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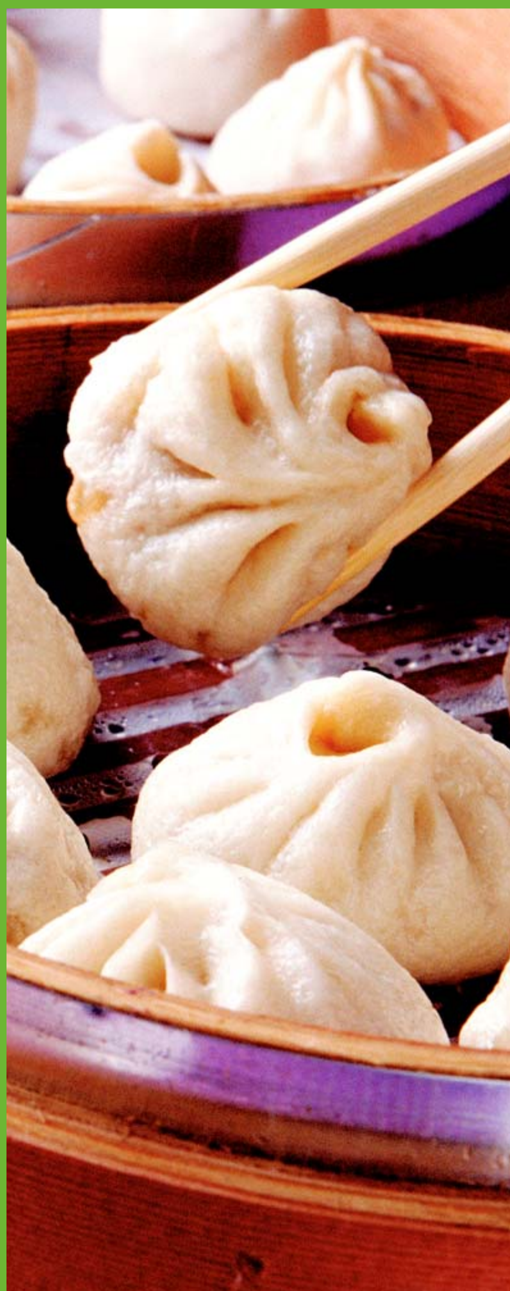

FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (known together as the "Group") enjoyed exceptional growth in revenue and earnings during the year ended 31 March 2006. Turnover for the year increased by 75.2% to approximately RMB797 million compared with the fiscal year 2004/05. The Group's gross profit margin for the year ended 31 March 2006 was 56.8% (fiscal year 2004/05: 61.8%). Net profit was up 52.0% to approximately RMB251 million, and basic earnings per share were RMB56.5 cents (fiscal year 2004/05: RMB49.8 cents).

Turnover

Due to increasing demand for the Group's catering services, the Catering Services business became the Group's major growth driver during the year under review, resulting in a remarkable 134.5% increase in turnover compared with the fiscal year 2004/05. The Group continues striving to expand capacity, securing new catering contracts and retaining existing customers. All these contributed significantly to the excellent performance of the Group's Catering Services operations.

Gross and Net Profits

However, the Group's gross profit margin and operating profit margin for the year under review fell. This mainly resulted from the Group's strategic shift towards larger catering contracts, and because the percentage of overall revenue coming from its Chinese Restaurants business is decreasing.

Moreover, the Group opened four new/upgraded processing centers that became operational during the year. Their relatively low utilization rates during the initial stage of operations led to a lower overall operating profit margin compared to the last fiscal year. However, the Group's stronger operational efficiency and greater economies of scale resulting from larger number of catering meals being served helped minimize the negative impact. In the long run, this expansion will undoubtedly benefit the Group by strengthening its production capabilities and infrastructure base, allowing it to secure larger contracts that will lead to substantial earnings.

The Company issued five-year zero coupon convertible bonds (the "Bonds 2010") in October 2005 raising net proceeds worth approximately HK$578.8 million. This was largely invested in developing the new centralized processing center in Jiading, Shanghai, which will steadily come on-stream in the third quarter of the fiscal year 2006/07. The remaining amount will be retained as working capital for the Group.

