1. REORGANISATION 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 dated 7 December 2004 issued by the Company.

(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 2005 and 2006 include the results of the Company and its subsidiaries with effect from 1 April 2004 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. All material intra-group transactions and balances have been eliminated on 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. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 (the "Listing Rules").

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

A summary of the significant accounting policies adopted by the Group is set out below.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2006 comprise the Company and its subsidiaries.

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judegments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in application of HKFRSs that have significant effect on the financial statements and the estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, 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, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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 impairment losses (see note 2(f)), unless the investment is classified as held for sale.

(d) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(f)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(e)); and

– other items of plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(r)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

–	Leasehold improvements	Over the lease terms
–	Plant and machinery	10 years
–	Furniture and equipment	3 – 5 years
–	Motor vehicles	5 – 7 years

No depreciation is provided in respect of construction in progress.

Where parts of an item of property, plant equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(f) Impairment of assets

(i) Impairment of financial assets

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For financial assets that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– Pre-paid interests in leasehold land classified as being held under an operating lease; and

– investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)).

If any such indication exists, the asset's recoverable amount is estimated.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– 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 an impairment loss 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 profit or loss in the year in which the reversals are recognised.

(g) Inventories

Inventories are carried 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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(f)).

(i) Convertible notes and bonds

Convertible notes and bonds that can be converted into share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes and bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note/bond is converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note/bond is redeemed, the capital reserve is released directly to retained profits.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution plans

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

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(n) Income tax

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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

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 assets 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 difference 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 is, 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 a 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 profits 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 profits will be available.

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 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 settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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 expenditure 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.

(p) Revenue recognition

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

(i) Revenue from provision of catering services and restaurant operations

Revenue arising from provision of catering services and restaurant operations 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 recognised as it accrues using the effective interest method.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(r) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalized 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 capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is 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. Capitalization of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year.

(a) Employee share option scheme (HKFRS 2, share-based payment)

In prior years, no amount was recognised when employees (which term includes Directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 April 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 2(m)(ii).

3. CHANGE IN ACCOUNTING POLICIES *(Continued)*

(a) Employee share option scheme (HKFRS 2, share-based payment) *(Continued)*

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2.

As there were no options existed at 1 April 2004 and 2005 or granted during the years ended 31 March 2005 and 2006, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current and prior years.

(b) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

In prior years, the accounting policies for convertible notes issued were stated at its face value.

With effect from 1 April 2005, and in accordance with HKAS 32 and HKAS 39, the following new accounting policies are adopted for convertible notes and bonds. Convertible notes and bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits). Further details of the new policy are set out in note 2(i).

This change was adopted by way of an adjustment to an increase in the opening balance of the capital reserve of approximately RMB1,128,000 and a decrease in the opening balance of the retained profits of approximately RMB4,379,000 as at 1 April 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangement in HKAS 39.

As a result of this new policy, profit for the year ended 31 March 2006 has decreased by approximately RMB13,866,000.

(c) Definition of related parties (HKAS 24, related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 2(s) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had Statement of Standard Accounting Practice 20, related party disclosures, still been in effect.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2006

4. TURNOVER

The Group is principally engaged in the provision of catering services, the operations of Chinese restaurants and the production and sale of 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:

	2006	2005
	RMB'000	*RMB'000*
Catering Services business	**555,375**	236,856
Chinese Restaurants business	**200,448**	181,240
Convenience Food business	**22,432**	36,599
Sourcing and Initial Processing business	**18,495**	–
	796,750	454,695

5. OTHER REVENUE

	2006	2005
	RMB'000	*RMB'000*
Government grants	**20,664**	8,005
Interest income from banks	**8,560**	291
Rental income	**1,664**	243
Others	**1,024**	231
	31,912	8,770

6. PROFIT BEFORE TAXATION

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

		2006 *RMB'000*	2005 *RMB'000*
a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**6,383**	2,569
	Interest on convertible notes and other loan payable	**3,613**	2,556
	Interest on convertible bonds	**11,804**	–
	Loss on exchange	**1,338**	–
		23,138	5,125
b)	Staff costs:		
	Retirement costs		
	– contributions to defined contribution plans	**1,550**	1,074
	Salaries, wages and other benefits	**54,684**	18,157
		56,234	19,231
c)	Other items:		
	Cost of inventories consumed	**344,038**	173,713
	Auditors' remuneration		
	– audit services	**1,508**	848
	Operating leases rentals in respect of premises	**14,816**	15,262
	Amortisation of land lease premium	**259**	–
	Depreciation of property, plant and equipment	**45,267**	26,062
	Loss on disposal of property, plant and equipment	**535**	–
	Impairment loss/(reversal of impairment loss) for trade and other receivables	**450**	(70)

7. INCOME TAX

a) Taxation in the consolidated income statement represents:

	2006 *RMB'000*	2005 *RMB'000*
Current tax – The People's Republic of China (the "PRC")		
Provision for the PRC income tax for the year	**33,667**	31,370

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for each of the years ended 31 March 2006 and 2005.

