



FU JI Food and Catering Services Holdings Limited

福記食品服務控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1175

Interim Report 2006/2007



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CORPORATE INFORMATION

Stock Code

1175

Website

www.fujicatering.com

Directors

Executive Directors

Wei Dong (*Chairman*)

Yao Juan

Tung Fai

Ku Wang

Non-executive Director

Josephine Price

Independent Non-executive Directors

Tsui Wai Ling Carlye

Wong Chi Keung

Yang Liu

Su Gang Bing

Company Secretary and Qualified Accountant

Ng Kwok Choi, FCCA, CPA

Audit Committee

Wong Chi Keung (*Chairman*)

Yang Liu

Su Gang Bing

Remuneration Committee

Su Gang Bing (*Chairman*)

Wei Dong

Yang Liu

Auditors

CCIF CPA Limited

Solicitors

Jones Day

Compliance Adviser

CAF Securities Company Limited

Principal Bankers

Agricultural Bank of China

China Construction Bank

Guangdong Development Bank

HSBC

Standard Chartered Bank

Authorized Representatives

Tung Fai

Ng Kwok Choi, FCCA, CPA

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 75

George Town

Grand Cayman

Cayman Islands

British West Indies

Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor
Services Limited

Rooms 1712-1716, 17th Floor

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Wanchai

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CCIF

CCIF CPA LIMITED

1/F Sunning Plaza
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INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF FUJI FOOD AND CATERING SERVICES HOLDINGS LIMITED

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 05 to 22.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2006.

CCIF CPA Limited

Certified Public Accountants

Hong Kong

27 November 2006

Chan Wai Dune, Charles

Practising Certificate Number P00712

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
 FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

		Six months ended 30 September 2006	2005
	<i>Note</i>	RMB'000 (Unaudited)	<i>RMB'000 (Unaudited)</i>
Turnover	2	534,790	323,707
Other revenue		26,774	15,989
Cost of inventories consumed		(233,484)	(137,543)
Staff costs		(41,308)	(18,144)
Operating lease rentals		(13,454)	(7,466)
Depreciation and amortization		(35,134)	(13,953)
Fuel and utility costs		(10,728)	(5,915)
Other operating expenses		(28,770)	(19,437)
Profit from operations	2	198,686	137,238
Finance costs		(10,131)	(4,486)
Profit before taxation	3	188,555	132,752
Income tax	4	(16,402)	(18,615)
Profit for the period		172,153	114,137
Earnings per share			
– basic	5(a)	RMB34.2 cents	RMB26.7 cents
– diluted	5(b)	N/A	RMB25.8 cents
Dividend per share	6	HK10.2 cents	HK7.5 cents

The notes on pages 09 to 22 form part of the interim financial report.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2006

	Note	At 30 September 2006 RMB'000 (Unaudited)	At At 31 March 2006 RMB'000 (Audited)
Non-current assets			
Fixed assets			
Construction in progress	7	989,136	733,977
Other property, plant and equipment	8	510,188	436,310
Interests in leasehold land held for own use under operating leases	9	23,401	10,863
		1,522,725	1,181,150
Deposits for acquisition of leasehold land		188,613	169,072
Deposits for acquisition and construction of other fixed assets		30,269	8,795
Deposit for acquisition of a subsidiary		9,060	7,200
		1,750,667	1,366,217
Current assets			
Inventories	10	37,630	15,225
Accounts receivable	11	28,337	24,721
Deposits, prepayments and other receivables		21,444	34,637
Pledged bank deposits		191,073	116,441
Cash and cash equivalents		51,991	281,744
		330,475	472,768
Current liabilities			
Bank loans	12	171,224	162,437
Accounts payable	13	17,666	9,230
Receipts in advance		9,563	16,768
Accruals and other payables		63,184	41,966
Current income tax		12,170	22,126
		273,807	252,527
Net current assets		56,668	220,241
Total assets less current liabilities		1,807,335	1,586,458
Non-current liabilities			
Bank loans	12	148,455	59,738
Convertible bonds	14	72,652	81,159
		221,107	140,897
NET ASSETS		1,586,228	1,445,561
CAPITAL AND RESERVES			
Capital	15	5,318	5,308
Reserves		1,580,910	1,440,253
		1,586,228	1,445,561

The notes on pages 09 to 22 form part of the interim financial report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Paid-up capital	Share premium	Capital reserve	Merger reserve	Share- based compen- sation reserve	Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 April 2006	5,308	908,701	1,500	23,000	-	(565)	507,617	1,445,561
Conversion of convertible bonds into shares	10	10,431	(186)	-	-	-	-	10,255
Exchange difference on translation into presentation currency	-	-	-	-	-	(5,437)	-	(5,437)
Profit for the period	-	-	-	-	-	-	172,153	172,153
Final dividend paid	-	-	-	-	-	-	(40,438)	(40,438)
Equity settled share-based transactions	-	-	-	-	4,134	-	-	4,134
Balance at 30 September 2006	5,318	919,132	1,314	23,000	4,134	(6,002)	639,332	1,586,228
At 1 April 2005	4,399	339,691	1,128	23,000	-	-	308,384	676,602
Conversion of convertible notes into shares	291	28,746	(846)	-	-	-	-	28,191
Profit for the period	-	-	-	-	-	-	114,137	114,137
Final dividend paid	-	-	-	-	-	-	(17,823)	(17,823)
Balance at 30 September 2005	4,690	368,437	282	23,000	-	-	404,698	801,107

