Interim Report 2007/2008

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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

Contents

Corporate Information

Stock Code

1175

Website

www.fujicatering.com

Directors

Executive Directors

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

Non-executive Director

Josephine Price

Independent Non-executive Directors

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

Company Secretary and Qualified Accountant

Ng Kwok Choi, *FCCA, CPA*

Audit Committee

Wong Chi Keung *(Chairman)*
Yang Liu
Su Gang Bing

Remuneration Committee

Su Gang Bing *(Chairman)*
Wei Dong
Yang Liu

Auditors

CCIF CPA Limited

Solicitors

Chen & Co. Law Firm
O'Melveny & Myers

Compliance Adviser

CAF Securities Company Limited

Principal Bankers

Agricultural Bank of China
China Construction Bank
Guangdong Development Bank
HSBC
Standard Chartered Bank

Authorised 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

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

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 32, which comprises the condensed consolidated balance sheet of FU JI Food and Catering Services Holdings Limited as of 30 September 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month 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 for the six months ended 30 September 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 12 December 2007

Chan Wai Dune, Charles
Practising Certificate Number P00712

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 September 2007

	Note	Six months ended 30 September 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover	2	780,154	534,790
Other revenue		15,263	26,774
Cost of materials consumed		(325,135)	(233,484)
Staff costs		(68,556)	(41,308)
Operating lease rentals		(25,628)	(13,454)
Depreciation and amortisation		(62,053)	(35,134)
Fuel and utility costs		(18,555)	(10,728)
Other operating expenses		(45,701)	(28,770)
Profit from operations	2	249,789	198,686
Finance costs		(35,684)	(10,131)
Profit before taxation	3	214,105	188,555
Income tax	4	(17,335)	(16,402)
Profit for the period		196,770	172,153
Earnings per share			
— basic	5(a)	RMB37.6cents	RMB34.2cents
— diluted	5(b)	RMB37.5cents	N/A
Dividend per share	6	HK11.5 cents	HK10.2 cents

The notes on 10 to 32 form part of the interim financial report.

Unaudited Condensed Consolidated Balance Sheet

At 30 September 2007

	Note	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Non-current assets			
Fixed assets			
Construction in progress	7	1,821,227	1,263,944
Other property, plant and equipment	8	768,568	778,646
Interests in leasehold land held for own use under operating leases	9	185,216	187,164
		2,775,011	2,229,754
Goodwill		10,300	10,300
Deposits for acquisition of leasehold land		61,026	58,260
Deposits for acquisition and construction of other fixed assets		54,517	22,474
		2,900,854	2,320,788
Current assets			
Inventories	10	32,621	27,848
Accounts receivable	11	41,797	31,094
Deposits, prepayments and other receivables		65,807	45,985
Pledged bank deposits		143,758	262,544
Cash and cash equivalents		329,939	556,630
		613,922	924,101
Current liabilities			
Bank loans	12	256,500	319,500
Accounts payable		36,899	21,481
Receipts in advance		21,466	11,306
Accruals and other payables		122,867	99,505
Current income tax		30,554	23,376
		468,286	475,168
Net current assets		145,636	448,933
Total assets less current liabilities		3,046,490	2,769,721
Non-current liabilities			
Bank loans	12	113,104	—
Convertible bonds	15	467,010	977,335
		580,114	977,335
NET ASSETS		2,466,376	1,792,386
CAPITAL AND RESERVES			
Capital	16	5,680	5,386
Reserves		2,460,696	1,787,000
		2,466,376	1,792,386

The notes on 10 to 32 form part of the interim financial report.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	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)
Balance at 1 April 2007	5,386	990,802	20,791	23,000	11,500	(13,149)	754,056	1,792,386
Share issued under conversion of convertible bonds	291	520,023	(6,094)	—	—	—	—	514,220
Share issued under exercise of share options	3	5,272	(1,351)	—	—	—	—	3,924
Exchange difference on translation into presentation currency	—	—	—	—	—	9,524	—	9,524
Profit for the period	—	—	—	—	—	—	196,770	196,770
Final dividend paid	—	—	—	—	—	—	(54,345)	(54,345)
Equity settled share-based transactions	—	—	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
Balance at 1 April 2006	5,308	908,701	1,500	23,000	—	(565)	507,617	1,445,561
Share issued under conversion of convertible bonds	10	10,431	(186)	—	—	—	—	10,255
Exchange difference on translation into presentation currency	—	—	—	—	—	(5,437)	—	(5,437)
Profit for the period	—	—	—	—	—	—	172,153	172,153
Final dividend paid	—	—	—	—	—	—	(40,438)	(40,438)
Equity settled share-based transactions	—	—	4,134	—	—	—	—	4,134
Balance at 30 September 2006	5,318	919,132	5,448	23,000	—	(6,002)	639,332	1,586,228

The notes on 10 to 32 form part of the interim financial report.