Taxation for the PRC subsidiaries is charged at the approximate current rates of taxation ruling in the PRC. During the year, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

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

	2006 *RMB'000*	2005 *RMB'000*
Profit before taxation	**285,053**	196,787
Notional tax on profit before tax, calculated at the PRC statutory rate of 33%	**94,068**	64,940
Effect of different tax rates in other tax jurisdictions	**(14,202)**	(32,124)
Tax effect of non-deductible expenses	**592**	126
Tax effect of additional tax deductions	**(55,405)**	(3,053)
Tax effect of non-taxable revenue	**(953)**	–
Tax effect of unused tax losses not recognised	**9,567**	1,481
Actual tax expense	**33,667**	31,370

c) The Group had no significant potential deferred tax assets/liabilities for the years ended 31 March 2006 and 2005.

8. DIRECTORS' REMUNERATION

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

Year ended 31 March 2006

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Mr. Wei Dong	–	1,458	–	–	1,458
Ms. Yao Juan	–	874	–	–	874
Mr. Tung Fai	–	624	5	–	629
Ms. Ku Wang	–	187	–	–	187
Non-executive Director					
Ms. Josephine Price	–	–	–	–	–
Independent Non-executive Directors					
Ms. Tsui Wai Ling, Carlye	130	–	–	–	130
Mr. Wong Chi Keung	130	–	–	–	130
Ms. Yang Liu	129	–	–	–	129
Mr. Su Gang Bing	128	–	–	–	128
	517	3,143	5	–	3,665

8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 March 2005

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

There was no amount paid during the year ended 31 March 2006 (2005: 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 year ended 31 March 2006 (2005: Nil).

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: two) are Directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: three) individuals are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, allowances and other benefits	**2,775**	1,075
Retirement scheme contributions	**12**	19
Bonus	**–**	265
	2,787	1,359
Number of senior management	**3**	3

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following bands:

	2006	2005
	Number of individuals	Number of individuals
RMB		
Nil – 1,000,000	**2**	3
1,000,001 – 1,500,000	**1**	–

There was no amount paid during the years ended 31 March 2006 and 2005 to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately RMB24,072,000 (2005: 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:

	2006	2005
	RMB'000	*RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(24,072)**	(3,220)
Interim dividends from subsidiaries attributable to the profits of the current financial year, approved and paid during the year	**97,760**	22,790
The Company's profit for the year *(note 28(b))*	**73,688**	19,570

11. DIVIDENDS

a) Dividends payable to equity shareholders of the Company attributable to the year

	2006 *RMB'000*	2005 *RMB'000*
Interim dividend declared and paid of HK7.5 cents (approximately equivalent to RMB7.8 cents) per ordinary share (2005: Nil)	**34,666**	–
Final dividend of HK7.8 cents (approximately equivalent to RMB8.112 cents) per ordinary share (2005: HK3.8 cents (approximately equivalent to RMB4.028 cents) per ordinary share) proposed after the balance sheet date	**40,752**	16,716
	75.418	16,716

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

b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 *RMB'000*	2005 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.8 cents per ordinary share (2005: Nil)	**17,487**	–

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB251,386,000 (2005: RMB165,417,000) and the weighted average of 445,167,179 ordinary shares (2005: 332,301,370 ordinary shares after adjusting for the capitalisation issue in 2005) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 April	**415,000,000**	–
Issuance of shares pursuant to the Reorganisation	**–**	100
Capitalisation issue	**–**	299,999,900
Effect of issuance of shares for the placing and public offering (including the exercise of over-allotment option)	**–**	32,301,370
Effect of conversion rights attached to convertible notes/bonds exercised	**30,167,179**	–
Weighted average number of ordinary shares at 31 March	**445,167,179**	332,301,370

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB253,767,000 (2005: RMB166,178,000) and the weighted average number of ordinary shares of 452,969,773 shares (2005: 357,670,981 shares), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	2006 *RMB'000*	2005 *RMB'000*
Profit attributable to ordinary equity shareholders	**251,386**	165,417
After tax effect of effective interest on liability component of convertible notes/bonds	**2,381**	761
Profit attributable to ordinary equity shareholders (diluted)	**253,767**	166,178

12. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share *(Continued)*

(ii) Weighted average number of ordinary shares (diluted)

	2006	2005
Weighted average number of ordinary shares at 31 March	**445,167,179**	332,301,370
Effect of conversion of convertible notes/bonds into the Company's new ordinary shares	**7,802,594**	25,369,611
Weighted average number of ordinary shares at 31 March (diluted)	**452,969,773**	357,670,981

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.

