Annual Report 2007

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

Our Goal

To become a leading food and catering services enterprise capable of delivering fresh, healthy, delicious, diverse and safe choices of foods to corporations, organizations, schools, households, passengers and travelers, and working individuals in China.

Selected an official food caterer for the 2008 Beijing Olympics, a testament to the high quality of FU JI 's products and services.

Our Presence

We are expanding strategically from our solid base in the Yangtze River Delta region to coastal regions and economic zones including the Pearl River Delta and, in near future, Bohai Bay Rim area.

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Corporate Information

Legal Name of the Company
FU JI Food and Catering Services Holdings Limited

Stock Code
1175

Website
www.fujicatering.com

Date of Listing on Main Board
17 December 2004

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)*
Yang Liu
Wei Dong

Auditors
CCIF CPA Limited
Certified Public Accountants
20th Floor
Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

Solicitors
Jones Day
31st Floor, Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

Compliance Adviser
CAF Securities Company Limited
13th Floor
Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

Principal Bankers

PRC
Agricultural Bank of China
China Construction Bank
Guangdong Development Bank

Hong Kong
HSBC
Standard Chartered Bank

Authorized Representatives

Tung Fai
Ng Kwok Choi, FCCA, CPA

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Room 2103, 21st Floor
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor Relations Consultant

Strategic Financial Relations (China) Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

Financial Calendar

Announcement of Annual Results

20 July 2007

Closure of Register of Members

15 August – 21 August 2007

Annual General Meeting

21 August 2007

Planned Results Announcement For The Fiscal Year Ending 31 March 2008

1st Quarter	:	End-August 2007
Interim	:	Mid-December 2007
3rd Quarter	:	Mid-February 2008
Full Year	:	Early-July 2008

Dividends

Interim Dividend	:	HK cents 10.2 per share, paid on 5 January 2007
Proposed Final Dividend	:	HK cents 10.4 per share
Payable	:	4 September 2007

Five Years Financial Summary

RMB'000	2003	2004	2005	2006	**2007**
			Year ended 31 March		
Results					
Turnover	130,914	252,901	454,695	796,750	**1,199,415**
Profit From Operations	46,413	103,810	201,912	308,191	**433,666**
Finance Costs	(592)	(2,983)	(5,125)	(23,138)	**(49,911)**
Profit Before Taxation	45,821	100,827	196,787	285,053	**383,755**
Income Tax	(9,478)	(18,213)	(31,370)	(33,667)	**(35,668)**
Profit For The Year	36,343	82,614	165,417	251,386	**348,087**

RMB'000	2003	2004	2005	2006	**2007**
			As at 31 March		
Assets And Liabilities					
Non-current Assets	124,157	205,272	551,283	1,366,217	**2,320,788**
Current Assets	15,674	100,979	346,299	472,768	**924,101**
Current Liabilities	52,099	94,563	184,657	252,527	**475,168**
Non-current Liabilities	0	41,340	33,072	140,897	**977,335**
Net Assets	87,732	170,348	679,853	1,445,561	**1,792,386**

Notes:

FU JI Food and Catering Services Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 8 April 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to reorganization (the "Reorganization") in preparation for the listing of the shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Sky Achieve Limited, the then holding company of other companies comprising the Group, and became the holding company of the companies comprising the Group on 26 November 2004.

The Group resulting from the Reorganization is regarded as a continuing group. Accordingly, the financial information for the years ended 31 March 2005, 2004 and 2003 and as at 31 March 2004 and 2003 as contained in the sections "Five years financial summary" and "Financial highlights" of this Annual Report had been prepared on the basis that the Company was the holding company of the Group for each of the relevant years, rather than from 26 November 2004. Accordingly, the results of the Group for each of the financial years ended 31 March 2005, 2004 and 2003 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the three years presented. The assets and liabilities of the Group as at 31 March 2004 and 2003 is a combination of the assets and liabilities of the Company and its subsidiaries as at the relevant year end dates.

Financial Highlights

RMB'000 (except ratios and per share amount)	Year ended 31 March 2003	2004	2005	2006	**2007**
Results					
Catering Services	15,238	98,374	236,856	573,870	**932,323**
Chinese Restaurants	115,676	149,474	181,240	200,448	**232,940**
Convenience Food	0	5,053	36,599	22,432	**34,152**
Turnover	130,914	252,901	454,695	796,750	**1,199,415**
Profit from operations	46,413	103,810	201,912	308,191	**433,666**
Profit for the year	36,343	82,614	165,417	251,386	**348,087**
Earnings per share (RMB cents)					
— basic *(note 1)*	12.1	27.5	49.8	56.5	**68.9**
— diluted *(note 2)*	N/A	27.2	46.5	56.0	**68.9**
Dividends per share (HK cents)	N/A	N/A	3.8	15.3	**20.6**
Operating profit margins %	35.5%	41.1%	44.4%	38.7%	**36.2%**
Net profit margins %	27.8%	32.7%	36.4%	31.6%	**29.0%**
Return on equity % *(note 3)*	52.3%	64.0%	38.9%	23.7%	**21.5%**

Notes:

1. The calculations for the years ended 31 March 2007, 2006 and 2005 are based on the profits attributable to shareholders and the weighted average number of ordinary shares in issue during the years. Other calculations are based on the profits attributable to shareholders for the relevant years and the 300,000,000 ordinary shares of the Company in issue as at the date of Prospectus being 7 December 2004.
2. Details of the calculations for the years ended 31 March 2007 and 2006 are set out in note 11 to the financial statements. The calculations for the years ended 31 March 2005 and 2004 are based on profits attributable to shareholders but before interest on convertible notes and the weighted average numbers of ordinary shares after adjusting for the effect of all dilutive potential ordinary shares.
3. Its calculation is based on the profits attributable to shareholders for the relevant years divided by the average of opening and closing balances of shareholders equity for the relevant years.

RMB'000 (except ratios, days and per share amount)	As at 31 March 2003	2004	2005	2006	**2007**
Assets and liabilities					
Non-current assets	124,157	205,272	551,283	1,366,217	**2,320,788**
Current assets	15,674	100,979	346,299	472,768	**924,101**
Total assets	139,831	306,251	897,582	1,838,985	**3,244,889**
Current liabilities	52,099	94,563	184,657	252,527	**475,168**
Net current assets/(liabilities)	(36,425)	6,416	161,642	220,241	**448,933**
Non-current liabilities	0	41,340	33,072	140,897	**977,335**
Net assets	87,732	170,348	679,853	1,445,561	**1,792,386**
Current ratios *(note 1)*	0.30	1.07	1.88	1.87	**1.94**
Stock turnover days *(note 2)*	3	2	2	4	**7**
Debtors turnover days *(note 2)*	5	8	7	7	**9**
Creditors turnover days *(note 3)*	34	22	13	8	**11**
Net assets per share (RMB cents) *(note 4)*	29.2	56.8	163.8	287.8	**351.3**
Gearing ratios % *(note 5)*	27.0%	53.9%	21.9%	21.0%	**72.4%**

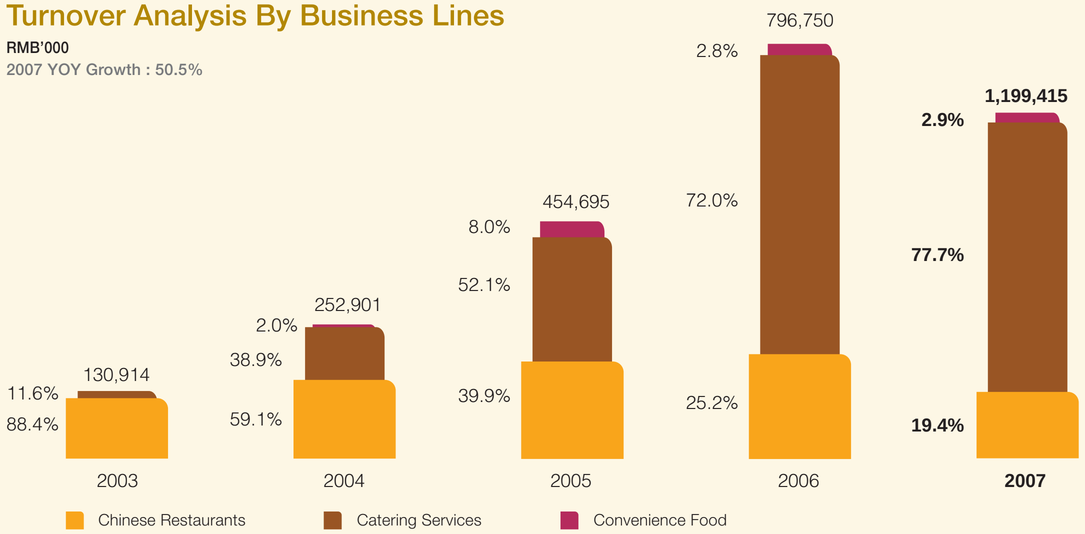
Notes:

1. Its calculation is based on the current assets divided by the current liabilities as at the relevant year end dates.
2. Its calculation is based on the average of opening and closing balances for inventory/accounts receivable divided by turnover during the relevant years and multiplied by the number of days in the relevant years.
3. Its calculation is based on the average of opening and closing balances for accounts payable divided by total purchases during the relevant years and multiplied by the number of days in the relevant years.
4. The calculations as at 31 March 2007, 2006 and 2005 are based on the net assets as at the relevant year end dates and the outstanding 510,251,463, 502,362,563 and 415,000,000 shares as at 31 March 2007, 2006 and 2005, respectively. Other calculations are based on the net assets as at the relevant year end dates and the 300,000,000 ordinary shares of the Company in issue as at the date of Prospectus being 7 December 2004.
5. It is calculated with reference to the total borrowings and the net assets value of the Group as at the relevant year end dates.

Turnover Analysis By Business Lines

RMB'000

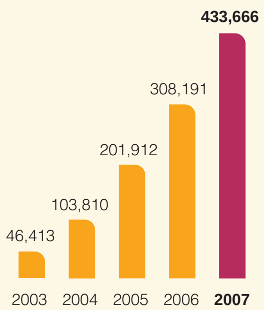
2007 YOY Growth : 50.5%



Profit From Operations

RMB'000

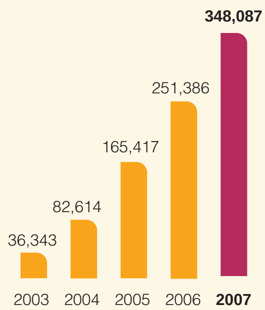
2007 YOY Growth : 40.7%



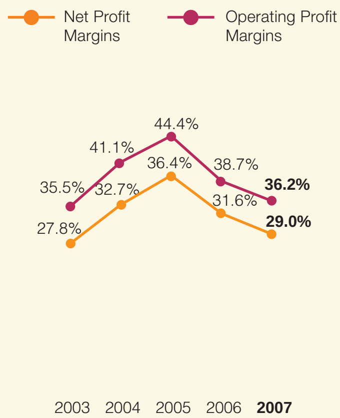
Profit For The Year

RMB'000

2007 YOY Growth : 38.5%



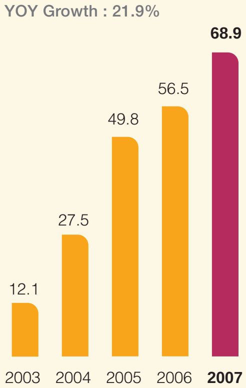
Operating Profit Margin & Net Profit Margin



Basic Earnings Per Share

RMB cents

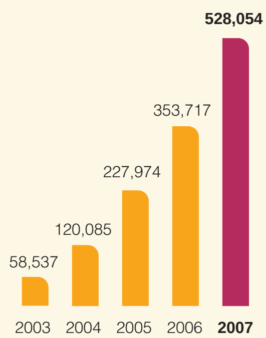
2007 YOY Growth : 21.9%



EBITDA

RMB'000

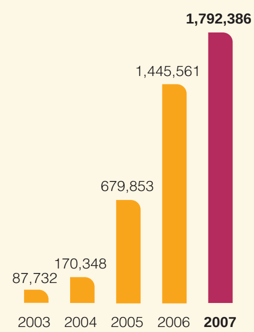
2007 YOY Growth : 49.3%



Net Assets

RMB'000

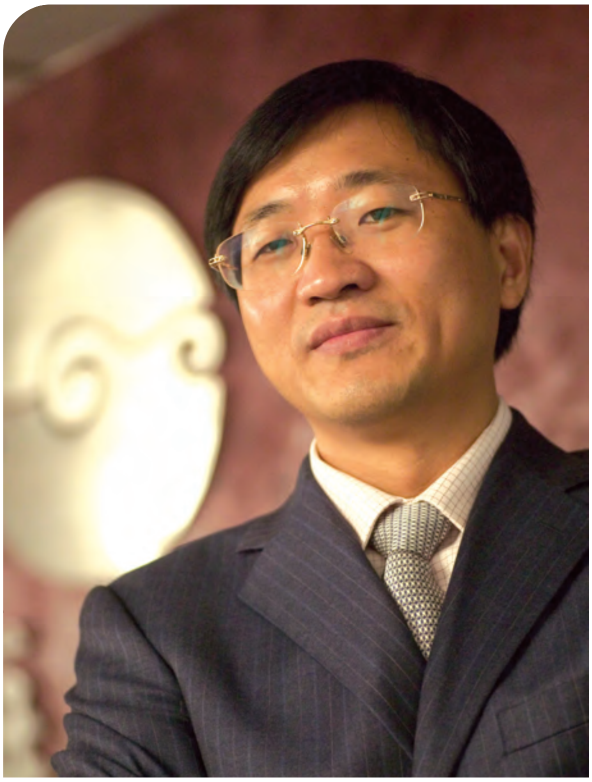
2007 YOY Growth : 24.0%



We continue to devote undivided attention and exercise stringent hygiene control in sourcing and processing of fresh ingredients, storage, temperature control, and delivery and serving of food products.

