



**FU JI Food and Catering Services Holdings Limited**

**福記食品服務控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1175



Interim Report 2008/2009





## Contents

- 2 CORPORATE INFORMATION
- 4 INDEPENDENT REVIEW REPORT
- 6 UNAUDITED CONSOLIDATED  
INCOME STATEMENT
- 7 UNAUDITED CONSOLIDATED  
BALANCE SHEET
- 9 UNAUDITED CONSOLIDATED  
STATEMENT OF CHANGES IN  
EQUITY
- 10 UNAUDITED CONDENSED  
CONSOLIDATED CASH FLOW  
STATEMENT
- 11 NOTES TO THE UNAUDITED INTERIM  
FINANCIAL REPORT
- 31 MANAGEMENT DISCUSSION AND  
ANALYSIS
- 36 OTHER INFORMATION





# CORPORATE INFORMATION

## Stock Code

1175

## Website

[www.fujjicatering.com](http://www.fujjicatering.com)

## Directors

### Executive Directors

Wei Dong (*Chairman*)

Yao Juan

Tung Fai

Ku Wang

### Independent Non-executive Directors

Tsui Wai Ling Carlye

Wong Chi Keung

Yang Liu

Su Gang Bing

## Company Secretary and Qualified Accountant

Ho Kin Cheong Kelvin

## Audit Committee

Wong Chi Keung (*Chairman*)

Yang Liu

Su Gang Bing

## Remuneration Committee

Su Gang Bing (*Chairman*)

Wei Dong

Yang Liu

## Auditors

CCIF CPA Limited

## Solicitors

O'Melveny & Myers

## Principal Bankers

Agricultural Bank of China

China Construction Bank

Guangdong Development Bank

The Hongkong and Shanghai Banking

Corporation Limited

Standard Chartered Bank

Deutsche Bank AG

## Authorised Representatives

Tung Fai

Ho Kin Cheong Kelvin

## **Principal Share Registrar and Transfer Office**

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman KY1-1107  
Cayman Islands

## **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

## **Registered Office**

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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

## **Principal Place of Business in China**

17th Floor, Baoan Mansion,  
No. 800 Dongfang Road,  
Pudong, Shanghai 200122,  
China

## **Investor Relations Consultant**

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

# INDEPENDENT REVIEW REPORT



**CCIF**

**CCIF CPA LIMITED**

20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay, Hong Kong

## **Review Report to the Board of Directors of FU JI Food and Catering Services Holdings Limited**

### **Introduction**

We have reviewed the interim financial report set out on pages 6 to 30, which comprises the consolidated balance sheet of FU JI Food and Catering Services Holdings Limited as of 30 September 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

### **Scope of review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that caused us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

### **CCIF CPA Limited**

*Certified Public Accountants*

Hong Kong, 22 December 2008

### **Chan Wai Dune, Charles**

Practising Certificate Number P00712

# UNAUDITED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

		<b>Six months ended 30 September</b>	
	Note	<b>2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
<b>Turnover</b>	2	<b>1,387,263</b>	780,154
Other revenue		<b>30,460</b>	15,263
Cost of materials consumed		<b>(587,590)</b>	(325,135)
Staff costs		<b>(126,873)</b>	(68,556)
Operating lease rentals		<b>(68,168)</b>	(25,628)
Depreciation and amortisation		<b>(107,703)</b>	(62,053)
Fuel and utility costs		<b>(36,306)</b>	(18,555)
Consumable stores		<b>(30,133)</b>	(10,580)
Other operating expenses		<b>(60,090)</b>	(35,121)
<b>Profit from operations</b>	2	<b>400,860</b>	249,789
Finance costs		<b>(77,807)</b>	(35,684)
<b>Profit before taxation</b>	3	<b>323,053</b>	214,105
Income tax	4	<b>(51,234)</b>	(17,335)
<b>Profit for the period</b>		<b>271,819</b>	196,770
Attributable to:			
Equity shareholders of the Company		<b>250,231</b>	196,770
Minority interests		<b>21,588</b>	—
Profit for the period		<b>271,819</b>	196,770
<b>Earnings per share</b>			
— basic	5(a)	<b>RMB46.2 cents</b>	RMB37.6 cents
— diluted	5(b)	<b>N/A</b>	RMB37.5 cents
<b>Dividend per share</b>	6	<b>N/A</b>	HK11.5 cents

The notes on 11 to 30 form part of the interim financial report.