During the current year – to comply with Hong Kong Accounting Standards ("HKAS") 32 and 39, which require convertible bonds and notes issued by the Group to be split into equity and liability components at initial recognition and the liability component be recognized at its fair value – the Group is required to subsequently carry the liability component at amortized cost taking into account the redemption premium that would have been paid upon maturities, notwithstanding that the exercise prices of the bonds and notes are far below the market price of the Company's shares subsequent to their issuance. As a direct result of this new accounting policy, there was a non-cash charge of approximately RMB13,866,000 to the Group's net profits for the year ended 31 March 2006.

Dividend

The Board of Directors (the "Board") had declared and paid an interim dividend of HK cents 7.5 per share for the fiscal year 2005/06 (fiscal year 2004/05: nil), and recommends the payment of a final dividend of HK cents 7.8 per share for the fiscal year 2005/06 (fiscal year 2004/05: HK cents 3.8). The aggregate amount of dividends for the fiscal year 2005/06 represents approximately 30.0% of the consolidated profit attributable to shareholders for the year.

MARKET REVIEW

Riding on strong economic and industrial growth, numerous enterprises and institutions have emerged in China in recent years. These companies are seeking to reduce non-core business activities and costs and thus, an increasing number are looking to out-source catering operations to professional caterers.

Nonetheless, contract catering in China is still at an early stage and the penetration rate is much lower than in more established overseas markets. Keenly being aware that contract catering in China can only grow, the Group has developed a solid base in the Yangtze River Delta region and is striving to strategically expand its catering business into Beijing and other coastal regions with high potential, such as Shangdong province and the Pearl River Delta region.

The Group places absolute priority on food safety and hygiene; and in using fresh, high quality food ingredients to ensure that all the Group's meals and dishes offer high nutritional value. The Group believes that upholding these values will allow it hold its own against intense competition and maintain a dominant position in the Chinese Restaurants and Catering Services industries in China.

BUSINESS REVIEW

The Group's mission is to provide integrated food services to a range of modern-minded Mainland customers that match their dining values, expectations and aspirations. These include corporations, schools, households, and busy city-dwellers.

Leveraging the Group's vertically integrated business model and network, the Group enjoys full control of its entire supply chain – from initial sourcing and processing of certain food ingredients to delivering meals and dishes to customers. All these make the Group highly flexible and able to provide customized catering services that meet the highly individual needs of diverse customers.

Catering Services

Accounting for 69.7% of total Group's turnover, Catering Services continues to be the Group's key business driver. In the year under review, this sector performed exceptionally well compared to the previous fiscal year. Revenue jumped by 134.5% to approximately RMB555 million, and operating profit grew by 89.6% to approximately RMB245 million.

During the year under review, the Group engaged in two main types of contract catering: institutional and school.

Institutional catering

The Group mainly provided catering services to large-scale labor-intensive factories and industrial enterprises within the Shanghai, Suzhou and Shenzhen industrial zones. Having secured a number of sizable new catering contracts during the fiscal year 2005/06, the Group enjoyed a high customer retention rate of 96.4% for the Group's overall Catering Services business – a key factor in our sustained business growth. Moreover, increasing headcounts in these institutions ensured a growing demand for meals from our existing customers. The Group has developed nationwide strategic alliances with selected customers whereby we provided catering services to their various facilities in a number of coastal cities. In the future, the Group confidently expects to sign more such contracts with large nationwide institutions.

Catering Services *(Continued)*

School catering

The Group provided catering services to various tertiary educational institutions mainly located in Shanghai and Suzhou. During the year under review, the Group's school catering business enjoyed an excellent success rate in acquiring new customers. This had much to do with the relevant authorities' policy of encouraging the outsourcing of school meals to renowned large-scale professional caterers such as the Group. The Group was able to satisfy the needs of these institutions by supplying students and staffs with tasty, highly nutritious, value-for-money meals. As of 31 March 2006, the Group had catering contracts with 6 tertiary institutions and is currently in discussion with numerous other educational bodies.

