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1. REORGANISATON AND BASIS OF PRESENTATION

(a) 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. Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (collectively referred to as the "Group") completed on 26 November 2004 to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE"), the Company became the holding company of the subsidiaries now comprising the Group. The Company's shares were listed on the Main Board of the HKSE on 17 December 2004.

Further details of the Reorganisation are set out in the Prospectus of the Company (the "Prospectus") dated 7 December 2004 and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 17 to the financial statements.

(b) Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 26 November 2004. Accordingly, the consolidated results of the Group for the years ended 31 March 2004 and 2005 include the results of the Company and its subsidiaries with effect from 1 April 2003 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 March 2004 is a combination of the balance sheets of the Company and its subsidiaries at 31 March 2004. All material intra-group transactions and balances have been eliminated on combination/consolidation. In the opinion of the Directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKSE. A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies of enterprises so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(f)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Fixed assets and depreciation

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(f)). The cost of an asset comprises its purchase price and directly attributable costs of bringing the assets to working condition and location for its intended use.

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the lease terms
Furniture and equipment	3–5 years
Motor vehicles	5–7 years

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(e) Construction in progress

Construction in progress represents fixed assets under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(f)). Cost comprises construction expenditure incurred, cost of machinery and other direct costs capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(f) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the fixed assets, construction in progress and investments in subsidiaries may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Impairment of assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(i) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to the Group's retirement benefit schemes are recognised as an expense in the income statement as incurred.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that it, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Income tax (Continued)

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settled simultaneously.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Revenue from provision of Catering Services and Chinese Restaurants operation*
Revenue arising from provision of Catering Services and Chinese Restaurants operation is recognised when related services are rendered to customers.

(ii) *Revenue from sales of food products and waste products*
Revenue from sales of food products and waste products is recognised when the products are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership.

(iii) *Interest income*
Interest income from bank deposits is accrued on a time-apportioned basis by references to the principal outstanding and at the rate applicable.

(iv) *Rental income*
Rental income is recognised in the income statement on a straight-line basis over the term of leases.

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Revenue recognition (Continued)

(v) *Government grant*

Government grants are recognised as revenue when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to it.

(m) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(n) Consumable stores

Consumable stores comprise the cost of cutlery, utensils and other consumable materials.

Consumable stores are expensed in the income statement in the period in which they are incurred.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than Renminbi are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of enterprises which have a reporting currency other than Renminbi are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Segment reporting (Continued)

In accordance with the Group's internal financial reporting, the Group has identified the following business segments:

(i) *Catering Services business*
Catering Services segment is engaged in the provision of Catering Services for institutional and individual customers.

(iI) *Chinese Restaurants business*
Chinese Restaurants operation segment is engaged in the provision of dining services through the operation of a chain of Chinese Restaurants.

(iii) *Convenience Food business*
Convenience Food segment is engaged in the production and sale of Convenience Food products.

The Group's revenue and contribution to profit from operations by business segment is disclosed in notes 4 and 14, respectively. Geographical segment information is not presented as the Group operates predominately in the People's Republic of China (the "PRC").

3. RECENTLY ISSUED ACCOUNTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commerced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. TURNOVER

The Group is principally engaged in the provision of Catering Services, the operation of Chinese Restaurants and the production and sale of Convenience Food products.

Turnover represents the sales value of goods supplied and services provided to customers, which excludes business tax and other government surcharge, less returns and discounts. Turnover recognised during the year is analysed by the principal activities as follows:

	2005 **RMB'000**	2004 RMB'000
Catering Services business	**236,856**	98,374
Chinese Restaurants business	**181,240**	149,474
Convenience Food business	**36,599**	5,053
	454,695	252,901

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5. OTHER REVENUE

	2005 RMB'000	2004 RMB'000
Government grants	**8,005**	5,481
Rental income	**243**	—
Income from sale of waste products	**10**	147
Interest income from bank	**291**	27
Others	**221**	83
	8,770	5,738

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2005 RMB'000	2004 RMB'000
Finance costs:		
Interest on bank borrowings wholly repayable within five years	**2,569**	2,487
Interest on convertible notes and other loan payable	**2,556**	496
	5,125	2,983
Staff costs:		
Retirement costs		
— contributions to defined contribution plans	**1,074**	572
Salaries, wages and other benefits	**18,157**	8,340
	19,231	8,912
Other items:		
Cost of inventories consumed	**173,713**	93,836
Auditors' remuneration	**848**	—
Operating lease rentals in respect of rented premises	**15,262**	12,437
Depreciation	**26,062**	16,275
(Write-back of provision)/provision for doubtful debts	**(70)**	1,338

7. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current tax — the PRC		
Provision for the year	**31,370**	18,213

No provision for Hong Kong profits tax is made as the Group has no estimated assessable profits arising in Hong Kong for each of the years ended 31 March 2005 and 2004.