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

	Six months ended 30 September	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash inflows from operating activities	**314,754**	215,254
Net cash outflows used in investing activities	**(520,862)**	(490,823)
Net cash inflows from/(outflows used in) financing activities	**(9,285)**	49,476
Net decrease in cash and cash equivalents	**(215,393)**	(226,093)
Cash and cash equivalents at 1 April	**556,630**	281,744
Effect of foreign exchange rate changes	**(11,298)**	(3,660)
Cash and cash equivalents at 30 September	**329,939**	51,991

The notes on 10 to 32 form part of the interim financial report.

1. Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKSE"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issuance by the Board of Directors (the "Board") on 12 December 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006/07 annual financial statements. In the current interim period, the Group has applied, for the first time, certain new standards and amendments issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new standards and amendments has no material effect on how the results for the current and/or prior accounting periods are prepared and presented.

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 2006/07 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by 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 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 July 2007.

2. Segment information

Segment information is presented in respect of the business segments of the Company and its subsidiaries (collectively the "Group"). Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. Geographical segment information is not presented as the Group operates predominantly in the People's Republic of China (the "PRC").

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

	Six months ended 30 September	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Turnover		
— Catering Services business	**627,882**	413,810
— Chinese Restaurants business	**125,468**	102,367
— Convenience Food and other related business	**26,804**	18,613
	780,154	534,790
Segment results		
— Catering Services business	**219,148**	150,951
— Chinese Restaurants business	**30,356**	24,807
— Convenience Food and other related business	**1,839**	9,276
	251,343	185,034
Unallocated (expenses)/income, net	**(1,554)**	13,652
Profit from operations	**249,789**	198,686
Finance costs	**(35,684)**	(10,131)
Income tax	**(17,335)**	(16,402)
Profit for the period	**196,770**	172,153
Depreciation and amortisation		
— Catering Services business	**44,158**	26,529
— Chinese Restaurants business	**14,424**	8,577
— Convenience Food and other related business	**3,000**	—
— Unallocated items	**471**	28
	62,053	35,134

2. Segment information *(Continued)*

During the period ended 30 September 2007, in order to widen the distribution channels of the convenience food products, the Group operated several supermarkets to sell the convenience food products and other related merchandise products. As the supermarkets act as the outlets of convenience food products, the Group did not choose to report the supermarket operation as a separate business segment and decided to combine the supermarket business and convenience food business into a business segment, namely Convenience Food and other related business, in these consolidated financial statements for the period ended 30 September 2007. The management of the Group considers that it would better reflect the substance of the underlying business segments.

3. Profit before taxation

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

		Six months ended 30 September	
		2007	2006
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(a)	Finance costs:		
	Interest on bank loans wholly repayable within five years	**9,268**	7,590
	Interest on convertible bonds	**26,416**	2,541
		35,684	10,131
(b)	Other items:		
	Interest income	**(9,186)**	(5,964)
	Rental income	**(468)**	(674)
	Government grants	**(4,286)**	(18,895)
	Cost of materials consumed	**325,135**	233,484
	Loss on disposal of property, plant and equipment	**22**	—
	Depreciation and amortisation	**62,053**	35,134
	Operating leases charges in respect of premises	**25,628**	13,454

4. Income tax

Income tax expense represents:

	Six months ended 30 September	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax — the PRC		
Provision for the period	**17,335**	16,402

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 2006 and 2007. 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 2006 and 2007.

5. Earnings per share

(a) **Basic earnings per share**

The calculation of basic earnings per share for the six months ended 30 September 2007 was based on the profit attributable to shareholders of RMB196,770,000 (six months ended 30 September 2006: RMB172,153,000) and the weighted average number of ordinary shares of 523,911,110 (six months ended 30 September 2006: 502,730,308) in issue during the period.

(b) **Diluted earnings per share**

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.

5. Earnings per share *(Continued)*

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

Diluted earnings per share for the six months ended 30 September 2006 was not presented as the impact of the exercise of the conversion rights attached to the convertible bonds and the outstanding share options were anti-dilutive.

(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 *(note)*	—
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 antidilutive 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 *(note)*	—
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 antidilutive and are ignored in the calculation of diluted earnings per share.

6. Interim dividend

The Board has resolved to declare an interim dividend of HK11.5 cents (2006: HK10.2 cents) per share for the six months ended 30 September 2007. The interim dividend will be paid to the shareholders whose names appear on the Register of Members of the Company at the close of business on 4 January 2008. The interim dividend will be paid on or around 18 January 2008.

7. Construction in progress

	Six months ended 30 September 2007 RMB'000 (Unaudited)	Year ended 31 March 2007 RMB'000 (Audited)
At 1 April	1,263,944	733,977
Additions	576,497	832,335
Transfer to fixed assets *(note 8)*	(19,214)	(302,368)
At 30 September/31 March	1,821,227	1,263,944

8. Other property, plant and equipment

	Six months ended 30 September 2007 RMB'000 (Unaudited)	Year ended 31 March 2007 RMB'000 (Audited)
Cost		
At 1 April	973,772	539,510
Exchange adjustments	(13)	(19)
Additions	30,897	132,154
Transfer from construction in progress *(note 7)*	19,214	302,368
Disposal	(150)	(241)
At 30 September/31 March	1,023,720	973,772
Accumulated depreciation		
At 1 April	195,126	103,200
Exchange adjustments	(8)	(16)
Charge for the period/year	60,105	91,965
Written back on disposal	(71)	(23)
At 30 September/31 March	255,152	195,126
Net book value		
At 30 September/31 March	768,568	778,646