During the fiscal year 2005/06, the Group made significant progress in its Catering Services sector. Although there were delays in opening Hangzhou and Wuxi centralized processing centers, the Group successfully opened four new/ upgraded processing centers in Suzhou, Shenzhen, Songjiang (Shanghai) and Kunshan (Suzhou). These new and upgraded facilities have increased the Group's total production capacity to approximately 700,000 meals sets per day as of 31 March 2006. This compares to around only 150,000 as of 31 March 2005.

To help sustain long-term development, the Group started construction of Jiading Centre, a new centralized processing center, in the fiscal year 2005/06. Moreover, the Group established four sourcing and initial processing centers (the "SIPCs") network in Shandong, Zhejiang and Kunshan during the fiscal year 2005/06. These will enable the Group to directly process fresh ingredients that it has directly purchased from origin source.

As of 31 March 2006, the Group produced over 350,000 meals per day, with Shanghai, Suzhou and Shenzhen producing approximately 168,000, 112,000 and 70,000 respectively. This compares to 31 March 2005, when the Group produced approximately 100,000 meals per day, with approximately 70,000 of these produced in Shanghai and 30,000 in Suzhou.

Chinese Restaurants

Despite intense competition in the Shanghai and Suzhou restaurant sectors, the Group enjoyed 10.6% growth in turnover compared to the fiscal year 2004/05.

The Group continues to recruit experienced management and site personnel for this segment and invested heavily in providing intensive staff training with orientation on quality services. During the year, the Group continuously enhanced and improved its menus in response to customer demand. Eclectic menus, exclusive dining environments and high quality service ensured that the Group's restaurants are highly regarded by discerning diners.

Convenience Food

Chinese urban dwellers are increasingly aware of the advantage of eating healthy meals. Besides high nutrition and value-for-money, they are also looking for the convenience of ready-prepared meals. The "FU JI Home Kitchen" is a niche brand offering traditional home-style Chinese dishes to young urban dwellers in Shanghai and Suzhou.

During the current year, as the Group concentrated its resources on developing its Catering Services business segment, less effort has been devoted to its Convenience Food business segment, which led a decrease of 38.7% in its turnover of this business segment compared with the fiscal year 2004/05.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As of 31 March 2006, the Group's total shareholders' equity amounted to RMB1,445,561,000, representing an increase of 112.6% compared with 31 March 2005. As of 31 March 2006, the Group's cash and cash equivalents totaled RMB281,744,000 (31 March 2005: RMB313,539,000). The Group's net current assets were RMB220,241,000 (31 March 2005: RMB161,642,000).

On 14 October 2005, the Company issued the Bonds 2010 in an aggregate principal amount of HK$600,000,000. After deduction of commission and all other directly attributable costs, the net proceeds from the issuance were approximately HK$578.8 million.

With the proceeds from the issuance of the Bonds 2010, available bank loans and strong operational cash flows, the management is confident that the Group has adequate resources to settle any debts and finance its daily operational and capital expenditures.

Capital Structure

As of 31 March 2006, the Group had total debts made up of bank loans bearing fixed annual rates of 5.22% to 7.02% (31 March 2005: from 5.742% to 6.264%) and the Bonds 2010 (RMB303,334,000 in total) (31 March 2005: RMB148,876,000). As of 31 March 2006, the Group's total shareholders' equity was RMB1,445,561,000 (31 March 2005: RMB679,853,000). Based on the above, its gearing ratio was approximately 21.0% (31 March 2005: 21.9%).

On 16 January 2006, the Group fully repaid the other loan payable in the sum of US$3,000,000.

On 5 July 2005 and 2 March 2006, the Company issued and allotted 27,484,294 and 9,161,431 new shares, respectively, as a result of the exercise of the conversion rights attached to the convertible notes (the "Notes") in the total principal amount of US$4,000,000. After these issuances, the Group was no longer indebted to the holders of the Notes.