The notes on pages 09 to 22 form part of the interim financial report.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Six months ended 30 September 2006 RMB'000 (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
Net cash inflows from operating activities	215,254	124,274
Net cash outflows used in investing activities	(490,823)	(333,619)
Net cash inflows from/(outflows used in) financing activities	49,476	(48,305)
Net decrease in cash and cash equivalents	(226,093)	(257,650)
Cash and cash equivalents at 1 April	281,744	313,539
Effect of foreign exchange rate changes	(3,660)	–
Cash and cash equivalents at 30 September	51,991	55,889

The notes on pages 09 to 22 form part of the interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi Yuan)

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issuance by the Board of Directors (the "Board") on 27 November 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005/06 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2006/07 annual financial statements. Up to the date of issue of interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations ("New HKFRSs") which are effective for the periods beginning on or after 1 December 2005. However, the adoption of these New HKFRSs has had no significant impact on the Group's results of operations and financial position.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005/06 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which term collectively includes HKASs and Interpretations.

The interim financial report is unaudited, but has been reviewed by CCIF CPA Limited in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. The review report of CCIF CPA Limited to the Board is included on pages 03 to 04.

The financial information relating to the financial year ended 31 March 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 June 2006.

2. SEGMENT INFORMATION

Segment information is presented in respect of the business segments of the Company and its subsidiaries (collectively the "Group"). 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 People's Republic of China (the "PRC").

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

2. SEGMENT INFORMATION (continued)

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

	Six months ended	
	30 September	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Turnover		
– Catering Services business	395,701	212,322
– Chinese Restaurants business	102,367	94,303
– Convenience Food business	18,613	17,082
– Sourcing and Initial Processing business	36,849	–
	553,530	323,707
– Inter-segment elimination	(18,740)	–
	534,790	323,707
Segment results		
– Catering Services business	153,964	100,801
– Chinese Restaurants business	24,807	22,416
– Convenience Food business	9,276	7,987
– Sourcing and Initial Processing business	(3,013)	–
	185,034	131,204
Unallocated income, net	13,652	6,034
Profit from operations	198,686	137,238
Finance costs	(10,131)	(4,486)
Income tax	(16,402)	(18,615)
Profit for the period	172,153	114,137
Depreciation and amortization		
– Catering Services business	26,207	4,803
– Chinese Restaurants business	8,577	8,985
– Sourcing and Initial Processing business	322	–
– Unallocated items	28	165
	35,134	13,953
Impairment loss for bad and doubtful debts		
– Chinese Restaurants business	–	130

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

3. PROFIT BEFORE TAXATION

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

	Six months ended 30 September 2006 RMB'000 (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
a) Finance costs:		
Interest on bank loans wholly repayable within five years	7,590	1,877
Interest on convertible bonds	2,541	–
Interest on convertible notes and other loan payable	–	2,609
	10,131	4,486
b) Other items:		
Interest income	(5,964)	(761)
Rental income	(674)	(731)
Government grants	(18,895)	(14,011)
Cost of inventories consumed	233,484	137,543
Impairment loss for bad and doubtful debts	–	130
Depreciation and amortization	35,134	13,953
Operating leases charges in respect of premises	13,454	7,466

4. INCOME TAX

Income tax expense represents:

	Six months ended 30 September 2006 RMB'000 (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
Current tax – the PRC		
Provision for the period	16,402	18,615

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2005 and 2006. Taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.

The Group had no significant potential deferred tax assets and liabilities for the six months ended 30 September 2005 and 2006.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

5. EARNINGS PER SHARE(a) *Basic earnings per share*

The calculation of basic earnings per share for the six months ended 30 September 2006 was based on the profit attributable to shareholders of RMB172,153,000 (six months ended 30 September 2005: RMB114,137,000) and the weighted average number of ordinary shares of 502,730,308 (six months ended 30 September 2005: 428,216,491) in issue during the period.

(b) *Diluted earnings per share*

Diluted earnings per share for the six months ended 30 September 2006 was not presented as the impact of the exercise of the conversion rights attached to the convertible bonds and the outstanding share options were anti-dilutive. The calculation of diluted earnings per share for the six months ended 30 September 2005 was based on the profit attributable to shareholders but before interest on the convertible notes of RMB116,746,000 and the weighted average number of ordinary shares of 451,645,726 in issue, after adjusting for the effect of all dilutive potential ordinary shares.