For providing retirement benefits to its employees in Hong Kong, the Group has set up a mandatory provident fund ("MPF") scheme which is available to all Hong Kong employees. The Group's and the employees' contributions 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 RMB1,550,000 (2005: RMB1,074,000) for the year.

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.

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.

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

(iii) *Convenience Food business*

Convenience Food segment is engaged in the production and sale of convenience food products.

(iv) *Sourcing and Initial Processing business*

Sourcing and Initial Processing business is engaged in the sourcing and initial processing of food products.

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

	2006 **_RMB'000_**	2005 *RMB'000*
Turnover		
– Catering Services business	**555,375**	236,856
– Chinese Restaurants business	**200,448**	181,240
– Convenience Food business	**22,432**	36,599
– Sourcing and Initial Processing business	**27,681**	–
	805,936	454,695
Less: Inter-segment elimination	**(9,186)**	–
	796,750	454,695
Segment results		
– Catering Services business	**244,547**	129,000
– Chinese Restaurants business	**50,033**	51,938
– Convenience Food business	**8,540**	19,226
– Sourcing and Initial Processing business	**(8,038)**	–
	295,082	200,164
Unallocated income, net	**13,109**	1,748
Profit from operations	**308,191**	201,912
Finance costs	**(23,138)**	(5,125)
Income tax	**(33,667)**	(31,370)
Profit for the year	**251,386**	165,417
Depreciation and amortisation for the year		
– Catering Services business	**24,368**	6,093
– Chinese Restaurants business	**17,020**	18,390
– Convenience Food business	**1,835**	1,424
– Sourcing and Initial Processing business	**1,153**	–
– Unallocated items	**1,150**	155
	45,526	26,062

14. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

(b) Additional information on business segments:

	2006 RMB'000	2005 RMB'000
Segment assets		
– Catering Services business	**1,127,161**	431,074
– Chinese Restaurants business	**142,525**	151,394
– Sourcing and Initial Processing business	**129,772**	–
	1,399,458	582,468
Unallocated assets	**439,527**	315,114
Total assets	**1,838,985**	897,582
Segment liabilities		
– Catering Services business	**24,294**	5,250
– Chinese Restaurants business	**22,780**	18,348
– Sourcing and Initial Processing business	**587**	–
	47,661	23,598
Unallocated liabilities	**345,763**	194,131
Total liabilities	**393,424**	217,729
Capital expenditure during the year		
– Catering Services business	**694,651**	333,045
– Chinese Restaurants business	**45,205**	38,268
– Sourcing and Initial Processing business	**116,885**	–
– Unallocated items	**15,058**	760
	871,799	372,073

15. PROPERTY, PLANT AND EQUIPMENT

	The Group								
	Buildings held for own use carried at cost	Leasehold improvements	Furniture and equipment (Restaurants)	Furniture and equipment (Processing Centres)	Furniture and equipment (Office)	Motor vehicles	Sub-total	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost									
At 1/4/2004	–	160,405	12,817	15,063	1,301	2,785	192,371	52,975	245,346
Additions	–	2,217	368	–	407	941	3,933	358,239	362,172
At 31/3/2005	–	162,622	13,185	15,063	1,708	3,726	196,304	411,214	607,518
At 1/4/2005	–	162,622	13,185	15,063	1,708	3,726	196,304	411,214	607,518
Exchange adjustments	–	(4)	–	–	(3)	–	(7)	–	(7)
Additions	15,417	4,675	6,163	9,185	2,644	15,685	53,769	638,942	692,711
Transfer in/(out)	–	158,096	43,632	108,765	–	5,686	316,179	(316,179)	–
Disposals	–	(23,976)	(2,739)	–	(9)	(11)	(26,735)	–	(26,735)
At 31/3/2006	**15,417**	**301,413**	**60,241**	**133,013**	**4,340**	**25,086**	**539,510**	**733,977**	**1,273,487**
Accumulated depreciation									
At 1/4/2004	–	33,654	5,164	–	580	676	40,074	–	40,074
Charge for the year	–	19,819	2,445	2,978	376	444	26,062	–	26,062
At 31/3/2005	–	53,473	7,609	2,978	956	1,120	66,136	–	66,136
At 1/4/2005	–	53,473	7,609	2,978	956	1,120	66,136	–	66,136
Exchange adjustments	–	(2)	–	–	(1)	–	(3)	–	(3)
Change for the year	444	25,936	2,935	12,096	766	3,090	45,267	–	45,267
Written back on disposals	–	(7,026)	(1,170)	–	(4)	–	(8,200)	–	(8,200)
At 31/3/2006	**444**	**72,381**	**9,374**	**15,074**	**1,717**	**4,210**	**103,200**	**–**	**103,200**
Net book value									
At 31/3/2006	**14,973**	**229,032**	**50,867**	**117,939**	**2,623**	**20,876**	**436,310**	**733,977**	**1,170,287**
At 31/3/2005	–	109,149	5,576	12,085	752	2,606	130,168	411,214	541,382