Food safety is our **HIGHEST** priority

To ensure food safety, we comply diligently with HACCP standards and other international food hygiene requirements such as ISO 14000, SOP and GMP.



Chairman's Statement

I am pleased to present to Shareholders FU JI's excellent annual results. Supported by a pioneering vertically integrated business model and successful market expansion strategy, the Group achieved record high turnover.

I am delighted to present the annual results of FU JI Food and Catering Services Holdings Limited and its subsidiaries (known together as "FU JI" or the "Group") for the fiscal year 2006/07. Tapping the ever-growing catering market of the People's Republic of China (the "PRC"), the Group recorded unprecedented growth. Turnover rocketed 50.5% to RMB1,199.4 million, of which 77.7% came from our Catering Services business. Profit from operations for the year increased 40.7% to RMB433.7 million while profit attributable to Shareholders increased to RMB348.1 million, a 38.5% growth compared with the last fiscal year. Basic earnings per share were RMB68.9 cents (fiscal year 2005/06: RMB56.5 cents).

FU JI operates mainly three core businesses: Catering Services, Chinese Restaurants and Convenience Food. Acclaimed for being able to deliver foods that are fresh and of high quality, Catering Services business brought the Group RMB932.3 million in sales and RMB326.6 million in profit from operations and is expected to continue to be the main revenue driver and to account for a tremendous portion of the Group's total turnover. FU JI's Chinese Restaurants business contributed 19.4% of the Group's total turnover and 15.5% of the profit from operations of the Group. Compared with the previous fiscal year, revenue proportion of Chinese Restaurants business fell. However, with dining out gaining popularity among consumers, the business recorded robust growth during the year under review. As for Convenience Food, its revenue was up 52.2% to RMB34.2 million. It is a business with immense growth potential as the pace of life of the urban populations in China hastens prompting them to resort to fast and convenience dining.

Having opened its market to the world, the PRC is playing an increasingly important role on the international stage. More and more foreign (including Taiwanese) enterprises are setting up base in the country and local manufacturers and enterprises are prospering. For these enterprises, the key of success in the competitive market is to maximize efficiency and minimize cost. This explains the decision of more and more enterprises to outsource non-core operations, such as staff catering, to professional service providers. However, there is still a wide gap between the average catering outsourcing rate in China and those in other established countries, which means there is still ample room for growth of catering outsourcing in the country.

Catering outsourcing has a growing market, but, as the market grows, the authority sees the need to tighten food safety regulations and that has ousted smaller and sub-standard caterers from the market. For FU JI, a dedicated player in the food and catering services industry, food safety has been a priority since the day it started operation. This gives the Group's competitive advantage over its peers, especially as enterprises have become more attentive to food safety in sourcing catering providers after the ever-increasing food poisoning incidents.

After five years of relentless efforts, FU JI has secured strong foothold in the catering market in the country. As at 31 March 2005, it only had a total production capacity of 150,000 meals per day. Two years later, it put out 850,000 meals per day, and it intends to increase the daily production capacity to 1.6 million meals per day by 31 March 2008. The Group adopts a pioneering integrated supply-chain model for its business supported by four sourcing and initial processing centres in Shandong, Jiangsu and Zhejiang and seven operational local distribution and processing centres in Sunqiao (Shanghai), Suzhou, Shenzhen, Songjiang (Shanghai), Kunshan (Suzhou), Wuxi and Hangzhou. The supply-chain model boasts outstanding economies of scale and allows for effective cost saving while ensuring fast delivery hence freshness and optimum taste of food products when they are consumed. It enables the Group to provide large-scale and exceptional quality catering service in the PRC and earn the trust of enterprises in the country.

Apart from having a proven proprietary operational model and large capacity, the Group is also proud of its national and regional presence. As a local enterprise, we know the best cuisines and seasonal flavours to serve for in different provinces. Our understanding of and dedication to meeting the tastes and preferences and safety requirements of our customers and end users has put our reputation standing for freshness and reliability – favourably in the public mind. Extensive presence and good reputation are both key competitive edges of the Group.

Looking forward, the Group will continue to grow its Catering Services business by focusing on diversifying its product mix and customer base. The Group, solidly based in the Yangtze River Delta region, is strategically expanding business coverage to the coastal regions of the country and economic zones in the Pearl River Delta region. Our sterilized pre-packaged meals can be stored under room temperature for convenient consumption any time. With advanced food processing capabilities, we are ready to capture existing demand and higher profit margin segments like railway. Riding on the flourishing Shanghai exhibition industry, FU JI expects to gain better exposure in the PRC and the world. Going forward, we will use our resources for one ultimate goal, which is to provide customers with delicious, fresh and safe to consume meals.

FU JI's management is dedicated to building the Group into the best caterer in the PRC. It is the support of our Board of Directors, management team, employees, suppliers, Shareholders, and most importantly, our customers that have given us the strengths, financial and operational to grow our business. Thus, I would like to extend my warmest thanks to all of them. I am confident that FU JI will be able to continue to bring strong returns to Shareholders.

Wei Dong
Chairman
The PRC, 20 July 2007

With sophisticated facilities in its SIPCs and LDPCs, we hold firmly the pioneer position in the catering industry.

We believe our employees are our greatest assets and key to the Group's success. It arms its staff with cutting edge knowledge and skills by providing them with systematic on-the-job training.

We are choosing **HIGH QUALITY AND COST-COMPETITIVE** ingredients

Management Discussion and Analysis

The fiscal year 2006/07 was a fruitful year for FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (known together as the "Group"). Apart from support from strong economy in China, the Group put major efforts into expanding its vertically integrated business model and customer base as well as extending geographical coverage of its operations. These factors together explained the Group's sound financial results during the year ended 31 March 2007. Turnover for the year reached a new high to approximately RMB1,199.4 million, up 50.5% compared with the fiscal year 2005/06. The Group's gross profit reached RMB695.4 million and net profit surged to RMB348.1 million, up 53.6% and 38.5% respectively against the previous fiscal year. Basic earnings per share were RMB68.9 cents (fiscal year 2005/06: RMB56.5 cents).

Turnover

With demand for its catering services on the rise, the Catering Services segment of the Group continued to be its principal growth driver during the year under review. The segment recorded a remarkable 62.5% increase in turnover compared with the fiscal year 2005/06. Apart from continuing to expand capacity, the Group was able to retain existing customers and secured new contracts. All these contributed significantly to the excellent performance of the Catering Services operations.

Gross and Net Profits

During the current year under review, the Group's gross profit margin and operating profit margin remained high at 58.0% and 36.2%, respectively. Such healthy margins were attributable to the overall remarkable utilization rate of the Group's centralized processing centres and its vertically integrated operational model achieving greater economies of scale and better cost control. These achievements have helped to mitigate the negative impact of rising costs of food materials and ingredients in China.

The Company issued three-year zero coupon convertible bonds (the "Bonds 2009") in an aggregate principal amount of HK$1 billion due 2009 in November 2006. The approximately HK$972.0 million in net proceeds raised was and will be invested principally in expanding capacities along the entire value chain to develop and strengthen the Group's vertically integrated business model.

To comply with Hong Kong Accounting Standards 32 and 39, which require convertible bonds issued by the Group to be split into equity and liability components at initial recognition and the liability component be recognized at fair value, the Group is obliged to subsequently carry the liability component at amortized cost taking into account the redemption premium that would have been paid upon maturities, notwithstanding that the exercise prices of the bonds are far below the market price of the Company's shares subsequent to their issuance. As a result, there was a non-cash charge of approximately RMB30,562,000 (fiscal year 2005/06: RMB13,866,000) incurred, which was recognized as part of the Group's finance cost for the year ended 31 March 2007.

In addition, Hong Kong Financial Reporting Standard 2 requires the Group to recognize the fair value of employee share options as an expense over the vesting period with a corresponding increase in capital reserve within equity. As a result of granting share options to one Executive Director of the Company and certain employees of the Group on 25 May 2006, the Group incurred non-cash charge totalled RMB9,250,000 (fiscal year 2005/06: nil), which was recognized as part of the Group's staff costs for the year under review.

Dividend

The Board of Directors (the "Board") had declared and paid an interim dividend of HK cents 10.2 per share for the fiscal year 2006/07 (fiscal year 2005/06: HK cents 7.5), and recommends payment of a final dividend of HK cents 10.4 per share for the fiscal year 2006/07 (fiscal year 2005/06: HK cents 7.8). The aggregate amount of dividends for the fiscal year 2006/07 represents approximately 30.0% of the consolidated profit attributable to Shareholders for the year.

Market Review

Although still in the budding stage, the catering services sector in China has strong growth potential. The persistently robust Chinese economy in recent years has given birth to a growing number of industrial enterprises and prompted restructuring of the state-owned enterprises. These modernizing enterprises are embracing the outsourcing of non-core operations such as staff catering so that they can focus attention on their core operation and optimize allocation of corporate resources. This trend and the seeming low entry barriers to the sector explain the emergence of many local small caterers, when the number of established local caterers remains small but stable.

However, as the demand for quality catering services and food safety draws public attention, the government of the People's Republic of China (the "PRC") is stepping up regulation to lift food safety standards during the entire food production process from procurement, transportation to storage and distribution. The Group is one of the few caterers in China who can comply with the relevant food safety standards, giving it an unmatched competitive edge that allows it maintain dominance in the catering market in China.

Business Review

The Group has developed a vertically integrated business model tailored to meet the needs of its businesses. The model is deemed pioneering giving the Group advantages over other players in the market. During the fiscal year under review, the Group placed great efforts into improving the facilities in its sourcing and initial processing centres ("SIPCs") and local distribution and processing centres ("LDPCs"). For the year under review, the Group operated four SIPCs in Shandong, Jiangsu and Zhejiang, allowing for centralized bulk procurement of food materials and ingredients and effective control on food quality and costs. It also operated six LDPCs that abide by strict hygiene control in processing and delivery of food materials and products. Located in Sunqiao (Shanghai), Suzhou, Shenzhen, Songjiang (Shanghai), Kunshan (Suzhou) and Hangzhou, all the LDPCs together supported a total output of 850,000 sets of meals per day. The Group's efforts to mechanize and standardize production and used automation facilities also resulted in improvement in operational efficiency.

The Group is strategically expanding from its solid base in the Yangtze River Delta region to coastal regions and economic zones including the Pearl River Delta region. It is building a regional distribution and processing centre ("RDPC") in Jiading, Shanghai. The centre will serve as a logistics hub of the Group in the Huadong region on top of playing an instrumental role in facilitating planning and control of procurement, movement of inventories and products, and research and development.

With such a strong nationwide network in place, the Group is apt to provide integrated food services of the best quality guaranteed by stringent internal hygiene control. It targets to gain the trust of modern consumers with contemporary dining values, expectations and aspirations.

The Group's proven vertically integrated business model and network has given it full control of the entire supply chain – from initial sourcing and processing of certain food ingredients to delivering meals and dishes to customers. The Group is able to flexibly provide customized catering services that meet the specific needs of diverse customers.

