.P. (Note 4)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
CLSA Private Equity Management Limited (Note 5)	Investment Manager	3,250,000	36,645,726	Long	9.97%*
CLSA Funds Ltd. (Note 6)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
CLSA B.V. (Note 7)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
Calyon Capital Markets Asia B.V. (Note 8)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
Calyon Capital Markets International SASU (Note 9)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
Calyon S.A. (Note 10)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
Credit Agricole S.A. (Note 11)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*
SAS Rue la Boetie (Note 12)	Controlled Corporation	3,250,000	36,645,726	Long	9.97%*

Notes:

- These shares are held by Million Decade Limited which is wholly-owned by Mr. Wei Dong. As Mr. Wei Dong is the husband of Ms. Yao Juan, therefore, he is deemed to be interested in all of the shares held by Million Decade Limited and Top Ample Limited under the SFO.
- These Shares are the subject of the stock borrowing agreement dated 6 December 2004 entered into between Million Decade Limited and CAF Securities Company Limited.
- These shares are held by Top Ample Limited which is wholly-owned by Ms. Yao Juan. As Ms. Yao Juan is the wife of Mr. Wei Dong, therefore, she is deemed to be interested in all of the shares held by Top Ample Limited and Million Decade Limited under the SFO.
- Aria Investment Partners II, L.P. is beneficially interested in the entire issued share capital of Min You Holdings Limited and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which Min You Holdings Limited has declared an interest for the purpose of the SFO.
- CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners II, L.P..

6. CLSA Funds Ltd. is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
7. CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Ltd. and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
8. Calyon Capital Markets Asia B.V. is beneficially interested in 65% of the issued share capital of CLSA B.V. and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
9. Calyon Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia B.V. and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
10. Calyon S.A. is beneficially interested in the entire issued share capital of Calyon Capital Markets International SASU and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
11. Credit Agricole S.A. is beneficially interested in the entire issued share capital of Calyon S.A. and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.
12. SAS Rue la Boetie is beneficially interested in 51.50% of the issued share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 39,895,726 shares and the underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO.

* The approximate percentage of interests is calculated based on the issued share capital of the Company as at the date of this report and 39,895,726, being the total number of the Company's shares and the underlying shares registered by the shareholders.

Saved as disclosed above, as at the date of this report, no person, other than the Directors and chief executive, whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

Under the terms of the share option scheme (the "Share Option Scheme") approved by the shareholders of the Company on 26 November 2004, any Director (including executive, non-executive and independent non-executive) and eligible employees of the Group may be granted options to subscribe for the shares of the Company. The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed 10 per cent of the issued share capital of the

Company. The scheme became effective upon the listing of the Company's shares on the Main Board of the HKSE on 17 December 2004. Further details of the Share Option Scheme are disclosed in accordance with the Listing Rules in the Prospectus.

No such option has been granted under the Share Option Scheme as at the date of this report

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review the Company's annual report and accounts, half-yearly reports and for the financial year commencing 1 April 2005, quarterly results and to provide advice and comments thereon to the board of Directors. The Committee is also responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has three members comprising Mr. Su Gang Bing, Ms. Yang Liu and Mr. Wong Chi Keung, all being independent non-executive Directors, with Mr. Wong Chi Keung being the chairman.

The Interim Accounts for the Relevant Period has been reviewed by the Committee, which was of the opinion that the preparation of the results complies with the applicable accounting standards and adequate disclosures have been made.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules from 17 December 2004 to the date of this report, except that the non-executive Directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company's shares were listed on the Main Board of the HKSE on 17 December 2004; accordingly, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

By Order of the Board
FU JI Food and Catering Services Holdings Limited
Wei Dong
Chairman

Shanghai, 30 December 2004