



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)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2007

FINANCIAL HIGHLIGHTS:

	Unaudited		
	Three months ended 30 June		
	2007	2006	POP Changes
	(RMB'000)	(RMB'000)	(%)
Turnover	357,110	241,979	+47.6%
Catering Services	287,141	187,623	+53.0%
Chinese Restaurants	63,319	46,214	+37.0%
Convenience Food	6,650	8,142	-18.3%
Profit from operations	124,588	87,992	+41.6%
Profit for the period	95,071	77,106	+23.3%
Basic earnings per share (RMB cents)	18.5	15.4	+20.1%

MANAGEMENT DISCUSSION AND ANALYSIS

FU JI Food and Catering Services Holdings Limited (the “Company”) and its subsidiaries (known together as the “Group”) achieved strong growth in revenue and earnings during the three months ended 30 June 2007. Turnover and gross profit margin for the first quarter 2007/08 were approximately RMB357.1 million (first quarter 2006/07: RMB242.0 million) and 60.1% (first quarter 2006/07: 54.9%) respectively. Profit from operations amounted to approximately RMB124.6 million, up 41.6% compared with the corresponding period last year. Net profit was up 23.3% to approximately RMB95.1 million and basic earnings per share were RMB18.5 cents (first quarter 2006/07: RMB15.4 cents).

In compliance with Hong Kong Financial Reporting Standard (“HKFRS”) 2, and Hong Kong Accounting Standards (“HKASs”) 32 and 39, there were non-cash charges of approximately RMB2,254,000 (first quarter 2006/07: RMB1,171,000) and approximately RMB15,982,000 (first quarter 2006/07: RMB1,328,000), respectively to the Group’s net profits for the three months ended 30 June 2007.

MARKET REVIEW

A booming Chinese economy and restructuring of state-owned enterprises have been fuelling outsourcing of non-core operations such as catering by different business enterprises. This trend is gathering momentum, but since outsourcing of catering is still a relatively new practice among businesses in China, the market has huge potential yet to be exploited. In this huge market and amid aggressive efforts of the Government of the People’s Republic of China (the “PRC”) in ensuring all food production processes match food safety regulations, the more established caterers stand to benefit for they enjoy good reputation for quality and are more apt in offering nutritious food products prepared in hygienic environment at reasonable prices.

BUSINESS REVIEW

Being able to constantly improve its operations is a key attribute of the Group as a preferred catering service provider in China. During the period under review, the Group continued to improve facilities in its sourcing and initial processing centers (“SIPCs”) and local distribution and processing centers (“LDPCs”) to differentiate it from other players in the market. With a growth market to tap, products and services of ever-improving quality to offer and guidance from a management team committed to excellence, the Group is optimistic about development of the business in terms of number of catering service contracts and their profit margins.

To maintain dominance in the catering market in China, the Group has been actively expanding the scope of its catering services to coastal regions and economic zones like the Pearl River Delta region. Supported by a vertically integrated business model giving it full control on the entire supply chain, the Group has been able to provide customized catering services to its diverse clientele and in turn broadened business coverage.

Catering Services

During the period under review, Catering Services business continued to expand as the Group’s principal revenue and profit growth driver, accounting for 80.4% of the Group’s total turnover. As at 30 June 2007, the Group produced a total of approximately 614,000 sets of meals per day (excluding railway meals), representing a 53.5% growth compared to approximately 400,000 sets as at 30 June 2006. Its revenue amounted to approximately RMB287.1 million, a 53.0% increase against the corresponding period in 2006/07 and operating profit grew by 63.2% to RMB106.7 million.

To safeguard its competitiveness and cope with the sharp rise in demand for domestic catering services, the Group has upgraded its seven operational processing centers in Sunqiao (Shanghai), Suzhou, Shenzhen, Songjiang (Shanghai), Kunshan (Suzhou), Hangzhou and Wuxi. This move has markedly enhanced the Group's operational capacity, allowing it to put out over 1 million meals per day currently as oppose to only approximately 700,000 meals per day as at 30 June 2006.