Food safety and hygiene is the Group's first and foremost focus as reflected in its insistence on using fresh, high quality food ingredients in its meals and dishes to ensure their high nutritional value. The Group believes that upholding these values will allow to thrive even in intense competition and to maintain dominance in the Chinese restaurants and catering services industries in China.

Catering Services

Catering Services business continued to expand as the Group's principal revenue and profit growth driver. During the year ended 31 March 2007, revenue from the business increased by 62.5% to approximately

RMB932.3 million, and operating profit grew by 38.1% to approximately RMB326.6 million. As at 31 March 2007, the Group produced a total of approximately 567,500 sets of meals daily, representing a 62.1% growth compared to approximately 350,000 sets as at the end of the previous fiscal year. Catering Services business accounted for 77.7% of the Group's total turnover.

Continued strong growth of the Catering Services business was a result of organic growth of the Group's existing customer portfolios and its efforts to enlarge and diversify its customer base and expand into new market segments.

The Group operated three main types of Catering Services, including institutional catering, school catering and exhibition and event catering during the fiscal year.

Institutional catering

Riding on its firm presence in the Yangtze River Delta region, the Group actively expanded its Catering Services to labour-intensive industrial zones in the Pearl River Delta. The Group's targeted customers included large-scale multinational corporations, state-owned enterprises and privately owned industrial enterprises.

School catering

The Group provided Catering Services to various tertiary educational institutions in Shanghai and Suzhou. During the year under review, the Group had made success in securing new customers for this business, thanks to the relevant authorities encouraging outsourcing of school meals to professional caterers. The Group was able to satisfy the needs of these institutions by supplying students and staff with tasty, highly nutritious and good value-for-money meals.

Exhibition and event catering

The Group won contracts from two leading exhibition centres in Shanghai during the year under review. This new segment will allow the Group to benefit from the flourishing Shanghai exhibition industry and see it gain exposure outside the country riding on the high flow of exhibition visitors. The Group believes the new business will also boost the gross profit margin of its Catering Services business and become a future growth driver of its overall results.

The Group signed two catering service contracts for the 2008 Beijing Olympics in April 2007, making it an official food caterer of the global sports event. A testament to the high quality of the Group's products and services, the contract will boost the Group's brand and reputation which will enable it to expand business coverage in Beijing and other areas of the PRC.

Chinese Restaurants

Chinese Restaurants business is the Group's second largest revenue contributor, accounting for 19.4% of the Group's total turnover. As at the end of fiscal year 2006/07, the Group operated six Chinese Restaurants with the three latest additions being the Shanghai Jiading Restaurant (which commenced operation in August 2006), Shanghai Caojiadu Restaurant and Shanghai Wuzhong Road Restaurant (both commenced operation in January 2007).

During the fiscal year, the Group's Chinese Restaurants business managed stable growth, achieving a 16.2% rise in turnover to RMB232.9 million. The growth was mainly attributable to the increased average per head consumption among mid- to high-end customers targeted by the Group and the increase in the number of operating Chinese Restaurants under the Group.

Heeding the trend of medium-to-high income customers and corporate executives dining out more frequently, the Group strived to capture these customers by providing comprehensive and frequently updated menus that include dishes of traditional and contemporary culinary styles in its restaurants. The Group has also introduced a "FU JI Club" fine dining concept available exclusively to members of the Suzhou Industrial Park Restaurant, Shanghai Pudong Restaurant, Shanghai Jiading Restaurant and the new Shanghai Wuzhong Road Restaurant. The Group plans to introduce the concept selectively in its other restaurants in the near future.

Convenience Food

The Group achieved satisfactory performance in sales for Convenience Food during the fiscal year with the support of an efficient logistics network and distribution channels. Turnover increased to RMB34.2 million, representing a 52.2% growth. The Group's centralized system allows the business to share cost and resources in providing high nutritious and healthy convenience food to primarily urban dwellers in Shanghai and Suzhou. Convenience Food accounted for 2.9% of the Group's total turnover.

Financial Review

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As at 31 March 2007, the Group's total Shareholders' equity amounted to RMB1,792,386,000, representing an increase of 24.0% compared with 31 March 2006. As at 31 March 2007, the Group's cash and cash equivalents totalled RMB556,630,000 (31 March 2006: RMB281,744,000). Net current assets were RMB448,933,000 (31 March 2006: RMB220,241,000).

On 9 November 2006, the Company issued the Bonds 2009 convertible into ordinary shares of the Company. The net proceeds from the issuance of the bonds, less commission and all other directly attributable costs, amounted to approximately HK$972.0 million.

With the Bonds 2009 proceeds, available bank loans and strong operational cash flows, the management is confident that the Group will have adequate resources to settle any debts and finance its daily operational and capital expenditures.

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

Capital Structure

As at 31 March 2007, the Group had total debts made up of bank loans bearing annual interest rates of 4.860% to 6.732% (31 March 2006: between 5.22% and 7.02%) and the Bonds 2009 (RMB1,296,835,000 in total) (31 March 2006: RMB303,334,000). As at 31 March 2007, the Group's total Shareholders' equity was RMB1,792,386,000 (31 March 2006: RMB1,445,561,000). Based on the above, its gearing ratio was approximately 72.4% (31 March 2006: 21.0%).

On 14 October 2005, the Company issued zero coupon convertible bonds in an aggregate principal amount of HK$600,000,000 due 2010 (the "Bonds 2010") convertible into ordinary shares of the Company. The bondholders of the Bonds 2010 have the right to convert them into ordinary shares of the Company at any time beginning 25 November 2005 and thereafter up to the close of business on 30 September 2010 at the conversion price of HK$10.253 per share, which was adjusted on 15 August 2006 to HK$10.125 per share. During the year under review, the Company issued and allotted a total of 7,888,900 new shares as a result of conversion of the bonds in the total amount of HK$80,000,000. After the issuance, as at 31 March 2007, the number of issued shares of the Company was increased to 510,251,463 and the outstanding principal amount of the Bonds 2010 became nil.

Save as disclosed above, there has been no change in the share capital of the Company during the year under review.

Holders of the Bonds 2009 have the right to convert the bonds into ordinary shares of the Company at any time beginning 20 December 2006 and thereafter up to the close of business on 25 October 2009 at the conversion price of HK$17.51 per share (subject to adjustment) (the "Conversion Price"). During the year under review, no new share has been issued resulting from the conversion of the Bonds 2009. Subsequent to the balance sheet date, the Company issued and allotted a total of 7,310,104 new shares as a result of conversion of the bonds in the total amount of HK$128,000,000 at the Conversion Price.

The detailed terms and particulars of the Bonds 2009 were set out in the Group's financial statements for the year ended 31 March 2007 and the press announcement dated 10 October 2006.

Group Structure

Other than establishing and acquiring 11 wholly-owned subsidiaries in the PRC – Shanghai Ke Qian Logistics Co. Ltd.*, Shanghai Duo Xian Le Food Sales Co. Ltd.*, Ningbo Auterlan Sea Food Development Co. Ltd.*, Fu Ji United Jiading Catering Co. Ltd.*, Fu Ji United Yu Hua Yuan Catering Co. Ltd.*, Guangxi Meitong Co. Ltd.*, Jianan Duo Xian Le Food Sales Co. Ltd.*, Shanghai Wei Fu Catering Co. Ltd.*, Wuxi Duo Xian Le Trade Ltd.*, Wuxi Meitong Food Technology Co. Ltd*. and Qing Yang Mei Tong Agricultural Development Co. Ltd.*, during the year under review, there has been no material change in the Group's structure.

* *for identification only*

Charge on Assets and Contingent Liabilities

As at 31 March 2007, the Group had fixed deposits denominated in US dollars and Hong Kong dollars, equivalent to RMB262,544,000 (31 March 2006: RMB116,441,000), which are pledged to secure bank loans.

As at 31 March 2007, the Group had contingent liabilities in the amount of approximately RMB32,686,000 (31 March 2006: RMB 21,663,000) 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 Stock Exchange of Hong Kong Limited (the "HKSE") on 17 December 2004 with a total of 115,000,000 offer shares and net proceeds from the new shares issue were approximately HK$324,612,000 (equivalent to approximately RMB344,089,000) (the "Net Proceeds"). As at 31 March 2007, the Net Proceeds had been utilized as follows:

- all of the approximately RMB143 million as stated in the listing prospectus was spent on establishing centralized processing centres;
- all of the approximately RMB72 million as stated in the listing prospectus was spent on establishing sourcing and initial processing centres;
- all of the approximately RMB38 million as stated in the listing prospectus was spent on establishing large scale Chinese restaurants; and
- all of the approximately RMB30 million as stated in the listing prospectus was used as general working capital.

Going forward, the Group will continue to utilize the remaining Net Proceeds to grow its businesses according to the Group's strategies. These strategies will be closely monitored and reviewed by the Board with reference to actual business conditions.

Human Resource

As at 31 March 2007, the Group had 4,653 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 in the form of Mandatory Provident Fund entitlement to employees in Hong Kong. A similar scheme is also provided to employees in the PRC.

The Group has adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations. The Directors may, at their discretion, invite any employees of the Group or Directors of the Company to take up any options to subscribe for shares of the Company. Details of the Scheme are disclosed in this Annual Report in accordance with the Rules Governing the Listing of Securities of the HKSE.

To realise the full potential of its human resources, the Group invests heavily in providing intensive staff training programmes. The purpose of these programmes is to ensure employees deliver good performance in their individual capacity and also that they know thoroughly and abide by various regulations and internal hygiene control requirements. The Group continues to recruit experienced management and site personnel to improve overall operational efficiency.

Food Safety

In the area of food safety, the Group continues to devote undivided attention in sourcing of ingredients and processing, storage, temperature control, delivery and serving of food products. By exercising stringent hygiene control and management of food safety to rule out any possibility of food-borne disease outbreaks linked to its products, the Group protects its business and the "FU JI" brand.

In addition to complying with the HACCP standard, the Group also ensures its production procedures meet other comparable international food hygiene requirements such as ISO 14000, SOP and GMP. It employs ITS – a leading international inspection, verification, testing and certification organization – to conduct regular checks on hygiene and food safety compliance of its catering sites (primarily those with on-site cooking facilities) and centralized processing centres. Evaluation reports will be submitted to the management and the Company's Audit Committee for reference and follow-up.

Outlook

The Group expects more and more enterprises in China to outsource catering to professional caterers. To seize arising business opportunities, the Group will focus on upgrading its centralized system with the aims of improving productivity and maximizing utilization of its facilities.

Two new RDPCs in Jiading and Beijing are now under construction. They will serve as logistic hubs of the Group in Huadong region and areas in the vicinity of Beijing respectively. When the two centres commence operation, they are expected to each add 300,000 meals per day to the total production capacity of the Group. The RDPC in Beijing will also facilitate expansion of the Group's business coverage to key economic regions in the Bohai Bay Rim area, including Beijing itself, Tianjin and Qindao.

Looking forward, the Group will continue to look for opportunities to develop new markets especially those offering higher gross profit margins. It will push for expansion in the prospering exhibition segment followed by the railway segment.

To satisfy the needs of busy city dwellers who wish to dine conveniently, the Group will strive to improve the packaging of its Convenience Food products on top of ensuring their high quality, hygiene and good taste. The Group's highly nutritious pre-packaged meals are expected to become another key growth driver of the Group.

The Group has strong faith in the performance of its Chinese Restaurants taking into account the rising per capita income and average consumption of the Chinese population. The Group will target to attract mid-to-high income customers who are willing to spend more on quality food. More effort will also be put on menu innovation and quality assurance to match customers' increasingly sophisticated tastes and demands. The Group is confident of expanding its market share and consolidating its leadership as a domestic catering services provider in China.

We operate six Chinese Restaurants targetting medium-to-high income customers and corporate executives. It has introduced the "FU JI CLUB" — a fine dining concept to secure loyalty of premium customers.

We pride ourselves in turning the freshest ingredients from nature into **DELICIOUS AND NUTRITIOUS** dishes

Where can you find us?

- Suzhou Xinqu Restaurant
- Shanghai Pudong Restaurant
- Suzhou Industrial Park Restaurant
- Shanghai Jiading Restaurant
- Shanghai Caojiadu Restaurant
- Shanghai Wuzhong Road Restaurant

Corporate Governance Report

The Board of Directors (the "Board") of FU JI Food and Catering Services Holdings Limited (the "Company") recognizes their mission of creating values and maximizing returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Stock Exchange of Hong Kong Limited (the "HKSE") has promulgated the Hong Kong Code on Corporate Governance Practices (the "Code") which came into effect for the Company's first financial year commencing on or after 1 January 2005. The Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this corporate governance report. The Company has adopted and complied with the code provisions of the Code during the year ended 31 March 2007, with deviation from code provision A.2.1 of the Code in respect of the separate roles of chairman and chief executive officer, the details of which have been disclosed in the section headed "Roles of chairman and chief executive officer" below in this corporate governance report.