(c) *Reconciliation:*

	Six months ended 30 September 2005 <i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	428,216,491
Deemed issue of ordinary shares for no consideration	23,429,235
<hr/>	
Weighted average number of ordinary shares used in calculating diluted earnings per share	451,645,726

6. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK10.2 cents (2005: HK7.5 cents) per share for the six months ended 30 September 2006. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on 22 December 2006. The interim dividend will be paid on or around 5 January 2007.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

7. CONSTRUCTION IN PROGRESS

	Six months ended 30 September 2006 RMB'000 (Unaudited)	Year ended 31 March 2006 RMB'000 (Audited)
At 1 April	733,977	411,214
Additions	337,823	638,942
Transfer to fixed assets (note 8)	(82,664)	(316,179)
	989,136	733,977

8. OTHER PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September 2006 RMB'000 (Unaudited)	Year ended 31 March 2006 RMB'000 (Audited)
Cost		
At 1 April	539,510	196,304
Exchange adjustments	(5)	(7)
Additions	26,222	53,769
Transfer from construction in progress (note 7)	82,664	316,179
Disposal	-	(26,735)
	648,391	539,510
Accumulated depreciation		
At 1 April	103,200	66,136
Exchange adjustments	(1)	(3)
Charge for the period/year	35,004	45,267
Written back on disposal	-	(8,200)
	138,203	103,200
Net book value		
At 30 September/31 March	510,188	436,310

At 30 September 2006, the Group's other property, plant and equipment having a carrying value of approximately RMB8,450,000 (31 March 2006: RMB8,554,000) were pledged to secure banking facilities granted to the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

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

	Six months ended 30 September 2006 RMB'000 (Unaudited)	Year ended 31 March 2006 RMB'000 (Audited)
Cost/valuation		
At 1 April	11,122	–
Additions	12,668	11,122
At 30 September/31 March	23,790	11,122
Accumulated amortization		
At 1 April	259	–
Charge for the period	130	259
At 30 September/31 March	389	259
Net book value		
At 30 September/31 March	23,401	10,863

The lands are held on medium-term lease and located in the PRC. At 30 September 2006, the Group's leasehold land having a carrying value of approximately RMB9,962,000 (31 March 2006: RMB10,088,000) was pledged to secure banking facilities granted to the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

10. INVENTORIES

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Raw materials, at cost	37,630	15,225

11. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Due within 1 month	15,940	11,811
Due after 1 month but within 3 months	6,387	4,681
Due after 3 months but within 6 months	2,195	8,229
Due after 6 months	5,692	1,877
	30,214	26,598
Less: Impairment loss for bad and doubtful debts	(1,877)	(1,877)
	28,337	24,721

Customers are generally granted with credit terms ranging from 30 days to 180 days, depending on the credit worthiness of individual customers.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

12. BANK LOANS

Bank loans are repayable as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Within 1 year	171,224	162,437
Due after 1 year but within 5 years	148,455	59,738
	319,679	222,175

At 30 September 2006 and 31 March 2006, the bank loans were analysed as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Bank loans secured by:		
– the Group's fixed assets	10,979	12,175
– the Group's bank deposits	228,700	110,000
– corporate guarantee by the Group's companies, Fu Ji United (Suzhou) Catering Co. Ltd. ("Suzhou Fu Ji") and Fu Ji United (Shanghai) Catering Ltd. ("Shanghai Fu Ji")	30,000	50,000
– corporate guarantee by Suzhou Fu Ji	–	50,000
– corporate guarantee by the Group's companies, Shanghai DuoXianLe Food Industrial Ltd.* and Shanghai Fu Ji	50,000	–
	319,679	222,175

* for identification only

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

13. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Due within 1 month	5,851	3,852
Due after 1 month but within 3 months	9,480	3,169
Due after 3 months but within 6 months	1,079	590
Due after 6 months	1,256	1,619
	17,666	9,230

14. CONVERTIBLE BONDS

On 14 October 2005, the Company issued zero coupon convertible bonds (the "Bonds 2010") 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 (adjusted to HK\$10.125 on 15 August 2006) per ordinary share.

The Bonds 2010 that are not converted into ordinary shares will be redeemed at 132.769% of its principal amount on the maturity date. The Bonds 2010 are unsecured.

The fair values of the liability component and the equity conversion component were determined at issuance of the Bonds 2010.

The fair value of the liability component of the Bonds 2010 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.

Since the date of issue up to 30 September 2006, the Bonds 2010 with an aggregate principal amount of HK\$530,000,000 (approximately equivalent to RMB545,900,000) were converted into the Company's new 51,692,162 ordinary shares.

Interest expense on the Bonds 2010 is calculated using the effective interest method by applying the effective interest rate of 6.547% per annum to the liability component.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

15. SHARE CAPITAL

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Authorized:		
2,000,000,000 ordinary shares of HK\$0.01 each	21,200	21,200
Issued and fully paid:		
503,337,887 (31 March 2006: 502,362,563) ordinary shares of HK\$0.01 each	5,318	5,308

A summary of the movements in the issued share capital of the Company during the period is as follows:

	Number of shares in issue	Issued and fully paid (Unaudited) RMB'000
At 1 April 2006	502,362,563	5,308
Shares issued upon conversion of the Bonds 2010	975,324	10
At 30 September 2006	503,337,887	5,318

