FAIRWOOD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 52)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

HIGHLIGHTS

- Revenue increased by 4.5% to HK$1,539.0 million.
- Profit attributable to shareholders of the Company decreased by 43.1% from HK$100.7 million to HK$57.3 million. The same profit, before the negative impact of the adoption of Hong Kong Financial Reporting Standard 16, *Leases* ("HKFRS 16") of HK$13.8 million, was approximately HK$71.1 million, representing a drop of 29.4%.
- The decline in profit was primarily attributable to (1) the adoption of HKFRS 16, which took effect at 1 April 2019 and superseded Hong Kong Accounting Standard 17, *Leases* ("HKAS 17"); (2) the rising of rental and labor costs; and (3) weakened market sentiment.
- Basic earnings per share were HK44.28 cents, decreased by 43.5%.
- The Board of Directors declared an interim dividend of HK23.0 cents per share.

INTERIM RESULTS

The Board of Directors (the "Board") of Fairwood Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2019 together with the comparative figures for the six months ended 30 September 2018. The interim financial results are unaudited, but have been reviewed by the Company's auditor, KPMG, 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 ("HKICPA"). In addition, the interim financial results have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019-UNAUDITED

		Six months ended 30 September	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**1,538,972**	1,472,992
Cost of sales		**(1,365,823)**	(1,271,009)
Gross profit		**173,149**	201,983
Other revenue	*4*	**5,814**	5,248
Other net loss	*4*	**(1,839)**	(3,190)
Selling expenses		**(16,069)**	(15,126)
Administrative expenses		**(62,748)**	(64,814)
Valuation losses on investment properties		**(3,310)**	(2,150)
Impairment losses on property, plant and equipment		**(5,194)**	(2,756)
Impairment losses on right-of-use assets		**(729)**	–
Profit from operations		**89,074**	119,195
Finance costs	*5(a)*	**(18,430)**	(23)
Profit before taxation	*5*	**70,644**	119,172
Income tax	*6*	**(13,382)**	(18,512)
Profit for the period attributable to equity shareholders of the Company		**57,262**	100,660
Earnings per share	*8*		
Basic		**HK44.28 cents**	HK78.40 cents
Diluted		**HK44.11 cents**	HK77.73 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019-UNAUDITED

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Profit for the period attributable to equity shareholders of the Company	**57,262**	100,660
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of subsidiaries in Mainland China	**(2,196)**	(5,262)
Total comprehensive income for the period attributable to equity shareholders of the Company	**55,066**	95,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2019-UNAUDITED

	Note	At 30 September 2019 HK$'000	At 31 March 2019 HK$'000
Non-current assets			
Investment properties		**40,840**	44,150
Other property, plant and equipment		**461,719**	468,503
Interests in leasehold land held for own use under operating leases		**–**	5,980
Right-of-use assets		**1,349,269**	–
		1,851,828	518,633
Goodwill		**1,001**	1,001
Rental deposits paid		**78,103**	68,517
Other financial assets	*9*	**19,203**	19,825
Deferred tax assets		**44**	44
		1,950,179	608,020
Current assets			
Inventories		**48,234**	33,560
Trade and other receivables	*10*	**89,270**	102,424
Other financial assets	*9*	**–**	11,950
Cash and cash equivalents		**636,263**	519,854
		773,767	667,788
Current liabilities			
Trade and other payables	*11*	**413,378**	385,203
Dividends payable		**104,922**	–
Bank loan		**–**	143
Lease liabilities		**420,871**	–
Current tax payable		**18,488**	10,494
Provisions	*12*	**21,822**	23,687
		979,481	419,527
Net current (liabilities)/assets		**(205,714)**	248,261
Total assets less current liabilities		**1,744,465**	856,281

	Note	At 30 September 2019 HK$'000	At 31 March 2019 HK$'000
Non-current liabilities			
Deferred tax liabilities		**15,092**	19,599
Lease liabilities		**915,618**	–
Rental deposits received		**1,680**	2,286
Provisions	*12*	**65,142**	56,718
		997,532	78,603
NET ASSETS		**746,933**	777,678
Capital and reserves			
Share capital		**129,533**	128,650
Reserves		**617,400**	649,028
TOTAL EQUITY		**746,933**	777,678