The Board

During the year ended 31 March 2007, there was no change in the structure of the Board, which currently comprises nine Directors and its composition is set out as follows:

Executive Directors:
Mr. Wei Dong *(Chairman)*
Ms. Yao Juan
Mr. Tung Fai
Ms. Ku Wang

Non-executive Directors:
Ms. Josephine Price

Independent Non-executive Directors ("INEDs"):
Ms. Tsui Wai Ling Carlye
Mr. Wong Chi Keung
Ms. Yang Liu
Mr. Su Gang Bing

The brief biographical details of the Directors are set out in the "Directors and Senior Management Profile" section on pages 37 to 39 of this annual report.

The Company has four INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"). The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Company and its subsidiaries (together the "Group"), and to review and approve the Group's annual, interim and quarterly results, as well as significant financial and capital matters. During the year under review, five Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/held
Executive Directors:	
Mr. Wei Dong *(Chairman)*	5/5
Ms. Yao Juan	4/5
Mr. Tung Fai	5/5
Ms. Ku Wang	5/5
Non-executive Directors:	
Ms. Josephine Price	4/5
INEDs:	
Ms. Tsui Wai Ling Carlye	5/5
Mr. Wong Chi Keung	4/5
Ms. Yang Liu	2/5
Mr. Su Gang Bing	4/5

In addition, during the current year under review, in accordance with the Company's articles of association (the "Articles"), certain matters were approved by written resolutions signed by all the Directors of the Company.

During the year ended 31 March 2007, the Board has dealt with matters covering mainly the Group's overall strategy, annual, interim and quarterly results, internal control, significant capital and financial matters. The Board has delegated the day-to-day operations of the Group to the senior management under the supervision of the Board.

Board meetings are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the code of conduct regarding securities transactions by Directors adopted by the Company.

Roles of Chairman and Chief Executive Officer

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 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.

Appointment and Re-election of Directors

The Board does not establish a nomination committee at present. The appointment of new Director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the new Director(s) is expected to have expertise in relevant area to make contribution to the Company and to have sufficient time to participate in the decision making process of the Company. However, during the year under review, no new Director was appointed by the Board.

There are fixed terms of appointment for the Directors. Each of the Executive Directors entered into a service contract with the Company for an initial term of three years commencing from 17 December 2004. The Non-executive Director and each of the INEDs signed a letter of appointment with the Company for a term of three years commencing from 17 December 2004. In addition, in accordance with the Articles, one third of the Directors (including the Chairman of the Company) for the time being (or if the number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each general meeting in accordance with the provisions of the Articles.

Board Committees

The Board has established a Remuneration Committee and an Audit Committee, each of which has its specific written terms of reference (published in the Company's website) and is chaired by INEDs. To further enhance independence, both committees include a majority of INEDs.

Remuneration Committee

The Remuneration Committee, established on 28 June 2005, comprises the Group's two INEDs and one Executive Director, namely, Mr. Su Gang Bing (being the Chairman of the Committee), Ms. Yang Liu and Mr. Wei Dong. The written terms of reference of the Remuneration Committee cover, among other things, the review of the Group's policy and structure for the remuneration for all the Directors and senior management of the Group, the approval of the remuneration for all the Executive Directors and senior management of the

Group, including the granting of share options to the Group's employees and the Executive Directors under the Company's Share Option Scheme, and the recommendation to the Board for the remuneration for the Non-executive Director and INEDs.

No meeting of the Remuneration Committee was held during the year ended 31 March 2007. The remuneration of the Executive Directors and the Group's senior management was approved by written resolutions signed by all members of the Remuneration Committee.

Audit Committee

The Audit Committee, established on 26 November 2004, comprises the Group's three INEDs, namely, Mr. Wong Chi Keung (being the Chairman of the Committee with appropriate professional qualification or accounting or related financial management expertise), Mr. Su Gang Bing and Ms. Yang Liu.

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 held four meetings during the year ended 31 March 2007 and the attendance of each member is set out as follows:

	Number of Committee meetings attended/held
Committee member:	
Mr. Wong Chi Keung	4/4
Ms. Yang Liu	4/4
Mr. Su Gang Bing	4/4

The external auditors, CCIF CPA Limited, and the related representatives of the Group also attended these meetings.

During the meetings held in the financial year ended 31 March 2007, the Audit Committee has performed the works which are set out as follows:

- discuss and review auditing, internal controls, risk management, financial reporting matters including the annual and interim accounts and quarterly results, and quarterly, interim and full year results announcements, before recommending them to the Board for approval;
- review the quarterly reports prepared by the management of the Group on the hygiene standards and controls of the Group;
- approve the remuneration for the audit services provided by the external auditors in respect of the financial year ended 31 March 2006; and

- review the external audit findings, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance in relation to the financial reporting.

Respective Responsibilities of Directors and External Auditors

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the condition of the Group. The external auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the Shareholders of the Company as a body and for no other purpose.

Internal Control

The Board has overall responsibility for maintaining the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal and ensuring an appropriate maintenance of according records and the availability of reliable financial information for internal use or external release.

During the year under review and up to the date of this report, the Board and the Audit Committee have reviewed the effectiveness of its internal control systems on all major operations of the Group by appointing an independent accounting firm on their behalf. No major issue but areas for improvement have been identified. All recommendations from the independent accounting firm will be properly followed up to ensure that they are implemented within a reasonable period of time.

External Auditors' Remuneration

For the year ended 31 March 2007, the total remuneration for the audit services provided by the external auditors amounted to HK$2,100,000 (approximately RMB2,078,000). The audit fee was approved by the Audit Committee.

For the year ended 31 March 2007, the total remuneration for the permissible non-audit services provided by the external auditors amounted to HK$925,000 (approximately RMB915,000), comprising HK$623,000 (approximately RMB616,000) for the review of financial information included in the offering circular dated 3 November 2006 for the issuance of HK$1,000,000,000 in aggregate principal amount of zero coupon bonds due 2009 convertible into the shares of the Company, and HK$302,000 (approximately RMB299,000) for the review of the interim financial report and the quarterly results of the Group.

The re-appointment of CCIF CPA Limited as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

Investor Relations

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

During the year ended 31 March 2007, the Group has actively participated in investor forums and road shows held in Hong Kong, the People's Republic of China and abroad. It also arranged briefings and meetings with analysts and fund managers to enhance their understanding of the Group. The Group also received regular investor audit reports from our investor relations consultant after such events, so that the management could internally discuss and review its investor relations program and communication strategies.

Investors and the public can have access to up-to-date corporate information of the Group through the corporate website of www.fujicatering.com. The website enables them to obtain information on the Group's financial performance and latest business developments.

On behalf of the Board

Wei Dong
Chairman

The PRC, 20 July 2007

Directors' Report

The Directors present their report and the audited financial statements of FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2007.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries comprise the provision of Catering Services, the operation of Chinese Restaurants and the production and sale of Convenience Food products, in the People's Republic of China (the "PRC").

Results and Dividends

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 96.

The Directors had declared an interim dividend of HK cents 10.2 per share (approximately equivalent to RMB cents 10.093 per share), totalling approximately HK$51,844,000 (equivalent to RMB51,300,000), which was paid on 5 January 2007.

The Directors recommend the payment of a final dividend of HK cents 10.4 per share (approximately equivalent to RMB cents 10.291 per share) in respect of the year, to the shareholders whose names appear on the register of members of the Company on 21 August 2007.

Closure of Register of Members

The register of members of the Company will be closed from 15 August 2007 to 21 August 2007, both days inclusive, during which period no transfer of shares in the Company can be registered. In order to qualify for the final dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 14 August 2007.

Financial Summary

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

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in notes 14 and 15 to the financial statements.

Share Capital and Share Option Scheme

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

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's Directors and other employees of the Group. The Scheme was conditionally adopted by the Company's Shareholders on 26 November 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme became effective on 17 December 2004.

The maximum number of shares available for issue under share options which may be granted under the Scheme and any other schemes is 51,782,156 shares, representing 10 per cent. of the issued share capital of the Company as at the date of this report. In addition, the maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

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

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

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

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

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

Movements of the share options granted under the Scheme for the year ended 31 March 2007 are as follows:

Name or Category of participant	Balance as at 1 April 2006	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 March 2007 *(Note 1)*	Date of grant	Exercisable period *(Note 2)*	Exercise price per share *(HK$)* *(Note 3)*
Director:								
Ku Wang	—	500,000	(400,000)	—	100,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Employees:								
In aggregate	—	20,100,000	(16,080,000)	(160,000)	3,860,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Total	—	20,600,000	(16,480,000)	(160,000)	3,960,000			

Notes:

1. No options have been exercised during the year ended 31 March 2007. Subsequently, a total number of 260,000 share options was exercised.
2. All holders of options granted under the Scheme may only exercise their options in the following manner:

Date	Percentage of shares subject to the options
1st anniversary of the date of grant	20%
2nd anniversary of the date of grant	40%
3rd anniversary of the date of grant	60%
4th anniversary of the date of grant	80%
5th anniversary of the date of grant	100%

3. The closing price per share of the Company immediately before the date of options granted was HK$15.25.
4. Valuation of the share options granted during the year ended 31 March 2007 and its related accounting policy are set out in notes 24 and 2(n)(ii) to the financial statements, respectively.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

Distributable Reserves

As at 31 March 2007, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to RMB1,000,141,000, of which RMB53,288,000 has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

Pre-emptive Rights

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

Subsidiaries

Details of the Company's subsidiaries as at 31 March 2007 are set out in note 17 to the financial statements.

Directors

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

Executive Directors

Mr. Wei Dong *(Chairman)*
Ms. Yao Juan
Mr. Tung Fai
Ms. Ku Wang

Non-executive Director

Ms. Josephine Price

Independent Non-executive Directors

Ms. Tsui Wai Ling Carlye
Mr. Wong Chi Keung
Ms. Yang Liu
Mr. Su Gang Bing

In accordance with Article 87(1) and Article 87(2) of the Company's articles of association, Ms. Josephine Price, Ms. Tsui Wai Ling Carlye and Ms. Yang Liu will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Biographical Information of Directors and Senior Management

Brief biographical information of Directors of the Company and senior management of the Group as at the date of this annual report are set out on pages 37 to 39.

Directors' Interests in Competing Business

During the year ended 31 March 2007, none of the Directors of the Company was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Directors and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 31 March 2007, 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 as at 31 March 2007
Wei Dong *(Note 1)*	Beneficial	285,000,000	Long	55.85%
Yao Juan *(Note 2)*	Beneficial	285,000,000	Long	55.85%

(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 *(Note 1)*	Controlled Corporation	100%

Notes:

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

(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 31 March 2007
Ku Wang	25 May 2006	HK$15.61	25 May 2007 to 24 November 2014	Long	100,000

Save as disclosed above, as at 31 March 2007, 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 Positions 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 31 March 2007, the Directors had not been notified by any other persons who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' Rights to Acquire Shares or Debt Securities

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

Directors' Interests in Contracts

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

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

Connected Transactions

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

Purchase, Sale or Redemption of Listed Securities

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

Bank Loans and Other Borrowings

Details of the Group's bank loans and other borrowings as at 31 March 2007 are set out in notes 22 and 27 to the financial statements.

Major Customers and Suppliers

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent. of the Group's total sales and purchases for the years ended 31 March 2007 and 2006.

Retirement Benefit Schemes

Details of the retirement benefit schemes of the Group are set out in note 12 to the financial statements.

Public Float

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

Auditors

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

On behalf of the Board

Wei Dong
Chairman

The PRC, 20 July 2007

Directors and Senior Management Profile

Directors

Executive Directors

Mr. Wei Dong, aged 38, is the Chairman and an Executive Director of the Company. Founding the Group in 1999, Mr. Wei is responsible for the Group's overall management and strategic planning and development. Prior to founding the Group, Mr. Wei worked for Nan Tong National Tax Bureau (南通市國家稅務局) for more than 8 years and was the general manager of a company engaging in the Chinese Restaurants business in the PRC. He graduated from the Jiangxi University of Finance and Economics (江西財經大學) majoring in taxation and completed an EMBA course in Tsinghua University (北京清華大學). He is currently a standing committee member of China Business Federation (中國商業聯合會).