All of the Group's buildings are located in the PRC. At 31 March 2006, the Group's building having a carrying amount of approximately RMB8,554,000 was pledged to secure banking facilities (see note 22) granted to the Group.

16. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group

	RMB'000
Cost	
At 1 April 2004, 31 March 2005, 1 April 2005	–
Additions	11,122
At 31 March 2006	**11,122**
Accumulated amortisation	
At 1 April 2004, 31 March 2005, 1 April 2005	–
Charge for the year	259
At 31 March 2006	**259**
Net book value	
At 31 March 2006	**10,863**
At 31 March 2005	–

The land is held on medium-term leases and located in the PRC. At 31 March 2006, the Group's leasehold land having a carrying amount of approximately RMB10,088,000 was pledged to secure banking facilities (see note 22) granted to the Group.

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**3**	3

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

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")	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
Rich Line Investment Limited	BVI	US$10	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") *	The PRC	US$968,500	100%	–	100%	Operation of Chinese restaurants and provision of catering services
Fu Ji United (Shanghai) Catering Ltd. ("Shanghai Fu Ji") *	The PRC	RMB15,000,000	100%	–	100%	Operation of Chinese restaurants and provision of catering services
Suzhou Weiji Catering System Services Ltd. # (note)	The PRC	RMB20,000,000	100%	–	100%	Operation of Chinese restaurants and provision of catering services
Shanghai Xing Bang Catering Services Ltd. *	The PRC	HK$100,000,000	100%	–	100%	Provision of catering services
Shanghai Dong Wei Catering Services Ltd. # (note)	The PRC	RMB5,000,000	100%	–	100%	Provision of catering services
Shenzhen Fu Ji Standard Catering Services System Ltd. # (note)	The PRC	RMB10,000,000	100%	–	100%	Provision of catering services

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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
Shandong Auterlan Industrial Co., Ltd. *	The PRC	HK$126,000,000	100%	–	100%	Sourcing and initial processing business
Auterlan (Shandong) Agricultural Product Development Co., Ltd. ** *(note)*	The PRC	US$12,820,000	100%	–	100%	Sourcing and initial processing business
Shandong Auterlan Meat Food Co., Ltd. ** *(note)*	The PRC	US$10,000,000	100%	–	100%	Sourcing and initial processing business

* : Registered under the laws of the PRC as wholly foreign-owned enterprise.
** : Registered under the laws of the PRC as sino-foreign equity enterprise.
# : Registered under the laws of the PRC as limited liability enterprise.
(note) : For identification only.

18. INVENTORIES

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Raw materials	**15,225**	2,864

All inventories were stated at cost as at 31 March 2006 and 2005.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from subsidiaries	**–**	–	**1,028,768**	372,117
Trade receivables	**24,721**	7,820	**–**	–
Rental and other deposits				
– property rental deposits	**4,123**	3,551	**–**	–
– purchase deposits	**–**	14,800	**–**	–
– other deposits	**3,369**	720	**2,080**	–
Advances to suppliers	**1,228**	614	**–**	–
Advances to employees	**327**	334	**–**	–
Interest receivable	**1,630**	–	**–**	–
Receivable in respect of proceeds from sale of Shanghai Puxi Restaurant	**18,000**	–	**–**	–
Prepayments				
– property rental	**2,793**	792	**–**	–
– others	**2,497**	515	**–**	–
Others	**670**	750	**–**	–
	59,358	29,896	**1,030,848**	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.