# UNAUDITED CONSOLIDATED BALANCE SHEET

At 30 September 2008

	Note	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
<b>Non-current assets</b>			
Fixed assets			
Construction in progress	7	2,129,508	1,973,942
Other property, plant and equipment	8	1,347,762	1,216,972
Interests in leasehold land held for own use under operating leases	9	237,787	241,153
		<b>3,715,057</b>	3,432,067
Intangible asset		157,342	161,465
Goodwill		393,188	393,188
Deposits for acquisition of leasehold land		5,800	5,800
Deposit for construction of a processing centre		—	189,100
Deposits for leasehold improvements of new theme restaurants		81,624	39,193
Deposits for acquisition of other property, plant and equipment		98,686	54,957
Deposit for acquisition of a subsidiary		—	12,000
		<b>4,451,697</b>	4,287,770
<b>Current assets</b>			
Inventories		98,992	88,705
Trade receivables	10	89,891	53,790
Deposits, prepayments and other receivables		410,027	193,148
Pledged bank deposits		370,242	136,438
Cash and cash equivalents		688,511	957,430
		<b>1,657,663</b>	1,429,511



	Note	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
<b>Current liabilities</b>			
Bank loans	11	347,248	269,000
Trade payables	12	84,081	126,195
Accruals and other payables		316,290	221,316
Income tax payable		53,591	38,630
		<b>801,210</b>	655,141
<b>Net current assets</b>			
		<b>856,453</b>	774,370
<b>Total assets less current liabilities</b>			
		<b>5,308,150</b>	5,062,140
<b>Non-current liabilities</b>			
Bank loans	11	103,054	105,405
Convertible bonds due 2009	14(a)	446,811	441,293
Convertible bonds due 2010	14(b)	1,417,636	1,373,295
Consideration payable for the acquisition of the subsidiaries		312,373	341,880
		<b>2,279,874</b>	2,261,873
<b>NET ASSETS</b>			
		<b>3,028,276</b>	2,800,267
<b>CAPITAL AND RESERVES</b>			
Share capital	15	5,665	5,665
Reserves		2,894,497	2,688,895
Total equity attributable to equity shareholders of the Company			
		<b>2,900,162</b>	2,694,560
Minority interests		128,114	105,707
<b>TOTAL EQUITY</b>			
		<b>3,028,276</b>	2,800,267

The notes on 11 to 30 form part of the interim financial report.

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Capital reserve RMB'000 (Unaudited)	Merger reserve RMB'000 (Unaudited)	Statutory reserve RMB'000 (Unaudited)	Exchange reserve RMB'000 (Unaudited)	Retained profits RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Minority interest RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
Balance at 1 April 2008	5,665	1,491,807	143,231	23,000	87,060	(34,598)	978,395	2,694,560	105,707	2,800,267
Exchange difference on translation into presentation currency	—	—	—	—	—	13,869	—	13,869	819	14,688
Profit for the period	—	—	—	—	—	—	250,231	250,231	21,588	271,819
Final dividend paid	—	—	—	—	—	—	(60,074)	(60,074)	—	(60,074)
Equity settled share-based transactions	—	—	1,576	—	—	—	—	1,576	—	1,576
Balance at 30 September 2008	5,665	1,491,807	144,807	23,000	87,060	(20,729)	1,168,552	2,900,162	128,114	3,028,276
Balance at 1 April 2007	5,386	990,802	20,791	23,000	11,500	(13,149)	754,056	1,792,386	—	1,792,386
Share issued under conversion of convertible bonds	291	520,023	(6,094)	—	—	—	—	514,220	—	514,220
Share issued under exercise of share options	3	5,272	(1,351)	—	—	—	—	3,924	—	3,924
Exchange difference on translation into presentation currency	—	—	—	—	—	9,524	—	9,524	—	9,524
Profit for the period	—	—	—	—	—	—	196,770	196,770	—	196,770
Final dividend paid	—	—	—	—	—	—	(54,345)	(54,345)	—	(54,345)
Equity settled share-based transactions	—	—	3,897	—	—	—	—	3,897	—	3,897
Balance at 30 September 2007	5,680	1,516,097	17,243	23,000	11,500	(3,625)	896,481	2,466,376	—	2,466,376

The notes on 11 to 30 form part of the interim financial report.

# UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	<b>Six months ended 30 September</b>	
	<b>2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
Net cash inflows from operating activities	<b>379,809</b>	314,754
Net cash outflows used in investing activities	<b>(702,899)</b>	(520,862)
Net cash inflows from/(outflows used in) financing activities	<b>66,774</b>	(9,285)
Net decrease in cash and cash equivalents	<b>(256,316)</b>	(215,393)
Cash and cash equivalents at 1 April	<b>957,430</b>	556,630
Effect of foreign exchange rate changes	<b>(12,603)</b>	(11,298)
Cash and cash equivalents at 30 September	<b>688,511</b>	329,939

The notes on 11 to 30 form part of the interim financial report.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

## 1. Basis of preparation

The interim financial report for the six months ended 30 September 2008 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**HKSE**”), including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). It was authorised for issuance by the Board of Directors (the “**Board**”) on 22 December 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007/08 annual financial statements.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007/08 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”). HKFRSs include all applicable HKFRS, HKAS and related interpretations.

## **1. Basis of preparation** *(Continued)*

The interim financial report is unaudited, but has been reviewed by the independent auditor, CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The review report of CCIF CPA Limited to the Board is included on pages 4 to 5. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The financial information relating to the financial year ended 31 March 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 July 2008.

## **2. Turnover and segment information**

Turnover represents the sale value of goods supplied and services provided to customers, which excludes business tax and other government surcharges, less sales returns and discounts during the period.