The bondholders of the Bonds 2010 have the right to convert the bonds into ordinary shares of the Company at any time beginning 25 November 2005 and thereafter up to the close of business on 30 September 2010 at the conversion price of HK$10.253 per share (subject to adjustment) (the "Conversion Price"). Between 25 November 2005 and 31 March 2006, the Company issued and allotted a total of 50,716,838 new shares as a result of the conversion of the bonds at the Conversion Price in the total principal amount of HK$520,000,000. After the issuance, the outstanding principal amount of the Bonds 2010 was reduced to HK$80,000,000 as of 31 March 2006. Assuming full conversion of the remaining principal amount of the Bonds 2010 at the Conversion Price, the Company will have issued 7,802,594 shares, representing approximately 1.53% of the enlarged share capital of the Company.

Following the above issuances, the total number of issued share capital of the Company was 502,362,563 as of 31 March 2006 and save as disclosed above, there has been no change in the share capital of the Company during the year under review.

The detailed terms of the Bonds 2010 were set out in the Group's financial statements for the year ended 31 March 2006 and the press announcement dated 27 September 2005.

Group Structure

Other than establishing nine wholly-owned subsidiaries in the People's Republic of China (the "PRC"), during the year under review, there has been no material change in the Group's structure. These subsidiaries are: Suzhou Wei Ji Catering System Services Ltd.*, Shenzhen FU JI Standard Catering Services System Ltd.*, Duo Xian Le (Qingdao) Food Industrial Ltd.*, Duo Xian Le (Shanghai) Food Industrial Ltd.*, Shandong Auterlan Meat Food Co. Ltd.*, Auterlan (Shandong) Agricultural Product Development Co. Ltd.*, Hangzhou Wei Ji Catering Services Ltd.*, Shanghai Wei Shuo Catering Services Ltd.* and Shanghai Dong Wei Catering Services Ltd.*.

Charge on Assets and Contingent Liabilities

As of 31 March 2006, the Group had fixed assets with net book value amounting to approximately RMB18,642,000 (31 March 2005: nil), and fixed deposits of RMB116,441,000 (31 March 2005: nil), which are pledged to secure the Group's bank loans.

As of 31 March 2006, the Group had contingent liabilities in the amount of approximately RMB21,663,000 in respect of adoption of the preferential tax rate of 15% (instead of the statutory tax rate of 33%) in determining the income tax liabilities of a wholly owned subsidiary in Shanghai Pudong for the year ended 31 March 2006. As of 31 March 2005, the Group had no significant contingent liabilities.

Use of proceeds from initial public offering

Shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKSE") on 17 December 2004 with a total of 115,000,000 offer shares and the net proceeds for the new shares issue of approximately HK$324,612,000 (equivalent to approximately RMB344,089,000) (the "Net Proceeds"). As of 31 March 2006, the Net Proceeds have been utilized as follows:

- all of the approximately RMB143 million as stated in the prospectus for the listing of the Company for the establishment of centralized processing centers;
- all of the approximately RMB72 million as stated in the prospectus for the listing of the Company for the establishment of sourcing and initial processing centers;
- all of the approximately RMB38 million as stated in the prospectus for the listing of the Company for the establishment of large scale Chinese restaurants; and
- approximately RMB26 million out of approximately RMB30 million as stated in the prospectus for the listing of the Company for the general working capital of the Group.

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

* *for identification only*

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCE

As of 31 March 2006, the Group had 3,924 employees in the PRC and Hong Kong (31 March 2005: 1,376 employees). All employees are remunerated according to their performance, experience and prevailing market rates. The Group provides retirement benefits to employees in Hong Kong in the form of Mandatory Provident Fund entitlement. A similar scheme is provided for employees in the PRC. Details of retirement benefit schemes are set out in this Annual Report.

The Group has adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who have contributed to the Group's success. The Directors may, at their discretion, invite any employees of the Group or Directors of the Company to take up any options to subscribe for shares of the Company. The Scheme became effective on 17 December 2004. From 17 December 2004 to 31 March 2006, no such share options were granted. Subsequent to the balance sheet date, on 25 May 2006, share options in respect of an aggregate of 20,600,000 shares were granted to one Executive Director and certain employees of the Group. Additional details of the Scheme are disclosed in this Annual Report in accordance with the Rules Governing the Listing of Securities of the HKSE.

