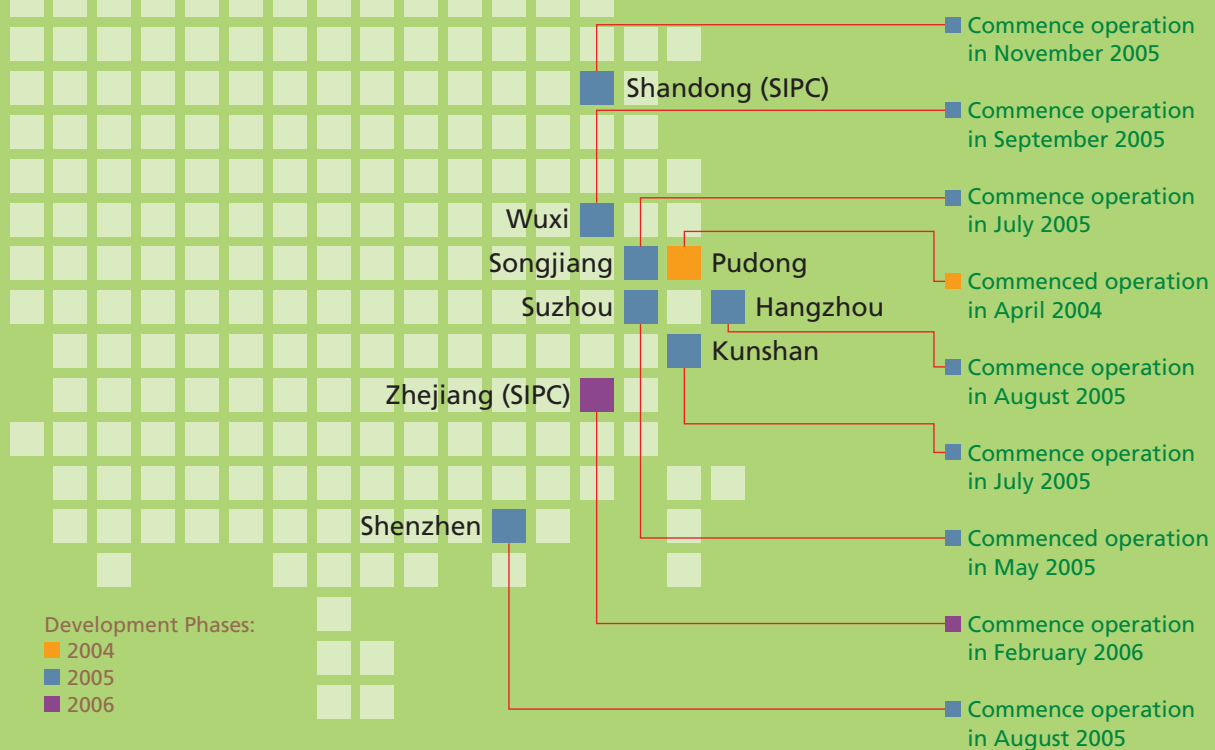






Expansion Roadmap for Catering Services and Sourcing & Initial Processing Centers ("SIPC")



The Company's successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 17 December 2004 (the "Listing Date") represented a significant milestone for FU JI. As well as enhancing our corporate reputation in the market, the listing has motivated management and staff at all levels to play an even greater role in the Group's future growth and success.

Funds raised by the initial public offering (the "IPO") of 115,000,000 new shares amounted to

approximately HK\$324.6 million (approximately equivalent to RMB344.1 million). These will be used to further strengthen the Group's capital and cash flow base and support business development.

At an operational level, the Group has pursued a strategy of organic growth across each of its business lines, thereby substantially increasing its revenue and earnings during the fiscal year 2004/05.

Turnover increased 79.8% to RMB454.7 million, and net profit

was up 100.2% to RMB165.4 million. Basic earnings per share were RMB49.8 cents (fiscal year 2003/04: RMB27.5 cents)

The Board of Directors recommends the payment of a final dividend of 3.8 HK cents per share the aggregate amount of which is approximately 30.4% of the post-IPO consolidated profit attributable to shareholders for the year.