Segment information is presented in respect of the business segments of the Group. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. Geographical segment information is not presented as the Group operates predominantly in the PRC.

## 2. Segment information *(Continued)*

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

	<b>Six months ended 30 September</b>	
	<b>2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
Turnover		
— Catering Services business	958,657	627,882
— Chinese Restaurants business	151,677	125,468
— Theme Restaurants business	259,516	—
— Convenience Food and related business		
— revenue from external customers	17,413	26,804
— Inter-segment business	49,033	—
	<b>1,436,296</b>	780,154
Less: Inter-segment revenue	<b>(49,033)</b>	—
	<b>1,387,263</b>	780,154
Segment results		
— Catering Services business	309,342	219,148
— Chinese Restaurants business	26,878	30,356
— Theme Restaurants business	56,478	—
— Convenience Food and related business	(13,976)	1,839
	<b>378,722</b>	251,343
Unallocated income/(expenses), net	<b>22,138</b>	(1,554)
Profit from operations	<b>400,860</b>	249,789
Finance costs	<b>(77,807)</b>	(35,684)
Income tax	<b>(51,234)</b>	(17,335)
Profit for the period	<b>271,819</b>	196,770
Depreciation and amortisation		
— Catering Services business	64,059	44,158
— Chinese Restaurants business	22,539	14,424
— Theme Restaurants business	13,514	—
— Convenience Food and related business	7,328	3,000
— Unallocated items	263	471
	<b>107,703</b>	62,053

### 3. Profit before taxation

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

		<b>Six months ended 30 September</b>	
		<b>2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	<b>18,102</b>	9,268
	Interest on convertible bonds	<b>59,705</b>	26,416
	<b>Total interest expense on financial liabilities not at fair value through profit or loss</b>	<b>77,807</b>	35,684
(b)	Other items:		
	Interest income	<b>(6,670)</b>	(9,186)
	Government grants	<b>(20,978)</b>	(4,286)
	Cost of materials consumed	<b>587,590</b>	325,135
	Loss on disposal of property, plant and equipment	<b>40</b>	22
	Depreciation and amortisation	<b>107,703</b>	62,053
	Operating leases charges in respect of premises	<b>68,168</b>	25,628

## 4. Income tax

Income tax expense represents:

	<b>Six months ended 30 September</b>	
	<b>2008 RMB'000 (Unaudited)</b>	2007 RMB'000 (Unaudited)
Current tax — the PRC Provision for the period	<b>51,234</b>	17,335

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2007 and 2008. Taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.

The Group had no significant potential deferred tax assets and liabilities for the six months ended 30 September 2007 and 2008.

## 5. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2008 was based on the profit attributable to ordinary equity shareholders of the Company of RMB250,231,000 (six months ended 30 September 2007: RMB196,770,000) and the weighted average number of ordinary shares of 541,296,756 (six months ended 30 September 2007: 523,911,110) in issue during the period.



## 5. Earnings per share *(Continued)*

### (b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 September 2008 was not presented as there was no deemed issue of shares under the Company's share option scheme and the impact of the exercise of the conversion rights attached to the convertible bonds was anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 September 2007 was based on the profit attributable to shareholders of the Company of RMB196,770,000 and the weighted average numbers of ordinary shares of 524,222,767 in issue, after adjusting for the effect of all dilutive potential ordinary shares.

### (c) Reconciliations:

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

	Six months ended 30 September 2007 RMB'000 (Unaudited)
Profit attributable to ordinary equity shareholders	196,770
After tax effect of effective interest on liability component of convertible bonds <i>(note)</i>	—
Profit attributable to ordinary equity shareholders (diluted)	196,770

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

## 5. Earnings per share *(Continued)*

### (c) Reconciliations: *(Continued)*

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

	Six months ended 30 September 2007 (Unaudited)
Weighted average number of ordinary shares	523,911,110
Effect of deemed issue of shares under the Company's share option scheme	311,657
Effect of conversion of convertible bonds <i>(note)</i>	—
Weighted average number of ordinary shares (diluted)	524,222,767

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

## 6. Interim dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008.

The Board declared in interim dividend of HK\$11.5 cents per share which totals RMB58,813,000 for the six months ended 30 September 2007.

## 7. Construction in progress

	Six months ended 30 September 2008 RMB'000 (Unaudited)	Year ended 31 March 2008 RMB'000 (Audited)
At 1 April	1,973,942	1,263,944
Additions from acquisition of subsidiaries	—	118
Additions	338,059	1,100,686
Transfer to other property, plant and equipment <i>(note 8)</i>	(182,493)	(390,806)
At 30 September/31 March	2,129,508	1,973,942

## 8. Other property, plant and equipment

	Six months ended 30 September 2008 RMB'000 (Unaudited)	Year ended 31 March 2008 RMB'000 (Audited)
<b>Cost</b>		
At 1 April	1,553,384	973,772
Exchange adjustments	(8)	—
Additions from acquisition of subsidiaries	—	77,146
Additions	48,552	125,437
Transfer from construction in progress (note 7)	182,493	390,806
Disposal	(100)	(13,777)
At 30 September/31 March	1,784,321	1,553,384
<b>Accumulated depreciation</b>		
At 1 April	336,412	195,126
Exchange adjustments	(8)	—
Charge for the period/year	100,215	144,533
Written back on disposal	(60)	(3,247)
At 30 September/31 March	436,559	336,412
<b>Net book value</b>		
At 30 September/31 March	1,347,762	1,216,972

At 30 September 2008, the Group's building having a carrying amount of approximately RMB74,597,000 (31 March 2008: RMB75,430,000) was pledged to secure banking facilities granted to the Group.