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	
	2006	2005
	RMB'000	*RMB'000*
Due within 1 month	**11,811**	3,386
Due after 1 month but within 3 months	**4,681**	3,164
Due after 3 months but within 6 months	**8,229**	1,270
Due after 6 months	**1,877**	1,427
	26,598	9,247
Less: Impairment loss for doubtful debts	**(1,877)**	(1,427)
	24,721	7,820

20. PLEDGED BANK DEPOSITS

Pledged bank deposits as at 31 March 2006 are used to secure banking facilities (see note 22) granted to the Group.

Included in pledged bank deposits are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2006	2005
	'000	*'000*
United States Dollars	**US$10,000**	–

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at banks	**279,692**	312,115	**28**	53,835
Cash on hand	**2,052**	1,424	**–**	–
Total	**281,744**	313,539	**28**	53,835

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United Stated Dollars	**US$20,471**	US$1,875	**–**	–
Hong Kong Dollars	**HK$3,392**	HK$33,937	**–**	–

22. BANK LOANS

Bank loans are repayable as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Within 1 year as classified under current liabilities	**162,437**	91,000
After 1 year but within 2 years	**50,000**	–
After 2 years but within 5 years	**9,738**	–
As classified under non-current liabilities	**59,738**	–
Total	**222,175**	91,000

22. BANK LOANS *(Continued)*

As at 31 March 2006, the bank loans were analysed as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Bank loans secured by		
– the Group's bank deposits *(see note 20)*	**110,000**	–
– a property owned by Shanghai Fu Ji *(see note 15 and 16)*	**12,175**	–
– corporate guarantees by Shanghai Fu Ji and Suzhou Fu Ji	**50,000**	–
– corporate guarantee by Suzhou Fu Ji	**50,000**	–
– corporate guarantee by Shanghai Fu Ji	**–**	15,000
– corporate guarantee by Sky Achieve	**–**	66,000
– others	**–**	10,000
	222,175	91,000

All the bank loans are with PRC commercial banks and are denominated in RMB. There were no unutilised banking facilities as at 31 March 2006.

At 31 March 2006, the terms of the bank loans were as follows:

a) A bank loan of RMB12,175,000 (2005: Nil), which comprised of a current portion of approximately RMB2,437,000 and a non-current portion of approximately RMB9,738,000, carried interest at 7.020% per annum with maturity through 10 August 2010 and was secured by mortgages over the Group's leasehold land and buildings with an aggregate carrying amount of approximately RMB18,642,000.

b) A bank loan of RMB110,000,000 (2005: Nil), which carried interest at 5.220% per annum and was repayable within one year, was secured by charge over the Group's bank deposits (see note 20).

c) Certain unsecured bank loans totalling RMB50,000,000 (2005: RMB91,000,000) carried interest at 5.301% per annum (2005: at rates ranging from 5.742% to 6.264% per annum) and were repayable within one year.

d) Unsecured bank loans of RMB50,000,000 (2005: Nil) carried interest at 6.138% per annum with final maturity on 2 August 2007.

23. OTHER LOAN PAYABLE

On 30 December 2003, Sky Achieve and an independent investor (the "Investor") entered into a loan agreement whereby the Investor agreed to advance a loan for the sum of US$3,000,000 to Sky Achieve. The loan bears interest at 7.8% per annum within 6 months, 7.0% after 6 months to 12 months, 6.5% after 12 months to 18 months and 6.0% after 18 months to 24 months from the date of drawdown, is due on 16 January 2006 and secured by corporate guarantees put up by Shanghai Fu Ji and Suzhou Fu Ji.

23. OTHER LOAN PAYABLE *(Continued)*

On 22 November 2004, the Company, Sky Achieve and the Investor entered into an agreement supplement to a subscription agreement whereby, amongst other terms, the Company and all of the original parties to the above-mentioned subscription agreement agreed that the obligations under this loan were novated to the Company so that the obligations under the loan has become the obligations of the Company with effect from the commencement of listing of the Company's shares on the HKSE.

This loan payable was fully settled on 16 January 2006.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**9,230**	6,804	**–**	–
Deposits received	**1,311**	242	**–**	–
Receipts in advance	**16,768**	6,383	**–**	–
Payables for acquisition of fixed assets	**2,596**	92	**–**	–
Accrued staff costs	**11,086**	4,180	**2,340**	–
Other accrued expenses	**13,290**	7,970	**1,924**	2,364
Other tax payables	**8,556**	4,585	**–**	–
Other payables	**5,127**	4,027	**–**	–
Amounts due to subsidiaries	**–**	–	**1**	2,055
	67,964	34,283	**4,265**	4,419

The amounts due to subsidiaries are unsecured, non-interest bearing and have 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	
	2006	2005
	RMB'000	*RMB'000*
Due within 1 month	**3,852**	1,407
Due after 1 month but within 3 months	**3,169**	1,298
Due after 3 months but within 6 months	**590**	1,367
Due after 6 months	**1,619**	2,732
	9,230	6,804

25. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	The Group	
	2006	2005
	RMB'000	*RMB'000*
At 1 April	**34,570**	14,894
Provision for PRC income tax for the year	**33,667**	31,370
PRC income tax paid	**(46,111)**	(11,694)
At 31 March	**22,126**	34,570

(b) Deferred taxation

The Group had no material deferred taxation not provided for at 31 March 2006 and 2005.