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

	Six months ended 30 September 2007 RMB'000 (Unaudited)	Year ended 31 March 2007 RMB'000 (Audited)
Cost/valuation		
At 1 April	**189,846**	11,122
Additions	**—**	178,724
At 30 September/31 March	**189,846**	189,846
Depreciation amortisation		
At 1 April	**2,682**	259
Charge for the period/year	**1,948**	2,423
At 30 September/31 March	**4,630**	2,682
Net book value		
At 30 September/31 March	**185,216**	187,164

The lands are held on medium-term lease and located in the PRC.

10. Inventories

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Raw materials, at cost	30,391	27,848
Goods for resale, at cost	2,230	—
	32,621	27,848

11. Accounts receivable

An ageing analysis of accounts receivable is as follows:

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Within 1 month	19,855	12,383
More than 1 month but within 3 months	16,410	10,619
More than 3 months but within 6 months	2,893	7,665
More than 6 months	5,883	3,671
	45,041	34,338
Less: Impairment loss for bad and doubtful debts	(3,244)	(3,244)
	41,797	31,094

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

12. Bank loans

Bank loans are repayable as follows:

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Within 1 year as classified under current liabilities	**256,500**	319,500
After 1 year but within 2 years	**—**	—
After 2 years but within 5 years	**113,104**	—
As classified under non-current liabilities	**113,104**	—
Total	**369,604**	319,500
The bank loans were analysed as follows:		
— secured	**126,500**	249,500
— unsecured	**243,104**	70,000
	369,604	319,500
As at 30 September/31 March 2007, the bank loans were secured by the Group's bank deposits	**126,500**	249,500

13. Accounts payable

An ageing analysis of accounts payable is as follows:

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Within 1 month	19,419	11,637
More than 1 month but within 3 months	16,486	6,783
More than 3 months but within 6 months	508	1,658
More than 6 months	486	1,403
	36,899	21,481

14. Equity settled share-based transactions

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

	Weighted average exercise price	At 30 September 2007 Number of options (Unaudited)	At 31 March 2007 Number of options (Audited)
Outstanding at 1 April	HK$15.61	3,960,000	—
Granted during the period/year	HK$15.61	—	20,600,000
Cancelled during the period/year	HK$15.61	—	(16,480,000)
Lapsed during the period/year	HK$15.61	—	(160,000)
Exercised during the period/year	HK$15.61	(260,000)	—
Outstanding at 30 September/31 March	HK$15.61	3,700,000	3,960,000
Exercisable at the end of the period/year	HK$15.61	532,000	—

14. Equity settled share-based transactions *(Continued)*

The options outstanding at 30 September 2007 had an exercise price of HK$15.61 (31 March 2007: HK$15.61) and a weighted average remaining contractual life of 7.17 years (31 March 2007: 7.65 years).

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

Exercise period	Exercise price	Number At 30 September 2007 (Unaudited)	Number At 31 March 2007 (Audited)
25 May 2007 to 24 November 2014	HK$15.61	3,700,000	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.

15. Convertible bonds

On 9 November 2006, the Company issued zero coupon convertible bonds (the "Bonds 2009") with an aggregate principal amount of HK$1,000,000,000 (equivalent to approximately RMB966,700,000). Each Bonds 2009 has a face value of HK$10,000 and a maturity date of 9 November 2009. The Bonds 2009 are unsecured.

15. Convertible bonds *(Continued)*

The rights of the bondholders to convert the Bonds 2009 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 Bonds 2009 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 Bonds 2009 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 Bonds 2009, 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 period ended 30 September 2007, Bonds 2009 with an aggregate principal amount of HK$528,000,000 (approximately equivalent to RMB510,418,000) were converted into the Company's new 30,154,192 ordinary shares.

Interest expenses on the Bonds 2009 is calculated using the effective interest method by applying the effective rate of 6.116% per annum to the liability component of the Bonds 2009.

16. Share capital

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	**21,200**	21,200
Issued and fully paid:		
540,665,655 (31 March 2007: 510,251,463) ordinary shares of HK$0.01 each	**5,680**	5,386

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

	Number of shares in issue	**Issued and fully paid (Unaudited)** RMB'000
At 1 April 2007	510,251,463	5,386
Shares issued upon conversion of the Bonds 2009	30,154,192	291
Shares issued upon exercise of share options	260,000	3
At 30 September 2007	540,665,655	5,680

17. Commitments

(a) **Capital commitments outstanding at 30 September 2007 not provided for in the interim financial report were as follows:**

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Authorised but not contracted for in respect of:		
— capital contribution to subsidiaries	568,763	622,097
— construction and acquisition of fixed assets	815,316	753,700
	1,384,079	1,375,797

On 27 September 2007, the Company entered into a conditional sales and purchase agreement with Ms. Zhou Li to acquire 60% of Sky Charm Group Limited, a BVI holding company, which through its wholly-owned subsidiaries holds and operates the Golden Hans chain of restaurants in the PRC. Further details are set out in note 20(b) of the interim financial report.