## 9. Interests in leasehold land held for own use under operating leases

	Six months ended 30 September 2008 RMB'000 (Unaudited)	Year ended 31 March 2008 RMB'000 (Audited)
<b>Cost/valuation</b>		
At 1 April	250,352	189,846
Additions	—	60,506
At 30 September/31 March	250,352	250,352
<b>Depreciation amortisation</b>		
At 1 April	9,199	2,682
Charge for the period/year	3,366	6,517
At 30 September/31 March	12,565	9,199
<b>Net book value</b>		
At 30 September/31 March	237,787	241,153

The lands are held on medium-term lease and located in the PRC. At 30 September 2008, the Group's leasehold land having a carrying amount of RMB32,057,000 (31 March 2008: RMB32,415,000) was pledged to secure banking facilities granted to the Group.

## 10. Trade receivables

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

	<b>At 30 September 2008 RMB'000 (Unaudited)</b>	At 31 March 2008 RMB'000 (Audited)
Within 1 month	<b>50,372</b>	28,464
More than 1 month but less than 3 months	<b>31,603</b>	16,827
More than 3 months but less than 6 months	<b>5,679</b>	3,985
More than 6 months	<b>4,734</b>	7,011
	<b>92,388</b>	56,287
Less: Impairment loss for doubtful debts	<b>(2,497)</b>	(2,497)
	<b>89,891</b>	53,790

## 11. Bank loans

Bank loans are repayable as follows:

	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
Within 1 year as classified under current liabilities	347,248	269,000
After 1 year but within 2 years	—	—
After 2 years but within 5 years	103,054	105,405
As classified under non-current liabilities	103,054	105,405
<b>Total</b>	<b>450,302</b>	<b>374,405</b>
The bank loans were analysed as follows:		
— secured	251,248	119,000
— unsecured	199,054	255,405
	450,302	374,405
As at 30 September/31 March 2008, the bank loans were secured by the Group's bank deposits	251,248	119,000

## 12. Trade payables

An ageing analysis of trade payables is as follows:

	<b>Six months ended 30 September 2008 RMB'000 (Unaudited)</b>	Year ended 31 March 2008 RMB'000 (Audited)
Within 1 month	29,046	64,950
After 1 month but within 3 months	38,168	44,724
After 3 months but within 6 months	12,131	4,748
After 6 months	4,736	11,773
	<b>84,081</b>	126,195

## 13. Equity settled share-based transactions

(a) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	<b>Weighted average exercise price</b>	<b>At 30 September 2008 Number of options (Unaudited)</b>	At 31 March 2008 Number of options (Audited)
Outstanding at 1 April	HK\$15.61	3,160,000	3,960,000
Forfeited during the period/year	HK\$15.61	(480,000)	(480,000)
Exercised during the period/year	HK\$15.61	—	(320,000)
Outstanding at 30 September/ 31 March	HK\$15.61	2,680,000	3,160,000
Exercisable at the end of the period/year	HK\$15.61	1,024,000	472,000

### 13. Equity settled share-based transactions *(Continued)*

The options outstanding at 30 September 2008 had an exercise price of HK\$15.61 (31 March 2008: HK\$15.61) and a weighted average remaining contractual life of 6.05 years (31 March 2008: 6.65 years).

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

Exercise period	Exercise price	Number	
		At 30 September 2008 (Unaudited)	At 31 March 2008 (Audited)
25 May 2007 to 24 November 2014	HK\$15.61	2,680,000	3,160,000

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.

### 14. Convertible bonds

- (a) **HK\$1,000,000,000 Zero Coupon Convertible Bonds due 2009 (the "UBS Bonds")**

UBS Bonds are unsecured and will be redeemed at 118.549% of the principal amount on a maturity date of 9 November 2009.

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.

The bondholders have the right to convert their bonds into the Company's new ordinary shares at any time during the period from 20 December 2006 and thereafter up to 25 October 2009 at an initial conversion price of HK\$17.51 per ordinary share (subject to adjustment).



## 14. Convertible bonds *(Continued)*

(a) **HK\$1,000,000,000 Zero Coupon Convertible Bonds due 2009 (the "UBS Bonds")** *(Continued)*

During the period ended 30 September 2008, no UBS Bond was converted into the Company's new ordinary shares.