Notes:

1 BASIS OF PREPARATION

These interim financial results have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

Due to the adoption of HKFRS 16 commencing 1 April 2019, the Group recognised lease liabilities of HK$420,871,000 under current liabilities as at 30 September 2019. As at 30 September 2019, the Group's total current assets were HK$773,767,000 (31 March 2019: HK$667,788,000) and total current liabilities were HK$979,481,000 (31 March 2019: HK$419,527,000). As a result, the Group recorded net current liabilities of HK$205,714,000 as compared to net current assets of HK$248,261,000 as at 31 March 2019 which the financial statements were prepared in accordance with HKAS 17.

Despite the net current liabilities as at 30 September 2019, the Group's cash and cash equivalents amounted to HK$636,263,000 (31 March 2019: HK$519,854,000) on the same day and the Group reported a profit before tax of HK$70,644,000 (2018: HK$119,172,000) and recorded net cash generated from operating activities of HK$342,903,000 (2018: HK$150,186,000) during the six months ended 30 September 2019. Furthermore, based on the cash flow projection prepared by management which covers a period of not less than twelve months from 30 September 2019, the directors are of the opinion that anticipated cash flows generated from the Group's operations can strengthen the Group's financial position and enable the Group to have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 30 September 2019. Accordingly, the consolidated interim financial statements have been prepared on a going concern basis.

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, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial results contain 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 2019 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").

The financial information relating to the financial year ended 31 March 2019 that is included in the interim financial results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 June 2019.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and there was no impact to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) ***Lessee accounting***

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) ***Leasehold investment properties***

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have an impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) ***Lessor accounting***

The Group leases out the investment property referred to in note 2(a)(iii) above as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) ***Determining the lease term***

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.9%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	HK$'000
Operating lease commitments at 31 March 2019	1,008,742
Add: Lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extensive option	381,568
Others	35,650
Less: Commitments relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020 recognised exempt from capitalisation	(173,633)
Others	(16,034)
	1,236,293
Less: Total future interest expenses	(69,011)
Present value of remaining lease payments, discounted using the incremental borrowing rates and total lease liabilities recognised at 1 April 2019	1,167,282

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 March 2019.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 *HK$'000*	Adjustments *HK$'000*	Carrying amount at 1 April 2019 *HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	468,503	(16,750)	451,753
Interests in leasehold land held for own use under operating lease	5,980	(5,980)	–
Right-of-use assets	–	1,192,703	1,192,703
Total non-current assets	608,020	1,169,973	1,777,993
Trade and other receivables	102,424	(15,804)	86,620
Total current assets	667,788	(15,804)	651,984
Trade and other payables	385,203	(13,230)	371,973
Lease liabilities (current)	–	352,174	352,174
Total current liabilities	419,527	338,944	758,471
Net current assets/(liabilities)	248,261	(354,748)	(106,487)
Total assets less current liabilities	856,281	815,225	1,671,506
Lease liabilities (non-current)	–	815,108	815,108
Provisions	56,718	117	56,835
Total non-current liabilities	78,603	815,225	893,828
Net assets	777,678	–	777,678

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 September 2019 *HK$'000*	At 1 April 2019 *HK$'000*
Included in "Right-of-use assets":		
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost	**5,737**	5,980
Other properties leased for own use, carried at depreciated cost	**1,338,169**	1,181,667
Plant, machinery and equipment, carried at depreciated cost	**5,363**	5,056
	1,349,269	1,192,703

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments *HK$'000*	**Total minimum lease payments** *HK$'000*	Present value of the minimum lease payments *HK$'000*	Total minimum lease payments *HK$'000*
Within one year	**420,871**	**435,654**	352,174	356,888
After one year but within five years	**876,484**	**941,044**	771,934	828,563
After five years	**39,134**	**45,956**	43,174	50,842
	1,336,489	**1,422,654**	1,167,282	1,236,293
Less: total future interest expenses		**(86,165)**		(69,011)
Present value of lease liabilities		**1,336,489**		1,167,282

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are operation of fast food restaurants and property investments.