17. Commitments *(Continued)*

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

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Within 1 year	**62,851**	54,029
After 1 year but within 5 years	**201,787**	167,495
After 5 years	**168,313**	124,205
	432,951	345,729

The Group leases a number of properties under operating leases. The leases run for periods from 2 years to 50 years, with an option to review the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals.

(c) **At 30 September 2007, the Group contracted with tenants for the following total future minimum lease receivables:**

	At 30 September 2007 RMB'000 (Unaudited)	At 31 March 2007 RMB'000 (Audited)
Within 1 year	**970**	779
After 1 year but within 5 years	**2,037**	2,408
	3,007	3,187

18. 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 30 September 2007 is the uncharged tax for the period from 1 April 2005 to 30 September 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 30 September 2007 and for the six months ended 30 September 2007 were approximately RMB46,970,000 (31 March 2007: 32,686,000) and RMB14,284,000 (six months ended 30 September 2006: RMB6,205,000), respectively.

19. Material related party transactions

During the six months ended 30 September 2007, 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	
	2007 **RMB'000** **(Unaudited)**	2006 RMB'000 (Audited)
Short-term employee benefits	**3,605**	3,739
Post-employment benefits	**12**	12
Equity compensation benefit	**2,716**	—
	6,333	3,751

20. Post balance sheet events

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

On 11 October 2007, the Company entered into a Subscription Agreement with Citigroup Global Markets Limited ("Citigroup"), whereby Citigroup agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the RMB denominated HK$ settled zero coupon bonds to be issued at par by the Company in an aggregate principal amount of RMB1,315,000,000. In addition, the Company also granted an option to subscribe up to an additional aggregated principal amount of RMB185,000,000, in whole or in part, to Citigroup, which exercised such option in full on 12 October 2007. The initial conversion price is HK$32.825 per share. Assuming full conversion of the Citi Bonds at the initial conversion price of HK$32.825 per share, the Citi Bonds will be convertible into 47,162,207 new shares, representing approximately 8.01% of the enlarged issued capital of the Company. The Citi Bonds were issued on 18 October 2007 and listed on the HKSE on 22 October 2007.

20. Post balance sheet events *(Continued)*

(a) Issue of RMB1,500,000,000 RMB Denominated HK$ Settled Zero Coupon Convertible Bonds due 2010 (the "Citi Bonds") *(Continued)*

The estimated net proceeds from the issue of the Citi Bonds are approximately RMB1,458,000,000, after deduction of commissions and administrative expenses. The Company intends to use approximately HK$800,000,000 of the estimated net proceeds for the acquisition of a majority stake in Sky Charm Group Limited, the holding company of a group of companies which operates the Golden Hans chain of restaurants in the PRC, further details for the acquisition are set out in note 20(b) of the interim financial report. The Company intends to use the remaining net proceeds from the issue of the Citi Bonds for general corporate purposes, including capital expenditure, working capital and for possible acquisitions of businesses, or investment in joint ventures and/or strategic alliances.

(b) Acquisition of 60% of the issued share capital in Sky Charm Group Limited

On 27 September 2007, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Ms. Zhou Li (the "Vendor"), pursuant to which the Company has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, 60% of the entire issued share capital of Sky Charm Group Limited ("Sky Charm") for an aggregate purchase price to be determined based on Sky Charm's audited consolidated net profit for two consecutive 12 months periods from the date of completion, subject to a cap of HK$800,000,000 as described below:

The consideration for the acquisition is the lower of (a) HK$800,000,000 or (b) the sum of Purchase Price I and Purchase Price II, where:

(1) "Purchase Price I" means an amount equal to (A) Sky Charm's audited consolidated net profit for Observation Period I, multiplied by (B) 8.0 (or 8.5, if such net profit is more than HK$99,000,000), multiplied by (C) 30%; and

(2) "Purchase Price II" means an amount equal to (X) Sky Charm's audited consolidated net profit for the Observation Period II, multiplied by (Y) 8.0 (or 8.5, if such net profit is more than HK$148,500,000), multiplied by (Z) 30%.

20. Post balance sheet events *(Continued)*

(b) Acquisition of 60% of the issued share capital in Sky Charm Group Limited *(Continued)*

Where:

"Observation Period I" means the 12 month period starting from the date of completion, provided that if a force majeure event (which includes without limitation, war, severe natural disaster and wide-spread epidemic) results in material adverse effect to Sky Charm and its subsidiaries (collectively the "Sky Charm Group") in such period, the commencement date of "Observation Period I" shall be deferred by 12 months; and

"Observation Period II" means the 12 month period starting from the date following Observation Period I, provided that if a force majeure event (which includes without limitation, war, severe natural disaster and wide-spread epidemic) results in material adverse effect to the Sky Charm Group in such period, the commencement date of "Observation Period II" shall be deferred by 12 months.