BUSINESS REVIEW

Catering Services

The majority of the Group's future growth will come from providing quality Catering Services to business and industry. We have devoted significant resources to expand capacity and enhance productivity in this segment. During the fiscal year under review, Catering Services accounted for 52.1% of our total turnover, compared to 38.9% in the year before.

The Group's comprehensive catering solutions are supported by our centralised processing centers. Establishing the first of these in Sunqiao, Shanghai in April 2004 marked a significant step forward in strengthening this business. As the Group's first standalone processing center, it serves as a model for our other centers. By substantially enlarging our production capacity, it has empowered the Group to handle sizable individual catering orders of over 10,000.

This processing center has created important synergies with our two other complimentary business lines. Through creating higher level of centralised production and management, the Group has achieved greater standardisation and economies of scale which in turn have raised productivity and profitability.

These factors enabled our Catering Services business line to achieve turnover and operating profits of

RMB236.9 million and RMB129.0 million, respectively, representing a 140.8% and 134.4% increase compared to the previous year.

Our nationwide purchasing and sourcing power allowed us to maintain the quality of food ingredients despite increases in the cost of food during the year. These price fluctuations were also offset by effective menu adjustments, and regular and open communications with customers. Thanks to these measures, our gross profit margin continued to maintain at a healthy rate.

As at 31 March 2005, the Group was producing over 100,000 meals per day with approximately 70,000 of these produced in Shanghai and approximately 30,000 in Suzhou. This compares to over 40,000 meals per day in April 2004 with approximately 30,000 of these produced in Shanghai and approximately 10,000 in Suzhou. This remarkable increase was achieved by retaining existing customers while expanding the workforce and winning sizable new contracts.

During the year under review, our client retention rate was maintained at a satisfactorily high level of 96.0%.

To streamline the design and workflow using insights gained from Sunqiao, construction of our Suzhou and Kunshan processing centers was completed or to be completed in

May 2005 and July 2005. The upgrade of Sunqiao processing centre was completed in April 2005.



Chinese Restaurants

The Group operated three Chinese Restaurants during the year under review: Shanghai Pudong, Suzhou Xinqu and Shanghai Puxi Restaurants.

Chinese Restaurants were FU JI's second largest revenue source, contributing 39.9% of the Group's total turnover. As a cash generator, this business provides a solid foundation upon which FU JI can develop and expand its total catering activities.

Despite intense competition in the Shanghai and Suzhou Chinese Restaurant sectors, the Group enjoyed 21.3% growth in turnover and 22.7% in operating profits compared to the fiscal year 2003/04.

The average customer spending of the three Chinese Restaurants as at March 2005 increased by approximately 17% to RMB175 as compared to the same month last year.

In terms of revenue, Shanghai Pudong was the most important of the three Restaurants. During the year, it substantially increased numbers of customer and average customer spending. In the second half of the fiscal year 2004/05, we renovated some of the Restaurant's VIP rooms and introduced the "FU JI Club" VIP room dining concept. These rooms provide a more exclusive environment where corporate and VIP clients can enjoy higher quality dishes and superior menu.

Growth in this segment also benefited from Shanghai Puxi Restaurant's first full year of operations. It contributed turnover and operating profits of RMB38.1 million and RMB17.3 million respectively, an increase of 125.4% and 174.6% over the previous fiscal year. This compared to RMB16.9 million and RMB6.3 million in turnover and operating profit it contributed during its five months of operations in the fiscal year 2003/04.

In the year under review, the Suzhou Xinqu Restaurant faced a more competitive business environment.

This resulted in turnover and operating profits declining by 16.6% and 54.4% to RMB49.3 million and RMB6.2 million, respectively. Despite the intense competition, the Restaurant remained highly profitable and provided a steady stream of income for the Group. During the year under review, we successfully renewed a new 10-year rental lease through to the end of 2014 for this Restaurant.

The Group's fourth Chinese Restaurant, Suzhou Industrial Park Restaurant, will commence operations in July 2005, further strengthening this business line.

Recruiting more experienced middle management for our Chinese Restaurants has improved the overall level of management. Investments in intensive staff training and service quality programs have significantly improved staff loyalty.