The provision for the PRC income tax is calculated based on the statutory income tax rate of 33% on the assessable profit of Fu Ji (Suzhou) Catering Co., Ltd. and on the preferential income tax rate of 15% on the assessable profit of Fu Ji (Shanghai) Catering Ltd..

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005 RMB'000	2005 %	2004 RMB'000	2004 %
Profit before taxation	**196,787**		100,827	
Notional tax on profit before tax, calculated at the PRC statutory rate of 33%	**64,940**	**33.0**	33,273	33.0
Effect of different tax rates in other tax jurisdictions	**(32,124)**	**(16.3)**	(16,435)	(16.3)
Tax effect of non-deductible expenses	**126**	**—**	922	0.9
Tax effect of additional tax deductions	**(3,053)**	**(1.6)**	—	—
Tax effect of unused tax losses not recognised	**1,481**	**0.8**	453	0.5
Actual tax expenses	**31,370**	**15.9**	18,213	18.1

(c) The Group had no significant potential deferred tax assets/liabilities for the year ended 31 March 2005 (year ended 31 March 2004: Nil)

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8. DIRECTORS' REMUNERATION

Details of Directors' remuneration during the year are as follows:

Year ended 31 March 2005

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors					
Mr. Wei Dong	—	469	—	1,300	1,769
Ms. Yao Juan	—	258	—	—	258
Mr. Tung Fai	—	159	—	—	159
Ms. Ku Wang	—	48	—	—	48
Non-executive Director					
Ms. Josephine Price	—	—	—	—	—
Independent Non-executive Directors					
Ms. Tsui Wai Ling Carlye	44	—	—	—	44
Mr. Wong Chi Keung	44	—	—	—	44
Ms. Yang Liu	32	—	—	—	32
Mr. Su Gang Bing	32	—	—	—	32
	152	934	—	1,300	2,386

Year ended 31 March 2004

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive Directors					
Mr. Wei Dong	—	44	—	—	44
Ms. Yao Juan	—	44	—	—	44
Mr. Tung Fai	—	—	—	—	—
Ms. Ku Wang	—	—	—	—	—
Non-executive Director					
Ms. Josephine Price	—	—	—	—	—
Independent Non-executive Directors					
Ms. Tsui Wai Ling Carlye	—	—	—	—	—
Mr. Wong Chi Keung	—	—	—	—	—
Ms. Yang Liu	—	—	—	—	—
Mr. Su Gang Bing	—	—	—	—	—
	—	88	—	—	88

8. DIRECTORS' REMUNERATION (Continued)

An analysis of Directors' remuneration by the number of Directors and remuneration range is as follows:

	2005 Number of Directors	2004 Number of Directors
RMB		
Nil–1,000,000	**8**	9
1,000,001–1,500,000	**—**	—
1,500,001–2,000,000	**1**	—
	9	9

There were no amounts paid during the year ended 31 March 2005 (year ended 31 March 2004: Nil) to the Directors in connection with their retirement from employment with the Group or inducement to joint. There was no any arrangement under which a Director waived or agreed to waive any remuneration during the current year (year ended 31 March 2004: Nil).