The consideration will be settled by the Company paying (a) a deposit of an amount equal to HK$105,000,000 within seven business days from entering into the Share Purchase Agreement and (b) the balance of HK$435,000,000 in cash to the Vendor upon completion. The deposit was paid in full by the Company on 9 October 2007.

Within 30 days from the time the Purchase Price I is ascertained, if:

(1) Purchase Price I is greater than the Estimated Purchase Price I, the Company shall pay an amount equal to Purchase Price I minus the Estimated Purchase Price I to the Vendor; and

(2) Purchase Price I is less than Estimated Purchase Price I, the Vendor shall pay an amount equal to Estimated Purchase Price I minus Purchase Price I to the Company.

20. Post balance sheet events *(Continued)*

(b) Acquisition of 60% of the issued share capital in Sky Charm Group Limited *(Continued)*

Within 30 days from the time the Purchase Price II is ascertained, if:

(1) Purchase Price II is greater than the Estimated Purchase Price II, the Company shall pay an amount equal to Purchase Price II minus the Estimated Purchase Price II to the Vendor, and

(2) Purchase Price II is less than Estimated Purchase Price II, the Vendor shall pay an amount equal to Estimated Purchase Price II minus Purchase Price II to the Company.

where:

"Estimated Purchase Price I" means an amount equal to HK$216,000,000; and

"Estimated Purchase Price II" means an amount equal to HK$324,000,000.

The Directors of the Company announced that the acquisition was completed on 1 November 2007, upon which Sky Charm became a 60% non-wholly owned subsidiary of the Company.

(c) Conversion of the Bonds 2009

On 17 and 22 October 2007, the Bonds 2009 with an aggregate principal amount of HK$10,000,000 (approximately equal to RMB9,667,000) were converted into Company's new 571,101 ordinary shares

21. Comparative figures

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

22. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 March 2008

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 period ending 31 March 2008 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 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 material impact on the Group's results of operations and financial position.

FU JI Food and Catering Services Holdings Limited (the "Company") and its subsidiaries (known together as the "Group") achieved commendable growth in revenue and earnings as well as made concrete progress in expanding its core businesses during the six months ended 30 September 2007 (the "Relevant Period"). Turnover for the first half of fiscal year 2007/08 reached a new high at approximately RMB780.2 million, 45.9% more than in the first half of fiscal year 2006/07. Gross profit margin and operating profit margin for the Relevant Period were 58.3% (first half 2006/07: 56.3%) and 32.0% (first half 2006/07: 37.2%) respectively. The Group's gross profit for the Relevant Period was RMB455.0 million and net profit was RMB196.8 million, 51.0% and 14.3% higher respectively against the corresponding period last year. Basic earnings per share were RMB37.6 cents (first half 2006/07: RMB34.2 cents).

In compliance with Hong Kong Financial Reporting Standard 2, and Hong Kong Accounting Standards 32 and 39, there were non-cash charges of approximately RMB3,897,000 (first half 2006/07: RMB4,134,000) and approximately RMB26,416,000 (first half 2006/07: RMB2,541,000) respectively to the Group's net profits for the Relevant Period.

MARKET REVIEW

As the Chinese government continues to tighten food safety requirements and the country's economy and industries keep expanding, demand for contract catering services will maintain an upward trend. This macro-environment works to the apparent benefit of established catering service providers like the Group; recognised for offering nutritious meals at reasonable prices and backed by reliable services.

BUSINESS REVIEW

The Group continued to strengthen its vertically integrated business model to support its three main core businesses. Efforts were made to optimise control of the entire supply chain from sourcing and processing of food ingredients to delivering meals and dishes to customers, with special emphasis on improving facilities in its sourcing and initial processing centres ("SIPCs"). The Group operated four established SIPCs in Shandong, Zhejiang and Anhui during the Relevant Period and will set up an additional SIPC in Guangxi. Using the same proven operation model, these centres allow the Group to centralise procurement of food materials and ingredients, giving it a cost advantage, and also effective product quality control. The SIPCs are supplemented by seven local distribution and processing centres ("LDPCs") and these two types of facilities are both subjected to strict hygiene controls in compliance with relevant health and safety standards. Supported by standardised and automated production facilities, the Group reported an improvement in operational efficiency.

The Group has been expanding strategically from its base in the Yangtze River Delta region to coastal regions and economic zones including the Pearl River Delta and Bohai Bay Rim area. The regional distribution and processing centres ("RDPCs") in Jiading, Shanghai and Beijing will commence operation by the end of fiscal year 2007/08 and in the first quarter of fiscal year 2008/09 respectively. The Jiading RDPC and Beijing RDPC will serve as the logistics hubs of the Huadong region and in the vicinity of Beijing, facilitating planning and control of procurement, and movement of inventories and products.

Catering Services

Bolstered by growing demand for contract catering from institutions and the education sector, the Group's Catering Services business continued to expand as the Group's principal revenue and profit growth driver. During the six months ended 30 September 2007, revenue from this business increased by 51.7% to approximately RMB627.9 million, and operating profit grew by 45.2% to approximately RMB219.1 million. As at 30 September 2007, the Group produced a total of approximately 657,000 sets of meals daily (excluding railway meals), representing 42.1% growth compared to approximately 462,500 sets as at the end of September 2006. The Catering Services business accounted for 80.5% of the Group's total turnover.