During the fiscal year, we added over 70 dishes to our menus in response to customers' demand, demonstrating our commitment to food innovation. In addition to the eight traditional Chinese cuisines we have always served, guests can now taste famous dishes from a number of the other culinary styles that can be found across the country. Eclectic menus, exclusive dining environments and high quality service ensure our Restaurants are highly regarded by fine food lovers.

Convenience Food

'FU JI Home Kitchen' is a niche brand offering traditional home-style Chinese dishes to young urban couples in Shanghai and Suzhou. This new business line began operating in February 2004.

Currently, the Group uses its three Chinese Restaurants and Shanghai and Suzhou Central Processing Centers to produce convenience foods. Sales and distribution are conducted through the Chinese Restaurants, several catering sites and our existing logistics infrastructure.



FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As of 31 March 2005, the Group's total shareholders' equity amounted to

RMB679,853,000, representing an increase of 299.1% compared with 31 March 2004. As at 31 March 2005, the Group's cash and bank deposits totaled RMB313,539,000 (31 March 2004: RMB33,781,000). The Group's net current assets were RMB161,642,000 (31 March 2004: RMB6,416,000). Taking the above figures into account, together with available bank loans and other loans, management is confident that the Group will have adequate resources to settle all 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 minimal fluctuations in the exchange rates between these currencies, the Group believes that its exposure to exchange rate movement is limited.

Capital Structure

Pursuant to the Group's 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, the then holding company of the Group and became the holding company of the Group. Following the Reorganisation and the IPO, the total number of issued share capital of the Company is 415,000,000 with par value of HK\$0.01 each as at 31 March 2005.

As at 31 March 2005, the Group had short term loans from several banks bearing fixed annual rates ranging from 5.742% to 6.264% (31 March 2004: from 5.31% to 7.01%); the convertible notes and another loan payable (RMB148,876,000 in total) (31 March 2004: RMB91,740,000). As at 31 March 2005, the Group's total shareholders' equity was approximately RMB679,853,000 (31 March 2004: RMB170,348,000). Based on the above, the Group's gearing ratio was approximately 21.9% (31 March 2004: 53.9% (restated)).

Use of IPO proceeds

Shares of the Company were listed on the Main Board of the HKSE on the Listing Date with a total of 115,000,000 offer shares (including shares issued as a result of the exercise of the over-allotment option), and the net proceeds from the new shares issue of approximately HK\$324,612,000 (equivalent to approximately RMB344,089,000) (the "Net Proceeds"). As at 31 March 2005, the Net Proceeds have been utilized as follows:

- approximately RMB84 million out of approximately RMB143 million as stated in the Prospectus for the establishment of central processing centers; and
- approximately RMB2,349,000 out of approximately RMB30 million as stated in the

Prospectus for the general working capital of the Group.

Going forward, the Group will continue to utilize Net Proceeds to implement growth strategies within its various business lines in accordance with current strategies and business conditions. These will be closely reviewed and monitored by the Board of Directors.

Charge on Assets and Contingent Liabilities

As at 31 March 2005, the Group had no charges on assets or any significant contingent liabilities (31 March 2004: Nil).

Change in the Group's Structure

Other than the Reorganisation as disclosed under the paragraph "Capital Structure" above, and the establishment of three wholly-owned subsidiaries — FU JI Management Limited, Shandong Xindong Industrial Co., Ltd and Shanghai Xing Bang Catering Services Ltd, during the year under review, there has been no material change in the Group's structure. The principal subsidiaries comprise two wholly-owned operating subsidiaries: FU JI United (Suzhou) Catering Co., Ltd. and FU JI United (Shanghai) Catering Ltd.

HUMAN RESOURCE AND STAFF TRAINING

As at 31 March 2005, the Group employed approximately 1,376 employees in the PRC and Hong Kong (31 March 2004: 801



employees). All employees are remunerated according to their performance, experience and prevailing market rates. A Human Resources Committee (the "HR Committee") was established in December 2004 to approve matters of employee remuneration (including the Directors). Additionally, the HR Committee is responsible for overseeing and implementing the Group's general HR strategy and administering the Company's share option scheme (the "Scheme") to reward eligible employees (including Executive Directors of the Company) according to individual merits. No share option has been granted under the Scheme during the year under review. Additional details of the Scheme are disclosed in this Annual Report in accordance with the Rules Governing the Listing of Securities of the HKSE (the "Listing Rules").