26. CONVERTIBLE NOTES

On 30 December 2003, Sky Achieve and the Investor (which is the same as the Investor mentioned in note 23 above) entered into a subscription agreement whereby Sky Achieve agreed to issue and the Investor agreed to subscribe for the convertible notes (the "Note"). Under the subscription agreement, the Investor would subscribe for the Note in two tranches of US$2,000,000 each. The first and the second tranches of the Note were issued on 16 January 2004 and 7 June 2004, respectively.

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 22 November 2004, the Company, Sky Achieve and the Investor entered into an agreement supplement to the subscription agreement whereby, amongst other terms, the Company and all of the original parties to the above-mentioned subscription agreement agreed that the conversion rights of the Note be amended to carry conversion rights into equity shares in the Company instead of Sky Achieve and the obligations under the Note were novated to the Company so that the obligations under the Note has become the obligations of the Company with effect from the commencement of listing of the Company's shares on the HKSE.

Interest expense on the Note is calculated using the effective interest method by applying the effective interest rates of 15.854% and 15.015% per annum to the liability components of the first and second tranches of the Note, respectively.

All of the convertible notes have been converted into the Company's new ordinary shares during the year.

27. CONVERTIBLE BONDS

On 14 October 2005, the Company issued zero coupon convertible bonds (the "Bonds") with an aggregate principal amount of HK$600,000,000 (equivalent to approximately RMB624,000,000) and a maturity date of 14 October 2010. The bondholders have the right to convert their bonds into the Company's new ordinary shares at any time during the period from 25 November 2005 to 30 September 2010 at an initial conversion price of HK$10.253 per ordinary share (subject to adjustment).

The Bonds that are not converted into ordinary shares will be redeemed at 132.769% of its principal amount on the maturity date. The Bonds are unsecured.

The fair values of the liability component and the equity conversion component were determined at issuance of the Bonds.

The fair value of the liability component of the Bonds was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in equity.

The Bonds recognised in the balance sheets are calculated as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Principal amount of convertible bonds issued on 14 October 2005	**624,000**	–
Transaction costs	**(22,032)**	–
Net proceeds	**601,968**	–
Equity component *(notes 28(a) and (b))*	**(11,247)**	–
Liability component on initial recognition at 14 October 2005	**590,721**	–
Conversion of the bonds into the Company's new ordinary shares during the year	**(521,366)**	–
Accrued interest capitalised during the year	**10,456**	–
Amortisation of transaction costs during the year	**1,348**	–
Liability component at 31 March 2006	**81,159**	–

Since the date of issue up to 31 March 2006, the Bonds with the an aggregate principal amount of HK$520,000,000 (approximately equivalent to RMB540,800,000) were converted into the Company's new 50,716,838 ordinary shares.

Interest expense on the Bonds is calculated using the effective interest method by applying the effective interest rate of 6.547% per annum to the liability component.

28. CAPITAL AND RESERVES

(a) The Group

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 April 2004	2	43,184	–	(20,184)	–	147,346	170,348
Elimination of shares of a subsidiary pursuant to the Reorganisation	(2)	–	–	–	–	–	(2)
Arising from the Reorganisation	–	(43,184)	–	43,184	–	–	–
Issuance of shares pursuant to the Reorganisation *(note 28(c)(i) and (ii))*	–	1	–	–	–	–	1
Capitalisation issue *(note 28(c)(iii))*	3,180	(3,180)	–	–	–	–	–
Issuance of shares under the placing and public offer *(note 28(c)(iv))*	1,060	327,540	–	–	–	–	328,600
Issuance of shares under the exercise of over-allotment option *(note 28(c)(v))*	159	49,131	–	–	–	–	49,290
Share issue expenses	–	(33,801)	–	–	–	–	(33,801)
Profit for the year	–	–	–	–	–	165,417	165,417
At 31 March 2005	4,399	339,691	–	23,000	–	312,763	679,853
At 1 April 2005							
– as previously reported	4,399	339,691	–	23,000	–	312,763	679,853
– opening balance adjustment in respect of HKAS 39	–	–	1,128	–	–	(4,379)	(3,251)
	4,399	339,691	1,128	23,000	–	308,384	676,602
Issuance of shares under conversion of convertible notes	381	38,425	(1,128)	–	–	–	37,678
Equity component of convertible bonds issued	–	–	11,247	–	–	–	11,247
Issuance of shares under conversion of convertible bonds	528	530,585	(9,747)	–	–	–	521,366
Exchange difference on translation into presentation currency	–	–	–	–	(565)	–	(565)
Dividends approved in respect of the previous year	–	–	–	–	–	(17,487)	(17,487)
Dividends declared in respect of the current year	–	–	–	–	–	(34,666)	(34,666)
Profit for the year	–	–	–	–	–	251,386	251,386
At 31 March 2006	**5,308**	**908,701**	**1,500**	**23,000**	**(565)**	**507,617**	**1,445,561**

28. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 8 April 2004 (date of incorporation)	–	–	–	–	–	–
Issuance of shares pursuant to the Reorganisation *(note 28(c)(i) and (ii))*	–	1	–	–	–	1
Capitalisation issue *(note 28(c)(iii))*	3,180	(3,180)	–	–	–	–
Issuance of shares under the placing and public offer *(note 28(c)(iv))*	1,060	327,540	–	–	–	328,600
Share issue expenses	–	(33,801)	–	–	–	(33,801)
Issuance of shares under the exercise of over-allotment option *(note 28(c)(v))*	159	49,131	–	–	–	49,290
Profit for the year	–	–	–	–	19,570	19,570
At 31 March 2005	4,399	339,691	–	–	19,570	363,660
At 1 April 2005						
– as previously reported	4,399	339,691	–	–	19,570	363,660
– opening balance adjustment in respect of HKAS 39	–	–	1,128	–	(4,379)	(3,251)
	4,399	339,691	1,128	–	15,191	360,409
Issuance of shares under conversion of convertible notes	381	38,425	(1,128)	–	–	37,678
Equity component of convertible bonds issued	–	–	11,247	–	–	11,247
Issuance of shares under conversion of convertible bonds	528	530,585	(9,747)	–	–	521,366
Exchange difference on translation into presentation currency	–	–	–	(6,780)	–	(6,780)
Dividends approved in respect of the previous year	–	–	–	–	(17,487)	(17,487)
Dividends declared in respect of the current year	–	–	–	–	(34,666)	(34,666)
Profit for the year	–	–	–	–	73,688	73,688
At 31 March 2006	**5,308**	**908,701**	**1,500**	**(6,780)**	**36,726**	**945,455**

28. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

	2006		2005	
	Number of shares	***RMB'000***	Number of shares	*RMB'000*
Authorised:				
Ordinary shares of HK$0.01 each	**2,000,000,000**	**21,200**	2,000,000,000	21,200
Issued and fully paid:				
At 1 April	**415,000,000**	**4,399**	–	–
Issuance of shares pursuant to the Reorganisation *(note i and ii)*	**–**	**–**	100	–
Capitalisation issue *(note iii)*	**–**	**–**	299,999,900	3,180
Issuance of shares under the placing and public offer *(note iv)*	**–**	**–**	100,000,000	1,060
Issuance of shares under the exercise of over-allotment option *(note v)*	**–**	**–**	15,000,000	159
Issuance of shares under conversion of convertible notes	**36,645,725**	**381**	–	–
Issuance of shares under conversion of convertible bonds	**50,716,838**	**528**	–	–
At 31 March	**502,362,563**	**5,308**	415,000,000	4,399

Notes:

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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$3.1 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 (approximately equivalent to RMB327,540,000), before the share issue expenses, were credited to the share premium account.

(v) 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 share issue expenses.

28. CAPITAL AND RESERVES *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

Share premium 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.

(ii) Capital reserve

The capital reserve represents the value of the unexercised equity component of convertible notes and bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible notes and bonds in note 2(i).

(iii) 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 therefore.

(e) Distributable reserves

As at 31 March 2006, in the opinion of the Directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately RMB938,647,000 (2005: RMB359,261,000) subject to the restrictions stated above.

29. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 180 days from the date of billing. Debtors with balances that are more than 180 days overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

Cash and cash equivalents are normally placed with licensed banks that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any licensed bank to fail to meet its obligations.

The Group does not have a significant concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company also monitors closely the cash flows of its subsidiaries. Generally, the Company's subsidiaries are required to obtain the Company's approval for activities such as investment of surplus cash, raising of loans and fixed assets acquisitions beyond certain limits.