Facilitating long term development, the Group mainly operates four SIPC's in Shangdong, Jiangsu and Zhejiang, allowing for centralized bulk procurement of food materials and ingredients and effective control on processing and delivery of food materials and products. The two regional distribution and processing centers ("RDPCs") in Jiading Shanghai and Beijing, will serve as logistics hubs of the Group in 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.

In addition, in April 2007, the Group commenced to provide railway meals in the PRC, diversifying its customers portfolio of this business segment.

At its relentless effort to drive organic growth of its different clienteles and expand into new markets, the Group registered continued strong growth of business from institutional catering, school catering and exhibition and event catering during the period under review.

Institutional catering

Stable growth of the Yangtze River Delta region as an industrial base hence a booming market for catering services and the Group's success in tapping the market has encouraged it to take it services into labour-intensive industrial zones in the Pearl River Delta. It is glad to report that, during the first quarter of the year, it managed to secure contracts, including those with strategic value, from selected customers including multinational corporations, state-owned enterprises and private industrial enterprises in coastal cities.

School catering

The Group has been successful in retaining existing customers and attracting new ones in this segment, thanks to municipal authorities encouraging schools to outsource provision of meals to professional caterers. During the period under review, the Group provided catering services to various tertiary educational institutions in Shanghai and Suzhou and gained a good reputation for being able to satisfy the needs of these institutions by supplying their students and staff with tasty, highly nutritious and good value-for-money meals.

Exhibition and event catering

The flourishing Shanghai exhibition industry and the 2008 Beijing Olympics have brought abundant business opportunities to the Group. Contracts won from leading exhibition canters in Shanghai and selected to be an official food caterer of the global sports event speak to the market recognition enjoyed by the Group for its high quality of products and services.

Chinese Restaurants

Despite the intense competition in the restaurant sector, restaurant business continued to be the second largest revenue contributor of the Group, accounting for 17.7% of the Group's total turnover. The segment's turnover for the period rose 37.0% to RMB63.3 million. By offering menus that promise a good mix of traditional and contemporary dishes, the Group's restaurants have been able to better capture the preferences of different customers. Operation of six Chinese Restaurants complemented by the "FU JI Club" fine dining concept explained the satisfactory performance of this business segment during the review period.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As at 30 June 2007, the Group's total Shareholders' equity amounted to RMB2,024,996,000, representing an increase of 13.0% compared with 31 March 2007. As at 30 June 2007, the Group's cash and cash equivalents totalled RMB467,854,000 (31 March 2007: RMB556,630,000). Net current assets were RMB300,963,000 (31 March 2007: RMB448,933,000).

With healthy balance of cash and cash equivalents, 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 30 June 2007, the Group had total debts made up of bank loans bearing annual interest rates of 5.850% to 7.227% (31 March 2007: between 4.860% and 6.732%) and the three-year zero coupon convertible bonds due 2009 (the "Bonds 2009") (RMB1,069,155,000 in total) (31 March 2007: RMB1,296,835,000). As at 30 June 2007, the Group's total Shareholders' equity was RMB2,024,996,000 (31 March 2007: RMB1,792,386,000). Based on the above, its gearing ratio was approximately 52.8% (31 March 2007: 72.4%).

On 9 November 2006, the Company issued the Bonds 2009 in an aggregate principal amount of HK\$1 billion convertible into ordinary shares of the Company. The bondholders of the Bonds 2009 have the right to convert them 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 period under review, the Company issued and allotted a total of 7,310,104 new shares as a result of conversion of the Bonds 2009 in the

total amount of HK\$128,000,000 at the Conversion Price. On 25 May 2007, a total number of 140,000 employee share options was exercised. After the issuances, as at 30 June 2007, the number of issued shares of the Company was increased to 517,701,567.