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two (year ended 31 March 2004: two) Directors of the Company during the year whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries, allowances and other benefits	**1,075**	108
Contributions to retirement benefit schemes	**19**	—
Bonus	**265**	—
	1,359	108
Number of senior management	**3**	3

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	2005 Number of individuals	2004 Number of individuals
RMB		
Nil–1,000,000	**3**	3

There were no amounts paid during the year ended 31 March 2005 (year ended 31 March 2004: Nil) to these three highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

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10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately RMB3,220,000 which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	RMB'000
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	(3,220)
Interim dividend from a subsidiary attributable to the profit of the current financial year, approved and paid during the year	22,790
The Company's profit for the year (note 26)	19,570

11. DIVIDENDS

Dividends attributable to the year:

	2005 RMB'000	2004 RMB'000
Final dividend of HK3.8 cents (approximately equivalent to RMB4.028 cents) per share proposed after the balance sheet date	**16,716**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2005 is based on the profit attributable to shareholders of RMB165,417,000 and on the weighted average of 332,301,370 ordinary shares in issue during the year. The calculation of basic earnings per share for the year ended 31 March 2004 was based on the profit attributable to shareholders of RMB82,614,000 and on the 300,000,000 ordinary shares of the Company in issue as at the date of the Prospectus, as if the shares were outstanding throughout the year ended 31 March 2004.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2005 is based on the profit attributable to shareholders but before interest on convertible notes of RMB166,178,000 and the weighted average number of ordinary shares of 357,670,981 shares after adjusting for the effect of all dilutive potential ordinary shares. The calculation of diluted earnings per share for the year ended 31 March 2004 was based on profit attributable to shareholders but before interest on convertible notes of RMB82,791,000 and the weighted average number of 304,377,492 ordinary shares in issue comprising 300,000,000 ordinary share, as if the shares were outstanding throughout the year ended 31 March 2004, after adjusting for the effect of all dilutive potential ordinary shares.

12. EARNINGS PER SHARE (Continued)

(c) Reconciliation

	2005 Number of shares	2004 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**332,301,370**	300,000,000
Deemed issue of ordinary shares for no consideration	**25,369,611**	4,377,492
Weighted average number of ordinary shares used in calculating diluted earnings per share	**357,670,981**	304,377,492

13. RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement scheme (the "Scheme") organised by the PRC municipal government whereby the PRC subsidiaries are required to contribute to the Scheme for the retirement benefits of eligible employees. Contributions made are calculated based on 20% to 22.5% of the payroll costs of the eligible employees. The PRC municipal government is responsible for the administration of the Scheme. The PRC subsidiaries are not liable to any retirement benefits beyond its obligation to contribute.

Historically, the Group did not operate any retirement benefit schemes for its employees in Hong Kong. Since 1 April 2004, the Group has commenced to employ staff in Hong Kong, and so a mandatory provident fund ("MPF") scheme has been set up by the Group which is available to all Hong Kong employees. The Group and the employees' contribution to the MPF scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

Contributions made to the above schemes by the Group amounted to approximately RMB1,074,000 (year ended 31 March 2004: RMB572,000) for the year.

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14. SEGMENT REPORTING

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.

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

	2005 RMB'000	2004 RMB'000
Turnover		
— Catering Services business	**236,856**	98,374
— Chinese Restaurants business	**181,240**	149,474
— Convenience Food business	**36,599**	5,053
	454,695	252,901
Segment results		
— Catering Services business	**129,000**	55,037
— Chinese Restaurants business	**51,938**	42,316
— Convenience Food business	**19,226**	2,810
	200,164	100,163
Unallocated income, net	**1,748**	3,647
Profit from operations	**201,912**	103,810
Finance costs	**(5,125)**	(2,983)
Income tax	**(31,370)**	(18,213)
Profit attributable to shareholders	**165,417**	82,614
Depreciation and amortisation for the year		
— Catering Services business	**6,093**	405
— Chinese Restaurants business	**18,390**	15,870
— Convenience Food business	**1,424**	—
— Unallocated items	**155**	—
	26,062	16,275
(Write-back of provision)/provision for bad and doubtful debts		
— Catering Services business	**(606)**	991
— Chinese Restaurants business	**536**	347
— Convenience Food business	**—**	—
	(70)	1,338

14. SEGMENT REPORTING (Continued)

(b) Additional information on business segments:

	2005 RMB'000	2004 RMB'000
Segment assets		
— Catering Services business	**431,074**	9,712
— Chinese Restaurants business	**151,394**	157,554
	582,468	167,266
Unallocated assets	**315,114**	138,985
Total assets	**897,582**	306,251
Segment liabilities		
— Catering Services business	**5,250**	2,375
— Chinese Restaurants business	**18,348**	24,646
	23,598	27,021
Unallocated liabilities	**194,131**	108,882
Total liabilities	**217,729**	135,903
Capital expenditure during the year		
— Catering Services business	**333,045**	1,694
— Chinese Restaurants business	**38,268**	28,895
— Unallocated items	**760**	66,801
	372,073	97,390