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

16. COMMITMENTS

- (a) Capital commitments outstanding at 31 March 2006 and 30 September 2006 not provided for in the interim financial report were as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Authorized but not contracted for in respect of:		
– capital contribution to subsidiaries	166,822	60,444
– acquisition of a subsidiary	10,300	4,800
– construction and acquisition of fixed assets	297,470	495,498
	474,592	560,742

- (b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Within 1 year	28,272	50,958
After 1 year but within 5 years	111,855	72,197
After 5 years	58,609	49,152
	198,736	172,307

The Group leases a number of properties under operating leases. The leases run for periods from 3 years to 10 years, with an option to review the lease when all terms are renegotiated. None of the leases includes contingent rentals.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

16. COMMITMENTS (continued)

- (c) At 30 September 2006, the Group contracted with tenants for the following total future minimum lease receivables:

	At 30 September 2006 RMB'000 (Unaudited)	At 31 March 2006 RMB'000 (Audited)
Within 1 year	781	1,731
After 1 year but within 5 years	2,923	6,132
	3,704	7,863

17. CONTINGENT LIABILITY

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 adviser 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, the legal adviser is of the opinion that should the relevant tax authorities in future decide that Shanghai Fu Ji should pay tax at the statutory income tax rate of 33% applicable to a WFOE, Shanghai Fu Ji will only be liable to pay any previously undercharged tax, being the difference between the statutory income tax rate of 33% and the preferential tax rate of 15%, which is 18%, and will not subject to any penalty.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Renminbi Yuan)

17. CONTINGENT LIABILITY (continued)

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 contingent liabilities of the Group at 30 September 2006 is the uncharged tax for the period from 1 April 2005 to 30 September 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 at 30 September 2006 is approximately RMB27,868,000 (31 March 2006: RMB21,663,000).

The enterprise income tax of a Group's company, Shanghai Dong Wei Catering Services Ltd. ("Shanghai Dong Wei"), is currently levied at 3% of its business income. The basis on which this tax treatment has been made available to Shanghai Dong Wei is uncertain as it has not received a confirmation from the relevant tax bureau. If this rate is deemed by the relevant tax authorities not to be in compliance with national laws and regulations, or if for other reasons it is modified or cancelled by the relevant tax authorities, Shanghai Dong Wei may be required to pay additional taxes for the period from the date of its incorporation on 2 October 2005 to 30 September 2006 in the amount of approximately RMB32,048,000.

18. MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 September 2006, the Group had entered into the following material related party transactions:

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors and certain of the highest paid employees, is as follows:

	Six months ended	
	30 September	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	3,739	3,192
Post-employment benefits	12	9
	3,751	3,201

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Renminbi Yuan)

19. POST BALANCE SHEET EVENTS

(a) *Issue of zero coupon convertible bonds due 2009 (the "Bonds 2009")*

On 9 October 2006, the Group entered into a Subscription Agreement with UBS AG, whereby UBS AG agreed to subscribe and pay for or to procure subscribe and pay for the Hong Kong dollar denominated Bonds to be issued at par by the Company in an aggregate principal amount of HK\$800 million. In addition, the Company also granted an option to subscribe up to a further aggregated principal amount of HK\$200 million, in whole or in part, to UBS AG, which exercised such option in full on 9 October 2006. The initial conversion price is HK\$17.51 per share. Assuming full conversion of the Bonds 2009 at the initial conversion price of HK\$17.51 per share, the Bonds 2009 will be convertible into 57,110,220 new shares, representing approximately 10.18% of the enlarged issued capital of the Company. The Bonds 2009 were issued on 9 November 2006 and listed on the HKSE on 10 November 2006.

The estimated net proceeds from the Bonds 2009's issuance, after deduction of commissions and directly attributable expenses, are approximately HK\$971,500,000 in aggregate. The net proceeds will be used primarily for developing and strengthening the Group's vertically integrated business model through the expansion of the capacity of the Group's existing sourcing and initial processing centres ("SIPCs") located in Linqu, Shangdong; Shouguang, Shangdong; and Ningbo, Zhejiang and the establishment of a new SIPC in Wuxi, Jiangsu, expanding the Group's production capacity and logistical capabilities through the establishment of a new regional distribution and processing centre in Beijing and for the Group's general working capital purposes.

(b) *Conversion of the Bonds 2010*

On 2 and 9 November 2006, the Bonds 2010 with an aggregate principal amount of HK\$4,000,000 (approximately equivalent to RMB4,120,000) were converted into the Company's new 395,060 ordinary shares.

MANAGEMENT DISCUSSION AND ANALYSIS

FU JI Food and Catering Services Holdings Limited (the “Company”) and its subsidiaries (known together as the “Group”) achieved strong growth in revenue and earnings during the six months ended 30 September 2006. Turnover and gross profit margin for the first half of 2006/07 were RMB534.8 million (first half 2005/06: RMB323.7 million) and 56.3% (first half 2005/06: 57.5%) respectively. Profit from operations amounted to RMB198.7 million, up 44.8% compared with the corresponding period last year. Net profit was up 50.8% to approximately RMB172.2 million and basic earnings per share were RMB34.2 cents (first half 2005/06: RMB26.7 cents).