Revenue represents the sales value of food and beverages sold to customers and rental income. An analysis of revenue is as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Sale of food and beverages	**1,535,143**	1,469,135
Property rental	**3,829**	3,857
	1,538,972	1,472,992

(b) Segment reporting

The Group manages its businesses by two divisions, namely Hong Kong restaurants and Mainland China restaurants, which are organised by geographical location. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Hong Kong restaurants: this segment operates fast food restaurants in Hong Kong.

– Mainland China restaurants: this segment operates fast food restaurants in Mainland China.

Other segments generate profits mainly from leasing of investment properties and include corporate expenses.

(i) *Segment results*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods is set out below.

For the six months ended 30 September	Hong Kong restaurants		Mainland China restaurants		Other segments		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**1,468,640**	1,408,393	**66,503**	60,742	**3,829**	3,857	**1,538,972**	1,472,992
Inter-segment revenue	**–**	–	**–**	–	**2,428**	2,483	**2,428**	2,483
Reportable segment revenue	**1,468,640**	1,408,393	**66,503**	60,742	**6,257**	6,340	**1,541,400**	1,475,475
Reportable segment profit	**72,842**	110,055	**187**	6,412	**6,848**	7,611	**79,877**	124,078

Segment assets information is not reported to or used by the Group's most senior executive management.

(ii) ***Reconciliations of reportable segment profit***

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Profit		
Reportable segment profit before taxation	**79,877**	124,078
Valuation losses on investment properties	**(3,310)**	(2,150)
Impairment losses on property, plant and equipment	**(5,194)**	(2,756)
Impairment losses on right-of-use assets	**(729)**	–
Consolidation profit before taxation	**70,644**	119,172

4 OTHER REVENUE AND NET LOSS

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Other revenue		
Interest income	**5,814**	5,248
Other net loss		
Electric and gas range incentives	**2,095**	1,914
Profit on sale of redemption gifts	**493**	703
Net foreign exchange loss	**(4,284)**	(5,287)
Net loss on disposal of property, plant and equipment	**(2,480)**	(1,615)
Others	**2,337**	1,095
	(1,839)	(3,190)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 September 2019 HK$'000	2018 HK$'000 (Note (i))
(a) Finance costs		
Interest on bank borrowings	**–**	23
Interest on lease liabilities	**18,430**	–
	18,430	23
(b) Other items		
Cost of inventories *(Note (ii))*	**360,886**	344,960
Depreciation		
– property, plant and equipment	**52,967**	50,421
– right-of-use assets	**198,388**	–
Amortisation of interests in leasehold land held for own use under operating leases	**–**	105
Equity-settled share-based payment expenses	**862**	1,256

Note (i): The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 2).

Note (ii): The cost of inventories represents food and beverage costs.

6 INCOME TAX

	Six months ended 30 September 2019 HK$'000	2018 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	**17,889**	21,740
Deferred tax		
Origination and reversal of temporary differences	**(4,507)**	(3,228)
	13,382	18,512

The provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the six months ended 30 September 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

No provision has been made for the People's Republic of China (the "PRC") corporate income tax for the six months ended 30 September 2019 and 2018, as the Group's Mainland China operations sustained a loss for taxation purpose.

7 DIVIDENDS

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

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Interim dividend declared and payable after the interim period of HK23.0 cents (2018: HK37.0 cents) per share	**29,793**	47,597

In respect of the dividend for the six months ended 30 September 2018, there is a difference of HK$48,000 between the interim dividend disclosed in the 2018/19 interim financial statements and amounts approved and payable after the interim period. The difference represents dividends attributable to (i) shares repurchased and (ii) new shares issued upon the exercise of share options, before the closing date of the Register of Members.