Ms. Yao Juan, aged 35, is an Executive Director of the Company. She is responsible for the overall administration of the Group's operation and is also the Vice President of the Group in charge of the Group's Chinese Restaurants business. She graduated from Shanghai Fudan University (上海復旦大學) with a degree in chemistry in 1993. Prior to founding the Group in 1999 with Mr. Wei Dong, she worked for a trading company and developed over five years of experience in import and export trade business. She completed an EMBA course in China Europe International Business School (中歐國際工商學院). Ms. Yao is the spouse of Mr. Wei Dong.

Mr. Tung Fai, aged 45, is an Executive Director of the Company and joined the Group in 2003. He is responsible for the overall strategic planning and financial management of the Group. Mr. Tung has more than 14 years of experience in investment management and is experienced with the investment business environment in the PRC and Hong Kong. He holds a bachelor degree in finance from the Jiangxi University of Finance & Economics (江西財經大學).

Ms. Ku Wang, aged 36, is an Executive Director of the Company and joined the Group in 2004. She is responsible for the overall administration of the Company. Prior to joining the Group, she worked with a foreign-owned enterprise in the PRC as an assistant economist. She has experience in trading and accounting. Ms. Ku graduated from Capital University of Economics and Business (首都經濟貿易大學) majoring in business and economics in 1993.

Non-executive Director

Ms. Josephine Price, aged 53, is a Non-executive Director of the Company. Ms. Price is the Deputy Chief Executive Officer of CLSA Capital Partners (HK) Limited. She joined CLSA in 1995 after leaving NatWest Markets where she was one of the joint-heads of the corporate finance division. She has been in Hong Kong for over 20 years. She is a graduate of the University of Kent at Canterbury, the United Kingdom. Ms. Price is a member of the Law Societies of England & Wales and Hong Kong and a fellow member of the Hong Kong Institute of Directors. She is also a member of the Hong Kong Securities Institute and a registered investment adviser in Hong Kong.

Independent Non-executive Directors

Ms. Tsui Wai Ling Carlye, aged 60, is an Independent Non-executive Director of the Company. She is the Chief Executive Officer of The Hong Kong Institute of Directors. She is a Fellow of The Hong Kong Institute of Directors, The Hong Kong Institution of Engineers and The British Computer Society and an Honorary Fellow of the Hong Kong Association for Computer Education. She is a holder of the Professional Diploma on Corporate Governance and Directorship and a Justice of the Peace. Ms. Tsui is currently a Wan Chai District Councillor and was formerly a Councillor of Urban Council and Provisional Urban Council. She is a member of several public service bodies, including the Broadcasting Authority. She is an independent non-executive director of RoadShow Holdings Limited, a company listed on the Main Board of the HKSE. She was awarded one of the Ten Outstanding Young Persons in Hong Kong in 1981, IT Achiever of the Year 1992, Member of the Most Excellent Order of the British Empire in 1997 and a Bronze Bauhinia Star in 2003.

Mr. Wong Chi Keung, aged 52, is an Independent Non-executive Director of the Company. He obtained a master degree in business administration from the University of Adelaide in Australia in 1986. Mr. Wong is a fellow member of The Hong Kong Institute of Certified Public Accountants, The Chartered Association of Certified Accountants and CPA, Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. He is a Responsible Officer for asset management, advising on securities and corporate finance for Legend Capital Partners, Inc. under the SFO. He is formerly an executive director of Guangzhou Investment Company Limited, an independent non-executive director and a member of the audit committee of China Treasure (Greater China) Investments Limited and currently an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Special Steel Holdings Company Limited, China Ting Group Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, International Entertainment Corporation, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of which are listed on the HKSE. He has over 30 years of experience in financing, accounting and management.

Ms. Yang Liu, aged 44, is an Independent Non-executive Director of the Company. Ms. Yang is currently the vice chairperson of the China Cooking Association (中國烹飪協會). She has been involved with the China Cooking Association for many years and is experienced in the food and catering services industry.

Mr. Su Gang Bing, aged 64, is an Independent Non-executive Director of the Company. Mr. Su is currently the vice chairperson of the administration board of New Shanghai Business City (新上海商業城管理委員會). Mr. Su graduated from Shanghai Second Military Medicine University (上海第二軍醫大學) majoring in medicine in 1967. Mr. Su was a part-time professor in Shanghai Engineering Technology University (上海工程技術大學) in 1995.

Senior Management

Dr. Collin Yao Jin Chao, *Ph.D*, aged 47, is the Chief Executive Officer of the Group's PRC operations since August 2005. Mr. Yao graduated from La Trobe University, Australia with a bachelor degree in food science, a master degree in business and a doctor degree with research interest in economies and social policy of the PRC. Prior to joining the Group in March 2005, Mr. Yao worked as a regional chief executive officer in Ausda Group Company Limited and has over 17 years of professional knowledge and experience in fresh food industry in Pan-Asia region. Mr. Yao is one of the nominated candidates for the Top Ten Contributors for Food Industry in the PRC in 2004.

Mr. Wei Ming, aged 44, is the Vice President of the Group. He is responsible for monitoring the business operation and development of the Group. He graduated from Takushoku University, Japan (日本拓殖大學) with a master degree in business. Before joining the Group in 2002, he worked in Shanghai Matsushita Electric Works Housing Ltd. (上海松下電工住宅有限公司) where he was in charge of the cafeteria and the convenience store. He is the brother of Mr. Wei Dong.

Mr. Dong Biao Cheng, aged 41, is the Vice President of the Group. He is responsible for the financial management of the Group. He graduated from Jiangxi University of Finance and Economics (江西財經大學) majoring in statistics in 1989. Before joining the Group in May 2004, he was the chief Economist and Accountant of a company listed on the Main Board of the HKSE. He attained an accounting qualification given by the Finance Ministry of the PRC (中華人民共和國財政部) in 1997.

Mr. He Zhi Wei, aged 44, is the Chief Compliance Officer of the Group. He is responsible for the Group's catering operations and the Group's quality control in respect of the food safety and hygienic standards. He graduated from China Tourism University (中國旅遊大學) majoring in hotel management in 1985 and obtained a master degree in business from University of South Australia in 2003. Prior to joining the Group in February 2005, Mr. He had been a senior manager of Shanghai Eastern Air Catering Co., Ltd. (上海東方航空食品有限公司) in charge of food safety and quality assurance for more than 20 years.

Mr. Hu Zhi Qiang, aged 37, is the Vice President of the Group. He is responsible for managing the Group's human resources. He graduated from Foreign Languages Department, Shanghai Teacher's University in 1991. Prior to joining the Group in September 2004, Mr. Hu had worked in Amway China Corporation Ltd. as a senior human resources development manager since 2001. Working as senior managers in the human resources departments of various renowned companies such as Johnson & Johnson (China) Limited and General Electric Jiabao Lighting Co., Ltd., Mr. Hu has developed more than 10 years of experience in human resources management of multi-national companies.

Mr. Wang Wei Dong, aged 38, is the Vice President of the Group. He is responsible for the establishment of the Group's centralized processing centres, the Group's division of sourcing and initial processing centres and central procurement department. He graduated from Jiangxi University of Finance and Economies (江西財經大學) majoring in finance. Prior to joining the Group in January 2005, Mr. Wang had extensive general management experience in various PRC companies.

Mr. Ng Kwok Choi, aged 36, has been the Group's Financial Controller, Qualified Accountant and Company Secretary of the Company since April 2004. He is responsible for the Group's overall financial planning and management of the Group. Before joining the Group, he had been the group financial controller of a company listed on the Main Board of the HKSE since July 2000 and had worked for more than five years in an international accounting firm in Hong Kong, from which he has gained extensive experience in accounting, auditing and taxation matters. Mr. Ng is a fellow member of The Chartered Association of Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. He graduated from the Hong Kong University of Science and Technology majoring in Accounting in 1994.

Report Of The Independent Auditor

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
FU JI FOOD AND CATERING SERVICES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of FU JI Food and Catering Services Holdings Limited (the "Company") set out on pages 42 to 96, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 20 July 2007

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 March 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	3	1,199,415	796,750
Other revenue	4	52,000	31,912
Cost of materials consumed		(504,054)	(344,038)
Staff costs		(97,841)	(56,234)
Operating lease rentals		(29,422)	(14,816)
Depreciation and amortisation		(94,388)	(45,526)
Fuel and utility costs		(24,905)	(13,847)
Other operating expenses		(67,139)	(46,010)
Profit from operations		433,666	308,191
Finance costs		(49,911)	(23,138)
Profit before taxation	5	383,755	285,053
Income tax	6(a)	(35,668)	(33,667)
Profit for the year	9	348,087	251,386
Dividends payable to equity shareholders of the Company attributable to the year	10		
Interim dividend declared during the year		51,300	34,666
Final dividend proposed after the balance sheet date		53,288	40,752
		104,588	75,418
Earnings per share	11		
— basic		68.9 cents	56.5 cents
— diluted		68.9 cents	56.0 cents

The notes on pages 49 to 96 form part of these financial statements.

Consolidated Balance Sheet

At 31 March 2007
(Expressed in Renminbi)

		2007		2006	
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Fixed assets					
— Property, plant and equipment	*14*		2,042,590		1,170,287
— Interests in leasehold land held for own use under operating leases	*15*		187,164		10,863
			2,229,754		1,181,150
Goodwill	*16*		10,300		—
Deposits for acquisition of leasehold land			58,260		169,072
Deposits for acquisition and construction of property, plant and equipment			22,474		8,795
Deposit for acquisition of a subsidiary			—		7,200
			2,320,788		1,366,217
Current assets					
Inventories	*18*	27,848		15,225	
Trade and other receivables	*19*	77,079		59,358	
Pledged bank deposits	*20*	262,544		116,441	
Cash and cash equivalents	*21*	556,630		281,744	
		924,101		472,768	
Current liabilities					
Bank loans	*22*	319,500		162,437	
Trade and other payables	*23*	132,292		67,964	
Current income tax	*25*	23,376		22,126	
		475,168		252,527	
Net current assets			448,933		220,241
Total assets less current liabilities			2,769,721		1,586,458

At 31 March 2007
(Expressed in Renminbi)

	Note	2007 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*	2006 *RMB'000*
Non-current liabilities					
Bank loans	*22*	—		59,738	
Convertible bonds	*27*	977,335		81,159	
			977,335		140,897
NET ASSETS			1,792,386		1,445,561
CAPITAL AND RESERVES	*28(a)*				
Share capital			5,386		5,308
Reserves			1,787,000		1,440,253
Total equity attributable to equity shareholders of the Company			1,792,386		1,445,561

Approved and authorised for issue by the Board of Directors on 20 July 2007

Wei Dong	Tung Fai
Director	*Director*

The notes on pages 49 to 96 form part of these financial statements.