CAPITAL EXPENDITURE

Optimistic about its catering business in the PRC, the Group incurred capital expenditure of RMB871,799,000 in the fiscal year 2005/06 (fiscal year 2004/05: RMB372,073,000).

This sum was mainly used to build new, and upgrade existing, centralized processing centers, including acquiring new processing equipment; establishing storage and logistic infrastructure; and improving leasehold arrangements. The Group also acquired land and buildings for its new centralized processing centers in Wuxi and Jiading, which will act as the long term backbone in respect of the semi-processing and logistics of food ingredients for its Catering Services business. Some capital was spent on opening new Chinese Restaurants and establishment of the SIPCs.

FOOD SAFETY

Food safety is fundamental to the success of any catering business. As a responsible food service provider, the Group considers food safety its highest priority. Special attention is paid to sourcing of ingredients, processing, storage, temperature control, delivery and serving. The management understands that stringent hygiene controls and proper management of food safety is crucial to its long-term business success – any food-borne disease outbreak linked to its products would be highly detrimental to its business and reputation.

In addition to strict compliance with the HACCP standard, the Group ensures its production procedures adhere to other comparable international food hygiene requirements such as ISO 14000, SOP and GMP. To this end, the Group has appointed SGS – a leading international inspection, verification, testing and certification organization – to regularly monitor the hygiene and food safety compliance of all its catering sites (primarily those with on-site cooking facilities) and centralized processing centers on a random and fully independent basis. Evaluation reports were submitted to the management for reference.

Four SIPCs – which specialize in handling meats, vegetables, seafoods and fresh water foods – progressively commenced operations in Shandong, Zhejiang and Kunshan starting from the third quarter of the fiscal year 2005/06. Centralizing procurement and processing of food ingredients not only helps optimize raw materials usage and reduces wastage, but also improves the quality of ingredients and raises health and safety standards. In the long term, the Group expects these SIPCs to reduce costs and raise the quality of raw ingredients it uses.

OUTLOOK

The Group invested substantial capital during the fiscal year 2005/06 to facilitate future growth and development. The Directors expect the Group's turnover and production to continue on the same upward trend as in the year ended 31 March 2006. In view of growing demand for contract catering from corporations and the education sector in China's major economic zones and coastal provinces, the Group's catering services will continue to be the principal growth driver of both revenue and earnings.

The Group has set up two additional centralized processing centers in Wuxi and Hangzhou. Expected to be fully operational in the second quarter of the fiscal year 2006/07, these centers should boost the Group's production capacity by an additional 300,000 meals sets per day. Scheduled to begin operating in the third quarter of the fiscal year 2006/07, the Jiading Centre will add a further 300,000 meals sets per day to the Group's overall capacity.

Looking forward, the Group intends to open more centralized processing centers in regions with high growth potential such as Beijing and Shandong province. Meanwhile, the Group will continue to develop and strengthen its vertically integrated business model by establishing more SIPCs across the PRC. The Group believes such a network is essential to maintain its competitive advantage in the catering industry and ensure long-term growth.

The Group plans to explore the potential of Convenience Food business by producing and distributing highly nutritious pre-packaged meals. To help further automate the production process, the Group will seek to implement greater standardization and strength internal control, ensuring that resources are utilized in the most efficient way. Extra efforts will go into securing sufficient resources for the development of our pre-packaged meals capability including staff recruitment, equipment purchases, plant and workflow design, logistics and storage infrastructure.

The Group strongly believes that supplying pre-packaged meals to the education, tourism, railway and highway segments offers new revenue sources that will allow the Group to expand its customer base. Meanwhile, the Group will continue developing and strengthening its vertically integrated business model by establishing more SIPCs across the PRC. The Group believes such a network is essential to maintain its competitive advantage in the catering industry and ensure long-term growth.

The Group also plans to expand its Chinese Restaurants business and is currently working to open new Chinese restaurants in fast growing and emerging Mainland cities that offer optimum potential.