The Group provides retirement benefits in the form of the Mandatory Provident Fund entitlement to Hong Kong employees. A similar scheme is provided to the Group's employees in the PRC. Details of retirement benefit schemes are set out in this Annual Report.

Investment in Human Capital

During the fiscal year 2004/05, the Group continuously strengthened its talent pool at all operational and functional levels to cater for fast growing business requirements and

development. The Group is proud of its ability to attract and retain the best people in the industry. It gives FU JI a valuable mix of in-depth experience and fresh energy — as well as a common desire to constantly improve.

During the year under review, a new HR team was set up which helped upgrade the Group's HR system, structure and process. Four key Vice Presidents with relevant professional experience were recruited during the fiscal year 2004/05 to oversee the human resources, finance, food safety compliance, and operational aspects of the Group. Additionally, a number of operational managers with experience in related disciplines were brought into the Group's Catering Services and Chinese Restaurants business lines to help implement corporate strategies. Moreover, the Group has retained several HR consulting firms for general recruitment as well as higher-level head-hunting.

A firm believer in developing human resources and growing the capabilities of its workforce, FU JI is fully committed to investing in staff training. Adhering to the management principle of "grooming the capabilities of subordinates", the Group has streamlined its human resource strategies and developed a high-caliber training team to provide a series of on-the-job training programs. Training staff at all levels, these cover food

hygiene and safety, management skills (including communication, decision-making and team building), and catering site management. This familiarizes staff with the Group's Competency Model in staff management and equips them with the skills to most effectively contribute.

During the year under review, the Group provided 29 training sessions comprising a total of over 10,000 hours. Approximately 20,000 staff times at different levels in the organization was recorded.

FOOD HYGIENE

The Group places the highest priority on food safety and hygiene standards in all aspects of its operations including procurement, processing, production and logistics. In addition to continuing to implement the Hazard Analysis Critical Control Point ("HACCP") standards in its business processes, the Group has engaged a third party specialist to monitor compliance with this internationally recognised food safety standard and offer recommendations.

To strengthen all aspects of food hygiene, the Group recruited an experienced chief compliance officer in February 2005. Overseeing all food safety compliance matters, he has performed a detailed food safety review of the Group's operations. A number of areas were reviewed and refinements made to ensure that the



Group meets the highest standards of food safety. The Audit Committee is also responsible for reviewing and making recommendations on the management's quarterly hygiene reports and the Group's hygiene standards.

CORPORATE GOVERNANCE

Ethically managing the Group for profitable and long-term growth is our priority. The Group has policies and practices that align the interests of its various stakeholders. We know that these rigorous governance practices will pay off for our shareholders over time. Our Board of Directors believes that good corporate governance is critical to achieving business success and fulfilling the Board's responsibilities to shareholders.

The Group strives to promote and maintain a high level of corporate governance in financial reporting, management structures, communication with shareholders and investors, and internal control procedures. Through various working committees, which are accountable to the Board, the Group, since listing, has fully committed itself to achieving high levels of corporate governance and transparency. These can be analyzed according to the following:

Audit Committee — Established on 26 November 2004, the Committee is principally responsible for reviewing and supervising the

financial reporting processes and internal control system of the Group to ensure compliance with the Listing Rules. It also assists the Board and Executive Committee to review hygiene standards and its control over hygiene. Currently, the Audit Committee is comprised of 3 Independent Non-executive Directors — Mr. Wong Chi Keung (Chairperson), Mr. Su Gang Bing and Ms. Yang Liu.