(b) **RMB1,500,000,000 RMB Denominated HK\$ Settled Zero Coupon Convertible Bonds due 2010 (the "Citi Bonds")**

The Citi Bond that are unsecured and will be redeemed at 107.3399% of the principal amount on a maturity date of 18 October 2010.

Interest expenses on the Citi Bond is calculated using the effective interest method by applying the effective rate of 5.392% per annum to the liability component of Citi Bond.

The bondholders have the right to convert their bonds into the Company's new ordinary shares at any time during the period from and including 28 November 2007 and thereafter up to 11 October 2010 at an initial conversion price of HK\$32.825 per ordinary share at a fixed exchange rate of HK\$1.00 = RMB0.96893 (subject to adjustment).

During the period ended 30 September 2008, no Citi Bond was converted into the Company's new ordinary shares.

## 15. Share capital

There was no movement in the share capital of the Company during the period.

## 16. Commitments

- (a) Capital commitments outstanding at 30 September 2008 not provided for in the interim financial report were as follows:

	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
Authorised but not contracted for in respect of:		
— capital contribution to subsidiaries	456,653	436,653
— construction and acquisition of fixed assets	1,103,831	1,254,150
	<b>1,560,484</b>	1,690,803

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

	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
Within 1 year	110,998	108,053
After 1 year but within 5 years	408,523	402,188
After 5 years	289,856	310,685
	<b>809,377</b>	820,926

The Group leases a number of properties under operating leases. The leases run for periods from 2 years to 14 years, with an option to review the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals.

## 16. Commitments *(Continued)*

- (c) At 30 September 2008, the Group contracted with tenants for the following total future minimum lease receivables:

	At 30 September 2008 RMB'000 (Unaudited)	At 31 March 2008 RMB'000 (Audited)
Within 1 year	1,595	926
After 1 year but within 5 years	1,951	1,606
	<b>3,546</b>	2,532

## 17. Contingent liabilities

- (a) **Uncharged tax arising from the difference between the statutory usual income tax rate and the preferential tax rate**

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**") are 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.

## 17. Contingent liabilities *(Continued)*

### (a) Uncharged tax arising from the difference between the statutory usual income tax rate and the preferential tax rate *(Continued)*

Under the New Tax Law being effective from 1 January 2008 and in accordance with "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" (Guo Fa [2007] No. 39) promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to preferential tax treatment prior to the New Tax Law will be subject to a transitional tax rate beginning in period 2008 ("**Transitional Tax Rate**") before the new corporate income tax rate of 25% applies. For companies currently enjoying a reduced tax rate of 15%, the Transitional Tax Rate is 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011 and 2012 onwards respectively. The tax rate will transit to the standard tax rate of 25% for entities with current tax rate of 24% effective from 1 January 2008.

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% before 31 December 2007 and at the Transitional Tax Rate of 18% after 1 January 2008, respectively. Pudong Subsidiaries, by paying income tax at the preferential tax rate of 15% before 31 December 2007 and at the Transitional Tax Rate after 1 January 2008, 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% and new corporate income tax rate of 25% 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% before 31 December 2007, and the difference between the new corporate income tax rate of 25% and the Transitional Tax Rate of 18% after 1 January 2008, and will not subject to any penalty.

## 17. Contingent liabilities *(Continued)*

### (a) Uncharged tax arising from the difference between the statutory usual income tax rate and the preferential tax rate *(Continued)*

The contingent liabilities of the Group at 30 September 2008 is the 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% for the period from 1 April 2005 to 31 December 2007, and the difference between the new corporate income tax rate of 25% and the Transitional Tax Rate for the period after 1 January 2008. The amount of such contingent liabilities as at 30 September 2008 and for the period ended 30 September 2008 were approximately RMB62,560,000 (31 March 2008: RMB57,054,000) and RMB5,506,000 (six months ended 30 September 2007: RMB14,284,000), respectively.

### (b) Legal proceedings initiated by a third party against the Group for trademark infringement

The Group is currently involved in legal proceedings initiated by a third party (the “**Plaintiff**”) in Nanjing, the PRC for trademark infringement. The Plaintiff, which has two restaurants in Jiangsu, registered the trademark “fu ji” (with the same Chinese characters but a different logo) in 2004. In December 2006, the Plaintiff filed a lawsuit against the Group at the people’s court in Nanjing, claiming RMB100,000,000 in damages for trademark infringement. Application has been made to the court for extension of the relevant legal proceedings as the Group continue to negotiate with the Plaintiff to settle the dispute out of court. As at the date of this interim financial report, no settlement has been reached.

The Group has been advised by its PRC legal counsel that the grounds of the claim for the alleged trademark infringement are relatively weak because the Plaintiff has registered its trademark in an improper way. Based on the opinion of the PRC legal counsel, the directors of the Company are of the view that provision for the claim is not required.

## 18. Material related party transactions

During the six months ended 30 September 2008, the Group had entered into the following material related party transactions:

### Key management personnel remuneration

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

	Six months ended 30 September	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Short-term employee benefits	4,777	3,605
Post-employment benefits	35	12
Equity compensation benefit	870	2,716
	<b>5,682</b>	6,333

## 19. Comparative figures

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

## 20. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ending 31 March 2009

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 March 2009 and which have not been adopted in this interim financial report.