Balance Sheet

At 31 March 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2007 RMB'000	2006 RMB'000	2006 RMB'000
Non-current assets					
Investments in subsidiaries	*17*		3		3
Current assets					
Trade and other receivables	*19*	1,989,862		1,030,848	
Cash and cash equivalents	*21*	20,207		28	
		2,010,069		1,030,876	
Current liabilities					
Trade and other payables	*23*	6,419		4,265	
Net current assets			2,003,650		1,026,611
Total assets less current liabilities			2,003,653		1,026,614
Non-current liabilities					
Convertible bonds	*27*		977,335		81,159
NET ASSETS			1,026,318		945,455
CAPITAL AND RESERVES	*28(b)*				
Share capital			5,386		5,308
Reserves			1,020,932		940,147
TOTAL EQUITY			1,026,318		945,455

Approved and authorised for issue by the Board of Directors on 20 July 2007

Wei Dong
Director

Tung Fai
Director

The notes on pages 49 to 96 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007
(Expressed in Renminbi)

		2007		2006	
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total equity at 1 April			1,445,561		676,602
Net expenses recognised directly in equity:					
Exchange differences on translation into presentation currency			(12,584)		(565)
Net profit for the year			348,087		251,386
Total recognised income and expenses for the year			335,503		250,821
Dividends declared or approved during the year			(90,148)		(52,153)
Movements in equity arising from capital transactions					
— conversion of convertible notes into shares	*28(a)*	—		37,678	
— equity component of convertible bonds issued	*28(a)*	11,541		11,247	
— conversion of convertible bonds into shares	*28(a)*	80,679		521,366	
— equity settled share-based transactions		9,250		—	
			101,470		570,291
Total equity at 31 March			1,792,386		1,445,561

The notes on pages 49 to 96 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007
(Expressed in Renminbi)

		2007		2006	
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities					
Profit before taxation		383,755		285,053	
Adjustments for:					
Finance costs		49,911		23,138	
Interest income		(23,145)		(8,560)	
Depreciation and amortisation		94,388		45,526	
Loss on disposal of property, plant and equipment		185		535	
Write-off of inventories		358		—	
Equity-settled share-based payment expenses		9,250		—	
Impairment loss for trade and other receivables		1,367		450	
Operating profit before changes in working capital		516,069		346,142	
Increase in inventories		(12,981)		(12,361)	
Increase in trade and other receivables		(20,024)		(10,282)	
Increase in trade and other payables		31,415		34,067	
Cash generated from operations		514,479		357,566	
Tax paid					
PRC income tax paid		(34,418)		(46,111)	
Net cash generated from operating activities			480,061		311,455
Investing activities					
Payments for purchases of fixed assets		(929,768)		(677,816)	
Proceeds from disposal of fixed assets		33		—	
Net cash outflow from acquisition of a subsidiary		(10,300)		—	
Payments for deposits in respect of:					
— purchase of property, plant and equipment		(20,525)		(8,795)	
— acquisition of leasehold land		(55,360)		(169,072)	
— acquisition of a subsidiary		—		(7,200)	
Increase in pledged bank deposits		(151,757)		(116,441)	
Interest received		21,910		6,930	
Net cash used in investing activities			(1,145,767)		(972,394)

	Note	2007 RMB'000	2007 RMB'000	2006 RMB'000	2006 RMB'000
Financing activities					
New bank loans raised		466,200		260,000	
Repayment of bank loans		(368,875)		(142,345)	
Net proceeds from issuance of convertible bonds		961,775		601,968	
Repayment of other loan payable		—		(24,336)	
Interest paid		(19,349)		(8,537)	
Dividends paid to equity shareholders of the Company		(90,148)		(52,153)	
Net cash generated from financing activities			949,603		634,597
Net increase/(decrease) in cash and cash equivalents			283,897		(26,342)
Cash and cash equivalents at 1 April			281,744		313,539
Effect of foreign exchange rate changes			(9,011)		(5,453)
Cash and cash equivalents at 31 March	21		556,630		281,744

The notes on pages 49 to 96 form part of these financial statements.

1. General Information

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, and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 17 December 2004. The addresses of the Company's registered office and principal place of business are disclosed in the corporate information section of the annual report.

The Company and its subsidiaries (together referred to as the "Group") are principally engaged in the provision of catering services, the operations of Chinese restaurants and the production and sales of food products.

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 March 2007 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis. The functional currencies of the Company and its subsidiaries in the People's Republic of China (the "PRC") are Hong Kong dollars ("HK$") and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted Renminbi as its presentation currency.

2. Significant Accounting Policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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 judgements 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 35.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 profits 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(g)), unless the investment is classified as held for sale.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(g)).

2. Significant Accounting Policies *(continued)*

(d) Goodwill *(continued)*

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) 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(g)):

— 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(f)); and

— other items of plant and equipment.

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(s)).

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.

2. Significant Accounting Policies *(continued)*

(e) Property, plant and equipment *(continued)*

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.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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) *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.

(g) 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:

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), where the effect of discounting is material.

2. Significant Accounting Policies *(continued)*

(g) Impairment of assets *(continued)*

(i) *Impairment of financial assets (continued)*

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 or, except in the case of goodwill, 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;

— investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— 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).

2. Significant Accounting Policies *(continued)*

(g) Impairment of assets *(continued)*

(ii) *Impairment of other assets (continued)*

— 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of other 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

(h) 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)*

(i) 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(g)), 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(g)).

(j) Convertible notes and bonds

Convertible notes and bonds that can be converted into equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes and bonds is measured 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 amount 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.

(k) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

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

2. Significant Accounting Policies *(continued)*

(m) 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.

(n) 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. The fair value is measured at grant date using the binomial option pricing model (the "Binomial Model"), taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the 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 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.

2. Significant Accounting Policies *(continued)*

(o) 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.

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.

2. Significant Accounting Policies *(continued)*

(o) Income tax *(continued)*

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.

(p) 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.

(q) 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.

2. Significant Accounting Policies *(continued)*

(q) Revenue recognition *(continued)*

(ii) *Revenue from sales of food products*

Revenue from sales of food 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.

(vi) *Transportation income*

Transportation income is recognised when transportation services are rendered.

(r) 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.

2. Significant Accounting Policies *(continued)*

(r) Translation of foreign currencies *(continued)*

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.

(s) 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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is 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) Related parties *(continued)*

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) 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. Turnover

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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2007 *RMB'000*	2006 *RMB'000*
Catering Services business	**932,323**	573,870
Chinese Restaurants business	**232,940**	200,448
Convenience Food business	**34,152**	22,432
	1,199,415	796,750

4. Other Revenue

	2007 *RMB'000*	2006 *RMB'000*
Government grants *(note)*	22,914	20,664
Interest income from banks	23,145	8,560
Rental income from subletting	913	1,664
Transportation income	3,099	—
Others	1,929	1,024
	52,000	31,912

Note: These government grants are one-off payments from the PRC government and the Group does not need to repay to the PRC government. These grants, made for business support, are generally awarded to the enterprises on a discretionary basis with reference to the Group's investments and operations of catering services and restaurants in Shanghai, the PRC.

5. Profit Before Taxation

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

	2007 *RMB'000*	2006 *RMB'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	19,349	6,383
Interest on convertible notes and other loan payable	—	3,613
Interest on convertible bonds	30,562	11,804
Loss on exchange	—	1,338
	49,911	23,138

5. Profit Before Taxation *(continued)*

	2007 *RMB'000*	2006 *RMB'000*
(b) Staff costs:		
Retirement costs		
— contributions to defined contribution plans *(note 12)*	2,186	1,550
Salaries, wages and other benefits	86,405	54,684
Equity-settled share-based payment expenses	9,250	—
	97,841	56,234
(c) Other items:		
Cost of materials consumed	504,054	344,038
Auditors' remuneration		
— audit services	2,078	1,508
Operating leases rentals in respect of premises	29,422	14,816
Amortisation of land lease premium	2,423	259
Depreciation of property, plant and equipment	91,965	45,267
Loss on disposal of property, plant and equipment	185	535
Write-off of inventories	358	—
Impairment loss for trade and other receivables	1,367	450
Net foreign exchange gain	(8,886)	—

6. Income Tax in the Consolidated Income Statement

(a) Income tax in the consolidated income statement represents:

	2007 *RMB'000*	2006 *RMB'000*
Current tax — The PRC		
Provision for the PRC income tax for the year	35,668	33,667

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 2007 and 2006.

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.

6. Income Tax in the Consolidated Income Statement *(continued)*

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

	2007 *RMB'000*	2006 *RMB'000*
Profit before taxation	383,755	285,053
Notional tax on profit before tax, calculated at the PRC statutory rate of 33%	126,639	94,068
Effect of different tax rates in other tax jurisdictions	(413)	(14,202)
Tax effect of non-deductible expenses	733	592
Tax effect of additional tax deductions	(115,723)	(55,405)
Tax effect of non-taxable revenue	(3,507)	(953)
Tax effect of unused tax losses not recognised	27,939	9,567
Actual tax expense	35,668	33,667

(c) The Group had no significant potential deferred tax assets/liabilities for each of the years ended 31 March 2007 and 2006.

7. Directors' Remuneration

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

Year ended 31 March 2007:

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Sub-total *RMB'000*	Share-based payments *(note)* *RMB'000*	Total *RMB'000*
Executive Directors						
Mr. Wei Dong	—	1,065	—	1,065	—	1,065
Ms. Yao Juan	—	866	18	884	—	884
Mr. Tung Fai	—	594	12	606	—	606
Ms. Ku Wang	—	425	10	435	234	669
Non-executive Director						
Ms. Josephine Price	—	—	—	—	—	—
Independent Non-executive Directors						
Ms. Tsui Wai Ling, Carlye	124	—	—	124	—	124
Mr. Wong Chi Keung	124	—	—	124	—	124
Ms. Yang Liu	124	—	—	124	—	124
Mr. Su Gang Bing	123	—	—	123	—	123
	495	2,950	40	3,485	234	3,719

7. Directors' Remuneration *(continued)*

Year ended 31 March 2006:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Mr. Wei Dong	—	1,458	—	1,458	—	1,458
Ms. Yao Juan	—	874	—	874	—	874
Mr. Tung Fai	—	624	5	629	—	629
Ms. Ku Wang	—	187	—	187	—	187
Non-executive Director						
Ms. Josephine Price	—	—	—	—	—	—
Independent Non-executive Directors						
Ms. Tsui Wai Ling, Carlye	130	—	—	130	—	130
Mr. Wong Chi Keung	130	—	—	130	—	130
Ms. Yang Liu	129	—	—	129	—	129
Mr. Su Gang Bing	128	—	—	128	—	128
	517	3,143	5	3,665	—	3,665

There was no amount paid during the years ended 31 March 2007 and 2006 to any directors in connection with their retirement from employment with the Group or as inducement to join. There was no any arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 March 2007 and 2006.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(n)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share capital and share option scheme" in the Directors' Report and note 24.

8. Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, none of them (2006: two) are directors. The aggregate of the emoluments in respect of the five (2006: three) individuals are as follows:

	2007 *RMB'000*	2006 *RMB'000*
Basic salaries, allowances and other benefits	3,291	2,775
Retirement scheme contributions	94	12
Share-based payments	5,840	—
	9,225	2,787
Number of senior management	5	3

The emoluments of the five (2006: three) individuals with the highest emoluments are within the following bands:

	2007 *Number of individuals*	2006 *Number of individuals*
RMB		
Nil–1,000,000	—	2
1,000,001–1,500,000	2	1
1,500,001–2,000,000	1	—
2,500,001–3,000,000	2	—

There was no amount paid during the years ended 31 March 2007 and 2006 to the five highest paid employees in connection with their retirement from employment with the Group or as inducement to join.

9. Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately RMB45,140,000 (2006: RMB24,072,000) which has been dealt with in the financial statements of the Company.

9. Profit Attributable to Equity Shareholders of the Company *(continued)*

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

	2007 *RMB'000*	2006 *RMB'000*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(45,140)	(24,072)
Interim dividends from subsidiaries attributable to the profits of the current financial year, approved and paid during the year	160,589	97,760
Company's profit for the year *(note 28(b))*	115,449	73,688

10. Dividends

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

	2007 *RMB'000*	2006 *RMB'000*
Interim dividend declared and paid of HK$10.2 cents (equivalent to approximately RMB10.093 cents) per ordinary share (2006: HK7.5 cents (equivalent to approximately RMB7.8 cents) per ordinary share)	51,300	34,666
Final dividend of HK$10.4 cents (equivalent to approximately RMB10.291 cents) per ordinary share (2006: HK$7.8 cents (equivalent to approximately RMB8.112 cents) per ordinary share) proposed after the balance sheet date	53,288	40,752
	104,588	75,418

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

	2007 *RMB'000*	2006 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK7.8 cents per ordinary share (2006: HK3.8 cents per ordinary share)	38,848	17,487

11. 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 RMB348,087,000 (2006: RMB251,386,000) and the weighted average of 504,908,488 ordinary shares (2006: 445,167,179 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007	2006
Issued ordinary shares at 1 April	**502,362,563**	415,000,000
Effect of issuance of shares upon conversion of convertible notes/bonds	**2,545,925**	30,167,179
Weighted average number of ordinary shares at 31 March	**504,908,488**	445,167,179

(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 RMB348,087,000 (2006: RMB253,767,000) and the weighted average number of ordinary shares of 505,069,265 (2006: 452,969,773) ordinary shares, calculated as follows:

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

	2007 *RMB'000*	2006 *RMB'000*
Profit attributable to ordinary equity shareholders	**348,087**	251,386
After tax effect of effective interest on liability component of convertible notes/bonds *(note)*	—	2,381
Profit attributable to ordinary equity shareholders (diluted)	**348,087**	253,767

Note: Because diluted earnings per share is increased when taking the convertible bonds into account, the convertible bonds are antidilutive and are ignored in the calculation of diluted earnings per share.