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

Subsequent to the balance sheet date, the Company issued and allotted a total of 22,729,868 new shares as a result of conversion of the Bonds 2009 in the total amount of HK\$398,000,000 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 3 wholly-owned subsidiaries in the PRC — Fu Ji Famous Delicacies Club (Shanghai) Catering Co. Ltd., Tian Yang Mei Tong Agricultural Development Co. Ltd. and Auterlan (Beijing) Food Industry Co. Ltd., during the period under review, there has been no material change in the Group's structure.

Charge on Assets and Contingent Liabilities

As at 30 June 2007, the Group had fixed deposits denominated in Hong Kong dollars, equivalent to RMB103,367,000 (31 March 2007: RMB262,544,000), which are pledged to secure bank facilities granted to the Group.

As at 30 June 2007, the Group had contingent liabilities in the amount of approximately RMB39,391,000 (31 March 2007: RMB32,686,000) in respect of adoption of the preferential tax treatments in determining the income tax liabilities of two wholly owned subsidiaries in Shanghai.

HUMAN RESOURCE

As at 30 June 2007, the Group had 6,044 employees in the PRC and Hong Kong (31 March 2007: 4,653 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.

OUTLOOK

The Group sees a growing demand for contract catering from corporations and the education sector in major economic zones and coastal provinces in China and is prepared to seize those businesses. With an upgraded centralized system promising to boost its productivity and maximize utilization of facilities, the Group is confident of tapping new business opportunities. Furthermore, the Group will strive to reinforce cost control by fine-tuning its menu mix keeping in mind the needs to counter rising material costs and maintain profit margin.

To support business expansion to key economic regions in the Bohai Bay Rim area including Beijing, Tianjin and Qindao, the Group has commenced construction of two new RDPCs in Jiading and Beijing. When completed, they will serve as logistics hubs of the Group in Huadong region and areas in the vicinity of Beijing respectively. By then, they are expected to each add 300,000 meals per day to the total production capacity of the Group.

Looking forward, the Group will continue to improve its production facilities to make sure it has the flexibility to fine-tune its outputs in response to different market circumstances and customer requirements. The pursuit of high profit margin sectors including the flourishing exhibition and railway segments and affluent markets in the Bohai Bay Rim area and the Jiadong Peninsula will continue to grow shares in existing markets.

RESULTS

The board of Directors (the “Board”) has pleasure to present the unaudited consolidated results of the Group for the three months ended 30 June 2007 together with the comparative figures for 2006. The unaudited consolidated balance sheet as at 30 June 2007, income statement for the three months period ended 30 June 2007 and the accompanying notes have been reviewed by the Company’s Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2007

		2007	2006
		RMB'000	RMB'000
	<i>Note</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	2	357,110	241,979
Other revenue		9,827	17,333
Cost of materials consumed		(142,513)	(109,174)
Staff costs		(29,719)	(19,218)
Operating lease rentals		(10,485)	(4,926)
Depreciation and amortization		(29,515)	(16,921)
Fuel and utility costs		(6,794)	(4,857)
Other operating expenses		(23,323)	(16,224)
Profit from operations	2	124,588	87,992
Finance costs		(21,435)	(4,249)
Profit before taxation	3	103,153	83,743
Income tax	4	(8,082)	(6,637)
Profit for the period		<u>95,071</u>	<u>77,106</u>
Earnings per share			
— basic	5(a)	<u>RMB18.5 cents</u>	<u>RMB15.4 cents</u>
— diluted	5(b)	<u>RMB18.5 cents</u>	<u>n/a</u>

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	At 30 June 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Non-current assets		
Fixed assets	2,475,997	2,229,754
Goodwill	10,300	10,300
Deposits for acquisition and construction of fixed assets	91,891	80,734
	2,578,188	2,320,788
Current assets		
Inventories	40,766	27,848
Accounts receivable	30,828	31,094
Deposits, prepayments and other receivables	61,639	45,985
Pledged bank deposits	103,367	262,544
Cash and cash equivalents	467,854	556,630
	704,454	924,101
Current liabilities		
Bank loans	215,000	319,500
Accounts payable	25,445	21,481
Receipts in advance	16,052	11,306
Accruals and other payables	124,720	99,505
Current income tax	22,274	23,376
	403,491	475,168
Net current assets	300,963	448,933
Total assets less current liabilities	2,879,151	2,769,721
Non-current liabilities		
Bonds 2009	854,155	977,335
NET ASSETS	2,024,996	1,792,386
CAPITAL AND RESERVES		
Capital	5,458	5,386
Reserves	2,019,538	1,787,000
	2,024,996	1,792,386