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 may result in new or amended disclosures in the accounts:

	<b>Effective for accounting periods beginning on or after</b>
HKAS 1 (Revised), Presentation of financial statements	1 January 2009
HKAS 23 (Revised), Borrowing costs	1 January 2009
HKAS 27 (Revised), Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments), Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
HKAS 39 (Amendment), Eligible Hedge Items	1 July 2009
HKFRS 1 & HKAS 27 (Amendment), Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
Amendments to HKFRS 2, Share-based payment — Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised), Business combinations	1 July 2009
HKFRS 8, Operating segments	1 January 2009
HKFRS, Improvements to HKFRSs	1 January 2009
HK(IFRIC)-Int 13, Customer loyalty programmes	1 July 2008
HK(IFRIC)-Int 15, Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC)-Int 16, Hedges of a net investment in a foreign operation	1 October 2008



# MANAGEMENT DISCUSSION AND ANALYSIS

FU JI Food and Catering Services Holdings Limited (the “**Company**”) and its subsidiaries (known together as the “**Group**”) recorded stable growth in unaudited revenue and earnings for the six months ended 30 September 2008. Turnover had a substantial increase of 77.8% to approximately RMB1,387,263,000 (first half 2007/2008: approximately RMB780,154,000) and overall gross profit margin was maintained at around 57.6% (first half 2007/2008: around 58.3%). Profit from operations amounted to approximately RMB400,860,000, up approximately 60.5% as compared with the corresponding period last year. Profit attributable to shareholders grew by 27.2% to approximately RMB250,231,000 and basic earnings per share were RMB46.2 cents (first half 2007/08: RMB37.6 cents).

Excluding certain non-cash charges such as equity-settled share-based payment expenses, interest on convertible bonds and depreciation and amortization of assets, cash inflows from operating business during the reporting period amounted to approximately RMB379,809,000 (first half 2007/08: approximately RMB314,754,000).

## Market Review

For the six months ended 30 September 2008, the catering service market in China continued to be in the fast growth stage. In order to lower operational costs, improve staff benefits and assure safety of meals provided to employees, sizable multinational and local companies were more willing to look for high quality catering services. In addition, catering services for private and public universities in the country, as cultivated by the Group over the past years, were kept on growing. Hence, the Group continued to maintain its leading status in the China catering service market.

Furthermore, during the period under review, with signs of food ingredient prices rising at a lower rate, it helps stimulating the development of different sectors of the food and beverages retail industry. From mid to high-end and new concept food and beverages retail operations had found strong support to their development. Despite the negative impact of tainted dairy products and the Sichuan earthquakes on the domestic food and beverage market, consumer product retail price statistics published by the National Bureau of Statistics of China showed a 24.8% growth in sales of the hospitality and catering industries between January and September 2008 against the previous corresponding period.

## Business Review

Speedy growth achieved by the Group in recent years was all depend on the establishment of its unique industrial kitchen platform for Chinese cuisine in the country. Starting from four sourcing centers which are located close to food ingredients sources to the different types and profile of



sales channels (like food and beverage retailing and catering service), the platform provides the Group with a complete value chain and better synergies for its different operations. The Group has almost completed its planned construction of basic production facilities in these years. Taking into account the possible fluctuation in the domestic consumer market and the unused capacities of its existing facilities, the Group implemented strict control on capital expenditure and either postponed or rescheduled some of its development plans during the period under review.

## Catering Services

Catering Services, which is the major revenue source of the Group, continued to grow steadily, with turnover up by more than 52.7% against the same period last year, accounting for approximately 69.1% of the Group's total turnover for the period. As at 30 September 2008, the Group produced a total of approximately 869,500 sets of meals daily, representing a 32.34% growth as compared with the end of September 2007.

Targeting large factories, industrial parks and public and private universities, Consumer Segment Catering remained as the main revenue contributor and growth driver of the Group. As for Institutional Segment Catering business, more flexible operations by way of joint ventures which serving the semi-finished packaged food products prepared by the Group that can keep fresh for over 30 days without refrigeration or preservatives, had given the railway catering service segment new drive to promote during the period under review. Moreover, the Group has served the 2008 Beijing Olympics and the Paralympics as an official caterer providing Chinese foods to guests, staff members and audiences at various event venues in Beijing and Shanghai. The appointment testified to the strengths of the Group in serving the catering needs of mega international events.

## Restaurants

The Group operates 11 high-end Chinese restaurants in Beijing, Shanghai and Suzhou with customers spending on average above RMB300 per person. In the first half of 2008, a number of natural disasters hit the country and the desire of people to dine out was indirectly affected. In response, the Group refreshed the menus of its restaurant and some of the Chinese restaurants were closed for renovation, so as to bring new tastes to please the discerning palates of customers. As for the Theme Restaurants business, the Group acquired 60% equity interests in Golden Hans theme restaurant chain (the "**Golden Hans**") in 2007. Golden Hans gained the preference of the young working population in major cities with its unique style — featuring German microbrewery beer and Brazilian BBQ food. As at 30 September 2008, Golden Hans had 45 restaurants in 26 cities in the country serving approximately 1.22 million customers monthly and on average spending of RMB37 per head. The Group believes the dining habits and growing preference for western foods among young Chinese consumers are the major impetus behind the smooth development of the Golden Hans operations.