11. Earnings Per Share *(continued)*

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

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

	2007	2006
Weighted average number of ordinary shares at 31 March	504,908,488	445,167,179
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	160,777	—
Effect of conversion of convertible notes/bonds *(note)*	—	7,802,594
Weighted average number of ordinary shares (diluted) at 31 March	505,069,265	452,969,773

Note: Because diluted earnings per share is increased when taking the convertible bonds into account, the convertible bonds are antidilutive and are ignored in the calculation of diluted earnings per share.

12. 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 10% to 22% 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 employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, in accordance with the requirements of the Hong Kong Mandatory Provident Fund Scheme Ordinance and related regulations.

Contributions made to the above schemes by the Group amounted to approximately RMB2,186,000 (2006: RMB1,550,000) for the year.

13. 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 sourcing and initial processing of food products and the provision of catering services for institutional and individual customers.

13. Segment Reporting *(continued)*

Business segments *(continued)*

(i) *Catering Services business (continued)*

In last year, the Group identified the sourcing and initial processing activities and catering services activities as separate business segments. As the sourcing and initial processing activities and catering services activities are the different stages of vertically integrated operations, the Group did not choose to report these vertically integrated operations as separate business segments and decided to combine the sourcing and initial processing activities and catering services activities into a business segment, namely Catering Services business, in these consolidated financial statements for the year ended 31 March 2007. The management of the Group considers that it would better reflect the substance of the underlying business segments.

(ii) *Chinese Restaurants business*

Chinese Restaurants operation segment is engaged in the provision of dining services through the operation of a chain of Chinese restaurants.

(iii) *Convenience Food business*

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

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

	2007	2006
	RMB'000	*RMB'000*
Turnover		
— Catering Services business	932,323	573,870
— Chinese Restaurants business	232,940	200,448
— Convenience Food business	34,152	22,432
	1,199,415	796,750
Segment results		
— Catering Services business	326,609	236,509
— Chinese Restaurants business	67,421	50,033
— Convenience Food business	17,766	8,540
	411,796	295,082
Unallocated operating income and expenses, net	21,870	13,109
Profit from operations	433,666	308,191
Finance costs	(49,911)	(23,138)
Income tax	(35,668)	(33,667)
Profit for the year	348,087	251,386

13. Segment Reporting *(continued)*

Business segments *(continued)*

(iii) *Convenience Food business (continued)*

(b) Additional information on business segments:

	2007 *RMB'000*	2006 *RMB'000*
Segment assets		
— Catering Services business	2,059,004	1,256,933
— Chinese Restaurants business	273,405	142,525
	2,332,409	1,399,458
Unallocated corporate assets	912,480	439,527
Consolidated total assets	3,244,889	1,838,985
Segment liabilities		
— Catering Services business	67,870	24,881
— Chinese Restaurants business	26,020	22,780
	93,890	47,661
Unallocated corporate liabilities	1,358,613	345,763
Consolidated total liabilities	1,452,503	393,424
Capital expenditure incurred during the year		
— Catering Services business	846,561	811,536
— Chinese Restaurants business	161,546	45,205
— Unallocated items	30,773	15,058
	1,038,880	871,799
Depreciation and amortisation for the year		
— Catering Services business	69,714	25,521
— Chinese Restaurants business	21,635	17,020
— Convenience Food business	555	1,835
— Unallocated items	2,484	1,150
	94,388	45,526

14. Property, Plant and Equipment

	The Group									
	Buildings held for own use carried at cost *RMB'000*	Leasehold improvements *RMB'000*	Furniture and equipment (Restaurants) *RMB'000*	Furniture and equipment (Processing Centres) *RMB'000*	Furniture and equipment (Office) *RMB'000*	Motor vehicles *RMB'000*	Sub-total *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:									
At 1 April 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 March 2006	15,417	301,413	60,241	133,013	4,340	25,086	539,510	733,977	1,273,487
At 1 April 2006	15,417	301,413	60,241	133,013	4,340	25,086	539,510	733,977	1,273,487
Exchange adjustments	—	(12)	—	—	(7)	—	(19)	—	(19)
Reclassification	—	—	(51,172)	56,859	(1)	(5,686)	—	—	—
Additions	78,763	18,131	6,176	15,958	4,426	8,700	132,154	832,335	964,489
Transfer in/(out)	3,248	254,467	—	44,653	—	—	302,368	(302,368)	—
Disposals	(178)	—	—	(60)	(3)	—	(241)	—	(241)
At 31March 2007	**97,250**	**573,999**	**15,245**	**250,423**	**8,755**	**28,100**	**973,772**	**1,263,944**	**2,237,716**
Accumulated depreciation:									
At 1 April 2005	—	53,473	7,609	2,978	956	1,120	66,136	—	66,136
Exchange adjustments	—	(2)	—	—	(1)	—	(3)	—	(3)
Charge 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 31March 2006	444	72,381	9,374	15,074	1,717	4,210	103,200	—	103,200
At 1 April 2006	444	72,381	9,374	15,074	1,717	4,210	103,200	—	103,200
Exchange adjustments	—	(12)	—	—	(4)	—	(16)	—	(16)
Reclassification	—	—	(6,417)	7,554	—	(1,137)	—	—	—
Charge for the year	2,315	45,841	5,587	33,635	1,152	3,435	91,965	—	91,965
Written back on disposals	(6)	—	—	(17)	—	—	(23)	—	(23)
At 31 March 2007	**2,753**	**118,210**	**8,544**	**56,246**	**2,865**	**6,508**	**195,126**	**—**	**195,126**
Net book value									
At 31 March 2007	**94,497**	**455,789**	**6,701**	**194,177**	**5,890**	**21,592**	**778,646**	**1,263,944**	**2,042,590**
At 31 March 2006	14,973	229,032	50,867	117,939	2,623	20,876	436,310	733,977	1,170,287

14. Property, Plant and Equipment *(continued)*

All of the Group's buildings are located in the PRC. At 31 March 2007, the Group's building having a carrying amount of approximately RMB nil (2006: RMB8,554,000) was pledged to secure banking facilities (see note 22) granted to the Group.

The construction in progress primarily relates to the construction of the production premises and facilities of the subsidiaries in the PRC.

15. Interests in Leasehold Land Held for Own Use Under Operating Leases

The Group

	RMB'000
Cost	
Additions during the year ended 31 March 2006, at 31 March 2006 and 1 April 2006	11,122
Additions during the year ended 31 March 2007	178,724
At 31 March 2007	189,846
Accumulated amortisation	
Charge for the year ended 31 March 2006, at 31 March 2006 and 1 April 2006	259
Charge for the year ended 31 March 2007	2,423
At 31 March 2007	2,682
Net book value	
At 31 March 2007	187,164
At 31 March 2006	10,863

The land is held on medium-term leases and located in the PRC. At 31 March 2007, the Group's leasehold land having a carrying amount of RMB nil (2006: RMB10,088,000) was pledged to secure banking facilities (see note 22) granted to the Group.

16. Goodwill

	The Group
	RMB'000
Cost and carrying amount:	
Addition arising on acquisition of a subsidiary and at 31 March 2007	10,300

Impairment test for cash-generating unit containing goodwill

For the purposes of impairment testing, goodwill arose from the acquisition of a 100% equity interest in Guangxi Meitong Co., Ltd. ("Guangxi Meitong") on 25 November 2006. The Group paid a consideration of approximately RMB10,300,000 to acquire Guangxi Meitong so as to enjoy the tax benefit of Guangxi Meitong, and Guangxi Meitong did not own any material assets at the date of acquisition. Guangxi Meitong was awarded as "State-Level Industrialised Agricultural Leading Enterprises" of the nation by the central government of the PRC in December 2002. According to the circular Nong Jing Fa [2002] No. 14, Guangxi Meitong is entitled to full exemption of PRC enterprise income tax.

Guangxi Meitong is principally engaged in the development, manufacturing and sales of food products.

Goodwill is allocated to the cash generating unit of Guangxi Meitong ("CGU").

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	%
— Operating profit margin	35.0
— Growth rate	3.0
— Discount rate	17.7

Management determined the budgeted operating profit margin based on past performance and its expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the relevant segment.

The recoverable amount of the CGU is higher than its carrying amount based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

17. Investments in Subsidiaries

	The Company 2007 RMB'000	The Company 2006 RMB'000
Unlisted shares, at cost	3	3

The following list contains only 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
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 People's Republic of China ("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
Fu Ji United Jiading Catering Co., Ltd.# *(note)*	The PRC	RMB5,000,000	100%	—	100%	Operation of Chinese restaurants
Shanghai Xingbang Catering Services Co., Ltd.* (note)	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

17. Investments in Subsidiaries *(continued)*

			Proportion of ownership interest			
Name of company	Place of incorporation and operation	Issued and fully paid share capital/ registered capital	Group's effective holding	Held by the Company	Held by subsidiary	Principal activities
Shenzhen Fu Ji Standard Catering Services System Ltd.# *(note)*	The PRC	RMB10,000,000	100%	—	100%	Provision of catering services
Guangxi Meitong Co., Ltd.** *(note)*	The PRC	HK$600,000,000	100%	—	100%	Food processing business
Wuxi Meitong Food Technology Co., Ltd.** *(note)*	The PRC	US$25,000,000	100%	—	100%	Food processing business
Shanghai Daily Fresh Food Industry Co., Ltd. ("Shanghai Daily Fresh Food")*	The PRC	HK$100,000,000	100%	—	100%	Food processing business
Shangdong Auterlan Industrial Co. Ltd.*	The PRC	HK$126,000,000	100%	—	100%	Sourcing and initial processing business
Auterlan (Shandong) Agricultural Products Developing 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
Shanghai Ke Qian Logistics Co., Ltd.# *(note)*	The PRC	RMB5,000,000	100%	—	100%	Provision of logistics services

* : 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	
	2007	2006
	RMB'000	*RMB'000*
Raw materials and consumable stores	**27,848**	15,225

All inventories were stated at cost as at 31 March 2007 and 2006.

19. Trade and Other Receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from subsidiaries	**—**	—	**1,987,842**	1,028,768
Trade receivables	**31,094**	24,721	**—**	—
Rental and other deposits				
— property rental deposits	**8,943**	4,123	**—**	—
— other deposits	**11,407**	3,369	**1,979**	2,080
Advances to suppliers	**163**	1,228	**—**	—
Advances to employees	**1,341**	327	**—**	—
Interest receivable	**2,865**	1,630	**—**	—
Receivable in respect of proceeds from sale of Shanghai Puxi Restaurant	**—**	18,000	**—**	—
Prepayments				
— property rental	**7,886**	2,793	**—**	—
— others	**7,166**	2,497	**—**	—
Others	**6,214**	670	**41**	—
	77,079	59,358	**1,989,862**	1,030,848

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

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

19. Trade and Other Receivables *(continued)*

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

	The Group	
	2007 *RMB'000*	2006 *RMB'000*
Within 1 month	12,383	11,811
More than 1 month but less than 3 months	10,619	4,681
More than 3 months but less than 6 months	7,665	8,229
More than 6 months	3,671	1,877
	34,338	26,598
Less: Impairment loss for doubtful debts	(3,244)	(1,877)
	31,094	24,721

20. Pledged Bank Deposits

Pledged bank deposits as at 31 March 2007 and 2006 were 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	
	2007 *'000*	2006 *'000*
United States Dollars	US$15,000	US$10,000

21. Cash and Cash Equivalents

	The Group		The Company	
	2007 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
Cash at bank	554,480	279,692	20,207	28
Cash on hand	2,150	2,052	—	—
Total	556,630	281,744	20,207	28

21. Cash and Cash Equivalents *(continued)*

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	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
United States Dollars	**US$51,579**	US$20,471	**US$1**	—
Hong Kong Dollars	**HK$13,585**	HK$3,392	**—**	—

22. Bank Loans

Bank loans are repayable as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Within 1 year as classified under current liabilities	**319,500**	162,437
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	**319,500**	222,175

22. Bank Loans *(continued)*

	The Group	
	2007	2006
	RMB'000	*RMB'000*
As at 31 March 2007, the bank loans were analysed as follows:		
— secured	**249,500**	122,175
— unsecured	**70,000**	100,000
	319,500	222,175
As at 31 March 2007, the bank loans were secured by:		
— the Group's bank deposits *(see note 20)*	**249,500**	110,000
— a property owned by Shanghai Fu Ji *(see notes 14 and 15)*	**—**	12,175
— corporate guarantees by Shanghai Fu Ji and Suzhou Fu Ji	**20,000**	50,000
— corporate guarantee by Suzhou Fu Ji	**—**	50,000
— corporate guarantee by Shanghai Daily Fresh Food	**50,000**	—
	319,500	222,175

All the bank loans are with PRC commercial banks and are denominated in RMB. There were no unutilised banking facilities as at 31 March 2007 and 2006.