Executive Committee — Established on 6 December 2004, this Committee was delegated to be responsible for the day-to-day management and implementation of the Group's strategies. Seeking for ever higher hygiene standards and strict compliance to hygiene protocols, the Executive Committee prepares quarterly reports reviewing hygiene standards for the Audit Committee's review. Currently, Mr. Wei Dong (Chairperson), Mr. Wei Ming, Mr. Ng Kwok Choi, Mr. Dong Biao Cheng, Mr. He Zhi Wei, Dr. Collin Yao Wei Da and Mr. Hu Zhi Qiang are the members of the Committee.

Human Resources Committee — Established on 6 December 2004, this committee was delegated primarily to oversee and implement the general human resource strategy including staff compensation, pension schemes and staff development programs.

Remuneration Committee —

Established on 28 June 2005, this Committee is set up in compliance with the code provisions of Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules (the "Code Provisions"). The majority of its members are Independent Non-executive Directors with specific written terms of reference, in order to set policy and structure for the remuneration of the Group's Directors and senior management.

Voluntary quarterly reporting disclosure — Commencing from the first quarter of fiscal year 2005/06, the Group will also announce and publish its quarterly financial results on the HKSE website and in the newspaper. The first and third quarterly results announcement will be made within 45 days after the end of the reporting quarter. This proactive and voluntary disclosure will enable shareholders to access the Group's performance, financial position and prospects.

Internal control — The Audit Committee reviewed the Company's management and the Group's internal control systems. Additionally, in compliance with the Code Provisions, the Board of Directors will review the Group's internal controls systems at least once a year and report to shareholders.

Communication with shareholders and investors — To ensure timely



and fair disclosure, we have established an Investor Relations Committee. This Committee works closely with our investor relations consultants to handle enquiries from shareholders and investors throughout the year. Furthermore, the Group actively participates in investor forums and roadshows held in the PRC and abroad. It also arranges briefings and meetings with analysts and fund managers to enhance their understanding of the Group. From the Listing Date to the reporting date, the management had met with around 200 institutional investors and around 30 research analysts, both local and overseas. The Group also received regular investor audit reports from our investor relations consultants after each investor events, so that the management could internally discuss and review its investor relations program and communications strategies.

Date	Place of Investor Forums
1 March 2005	Beijing, the PRC
18–19 April 2005	London, the UK
18–19 May 2005	Beijing, the PRC

OUTLOOK

Going forward, Catering Services will be the principal growth driver for the Group and offers excellent potential. To help satisfy the PRC's growing demand for Catering Services, the Group is taking various steps including upgrading the

facilities and workflow of its three processing centers (Sunqiao, Suzhou and Kunshan). Emphasis will be placed on mechanizing and standardizing operations, improving efficiency and increasing production capacity. All these will be key to the Group expanding its client base and securing new orders from leading corporations.

With the Suzhou and Kunshan processing centers commencing operations in May 2005 and July 2005, the Group expects the scale of its catering operations within Suzhou and surrounding area to significantly increase. Production capacities of the two processing centers are estimated to be ultimately approximately 150,000 and approximately 100,000 meals per day, respectively.

The Group's success in building a world-class operational infrastructure has given it the confidence to replicate this model in other regions of the PRC. Future plans include expanding into the coastal cities of Zhejiang-Jiangsu, such as Songjiang, Hangzhou and Wuxi, as well as the Pearl River Delta at the country's southern tip.

Current expansion plans include opening four more processing centers in the coming year: Songjiang, Shenzhen, Hangzhou and Wuxi. Construction already taken place, they will commence operations in,

July, August, August and September 2005, respectively. The Group expects that by the end of second quarter of the fiscal year 2005/06, total production capacity will be approximately 500,000 meals per day.

Providing Catering Services to the education and railway segments are new revenue sources the Group is exploring.

The Group will seek reliable and low cost suppliers of raw materials. It will also establish Sourcing and Initial Processing Centers in Shandong and Zhejiang to reduce procurement costs and streamline procedures, thereby creating economies of scale.

The Group will continue focusing on improving hygiene standards, processes and services. Apart from HACCP, the Group will adopt other comparable standards such as ISO 14000, SOP (a food safety standard that applies to in-flight catering) and Good Manufacturing Practice ("GMP").

We will continue recruiting quality middle and senior managers and offer staff at all levels training programs to help them cope with increasingly sophisticated operations and management requirement.