## Convenience Food and Related Business

Convenience Food and related business segment developed by the Group remains in the infancy stage, commanding reform and re-mapping of related logistics arrangements and sales channels had not yet brought about the Group's expected results during the period under review. However, the Group believes selling high quality home-style food products to consumers in large cities will begin to gather growth momentum in this segment very soon.

## Food Safety

The Group is highly concerned about the recent series of food safety problems in the country. Placing utmost importance in assuring the quality and safety of its food products, the Group hires independent third party consultants every quarter to conduct food safety and hygiene checks according to HACCP (Hazard Analysis and Critical Control Points) standards. The consultants will also undertake regular inspection of the Group's kitchens and food processing centers and related equipment to make sure of their hygiene and reliable operation. Our commitment to quality and care for the health of consumers enabled us to gain continuous support and trust from our customers.

## Outlook

With the global economic environment changing for the worst and the international capital market on the verge of a historical meltdown, the Group has thoroughly reviewed its capital structure and decisively implemented a series of measures to strengthen its medium to long-term financial position. During the review period, it managed to either postpone or reschedule properly some of its plans involving substantial capital expenditure. Such moves were taken with the aim of giving the Group the ability to more effectively apply cash flows. Among which, deferring the completion of the under-construction regional distribution and processing centers in Beijing and Jiading, the Group lowered its capital expenditure without affecting daily production capacity.

Other critical measures implemented by the Group to cope with the current economic situation included ramping up production volume and cash flow from operating activities thereof. Other than further consolidating existing markets, the Group will actively look into expanding its catering services to highway service stations, national AAAA grade tourist attractions and passenger cruise vessels by consolidating the strength from operating by way of joint ventures and the merits of its semi-finished packaged food products. It will adjust the pace of expansion according to the market conditions.

To build a healthier long-term capital structure, the Group is considering to increase the proportion of long-term bank loans in its overall capital structure and will actively negotiate with different local and overseas credit institutions for that purpose.

Lastly, the Group will strengthen internal management and cost control and also to speed up the restructuring of its internal structure with the aim of optimizing the corporate structure of its three major businesses (namely Catering Services business, Chinese Restaurants business and Theme Restaurants business). The purpose of the endeavor is to lay a solid foundation for any possible introduction of capital in various ways or for other cooperation opportunities in future.

It is expected that the second half of the financial year will be full of challenges to the consumer market and the food and beverages markets in the country. The high-end Chinese Restaurants business of the Group, in particular, will probably face much more operation pressure. As for the Consumer Segment Catering business, it may subject to certain negative impacts from the unfavourable sentiments of the manufacturing industry in the country. However, having strong operational fundamentals, a reasonable level of short term debts and sufficient working capital, the Group is confident in gaining more share in the catering service market in the country despite the tough economic environment. Finally, the Group will strive to further stabilize and push up its profit margin so as to bring maximum returns to shareholders.

## Liquidity and financial resources

The Group's financial position is solid and with strong cash generating capability. As at 30 September 2008, the Group's total equity amounted to RMB3,028,276,000, representing an increase of 8.1% compared with 31 March 2008. As at 30 September 2008, the Group's cash and cash equivalents totalled RMB688,511,000 (31 March 2008: RMB957,430,000). Net current assets were RMB856,453,000 (31 March 2008: RMB774,370,000).

The Group's gearing ratio as at 30 September 2008 was approximately 86.8% (31 March 2008: approximately 90.4%), which is a percentage based on the total borrowings divided by the net assets value of the Group.

The reporting currency of the Group is in Renminbi ("**RMB**") and the Group's monetary assets, monetary liabilities and transactions are principally denominated in RMB, Hong Kong dollars and US dollars. As the fluctuation in the exchange rates among these currencies was minimal during the period under review, 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 30 September 2008, the Group had total debts made up of bank loans principally bearing fixed annual interest rates from 5.91% to 8.22% per annum (31 March 2008: between 6.72% and 8.22% per annum) and a floating rate term loan in the range of 0% to 12.75% per annum, non interest-bearing consideration payable for the acquisition of the subsidiaries and two three-year zero coupon convertible bonds.

During the period under review, there has been no change in the share capital of the Company.

## Charge on assets and contingent liabilities

As at 30 September 2008, the Group had bank deposits denominated in Hong Kong dollars, equivalent to RMB370,242,000 (31 March 2008: RMB136,438,000) and had fixed assets having a carrying amount of RMB106,654,000 (31 March 2008: 107,845,000), which are pledged to secure bank facilities granted to the Group.

Details of the Group's contingent liabilities as at 30 September 2008 are set out in note 17 to the interim financial report.