At 31 March 2007, the terms of the bank loans were as follows:

(a) Secured bank loans of RMB32,000,000 and RMB217,500,000 (2006: RMB110,000,000), which carried interest at 4.860% and 5.022% respectively per annum (2006: at 5.22% per annum) and are repayable within one year, are secured by charge over the Group's bank deposits (see note 20).

(b) Unsecured bank loans of RMB50,000,000 and RMB20,000,000 (2006: RMB50,000,000) carried interest at 5.580% and 6.732% per annum respectively (2006: at 6.138% per annum) and are repayable within one year.

During the year ended 31 March 2007, all non-current bank loans have been settled in full.

23. Trade and Other Payables

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	21,481	9,230	—	
Deposits received	2,361	1,311	—	—
Receipts in advance	11,306	16,768	—	—
Payables for acquisition of fixed assets	35,803	2,596	—	—
Accrued staff costs	10,309	11,086	—	2,340
Other accrued expenses	20,875	13,290	6,264	1,924
Other tax payables	27,672	8,556	—	—
Other payables	2,485	5,127	—	—
Amounts due to subsidiaries	—	—	155	1
	132,292	67,964	6,419	4,265

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	
	2007	2006
	RMB'000	*RMB'000*
Within 1 month	11,637	3,852
After 1 month but within 3 months	6,783	3,169
After 3 months but within 6 months	1,658	590
After 6 months	1,403	1,619
	21,481	9,230

24. Equity Settled Share-based Transactions

The Company has a share option scheme which became effective on 17 December 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nominal consideration of HK$1.00 to subscribe for shares of the Company. The options vest after years from the date of grant and are then exercisable until 24 November 2014. Each option gives the holder the right to subscribe for one ordinary share in the Company.

24. Equity Settled Share-based Transactions *(continued)*

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to a director of the Company and employees of the Group:			
— on 25 May 2006	20,600,000	20% one year from the date of grant; 20% two years from of the date of grant; 20% three years from the date of grant; 20% four years from the date of grant; and 20% five years from the date of grant	8.51 years

(b) The number and weighted average exercise prices of share options are as follows:

	2007	
	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	—	—
Granted during the year	HK$15.61	20,600,000
Cancelled during the year	HK$15.61	(16,480,000)
Lapsed during the year	HK$15.61	(160,000)
Outstanding at the end of the year	HK$15.61	3,960,000
Exercisable at the end of the year	—	—

The options outstanding at 31 March 2007 had an exercise price of HK$15.61 (2006: no option outstanding) and a weighted average remaining contractual life of 7.65 years (2006: no option outstanding).

24. Equity Settled Share-based Transactions *(continued)*

(c) Fair value of share option and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Model.

Fair value of share options and assumptions

	2007
Fair value at measurement date	HK$6.58
Market price per share	HK$14.85
Exercise price per share	HK$15.61
Expected volatility (expressed as weighted average volatility used in the modelling under the Binomial Model)	54.06%
Option life (expressed as weighted average life used in the modelling under the Binomial Model)	8.51 years
Expected dividends	1.18%
Risk-free interest rate (based on the exchange fund notes issued by the Hong Kong Monetary Authority)	4.80%

The expected volatility is based on the historic volatility of the price return of the ordinary shares of the Company at measurement date. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the fair value measurement of the services received on the grant date. There were no market conditions associated with the share option grants.

(d) Terms of unexpired and unexercised share options at balance sheet date:

		Number	
Exercise period	Excercise price	2007	2006
25 May 2007 to 24 November 2014	HK$15.61	3,960,000	—

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in the above.

25. Income Tax in the Consolidated Balance Sheet

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

	The Group	
	2007	2006
	RMB'000	*RMB'000*
At 1 April	**22,126**	34,570
Provision for PRC income tax for the year	**35,668**	33,667
PRC income tax paid	**(34,418)**	(46,111)
At 31 March	**23,376**	22,126

(b) Deferred taxation

The Group had no material deferred taxation not provided for at 31 March 2007 and 2006.

26. Convertible Notes

On 30 December 2003, Sky Achieve and an independent third party (the "Investor") 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 2006 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 ended 31 March 2006.

27. Convertible Bonds

(a) On 14 October 2005, the Company issued zero coupon convertible bonds (the "JPM 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).

As a result of the declaration and payment of the interim dividend for the six months ended 30 September 2005 and the approval for the payment of the final dividend for the year ended 31 March 2006, the conversion price for the JPM Bonds was adjusted to HK$10.125 per ordinary share with effect from 15 August 2006.

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

During the two years ended 31 March 2007, all of the JPM Bonds have been converted into the Company's new ordinary shares.

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

(b) On 9 November 2006, the Company issued another zero coupon convertible bonds (the "UBS Bonds") with an aggregate principal amount of HK$1,000,000,000 (equivalent to approximately RMB989,500,000). Each UBS Bond has a face value of HK$10,000 and a maturity date of 9 November 2009. The UBS Bonds are unsecured.

The rights of the bondholders to convert the UBS Bonds into ordinary shares are as follows:

— Conversion rights are exercisable at any time from 20 December 2006 and thereafter up to 25 October 2009 at the bondholders' option.

— If a holder of UBS Bonds exercises its conversion rights, the Company has a right to choose whether to deliver ordinary shares at a rate of 571 ordinary shares for every UBS Bond converted, or whether to settle in cash at an amount equal to the fixed number of shares under the conversion option multiplied by the average closing price of the shares on the HKSE for the ten trading days immediately after the date of the notice of cash settlement to the bondholders but no later than the fifth business day following the notice of conversion.

The UBS Bonds, in respect of which conversion rights have not been exercised, will be redeemed at 118.549% of its principal amount on 9 November 2009.

During the year ended 31 March 2007, no UBS Bond was converted into the Company's new ordinary shares.

Interest expenses on the UBS Bonds is calculated using the effective interest method by applying the effective rate of 6.116% per annum to the liability component of UBS Bonds.

28. Capital and Reserves

(a) The Group

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory reserve *RMB'000*	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 April 2005	4,399	339,691	—	1,128	23,000	—	308,384	676,602
Shares issued under conversion of convertible notes	381	38,425	—	(1,128)	—	—	—	37,678
Equity component of convertible bonds issued	—	—	—	11,247	—	—	—	11,247
Shares issued under conversion of convertible bonds	528	530,585	—	(9,747)	—	—	—	521,366
Exchange differences 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
At 1 April 2006	5,308	908,701	—	1,500	23,000	(565)	507,617	1,445,561
Equity component of convertible bonds issued	—	—	—	11,541	—	—	—	11,541
Equity settled share-based transactions	—	—	—	9,250	—	—	—	9,250
Share issued under conversion of convertible bonds	78	82,101	—	(1,500)	—	—	—	80,679
Exchange differences on translation currency	—	—	—	—	—	(12,584)	—	(12,584)
Dividends approved in respect of the previous year	—	—	—	—	—	—	(38,848)	(38,848)
Dividends declared in respect of the current year	—	—	—	—	—	—	(51,300)	(51,300)
Transfer to statutory reserve from retained profits	—	—	11,500	—	—	—	(11,500)	—
Profit for the year	—	—	—	—	—	—	348,087	348,087
At 31 March 2007	5,386	990,802	11,500	20,791	23,000	(13,149)	754,056	1,792,386

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 1 April 2005	4,399	339,691	1,128	—	15,191	360,409
Shares issued under conversion of convertible notes	381	38,425	(1,128)	—	—	37,678
Equity component of convertible bonds issued	—	—	11,247	—	—	11,247
Shares issued under conversion of convertible bonds	528	530,585	(9,747)	—	—	521,366
Exchange differences 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
At 1 April 2006	5,308	908,701	1,500	(6,780)	36,726	945,455
Equity component of convertible bonds issued	—	—	11,541	—	—	11,541
Equity settled share- based transactions	—	—	9,250	—	—	9,250
Shares issued under conversion of convertible bonds	78	82,101	(1,500)	—	—	80,679
Exchange differences on translation into presentation currency	—	—	—	(45,908)	—	(45,908)
Dividends approved in respect of the previous year	—	—	—	—	(38,848)	(38,848)
Dividends declared in respect of the current year	—	—	—	—	(51,300)	(51,300)
Profit for the year	—	—	—	—	115,449	115,449
At 31 March 2007	5,386	990,802	20,791	(52,688)	62,027	1,026,318

28. Capital and Reserves *(continued)*

(c) Share capital

Authorised and issued share capital

	2007		2006	
	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	502,362,563	5,308	415,000,000	4,399
Issuance of shares under conversion of convertible notes	—	—	36,645,725	381
Issuance of shares under conversion of convertible bonds	7,888,900	78	50,716,838	528
At 31 March	510,251,463	5,386	502,362,563	5,308

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per ordinary share at the shareholders' meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(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.

28. Capital and Reserves *(continued)*

(d) Nature and purpose of reserves *(continued)*

(ii) *Capital reserve*

The capital reserve comprises the following:

— 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(j); and

— the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 2(n)(ii).

(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 thereof.

(iv) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(r).

(v) *PRC statutory reserve*

Transfers from retained earnings to general reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

General reserve fund can be used to make good previous years' losses, if any, and may be converted into paid-up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of their registered capital.

The Company's subsidiaries in the PRC are required to transfer a minimum of 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to equity holders.

(e) Distributable reserves

As at 31 March 2007, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to approximately RMB1,000,141,000 (2006: RMB938,647,000) 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.

(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).

29. Financial Instruments *(continued)*

(d) Foreign currency risk *(continued)*

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 values

The disclosure of the 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 consolidated 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 2007 not provided for in the financial statements were as follows:

	The Group	
	2007 *RMB'000*	2006 *RMB'000*
Contracted for		
— construction and acquisition of property, plant and equipment	753,700	495,498
— capital contribution to the PRC subsidiaries	622,097	65,244
	1,375,797	560,742

(b) At 31 March 2007, 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	
	2007 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*	2006 *RMB'000*
Within 1 year	54,029	50,958	—	12,545
After 1 year but within 5 years	167,495	72,197	—	—
After 5 years	124,205	49,152	—	—
	345,729	172,307	—	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.

(c) At 31 March 2007, the Group contracted with tenants for the following total future minimum lease receivables:

	The Group	
	2007 *RMB'000*	2006 *RMB'000*
Within 1 year	779	1,731
After 1 year but within 5 years	2,408	6,132
	3,187	7,863

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"), domestic private enterprises established in the Pudong, Shanghai are entitled to a preferential income tax rate of 15%.

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 and the Group's tax records, the Company's subsidiaries established in the Pudong, Shanghai ("Pudong Subsidiaries") entitled to the preferential income tax rate of 15% and Pudong Subsidiaries had been reporting tax return in accordance with the relevant tax rules and there was no overdue tax and no previous record of punishment for violating national tax law.

The directors of the Company are of the view that it is not unreasonable for Pudong Subsidiaries to pay the income tax at the preferential tax rate of 15%, and Pudong Subsidiaries, by paying income tax at the preferential tax rate of 15%, have satisfied all its income tax obligation under the current tax regime.

However, should the relevant tax authorities in future decide that Pudong Subsidiaries should pay tax at the statutory income tax rate of 33% per annum applicable to a wholly foreign-owned enterprise, Pudong Subsidiaries 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.

The contingent liabilities of the Group at 31 March 2007 is the uncharged tax for the period from 1 April 2005 to 31 March 2007 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 as at 31 March 2007 and for the year ended 31 March 2007 were approximately RMB32,686,000 (2006: RMB21,663,000) and RMB11,023,000 (2006: RMB21,663,000), respectively.

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 7 and certain of the highest paid employees as disclosed in note 8, is as follows.

	2007 *RMB'000*	2006 *RMB'000*
Short-term employee benefits	7,374	7,642
Post-employment benefits	133	18
Equity compensation benefits	6,447	—
	13,954	7,660

33. Non-adjusting Post Balance Sheet Events

After the balance sheet date, the Directors proposed a final dividend. Further details are disclosed in note 10.

34. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

35. 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

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The management reviews annually the estimated useful lives of the assets and their residual values (if any) in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

35. 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, except in the case of goodwill, 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 amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the 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 readily 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, expected changes to selling prices and operating costs, and discount rate.

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.

36. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Year Ended 31 March 2007

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 2007 and which have not been adopted in these financial statements.

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.

In addition, the following developments result in new or amended disclosures in the consolidated financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007