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15. FIXED ASSETS

	The Group					
	Leasehold improvements RMB'000	Furniture and equipment (Restaurants) RMB'000	Furniture and equipment (Processing Centres) RMB'000	Furniture equipment (Office) RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
At 1/4/2004	160,405	12,817	15,063	1,301	2,785	192,371
Additions	2,217	368	—	407	941	3,933
At 31/3/2005	162,622	13,185	15,063	1,708	3,726	196,304
Accumulated depreciation						
At 1/4/2004	33,654	5,164	—	580	676	40,074
Charge for the year	19,819	2,445	2,978	376	444	26,062
At 31/3/2005	53,473	7,609	2,978	956	1,120	66,136
Net book value						
At 31/3/2005	109,149	5,576	12,085	752	2,606	130,168
At 31/3/2004	126,751	7,653	15,063	721	2,109	152,297

16. CONSTRUCTION IN PROGRESS

	The Group	
	2005 RMB'000	2004 RMB'000
At 1 April	**52,975**	26,476
Additions	**358,239**	93,383
Transfer to fixed assets	**—**	(66,884)
At 31 March	**411,214**	52,975

17. INVESTMENTS IN SUBSIDIARIES

	The Company RMB'000
Unlisted shares, at cost	3

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 March 2005 are as follows:

Name of company	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest Group's effective holding	Held by the Company	Held by subsidiary	Principal activities
Sky Achieve Limited ("Sky Achieve") (note (i))	British Virgin Islands ("BVI")	US$200	100%	100%	—	Investment holding
Excelwit Group Limited	BVI	US$100	100%	100%	—	Investment holding
Prosper State International Limited	BVI	US$100	100%	100%	—	Investment holding
Inborn Investments Limited	BVI	US$200	100%	—	100%	Investment holding
FU JI Management Limited	Hong Kong	HK$100	100%	—	100%	Provision of administrative services to group companies
Fu Ji United (Suzhou) Catering Co. Ltd. ("Suzhou Fu Ji") (note (i))	The PRC	US$968,500	100%	—	100%	Operation of Chinese Restaurant and provision of Catering Services
Fu Ji United (Shanghai) Catering Ltd. ("Shanghai Fu Ji") (note (i))	The PRC	RMB15,000,000	100%	—	100%	Operating of Chinese Restaurants and provision of Catering Services
Shangdong Xingdong Industrual Co., Ltd.	The PRC	HK$126,000,000	100%	—	100%	Business operation not yet commenced
Shanghai Xing Bang Catering Services Ltd.	The PRC	HK$100,000,000	100%	—	100%	Business operation not yet commenced

Notes:

(i) Subsidiaries acquired by the Company pursuant to the Reorganisation

(ii) All subsidiaries established in the PRC are wholly foreign-owned enterprises

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18. INVENTORIES

	The Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**2,864**	1,276

All inventories were stated at cost as at 31 March 2005 and 2004.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Amounts due from subsidiaries	**—**	—	**372,117**
Trade receivables	**7,820**	7,547	**—**
Rental and other deposits			
— property rental deposits	**3,551**	2,028	**—**
— purchase deposits	**14,800**	—	**—**
— other deposits	**720**	463	**—**
Amount receivable for cancellation of a property purchase transaction	**—**	52,127	**—**
Advances to suppliers	**614**	—	**—**
Advances to employees	**334**	65	**—**
Prepayments	**1,307**	3,692	**—**
Others	**750**	—	**—**
	29,896	65,922	**372,117**

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the trade and other receivables, apart from rental and other deposits, are expected to be recovered within one year.