The Group operated four main types of Catering Services, namely, institutional catering, school catering, exhibition and event catering, and railway catering during the period under review.

Institutional catering

With strong presence in the Yangtze River Delta region, the Pearl River Delta region and Bohai Bay Rim area, the Group extended coverage of its catering services to more labour-intensive industrial zones in the regions. Its customers include industrial parks, commercial and office premises, large-scale multinational, state-owned, privately owned and Taiwanese corporations and industrial enterprises.

School catering

During the period under review, the Group provided catering services to various tertiary educational institutions in Shanghai and Suzhou, such as Songjiang University Town, the Tianping College of Suzhou, and the University of Science and Technology of Suzhou. When the Jiading RDPC is set up by the end of fiscal year 2007/08, the Group will be able to capture a bigger share of the school catering market, expanding its service coverage to particularly secondary and primary schools. Apart from ensuring the food it supplies to schools has good nutritional value, the Group will also install and use heat sterilisation technology to guarantee its products meet the high hygiene standards required by the education sector.

Exhibition and event catering

The new segment secured contracts from two leading exhibition centres in Shanghai during the period under review. With the exhibition industry in Shanghai flourishing and bringing in visitors from all over and outside the country, the segment has very bright prospect. The Group believes the new business will boost the gross profit margin of its Catering Services business and become a driver of its overall growth in the future.

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

Railway catering

Since June 2007, the Group has been providing catering services on 24 trains, for long and short routes, reaching 10 cities and provinces operated by seven different railway authorities. With development of the railway system being an integral part of the People's Republic of China ("PRC")'s transportation infrastructure, and a major focus as outlined in the 11th Five Year Plan of the country, this segment has a favourable environment for growth. To support development of the business, the Group plans to build more central food processing centres, and distribution, storage and logistics centres in major cities along railway routes it now serves. The Group sees huge potential for its railway catering business.

Restaurants

Chinese Restaurant

The Chinese Restaurants business is the Group's second major revenue contributor, accounting for 16.1% of the Group's total turnover. During the Relevant Period, the Group operated six Chinese Restaurants — four in Shanghai and two in Suzhou.

For the first half of fiscal year 2007/08, the Group's Chinese Restaurants business managed stable growth, achieving a 22.6% rise in turnover to RMB125.5 million. The growth was mainly attributable to the increased average-per-head spending of mid- to high-end customers targeted by the Group, and an increase in the number of operating restaurants. Over the years, the Group has strived to ensure its restaurants offer diverse dishes and keep their menus fresh and attractive. This commitment, and the introduction of the prestigious "FU JI Club" dining concept, together, which promise pleasurable dining experiences for customers, has allowed the Group to deliver continuously strong performances in the highly competitive restaurant sector.

Theme Restaurant

Drawing from its success with Chinese restaurants, the Group ventured into the Theme Restaurant business. It signed an agreement to acquire majority interests in Sky Charm Group Limited ("Sky Charm") on 27 September 2007. Sky Charm is an investment holdings company whose primary business is the Golden Hans buffet restaurant chain. Golden Hans is a chain of leisure German-style microbrewery houses with presence in 24 PRC cities. Golden Hans specialises in a variety of self-brewed German beers and Brazilian BBQ buffet. The acquisition will generate synergies for the Group at large as the procurement and processing of food ingredients and raw materials for Golden Hans restaurants can be undertaken via its centralised sourcing, processing and distribution centres. The arrangement will allow Sky Charm to enhance its profit margin and the Group to enjoy economies of scale as well as more efficient application of resources. The consideration is subject to a cap of HK$800 million pursuant to the agreement. The acquisition was completed on 1 November 2007, upon which Sky Charm became a majority owned subsidiary of the Company.

Convenience Food and Others

The Convenience Food and Others segment achieved satisfactory sales performance in the first half of 2007/08, capitalising on an efficient logistics network and distribution channels. Turnover increased to RMB26.8 million, representing a growth of 44.0%. The Group's centralised system has allowed the business to share costs and resources in providing highly nutritious and healthy convenience food to primarily urban dwellers in Shanghai and Suzhou. The Convenience Food and Others segment accounted for 3.4% of the Group's total turnover during the review period.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position is sound with stable cash flow. As at 30 September 2007, the Group's total Shareholders' equity amounted to RMB2,466,376,000, representing an increase of 37.6% compared with 31 March 2007. As at 30 September 2007, the Group's cash and cash equivalents totalled RMB329,939,000 (31 March 2007: RMB556,630,000). Net current assets were RMB145,636,000 (31 March 2007: RMB448,933,000).

Subsequent to the balance sheet date, on 18 October 2007, the Company issued Hong Kong dollar settled zero coupon convertible bonds due 2010 (the "Citi Bonds") convertible into ordinary shares of the Company in an aggregate principal amount of RMB1.5 billion. The estimated net proceeds from the Citi Bonds, after deduction of commission and administrative expenses, are approximately RMB1,458,000,000.