## Major acquisition and disposal

The Group did not make any major acquisition or disposal during the six months period ended 30 September 2008.

## Human resources

As at 30 September 2008, the Group had 13,823 employees in the People's Republic of China ("PRC") and Hong Kong (31 March 2008: 12,305 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.

# OTHER INFORMATION

## Disclosure of Interests

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

As at 30 September 2008, 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 Stock Exchange of Hong Kong Limited (the "HKSE") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

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

Name of Director	Types of Interests	Number of Shares	Position	Approximate Percentage of the Company's Issued Share Capital
Wei Dong (Note 1)	Beneficial	285,000,000	Long	52.65%
Yao Juan (Note 2)	Beneficial	285,000,000	Long	52.65%

(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*

<b>Name of Director</b>	<b>Date of Grant</b>	<b>Exercise Price</b>	<b>Exercisable Period</b>	<b>Position</b>	<b>Number of Shares in respect of Options Outstanding as at 30 September 2008</b>
Ku Wang	25 May 2006	HK\$15.61	25 May 2007 to 24 November 2014	Long	80,000

Save as disclosed above, as at 30 September 2008, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code.

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

As at 30 September 2008, the following shareholders (other than the Directors or chief executives of the Company whose interests and short positions in the shares, underlying shares and debentures of the Company are disclosed in the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures" above) had interests or short positions in the shares, underlying shares and debentures of the Company which were recorded in the register to be kept by the Company under section 336 of the SFO:

#### *Interest in Shares*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Position</b>	<b>Approximate Percentage of the Company's Issued Share Capital</b>
Bank of America Corporation	Interest of controlled corporation	33,404,000	Long	6.17%
Janus Capital Management LLC	Investment manager	32,918,000	Long	6.08%
UBS AG	Beneficial owner	32,377,477	Long	5.98%

#### *Short Position in Shares*

<b>Name of Person</b>	<b>Number of Shares</b>	<b>Approximate Percentage of the Company's Issued Share Capital</b>
UBS AG	1,911,496	0.35%

Save as disclosed herein, there was no person known to any Directors or chief executives of the Company, who, as at 30 September 2008, had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## Share Option Scheme

The Company operates a share option scheme (the “**Scheme**”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s Directors and the Group’s employees. The Scheme became effective on 17 December 2004 and, unless otherwise cancelled or amended, will remain in force until 24 November 2014. Further details of the Scheme have been disclosed in the 2008 Annual Report of the Company in accordance with the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the HKSE.

Movements of the share options granted under the Scheme for the six months ended 30 September 2008 are as follows:

Name or Category of Participant	Balance as at 1 April 2008	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding as at 30 September 2008 (Note 1)	Date of Grant	Exercisable Period (Note 2)	Exercise Price per Share (HK\$) (Note 3)
Director:								
Ku Wang	80,000	—	—	—	80,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Employees:								
In aggregate	3,080,000	—	—	(480,000)	2,600,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
<b>Total</b>	<b>3,160,000</b>	<b>—</b>	<b>—</b>	<b>(480,000)</b>	<b>2,680,000</b>			

Notes:

1. 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%

2. *The closing price per share of the Company immediately before the date of options granted was HK\$15.25.*
3. *The fair value of the options granted on 25 May 2006 was approximately HK\$27,093,000 (equivalent to approximately RMB27,906,000). The fair value of the options was estimated on the date of grant using the Binomial option pricing model (the "Binomial Model") with the following parameters:*
  - (a) *Risk free interest rate: 4.80% (being the 8.5 year yields derived from the exchange fund notes issued by Hong Kong Monetary Authority)*
  - (b) *Expected volatility: 54.06% (being the historical volatility of the price return of the Company's shares as at the valuation date)*
  - (c) *Expected dividend yield: 1.18% (based on the historical dividend yield of the Company's shares and the Company dividend policy)*
  - (d) *Suboptimal exercise factor: 1.5*
  - (e) *Expected life: 8.5 years*

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

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

*The accounting policy adopted by the Group to account for the fair value of the Company's share options has been disclosed in the 2008 Annual Report of the Company.*

## **Purchase, Sale or Redemption of Listed Securities of the Company**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

## **Compliance with the Model Code**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry on all the Directors of the Company, confirmed that all its Directors have complied with the Model Code throughout the six months ended 30 September 2008.



## Corporate Governance

The Board complied with the code of provisions in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2008, with deviations from code provision A.2.1 in respect of the separate 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.

## Audit Committee

The audit committee of the Company has three members comprising Mr. Su Gang Bing, Ms. Yang Liu and Mr. Wong Chi Keung, all being independent non-executive Directors, with Mr. Wong Chi Keung being the chairman. The audit committee has reviewed with the Group’s management the Group’s quarterly hygiene reports, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the Group’s unaudited interim financial report for the six months ended 30 September 2008.

## Board of Directors

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

By Order of the Board  
福記食品服務控股有限公司  
**FU JI Food and Catering Services Holdings Limited**  
**Wei Dong**  
*Chairman*

Shanghai, the PRC, 22 December 2008