19. TRADE AND OTHER RECEIVABLES (Continued)

Customers are generally granted with credit terms ranging from 30 days to 180 days. An ageing analysis of trade receivables is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Due within 1 month	**3,386**	2,466
Due after 1 month but within 3 months	**3,164**	2,764
Due after 3 months but within 6 months	**1,270**	2,317
Due after 6 months	**1,427**	1,497
	9,247	9,044
Less: Provision for bad and doubtful debts	**(1,427)**	(1,497)
	7,820	7,547

20. CASH AND CASH EQUIVALENTS

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Cash at bank	**312,115**	33,123	**53,835**
Cash on hand	**1,424**	658	**—**
Total	**313,539**	33,781	**53,835**

21. BANK LOANS

Bank loans are repayable as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year	**91,000**	50,400

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21. BANK LOANS (Continued)

As at 31 March 2005, the bank loans were analysed as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Bank loans secured by		
— joint corporate guarantees *(note (a))*	—	8,500
— corporate guarantee by Shanghai Fu Ji	**15,000**	—
— corporate guarantee by Sky Achieve	**66,000**	—
— others *(note (b))*	**10,000**	37,000
	91,000	45,500
Unsecured bank loans	—	4,900
	91,000	50,400

Notes:

(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. This bank loan was discharged on 29 December 2004.

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 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 guarantees provided by Suzhou Fu Ji. This bank loan was discharged on 25 February 2005.

(b) The bank loan of RMB10,000,000 as at 31 March 2005 was secured by corporate guarantee put up by 蘇州國發中小企業擔保投資有限公司, an independent third party.

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 discharged on 30 June 2004.

22. CONVERTIBLE NOTES AND OTHER LOAN PAYABLE

On 30 December 2003, Sky Achieve and an independent investor (the "Investor"), inter alia, entered into the subscription and investment agreement (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 (equivalent to RMB16,536,000) each. The first and the second tranches of the Note were issued on 16 January 2004 and 7 June 2004, 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.

On 30 December 2003, Sky Achieve and the Investor, inter alia, also entered into a loan agreement (the "Loan Agreement") whereby the Investor agreed to advance a loan (the "Loan") for the sum of US$3,000,000 (equivalent to RMB24,804,000) 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.

22. CONVERTIBLE NOTES AND OTHER LOAN PAYABLE (Continued)

On 22 November 2004, the Company, Sky Achieve and the Investor, inter alia, entered into an agreement supplement to the Subscription Agreement (the "Supplemental Agreement") whereby, amongst other terms, the Company and all of the original parties to the Subscription Agreement agreed that (1) the conversion rights of the Note be amended to carry conversion rights into equity shares in the Company instead of Sky Achieve and (2) the obligations under the Note and the Loan were novated to the Company so that the obligations under the Note and the Loan have become the obligations of the Company with effect from the commencement of the listing of the Company's shares on the HKSE.

Upon exercise of the conversion rights attached to the Note, the total number of shares to be issued by the Company will be 36,645,726. The Investor has undertaken to the Company and the HKSE that, within six months from the Listing Date, it will not exercise the conversion rights and will not transfer the Note to any third parties.

23. TRADE AND OTHER PAYABLES

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Trade payables	**6,804**	6,273	—
Deposits received and receipts in advance	**6,625**	5,949	—
Payables for acquisition of fixed assets	**92**	30	—
Accrued staff costs	**4,180**	2,672	—
Other accrued expenses	**7,970**	2,982	**2,364**
Other tax payables	**4,585**	8,100	—
Other payables	**4,027**	1,015	—
Amount due to a director	—	2,248	—
Amounts due to subsidiaries	—	—	**2,055**
	34,283	29,269	**4,419**

The amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The amount due to a director was unsecured, non-interest bearing and had no fixed terms of repayment.

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Due within 1 month	**1,407**	927
Due after 1 month but within 3 months	**1,298**	2,620
Due after 3 months but within 6 months	**1,367**	2,012
Due after 6 months	**2,732**	714
	6,804	6,273

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24. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current income tax in the consolidated balance sheet represents:

	The Group	
	2005	2004
	RMB'000	RMB'000
At 1 April	**14,894**	11,115
Provision for PRC income tax for the year	**31,370**	18,213
PRC income tax paid	**(11,694)**	(14,434)
At 31 March	**34,570**	14,894

(b) **Deferred taxation**

The Group had no material deferred taxation not provided for at 31 March 2005 and 2004.