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

The reporting currency of the Group is in 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 Relevant Period, 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 2007, the Group had total debts made up of bank loans principally bearing fixed annual interest rates of 5.823% to 8.01% (31 March 2007: between 4.860% and 6.732%) and three-year zero coupon convertible bonds due 2009 (the "Bonds 2009") (RMB836,614,000 in total) (31 March 2007: RMB1,296,835,000). As at 30 September 2007, the Group's total Shareholders' equity was RMB2,466,376,000 (31 March 2007: RMB1,792,386,000). Based on the above, its gearing ratio was approximately 33..9% (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. Holders of the Bonds 2009 have the right to convert them into ordinary shares of the Company at any time beginning from 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 30,154,192 new shares as a result of conversion of the Bonds 2009 in the total amount of HK$528,000,000 at the Conversion Price. In addition, during the current period under review, 260,000 employee share options were exercised. After the issuances, as at 30 September 2007, the number of issued shares of the Company was increased to 540,665,655.

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 571,101 new shares as a result of conversion of the Bonds 2009 in the total amount of HK$10,000,000 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 five wholly-owned subsidiaries in the PRC — FU JI Famous Delicacies Club (Shanghai) Catering Co. Ltd., Tian Yang Mei Tong Agricultural Development Co. Ltd., Auterlan (Beijing) Food Industry Co. Ltd., Shanghai Dong Rui Catering Services Ltd. and Beijing Yao Du Catering Co. Ltd., during the period under review, there has been no material change in the Group's structure.

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. Net proceeds from the new shares issue were approximately HK$324,612,000 (equivalent to approximately RMB344,089,000) (the "Net Proceeds"). As at 30 September 2007, the Net Proceeds had been utilised as follows:

- all of the approximately RMB143 million as stated in the listing prospectus was spent on establishing centralised 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 utilise 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.

Charge on Assets and Contingent Liabilities

As at 30 September 2007, the Group had bank deposits denominated in Hong Kong dollars, equivalent to RMB143,758,000 (31 March 2007: RMB262,544,000), which are pledged to secure bank facilities granted to the Group.

As at 30 September 2007, the Group had contingent liabilities in the amount of approximately RMB46,970,000 (31 March 2007: RMB32,686,000) in respect to the adoption of preferential tax treatments for determining the income tax liabilities of certain wholly owned subsidiaries in Shanghai.

HUMAN RESOURCE

As at 30 September 2007, the Group had 7,428 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.

OUTLOOK

The Group expects an increasing number of enterprises in China to outsource their catering needs to professional caterers. To seize on such opportunities, the Group will focus on upgrading its centralised system with the aim of improving productivity and maximising the use of its facilities.

The Jiading RDPC and Beijing RDPC are being constructed and will serve as the logistics hubs of the Huadong region and areas in the vicinity of Beijing respectively. Scheduled to begin commercial operation by the end of fiscal year 2007/08, the Jiading RDPC will primarily focus on providing nutritious meals for the education sector. As for the Beijing RDPC, which will begin operation in the first quarter of 2008/09 fiscal year, it will facilitate expansion of the Group's business coverage to key economic regions in the Bohai Bay Rim area, including Beijing itself, Tianjin and Qindao. The two RDPCs will each increase the total production capacity of the Group by 300,000 sets of meals per day. The Group aims to further develop and strengthen its vertically integrated business model by expanding the capacity of its existing SIPCs in Shouguang (Shandong Province), Linqu (Shandong Province), Ningbo (Zhejiang Province) and Qingyang (Anhui Province) and establishing a new SIPC in Guangxi Province.

Looking forward, the Group will continue to seek opportunities to develop higher-end new markets, especially those promising higher profit margins (such as railway catering and event-based catering). The Group will expand its business by continuously upgrading existing centralised processing centres. As well, by building new centralised processing centres and Chinese Restaurants, the Group will be able to meet demand for its services, and serve the growing number of restaurant goers longing for delicious Chinese cuisine.

The acquisition and operation of the Golden Hans buffet restaurant chain in 24 cities in China has seen the Group made inroads in the theme restaurant sector in the country. Armed with extensive experience in catering services and Chinese restaurant operation, the Group is confident of the prospects its theme restaurants especially with the "dining out" concept gaining popularity in the PRC. The acquisition has also allowed the Group to benefit from greater economies of scale other than giving it another remarkable revenue stream.

The Group also plans to support the LDPCs by establishing "central kitchens" that provide catering services to areas beyond reach of the centres. The Group is prepared to capture significant business opportunities in the still budding catering services sector in China. In addition, the Group will further strengthen its internal management systems and, at the same time, expand operational scale through strategic alliances with customers and other relevant working authorities. The Group is confident of its ability to increase market share in the future, and consolidate its position as a leading domestic Catering Services provider in China.