In order to comply with Hong Kong Financial Reporting Standard 2, the Group is required to recognize the fair value of employee share options as an expense over the vesting period with a corresponding increase in a capital reserve within equity. As a result of granting share options to one Executive Director of the Company and certain employees of the Group during the period under review, the Group incurred non-cash charge of RMB4,134,000 (first half 2005/06: nil), which was recognized as part of the Group’s staff costs for the first half of 2006/07.

MARKET REVIEW

Riding on strong economic and industrial growth, the demand for contract catering services in the People’s Republic of China (the “PRC”) is increasing. With so many catering service providers of various scales existing in the market, customers tend to rely on those that have established solid reputations and are able to provide nutritious meals, maintain good hygiene standards and charge reasonable prices with reliable services.

BUSINESS REVIEW

The Group’s key objective is to become one of the leading food and catering services provider in the PRC. The Group operates four sourcing and initial processing centres (“SIPCs”) across Shandong, Jiangsu and Zhejiang as well as five local distribution and processing centres (“LDPCs”) in Sunqiao (Shanghai), Suzhou, Shenzhen, Songjiang (Shanghai) and Kunshan (Suzhou), representing a total production capacity of 700,000 sets of meals per day. In September 2006, two new LDPCs located in Hangzhou (which commenced commercial operations in September 2006) and Wuxi (the commercial operations of which are expected to commence in the third quarter of 2006/07) were established, representing an additional production capacity of 300,000 sets of meals per day.

Utilizing its vertically integrated business structure, the Group is able to achieve higher profit margins through economies of scale and sharing of resources. Moreover, a centralized system for the procurement of food materials and ingredients, as well as food storage, processing and logistics arrangements also means that the Group is capable of exercising greater control over operating costs and meals quality.

BUSINESS REVIEW *(continued)*

Catering Services

Catering services continues to be the main revenue earner of the Group. During the period under review, it achieved remarkable financial results with revenue increasing 86.4% compared with the corresponding period in 2005/06, amounting to approximately RMB395.7 million. Its operating profit increased by 52.7% to approximately RMB154.0 million.

As of 30 September 2006, the Group produced 462,500 sets of meals, representing 131.3% growth compared to 200,000 sets of meals produced as of 30 September 2005. The increase in meal production was principally due to the Group's continuous effort in building up additional capacity in coastal cities with great business potential, and also the Group's success in retaining existing customers and by securing new catering contracts with institutions and schools – its two main types of contracts during the period under review.

Institutional catering

The target markets of the Group's institutional catering services are large-scale labour-intensive factories and industrial enterprises in the Shanghai, Suzhou, Hangzhou and Shenzhen industrial zones. The Group's catering services business continues to enjoy a high customer retention rate, which is a key factor to the Group's sustained business growth in this market segment. The Group has developed nationwide strategic alliances with selected customers whereby we provided catering services to their various facilities in a number of coastal cities. In the future, the Group expects to sign more such contracts.

The Group provides both on-site and off-site institutional catering services to meet different market requirements. For the former, semi-cooked food is prepared at the relevant LDPC, which is then delivered to the client's venue where the food is cooked and served. For the latter, the food provided is cooked at the Group's LDPCs. The cooked food is delivered to the designated venues in thermal containers by the Group's logistics fleet.

School catering

The Group provides contract catering services to various tertiary institutions in Shanghai and Suzhou. Under these contracts, the Group is provided with a designated area where it can provide catering services. The scope of the service varies depending on the specifications of the relevant contracts. Generally, the Group can provide both on-site and off-site catering services for these contracts. The school catering services business has benefited from the encouragement by various municipal authorities of the outsourcing of school meals to professional caterers.

BUSINESS REVIEW *(continued)*

Chinese Restaurants

Thanks to the Group's two new Chinese restaurants – Suzhou Industrial Park Restaurant (which commenced operations in October 2005) and Shanghai Jiading Restaurant (which commenced operations on a trial basis in August 2006), the Group's restaurant business managed a stable growth, achieving a 8.6% rise in turnover compared with the corresponding period of 2005/06 and accounting for 19.1% of the total Group's turnover. The Group currently operates four Chinese restaurants: two in Shanghai and two in Suzhou, abiding by the dictum, "Fresh food tastes good". To capture business from medium-to-high income customers and corporate executive who are dining out more frequently, the Group's Chinese restaurants provide a comprehensive menu offering a wide range of dishes following traditional culinary styles.

The cuisine committee of the Group meets regularly to develop new dishes and from time to time offer special menus featuring speciality or seasonal dishes as well as special set menus. The Group has also introduced a "FU JI Club" fine dining concept that is only offered to exclusive members of Suzhou Industrial Park Restaurant, Shanghai Pudong Restaurant and the new Shanghai Jiading Restaurant. The Group plans to implement such fine dining concept selectively in its other restaurants in the near future.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As of 30 September 2006, the Group's total shareholders' equity amounted to RMB1,586,228,000, representing an increase of 9.7% compared with 31 March 2006. As of 30 September 2006, the Group's cash and cash equivalents totaled RMB51,991,000 (31 March 2006: RMB281,744,000). The Group's net current assets were RMB56,668,000 (31 March 2006: RMB220,241,000).

