

# DIRECTORS' REPORT

---

The Directors present their report and the audited financial statements of FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries comprise the provision of Catering Services, the operation of Chinese Restaurants and the production and sale of Convenience Food products.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 84.

The Directors had declared an interim dividend of HK cents 7.5 per share (approximately equivalent to RMB cents 7.8 per share), totalling approximately HK\$33,333,000 (equivalent to RMB34,666,000), which was paid on 4 January 2006.

The Directors recommend the payment of a final dividend of HK cents 7.8 per share (approximately equivalent to RMB cents 8.112 per share) in respect of the year, to the shareholders whose names appear on the register of members of the Company on 1 August 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 26 July 2006 to 1 August 2006, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 25 July 2006.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5. The summary does not form part of the audited financial statements.

## FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in notes 15 and 16 to the financial statements.

## DIRECTORS' REPORT

---

### SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in share capital of the Company during the year are set out in note 28(c) to the financial statements.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's Directors and other employees of the Group. The Scheme was conditionally adopted by the Company's Shareholders on 26 November 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective on 17 December 2004. From 17 December 2004 to 31 March 2006, no such share options was 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.

The maximum number of shares available for issue under share options which may be granted under the Scheme and any other schemes is 50,236,256 shares, representing 10 per cent. of the issued share capital of the Company as at the date of this report. In addition, the maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a connected person (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "HKSE") (the "Listing Rules")) are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a connected person who is also a substantial shareholder or its associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

A nominal consideration of HK\$1.00 is payable by the grantee on acceptance of the grant of the options. Options may be exercised in whole or in part at any time during the exercise period of the share options which is determinable by a committee set up by the Directors from time to time, provided that the period within which the shares may be taken up under the options must not be more than ten years from the date of the grant of the options.

There is no general requirement on the minimum period for which an option must be exercised.

The exercise price of the share options is determinable by the committee, but will be no less than the highest of (i) the HKSE closing price of the Company's shares on the date of the offer of the share options; (ii) the average HKSE closing price of the Company's shares for the five trading days immediately proceeding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

### RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in notes 28(a) and 28(b) to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to RMB938,647,000, of which RMB40,752,000 has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

## SUBSIDIARIES

Details of the Company's subsidiaries as at 31 March 2006 are set out in note 17 to the financial statements.

## DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

### Executive Directors

Mr. Wei Dong (*Chairman*)  
Ms. Yao Juan  
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

In accordance with Article 87(1) and Article 87(2) of the Company's articles of association, Mr. Wei Dong, Mr. Wong Chi Keung and Mr. Su Gang Bing will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wei Dong, Ms. Yao Juan, Mr. Tung Fai and Ms. Ku Wang, all being Executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 17 December 2004, and thereafter may be terminated by either party giving to the other not less than three months' written notice.

Each of Ms. Josephine Price, Ms. Tsui Wai Ling Carlye, Mr. Wong Chi Keung, Ms. Yang Liu and Mr. Su Gang Bing, has signed a letter of appointment with the Company for a term of three years commencing from 17 December 2004.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of Directors of the Company and senior management of the Group as at the date of this annual report are set out on pages 32 to 34.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March 2006, none of the Directors of the Company was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

As at 31 March 2006, the interests of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

#### (i) Interest in the share capital of the Company

Name of Director	Types of Interests	Number of Shares	Position	Approximate Percentage of the Company's Issued Share Capital
Wei Dong ( <i>Note 1</i> )	Beneficial	285,000,000	Long	56.73%
Yao Juan ( <i>Note 2</i> )	Beneficial	285,000,000	Long	56.73%

## DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

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

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

*Notes:*

1. These shares are held by Million Decade Limited which is wholly-owned by Mr. Wei Dong. As Mr. Wei Dong is the husband of Ms. Yao Juan, therefore, he is deemed to be interested in all of the shares held by Million Decade Limited and Top Ample Limited under the SFO.
2. These shares are held by Top Ample Limited which is wholly-owned by Ms. Yao Juan. As Ms. Yao Juan is the wife of Mr. Wei Dong, therefore, she is deemed to be interested in all of the shares held by Top Ample Limited and Million Decade Limited under the SFO.

Save as disclosed above, as at 31 March 2006, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

## THE SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

Save as disclosed under the heading “Directors and chief executives’ interests and short positions in the shares, underlying shares and debentures” above, as at 31 March 2006, the Directors had not been notified by any other persons who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the section headed “Share capital and share option scheme” in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

During the year there was no contract of significance in relation to the Company’s business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

## **DIRECTORS' REPORT**

---

### **CONNECTED TRANSACTIONS**

During the year, the Group has not entered into any significant connected transactions under Chapter 14A of the Listing Rules.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **BANK LOANS AND OTHER BORROWINGS**

Details of the Group's bank loans and other borrowings as at 31 March 2006 are set out in notes 22, 23, 26 and 27 to the financial statements.

### **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent. of the Group's total sales and purchases for the years ended 31 March 2006 and 2005.

### **RETIREMENT BENEFIT SCHEMES**

Details of the retirement benefit schemes of the Group are set out in note 13 to the financial statements.

### **PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

---

## AUDITORS

The financial statements were audited by CCIF CPA Ltd. who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Ltd. as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Wei Dong**  
*Chairman*

the PRC, 28 June 2006