ISSUE OF CITI BONDS

On 11 October 2007, the Company entered into a Subscription Agreement with Citigroup Global Markets Limited ("Citigroup"), whereby Citigroup agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the Renminbi denominated but Hong Kong dollar settled zero coupon Bonds to be issued at par by the Company in an aggregate principal amount of RMB1,315 million. In addition, the Company also granted an option to subscribe up to an additional aggregated principal amount of RMB185 million, in whole or in part, to Citigroup, which exercised such option in full on 12 October 2007. The initial conversion price is HK$32.825 per share. Assuming full conversion of the Citi Bonds at the initial conversion price of HK$32.825 per share, the Citi Bonds will be convertible into 47,162,207 new shares, representing approximately 8.01% of the enlarged issued share capital of the Company. The Citi Bonds were issued on 18 October 2007 and listed on the HKSE on 22 October 2007.

The estimated net proceeds from the Citi Bonds' issuance, after deduction of commissions and administrative expenses, are approximately RMB1,458,000,000 in aggregate. The net proceeds will be used primarily for general corporate purposes, including capital expenditure, working capital and for possible acquisitions of businesses, or investment in joint ventures and/or strategic alliances. The Company also intends to use approximately HK$800,000,000 of the net proceeds to acquire 60% stake in Sky Charm, the holding company for a group of companies operating the Golden Hans chain of restaurants.

Disclosure of Interests

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

As at 30 September 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
Wei Dong *(Note 1)*	Beneficial	285,000,000	Long	52.71%
Yao Juan *(Note 2)*	Beneficial	285,000,000	Long	52.71%

(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.*

Disclosure of Interests *(continued)*

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

(iii) Interest in share options of the Company

Name of Director	Date of Grant	Exercise Price	Exercisable Period	Position	Number of Shares in respect of Options Outstanding as at 30 September 2007
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 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 portions in the shares, underlying shares and debentures

As at 30 September 2007, the following shareholder (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

Name of Shareholder	Capacity	Number of Shares	Position	Approximate Percentage of the Company's Issued Share Capital
JP Morgan Chase & Co	Beneficial owner	1,071,102	Long	0.20%
	Investment manager	33,281,470	Long	6.16%
	Custodian corporation/ Approved lending agent	4,881,000	Long	0.90%

Disclosure of Interests *(continued)*

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

Short Position in Shares

Name of Person	Number of Shares	Approximate Percentage of the Company's Issued Share Capital
JP Morgan Chase & Co	500,000	0.09%

Save as disclosed herein, there was no person known to any Directors or chief executives of the Company, who, as at 30 September 2007, 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 2007 Annual Report of the Company in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the HKSE.

Share Option Scheme *(continued)*

Movements of the share options granted under the Scheme for the six months ended 30 September 2007 are as follows:

Name or Category of Participant	Balance as at 1 April 2007	Granted during the Period	Exercised during the Period	Outstanding as at 30 September 2007 *(Note 1)*	Date of Grant	Exercisable Period *(Note 2)*	Exercise Price per Share (HK$) *(Note 3)*
Director:							
Ku Wang	100,000	—	(20,000)	80,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Employees:							
In aggregate	3,860,000	—	(240,000)	3,620,000	25 May 2006	25 May 2007 to 24 November 2014	15.61
Total	3,960,000	—	(260,000)	3,700,000			

Notes:

1. *No options have been lapsed during the six months ended 30 September 2007. Subsequently, a total number of 60,000 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.*

Share Option Scheme *(continued)*

Notes: (continued)

4. *The fair value of the options granted on 25 May 2006 was approximately HK$27,093,000 (equivalents to approximately RMB27,906,000). The fair value of the options was estimated on the date of grant using the Binomial option pricing model (the "Binomial Model") with the following parameters:*

   (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 2007 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 2007.

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 2007.

Audit Committee

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

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 2007.

Remuneration Committee

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

Interim Dividend

The Board has resolved to declare an interim dividend of HK11.5 cents (2006: HK10.2 cents) per share for the six months ended 30 September 2007. The interim dividend will be paid to the Shareholders whose names appear on the Register of Members of the Company at the close of business on 4 January 2008. The interim dividend will be paid on or around 18 January 2008.

Closure of Register of Members

The Register of Members will be closed from 2 January 2008 to 4 January 2008 (both days inclusive), for the purpose of determining entitlements to the interim dividend. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 31 December 2007.

The Code

The Company has complied with the Code throughout the six months ended 30 September 2007, with deviations from code provision A.2.1 and E.1.2 of the Code in respect of the separate roles of chairman and chief executive officer and the chairman of the Board's committees attending the annual general meeting.

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.

Code E.1.2 of the Code stipulates that the chairman of the Board and the chairmen (or if one is not available another member) of the audit, remuneration and nomination committees should attend the annual general meeting. Due to their offshore business engagements, the members of the Audit Committee did not attend the Annual General Meeting of the Company held in Hong Kong on 21 August 2007. The Board will finalise and inform the date of the Annual General Meeting as earliest as possible to make sure that at least one member of the Company's Audit Committee and Remuneration Committee would attend the Annual General Meeting of the Company in future.

Board of Directors

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

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

Shanghai, PRC, 12 December 2007