Subsequent to the balance sheet date, on 9 November 2006, the Company issued zero coupon convertible bonds due 2009 (the "Bonds 2009") convertible into ordinary shares of the Company in an aggregate principal amount of HK\$1 billion. The net proceeds from the Bonds 2009's issuance, after deduction of commissions and directly attributable expenses, are estimated to be approximately HK\$971,500,000 in aggregate.

Taking the above figures into account, together with available bank loans and strong operational cash flows, the management is confident that the Group will have adequate resources to settle any debts and to finance its daily operational and capital expenditures.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Resources *(continued)*

The reporting currency of the Group is Renminbi and the Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and US dollars. As the fluctuation in the exchange rates among these currencies during the current period under review was minimal and is expected to be insignificant going forward, the Group believes that its exposure to exchange rate movement is limited.

Capital Structure

As of 30 September 2006, the Group had total debts made up of bank loans bearing fixed annual rates of 4.86% to 7.02% (31 March 2006: from 5.22% to 7.02%) and the five-year zero coupon convertible bonds (the "Bonds 2010") (RMB392,331,000 in total) (31 March 2006: RMB303,334,000). As of 30 September 2006, the Group's total shareholders' equity was RMB1,586,228,000 (31 March 2006: RMB1,445,561,000). Based on the above, its gearing ratio was approximately 24.7% (31 March 2006: 21.0%).

The bondholders of the Bonds 2010 have the right to convert the bonds into ordinary shares of the Company at any time beginning 25 November 2005 and thereafter up to the close of business on 30 September 2010 at the adjusted conversion price of HK\$10.125 per share (the "Adjusted Conversion Price"). On 24 July 2006, the Company issued and allotted 975,324 new shares as a result of the conversion of the Bonds 2010 at the initial conversion price of HK\$10.253 per share. After the issuance, as of 30 September 2006, the number of issued shares of the Company was increased to 503,337,887 and the outstanding principal amount of the Bonds 2010 was reduced to HK\$70,000,000. Subsequent to the balance sheet date, the Company had issued and allotted 395,060 new shares as a result of the conversion of the Bonds 2010 at the Adjusted Conversion Price. After the issuance, the number of issued shares of the Company was increased to 503,732,947 and the outstanding principal amount of the Bonds 2010 was reduced to HK\$66,000,000. Assuming full conversion of the remaining principal amount of the Bonds 2010 at the Adjusted Conversion Price, the Company will have issued 6,518,518 shares, representing approximately 1.28% of the enlarged share capital of the Company.

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

FINANCIAL REVIEW *(continued)*

Group Structure

Other than establishing three wholly-owned subsidiaries in the PRC – Shanghai Ke Qian Logistics Co. Ltd.*, Shanghai Duo Xian Le Food Sales Co. Ltd.* and Ningbo Auterlan Sea Food Development Co. Ltd.*, during the period under review, there has been no material change in the Group's structure.

Charge on Assets and Contingent Liabilities

As of 30 September 2006, the Group had fixed assets with net book value amounting to approximately RMB18,412,000 (31 March 2006: 18,642,000) and fixed deposits denominated in US dollars and HK dollars, equivalent to RMB191,073,000 (31 March 2006: 116,441,000), which are pledged to secure the Group's bank loans.

As of 30 September 2006, the Group had contingent liabilities in the amount of approximately RMB59,916,000 (31 March 2006: RMB21,663,000) in respect of adoption of the preferential tax treatments in determining the income tax liabilities of two wholly owned subsidiaries in Shanghai.

Use of proceeds from initial public offering

Shares of the Company were listed on the Main Board of the HKSE on 17 December 2004 with a total of 115,000,000 offer shares and the net proceeds for the new shares issue of approximately HK\$324,612,000 (equivalent to approximately RMB344,089,000) (the "Net Proceeds"). As of 30 September 2006, the Net Proceeds have been utilized as follows:

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

* *for identification only*

FINANCIAL REVIEW *(continued)*

Use of proceeds from initial public offering *(continued)*

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

HUMAN RESOURCE

As of 30 September 2006, the Group had 4,247 employees in the PRC and Hong Kong (31 March 2006: 3,924 employees). All employees are remunerated according to their performance, experience and prevailing market rates. The Group provides retirement benefits to employees in Hong Kong in the form of Mandatory Provident Fund. A similar scheme is extended to employees in the PRC.

FOOD SAFETY

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

With a view towards ensuring that the production of food by the Group meets international hygiene standards, the Group has implemented the HACCP system at each of its restaurants and centralized processing centers.

The HACCP system allows the Group to execute appropriate preventive measures, ensuring the quality of food products and helping to minimize the risk of food poisoning. The Group has obtained/applied for HACCP certification for all of its Chinese restaurants and centralized processing centres; and intends to introduce the HACCP system to all of the centralized processing centres it establishes in the future.