Notes:

1. PRINCIPAL ACCOUNTING POLICY

The Group's consolidated balance sheet and income statement have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the accounting principles generally accepted in Hong Kong.

The principal accounting policies adopted in preparing the consolidated balance sheet as at 30 June 2007 and the consolidated income statement for the three months ended 30 June 2007 are consistent with those adopted in the 2006/07 annual financial statements. The Group has also adopted a number of new HKFRSs ("new HKFRSs") which became effective for accounting periods beginning on or after 1 January 2007. However, the adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sales value of goods sold supplied and services provided to customers, which excludes business tax and other government surcharges, less sales returns and discounts during the period. An analysis of the Group's unaudited segment revenue and unaudited segment results for business segments for the period is as follows:

	Three months ended 30 June	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover		
— Catering Services business	287,141	187,623
— Chinese Restaurants business	63,319	46,214
— Convenience Food business	6,650	8,142
	<u>357,110</u>	<u>241,979</u>
Segment results		
— Catering Services business	106,723	65,414
— Chinese Restaurants business	19,738	11,093
— Convenience Food business	121	4,622
	<u>126,582</u>	<u>81,129</u>
Unallocated income/(expenses), net	<u>(1,994)</u>	<u>6,863</u>
Profit from operations	<u>124,588</u>	<u>87,992</u>

Geographical segment information is not presented as the Group operates predominantly in the PRC.

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

3. PROFIT BEFORE TAXATION

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

	Three months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank loans wholly repayable within five years	5,453	2,921
Interest on convertible bonds	<u>15,982</u>	<u>1,328</u>
	<u>21,435</u>	<u>4,249</u>
b) Other items		
Interest income	(5,291)	(2,970)
Rental income from sub-letting	(234)	(315)
Government grants	(3,941)	(12,828)
Cost of materials consumed	142,513	109,174
Depreciation and amortization	29,515	16,921
Operating leases rentals in respect of premises	<u>10,485</u>	<u>4,926</u>

4. INCOME TAX

Income tax expense represents:

	Three months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax — the PRC		
Provision for the period	<u>8,082</u>	<u>6,637</u>

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the three months ended 30 June 2006 and 2007.

Taxation for the PRC subsidiaries is charged at the approximate current rates of taxation ruling in the PRC. During the period, 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.

The Group had no significant potential deferred tax assets and liabilities for the three months ended 30 June 2006 and 2007.

5. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2007 is based on the profit attributable to shareholders of RMB95,071,000 (three months ended 30 June 2006: RMB77,106,000) and on the weighted average of 514,699,281 (three months ended 30 June 2006: 502,362,563) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 30 June 2007 is based on the profit attributable to ordinary equity shareholders of RMB95,071,000 and the weighted average number of ordinary shares of 515,179,140 shares after adjusting for the effect of the dilutive potential ordinary shares arising from the employee share options. Diluted earnings per share for the three months ended 30 June 2006 was not presented because the impact of the exercise of the conversion rights attached to convertible bonds and the outstanding share options were anti-dilutive.

QUARTERLY DIVIDEND

The Board did not declare any quarterly dividend for the three months ended 30 June 2007 (three months ended 30 June 2006: Nil).

REVIEW OF RESULTS

The Audit Committee has reviewed with the Company's management the Group's quarterly hygiene reports, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited consolidated balance sheet as at 30 June 2007 and unaudited consolidated income statement for the three months ended 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 April 2007 to 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

the PRC, 30 August 2007

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