25. SHARE CAPITAL

		2005		2004	
	Note	**Number of shares**	**RMB'000**	Number of shares	RMB'000
Authorised:					
Ordinary shares of US$1.00 each	(a)	—	—	50,000	413
Ordinary shares of HK$0.01 each	(b)	**2,000,000,000**	**21,200**	—	—
		2,000,000,000	**21,200**	50,000	413
Issued:					
At 1 April	(a)	—	—	100	1
Issuance of new shares of Sky Achieve		—	—	100	1
Issuance of shares pursuant to the Reorganisation	(b) & (c)	**100**	—	—	—
Capitalisation issue	(d)	**299,999,900**	**3,180**	—	—
Issuance of shares under the placing and public offer	(e)	**100,000,000**	**1,060**	—	—
Issuance of shares under the exercise of over-allotment option	(f)	**15,000,000**	**159**	—	—
At 31 March		**415,000,000**	**4,399**	200	2

Notes:

(a) Share capital in the Group's consolidated balance sheet as at 1 April 2003 and 31 March 2004 represented the authorised and issued share capital of Sky Achieve.

(b) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 April 2004 with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each, one of which was issued at par, nil paid, to the subscriber, which was subsequently transferred to Mr. Wei Dong on 29 April 2004. On 29 April 2004, 99 new ordinary shares of HK$0.01 each were alloted and issued, nil paid.

Pursuant to the written resolutions of all the shareholders of the Company passed on 26 November 2004, the authorised share capital of the Company was increased from HK$100,000 to HK$20,000,000 by the creation of an additional 1,990,000,000 ordinary shares.

25. SHARE CAPITAL (Continued)

(c) Pursuant to the written resolutions of all the shareholders of the Company passed on 26 November 2004, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of Sky Achieve, an aggregate of 100 ordinary shares of HK$0.01 each held by the Company's shareholders were swapped with the former shareholders of Sky Achieve in accordance with their respective equity interests. The swap of shares resulted in the Company becoming the holding company of the Group.

(d) Authorised by a written resolution of all the shareholders passed on 26 November 2004, the Directors capitalised an amount of HK$2,999,999 (approximately equivalent to RMB3,180,000) standing to the credit of the share premium account of the Company and appropriated such amount as capital to pay up in full at par 299,999,900 ordinary shares of HK$0.01 each for allotment and issue to persons whose names appeared on the register of members of the Company at the close of business on 26 November 2004 in the same portion to then existing shareholders of the Company.

(e) On 17 December 2004, an aggregate of 100,000,000 ordinary shares of HK$0.01 each were issued and offered for subscription at a price of HK$3.10 per share upon the listing of the Company's shares on the Main Board of the HKSE. The proceeds of HK$1,000,000 (approximately equivalent to RMB1,060,000), representing the par value, were credited to the Company's shares capital. The remaining proceeds of HK$309,000,000 (equivalent to RMB327,540,000), before the share issue expenses, were credited to the share premium account.

(f) On 5 January 2005, the underwriters of the placing exercised the over-allotment option for the issuance of 15,000,000 ordinary shares of HK$0.01 each at HK$3.10 per share. The total consideration amounted to HK$46,500,000 (approximately equivalent to RMB49,290,000) before the related issue expenses.

26. RESERVES

Movements in reserves of the Group and the Company during the year are set out below:

(i) The Group

	Share premium RMB'000 (Note (a))	Merger reserve RMB'000 (Note (b))	Retained profits RMB'000	Total RMB'000
At 1 April 2003	—	—	64,732	64,732
Shares of Sky Achieve issued	43,184	—	—	43,184
Arising from the Reorganisation	—	(20,184)	—	(20,184)
Profit for the year	—	—	82,614	82,614
At 31 March 2004	43,184	(20,184)	147,346	170,346
At 1 April 2004	43,184	(20,184)	147,346	170,346
Arising from the Reorganisation	(43,184)	43,184	—	—
Premium on issuance of shares pursuant to the Reorganisation (Note 25(b) and (c))	1	—	—	1
Capitalisation issue (Note 25(d))	(3,180)	—	—	(3,180)
Premium on issuance of shares under the placing and public offer (Note 25(e))	327,540	—	—	327,540
Premium on issuance of shares under the exercise of over-allotment option (Note 25(f))	49,131	—	—	49,131
Share issue expenses	(33,801)	—	—	(33,801)
Profit for the year	—	—	165,417	165,417
At 31 March 2005	339,691	23,000	312,763	675,454

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26. RESERVES (Continued)

(ii) The Company

	Share premium RMB'000 (Note (a))	Retained profits RMB'000	Total RMB'000
At 8 April 2004 (date of incorporation)	—	—	—
Premium on issuance of shares pursuant to the Reorganisation (Note 25(b) and (c))	1	—	1
Capitalisation issue (Note 25(d))	(3,180)	—	(3,180)
Issuance of shares under the placing and public offer (Note 25(e))	327,540	—	327,540
Share issue expenses	(33,801)	—	(33,801)
Premium on issuance of shares under the exercise of over-allotment option (Note 25(f))	49,131	—	49,131
Profit for the year	—	19,570	19,570
At 31 March 2005	339,691	19,570	359,261

(a) *Share premium*

Share premium as at 31 March 2004 represents the share premium of Sky Achieve.