In addition to complying strictly with the HACCP standard, the Group also ensures its production procedures adhere to other comparable international food hygiene requirements such as ISO 14000, SOP and GMP. The Group has appointed a leading international inspection, verification, testing and certification organization to regularly monitor hygiene and food safety compliance at all of its catering sites (primarily those with on-site cooking facilities) and centralized processing centres. Evaluation reports are subsequently submitted to management for review.

OUTLOOK

The Directors expect the Group's catering service to expand and remain a principal revenue and profit growth driver. As such, the Group aims to lay down a solid and healthy foundation by developing and strengthening its vertically integrated support and logistics capabilities. Convertible bonds were issued in November 2006 with the objective of raising capital to support such vertical expansion plans so as to capitalize on the tremendous business potential of contract catering in China.

Looking ahead, the Group intends to establish more LDPCs in regions with high growth potential such as Beijing, Shandong and Tianjin and with the goal of further achieving its cost leadership and consolidating its leading position in the PRC catering industry, the Group plans to upgrade existing SIPC, namely, the Linqu, Shouguang and Ningbo centres as well as establish a new SIPC in Wuxi, in the province of Jiangsu. These expansions are expected to be completed by 30 September 2009, thus ensuring adequate supply of high quality and cheap raw materials in the long run.

Also, a regional distribution and processing centre ("RDPC") in Jiading, Shanghai is under construction and scheduled to begin production by 30 June 2007, increasing the Group's capacity by a further 300,000 meals per day. Serving as a logistics hub in the Huadong region, the Jiading RDPC will facilitate planning and control of procurement, movement of inventories and products, and serve as a research and development centre. As part of the Group's strategy to penetrate into the Beijing catering market, the Group plans to build a new RDPC in Beijing as well. Similar to the Jiading RDPC, the Beijing RDPC would serve as regional logistics hub, providing support in the areas of sourcing, procurement, storage, processing and logistics arrangement of food materials for LDPCs in the vicinity.

The Group also plans to expand its Chinese restaurants business by opening new restaurants in fast growing Mainland cities. To expand its customer base and explore new revenue sources, the Group will continue to explore opportunities to supply pre-packaged meals to the education, tourism, railway and highway segments.

ISSUE OF THE BONDS 2009

On 9 October 2006, the Group entered into a Subscription Agreement with UBS AG, whereby UBS AG agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the Hong Kong dollar denominated Bonds to be issued at par by the Company in an aggregate principal amount of HK\$800 million. In addition, the Company also granted an option to subscribe up to a further aggregated principal amount of HK\$200 million, in whole or in part, to UBS AG, which exercised such option in full on 9 October 2006. The initial conversion price is HK\$17.51 per share. Assuming full conversion of the Bonds 2009 at the initial conversion price of HK\$17.51 per share, the Bonds 2009 will be convertible into 57,110,220 new shares, representing approximately 10.18% of the enlarged issued capital of the Company. The Bonds 2009 were issued on 9 November 2006 and listed on the HKSE on 10 November 2006.

The estimated net proceeds from the Bonds 2009's issuance, after deduction of commissions and directly attributable expenses, are approximately HK\$971,500,000 in aggregate. The net proceeds will be used primarily for developing and strengthening the Group's vertically integrated business model through the expansion of the capacity of the Group's existing SIPC's located in Linqu, Shandong; Shouguang, Shandong; and Ningbo, Zhejiang and the establishment of a new SIPC in Wuxi, Jiangsu, expanding the Group's production capacity and logistical capabilities through the establishment of a new RDPC in Beijing and for the Group's general working capital purposes.

OTHER INFORMATION

Disclosure of Interests

Directors' and chief executives' interests and short portions in the shares, underlying shares and debentures

As at 30 September 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	56.62%
Yao Juan (<i>Note 2</i>)	Beneficial	285,000,000	Long	56.62%

- (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	Percentage Holding of Million Decade Shares
Wei Dong (<i>Note 1</i>)	Controlled Corporation	100%

Notes:

- 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.
- 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.

OTHER INFORMATION (continued)**Disclosure of Interests** (continued)

Directors' and chief executives' interests and short portions in the shares, underlying shares and debentures (continued)

(iii) Interest in share options of the Company

Name of Director	Date of grant	Exercise price	Exercisable period	Position	Number of shares in respect of options outstanding as at 30 September 2006
Ku Wang	25 May 2006	HK\$15.61	25 May 2007 to 24 November 2014	Long	100,000

Save as disclosed above, as at 30 September 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.

Substantial shareholders' and other persons' interests and short portions in the shares, underlying shares and debentures

Save as disclosed under the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures" above, as at 30 September 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.

Share Option Scheme

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 the Group's employees. The Scheme became effective on 17 December 2004 and, unless otherwise cancelled or amended, will remain in force until 24 November 2014. Further details of the Scheme have been disclosed in the 2006 Annual Report of the Company in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the HKSE.