(c) Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to the Group's pledged bank deposits, cash and cash equivalents, bank loans and convertible bonds.

The interest rates and terms of repayment of the bank loans and convertible bonds of the Group are disclosed in notes 22 and 27, respectively.

(d) Foreign currency risk

The Group is exposed to foreign currency risk on convertible bonds that are denominated in Hong Kong Dollars (HKD).

As the HKD is pegged to the United States Dollars (USD), and the RMB pegged to the USD within a narrow band, the Company does not expect any significant movements in the USD/HKD or HKD/RMB exchange rate.

The Group's foreign operations do not undertake significant transactions in a currency other than their respective functional currencies. Funds are retained by the foreign operations for use within the respective operations. Based on this, management considers the foreign exchange exposure to be low.

(e) Fair value

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of HKAS 32 and HKAS 39. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of HKAS 32 and HKAS 39, and should be read in conjunction with the Group's financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarise the major methods and assumptions used in estimating the fair values of the Group's financial instruments.

The carrying values of the Group's current financial assets and liabilities are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

The carrying value of the Group's non-current financial liabilities are estimated to approximate their fair values based on a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

30. COMMITMENTS

(a) Capital commitments outstanding at 31 March 2006 not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Contracted for		
– construction and acquisition of property, plant and equipment	**495,498**	43,832

(b) Pursuant to an investment agreement dated 2 June 2005, Rich Line Investment Limited and Shandong Auterlan Industrial Co. Ltd., wholly owned subsidiaries of the Company, undertake to contribute additional capital of US$2,451,774 (approximately equivalent to RMB19,612,000) and US$5,089,628 (approximately equivalent to RMB40,832,000) to Shandong Auterlan Meat Food Co. Ltd., in which the Group had 100% equity interest. The capital injection was not completed at 31 March 2006.

(c) Pursuant to a sale and purchase agreement, Rich Line Investment Limited and Shandong Auterlan Industrial Co. Ltd. wholly owned subsidiaries of the Company, are required to pay a total consideration of RMB12,000,000 for the acquisition of 100% equity in a PRC private limited company. At 31 March 2006, the Group paid a deposit of RMB7,200,000 and committed to pay the remaining balance of RMB4,800,000.

(d) At 31 March 2006, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**50,958**	17,054	**12,545**	–
After 1 year but within 5 years	**72,197**	94,886	**–**	–
After 5 years	**49,152**	63,720	**–**	–
	172,307	175,660	**12,545**	–

The Group leases a number of properties under operating leases. The leases typically run for an initial period of two to fifty 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.

30. COMMITMENTS *(Continued)*

(e) At 31 March 2006, the Group contracted with tenants for the following total future minimum lease receivables:

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Within 1 year	**1,731**	1,698
After 1 year but within 5 years	**6,132**	6,196
After 5 years	**–**	1,667
	7,863	9,561

31. CONTINGENT LIABILITIES

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.

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%, and will not subject to any penalty.

Each of Mr. Wei Dong and Million Decade Limited, which is a shareholder 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 any preferential tax treatment accorded to Shanghai Fu Ji on or before 31 March 2005 being revoked or withdrawn by the relevant authorities for whatever reason. The amount of this undercharged tax for the period up to 31 March 2005 was approximately RMB39,557,000.

31. CONTINGENT LIABILITIES *(Continued)*

The contingent liabilities of the Group at 31 March 2006 is the uncharged tax for the period from 1 April 2005 to 31 March 2006 arising from the difference between the usual statutory income tax rate of 33% and the preferential tax rate of 15%, which is 18%. The amount of such contingent liabilities for the year ended 31 March 2006 was approximately RMB21,663,000.

32. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows.

	2006	2005
	RMB'000	*RMB'000*
Short-term employee benefits	**7,642**	3,812
Post-employment benefits	**18**	18
	7,660	3,830

33. NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 11.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS

The method, estimates and judgements the management use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain. Certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The management reviews annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for own use under operating leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

34. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at each year end date and assess the need for write down of inventories.

(c) Impairments

If circumstances indicate that the carrying value of fixed assets may not be recoverable, the assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of fixed assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount is reduced to recoverable amount. The recoverable amount of fixed assets is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's asset are not available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the management when assessing the credit worthiness and past collection history of each individual customer.

Any increase or decrease in the above impairment losses would affect the net profit in future years.

35. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 MARCH 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease	1 January 2006
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
Amendment to HKAS 39	Financial instruments: recognition and measurement: the fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.