Share premium as at 31 March 2005 represents the share premium of the Company, the application of which is governed by the Companies Law of the Cayman Islands. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

(b) *Merger reserve*

Merger reserve of the Group represents the difference between the nominal value of shares of subsidiaries acquired over the nominal value of the shares issued by the Company in exchange therefor.

(c) *Distributable reserves*

As at 31 March 2005, in the opinion of the Directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately RMB359,261,000 subject to the restrictions stated above.

27. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
— capital contribution to subsidiaries	**133,560**	—
— acquisition of a property in Shanghai, the PRC	**11,084**	—
— acquisition of other fixed assets	**32,748**	—
	177,392	—

At the balance sheet date, the Company had no significant capital commitments.

(b) Operating lease commitments

At 31 March 2005, the total future minimum lease payments in respect of rental properties under non-cancellable operating leases are payable as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year	**17,054**	12,976
After 1 year but within 5 years	**94,886**	51,026
After 5 years	**63,720**	29,505
	175,660	93,507

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases.

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27. COMMITMENTS (Continued)

(b) Operating lease commitments (Continued)

At 31 March 2005, the Group contracted with tenants for the following total future minimum lease receivables:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year	**1,698**	—
After 1 year but within 5 years	**6,196**	—
After 5 years	**1,667**	—
	9,561	—

28. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 March 2005 and 2004, the following material related party transactions took place:

(a) Guarantees given by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming, collectively being the controlling shareholders of the Company as a group of persons, in respect of the Subscription Agreement

Pursuant to the 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 be at any time 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 the Subscription Agreement.

These personal guarantees in respect of repayment obligations put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming have been released upon the listing of the Company pursuant to the Supplemental Agreement.

28. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Guarantees given by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming in respect of the Loan Agreement

Pursuant to the Loan Agreement, 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.

These personal guarantees in respect of repayment obligations put up by Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming have been released upon the listing of the Company pursuant to the Supplemental Agreement.

(c) Guarantee given by a related company

During the year ended 31 March 2004, Ecological Food, in which Mr. Wei Dong had controlling interest until 23 February 2004, has given corporate guarantee to a bank to secure a loan of RMB3,500,000 granted to Shanghai Fu Ji. On 24 February 2004, Mr. Wei Dong has transferred all his interest in Ecological Food 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.

(d) Transfer of trade marks "FORUNITE"

On 1 February 2004, Sky Achieve and HKGI Limited, in which Mr. Wei Dong, Ms. Yao Juan and Mr. Wei Ming have controlling interest, entered into a sale and purchase agreement whereby HKGI Limited agreed to transfer its registered trade marks and trade mark application to Sky Achieve at nil consideration.

(e) 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 wholly foreign-owned enterprise ("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 statutory tax rate of 33%. However, according to the written confirmation from the Tax Bureau (3rd Branch) of Pudong District of Shanghai (the "Pudong Tax Bureau") dated 13 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.

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28. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(e) Tax indemnity (Continued)

The PRC legal adviser 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 obligation 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 RMB33,435,000 (2004: RMB6,118,000) and RMB39,553,000 (2004: RMB6,118,000) for the year ended 31 March 2005 and the period up to 31 March 2005, respectively, and will not subject to any penalty.

Similarly, under local tax authority regulations in Suzhou, Suzhou Fu Ji was entitled to an income tax exemption of the two years form 1 January 2000 to 31 December 2001, as opposed to PRC national tax laws the Suzhou Fu Ji would have entitled to one year exemption. Suzhou Fu Ji has obtained a written confirmation from the Tax Bureau (4th 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 the 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 reason.

29. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 March 2005 to be Million Decade Limited, which was incorporated in the BVI.