OTHER INFORMATION (continued)**Share Option Scheme** (continued)

As at 30 September 2006, particulars of the options granted to the participants under the Scheme were as follows:

Name or Category of participant	Balance as at 1 April 2006	Granted during the period	Cancelled during the period	Outstanding as at 30 September 2006 (Note 1)	Date of grant	Exercisable period (Note 2)	Exercise price per share (HK\$) (Note 3)
<i>Director:</i>							
Ku Wang	-	500,000	(400,000)	100,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
<i>Employees:</i>							
In aggregate	-	20,100,000	(16,080,000)	4,020,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Total	-	20,600,000	(16,480,000)	4,120,000			

Notes:

- No options have been exercised or lapsed during the six months ended 30 September 2006.
- The vesting period of the share options granted is from the date of the grant until the commencement of the exercise period.
- The closing price per share of the Company immediately before the date of options granted was HK\$15.25.
- The fair value of the options granted on 25 May 2006 was approximately HK\$27,093,000 (equivalents to approximately RMB27,906,000). The fair value of the options was estimated on the date of grant using the Binomial option pricing model (the "Binomial Model") with the following parameters:
 - Risk free interest rate: 4.80% (being the 8.5 year yields derived from the exchange fund notes issued by Hong Kong Monetary Authority)
 - Expected volatility: 54.06% (being the historical volatility of the price return of the Company's shares as at the valuation date)

OTHER INFORMATION *(continued)*

Share Option Scheme *(continued)*

Notes: *(continued)*

- (c) Expected dividend yield: 1.18% (based on the historical dividend yield of the Company's shares and the Company dividend policy)
- (d) Suboptimal exercise factor: 1.5
- (e) Expected life: 8.5 years

The Binomial Model is based on the simplification that over a single period of a very short duration, the underlying asset can only move from its original price to an upper and lower level with defined probability. By increasing the number of periods, a binomial lattice/tree can be developed. This binomial tree represents the possible paths that the future price of the underlying asset can take within the periods. The Binomial Model utilizes the binomial lattice of the underlying asset by incorporating in the terms and structure of the option. Since the binomial tree provides the possible future prices for each period in time as well as the respective probability, value of the option of the underlying asset can then be determined for each point in time.

As any changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of professional appraiser, the model does not necessarily provide a reliable single measure of the fair value of the share options.

The accounting policy adopted by the Group to account for the fair value of the Company's share options has been disclosed in the 2006 Annual Report of the Company.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2006.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry on all the Directors of the Company, confirmed that all its Directors have complied with the Model Code throughout the six months ended 30 September 2006.

Audit Committee

The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly results and to provide advice and comments thereon to the Board, to make recommendation to the Board on the appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors. The Audit Committee is also responsible for reviewing quarterly reports prepared by the management of the Group on the hygiene standards and controls, the financial reporting process and internal control system of the Group and to give suggestions in these regards. The Audit Committee has three members comprising Mr. Su Gang Bing, Ms. Yang Liu and Mr. Wong Chi Keung, all being independent non-executive Directors, with Mr. Wong Chi Keung being the chairman.

OTHER INFORMATION *(continued)*

Audit Committee *(continued)*

The Audit Committee has reviewed with the Group's management the Group's quarterly hygiene reports, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Group's unaudited interim financial report for the six months ended 30 September 2006.

Remuneration Committee

The Company established a Remuneration Committee which comprises two independent non-executive Directors, namely Mr. Su Gang Bing and Ms. Yang Liu, and the chairman of the Company Mr. Wei Dong. Mr. Su is the chairman of the Remuneration Committee. The Remuneration Committee has rights and duties consistent with those set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. The Remuneration Committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and the Group's senior management and for providing advice and recommendations thereon to the Board.

Interim Dividend

The Board has resolved to declare an interim dividend of HK10.2 cents (2005: HK7.5 cents) per share for the six months ended 30 September 2006. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on 22 December 2006. The interim dividend will be paid on or around 5 January 2007.

Closure of Register of Members

The Register of Members will be closed from 20 December 2006 to 22 December 2006 (both days inclusive), for the purpose of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by 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 19 December 2006.

The Code

The Company has complied with the Code throughout the six months ended 30 September 2006, with deviation from code provision A.2.1 of the Code in respect of the separate roles of chairman and chief executive officer.

OTHER INFORMATION *(continued)*

The Code *(continued)*

Code A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company currently does not have the position of Chief Executive Officer at the Board level and the Chairman, Mr. Wei Dong, currently assumes this role. The Board believes that, as a relatively newly-listed company, vesting the roles of both Chairman and Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning. Further, the Board considers that this structure will not impair the balance of power, which has been closely monitored by the Board, which comprises experienced and high caliber individuals. The Board has full confidence in Mr. Wei Dong and believes that the current arrangement is beneficial to the business prospect of the Group.

Board of Directors

As at the date of this report, the Board comprises four executive Directors, namely Mr. Wei Dong, Ms. Yao Juan, Mr. Tung Fai and Ms. Ku Wang, one non-executive Director, namely Ms. Josephine Price, and four independent non-executive Directors, namely Ms. Tsui Wai Ling Carlye, Mr. Wong Chi Keung, Mr. Su Gang Bing and Ms. Yang Liu.

By Order of the Board
FU JI Food and Catering Services Holdings Limited
Wei Dong
Chairman

Hong Kong, 27 November 2006