The interim dividend has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and payable during the interim period

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year ended 31 March 2019, approved and payable during the following interim period, of HK81.0 cents (year ended 31 March 2018: HK105.0 cents) per share	**104,922**	135,208

In respect of the dividend for the year ended 31 March 2019, there is a difference of HK$715,000 (year ended 31 March 2018: HK$1,025,000) between the final dividend disclosed in the 2019 annual financial statements and amounts approved and payable during the period. The difference represents dividends attributable to new shares issued upon the exercise of share options, before the closing date of the Register of Members.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2019 is based on the profit attributable to ordinary equity shareholders of the Company of HK$57,262,000 (2018: HK$100,660,000) and the weighted average number of ordinary shares of 129,330,000 shares (2018: 128,393,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 September 2019 is based on the profit attributable to ordinary equity shareholders of the Company of HK$57,262,000 (2018: HK$100,660,000) and the weighted average number of ordinary shares of 129,808,000 shares (2018: 129,500,000 shares), calculated as follows:

	Six months ended 30 September	
	2019	2018
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares used in calculating basic earnings per share	**129,330**	128,393
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**478**	1,107
Weighted average number of ordinary shares used in calculating diluted earnings per share	**129,808**	129,500

9 OTHER FINANCIAL ASSETS

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
Non-current financial assets		
Debt securities at amortised cost		
– Unlisted but quoted	**19,203**	19,825
Current financial assets		
Debt securities at amortised cost		
– Unlisted but quoted	**–**	11,950
	19,203	31,775

The non-current debt securities as at 30 September 2019 and 31 March 2019 represented medium term notes (a) issued by a financial institution in Mainland China, denominated in United States dollars, bear interest at a rate of 2.8% per annum with maturity date of 20 October 2020; (b) issued by a financial institution in Luxembourg, denominated in United States dollars, bear interest at a rate of 2.3% per annum with maturity date of 12 July 2021; and (c) issued by a financial institution in Hong Kong, denominated in Renminbi, bear interest at a rate of 4.5% per annum with maturity date of 20 November 2021.

The current debt securities as at 31 March 2019 represented certificates of deposit issued by a financial institution in Australia, denominated in Renminbi, bear interest at a rate of 3.6% per annum with maturity date of 29 July 2019.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2019 and 30 September 2019.

10 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follow:

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
1 to 30 days	**6,380**	10,346
31 to 90 days	**586**	128
91 to 180 days	**1**	23
181 to 365 days	**–**	3
	6,967	10,500

The Group's sales to customers are mainly on a cash basis. The Group also grants credit terms of 30 to 75 days to certain customers to which the Group provides catering services.

11 TRADE AND OTHER PAYABLES

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
Creditors and accrued expenses	**390,412**	354,951
Contract liabilities	**3,935**	3,061
Other payables and deferred income	**18,397**	27,164
Rental deposits received	**634**	27
	413,378	385,203

Included in trade and other payables are trade creditors, based on the invoice date, with the following ageing analysis:

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
1 to 30 days	**114,390**	101,176
31 to 90 days	**5,359**	1,397
91 to 180 days	**583**	1,815
181 to 365 days	**1,216**	57
Over one year	**271**	295
	121,819	104,740

12 PROVISIONS

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
Provision for long service payments	**21,154**	18,439
Provision for reinstatement costs for rented premises	**65,810**	61,966
	86,964	80,405
Less: Amount included under "current liabilities"	**(21,822)**	(23,687)
	65,142	56,718

MANAGEMENT DISCUSSION AND ANALYSIS

Overall performance

For the six months ended 30 September 2019, the Group recorded revenue of HK$1,539.0 million (2018: HK$1,473.0 million), representing an increase of 4.5% year on year. The gross profit margin decreased to 11.3% (2018: 13.7%). Profit attributable to shareholders of the Company was HK$57.3 million, compared with HK$100.7 million for the same period in 2018. The same profit, before the negative impact of the adoption of HKFRS 16 of HK$13.8 million, was approximately HK$71.1 million, representing a drop of 29.4%. The decline in profit is mainly due to (1) the adoption of HKFRS 16; (2) the rising of rental and labor costs; and (3) weakened market sentiment. Basic earnings per share amounted to HK44.28 cents, against HK78.40 cents for the previous period.

Feel Good across our operations

Throughout the period under review, we have continued to enhance the all-round dining experience we offer by placing the customer at the centre of all our thinking, as encapsulated in our unique "Feel Good Movement". The "Feel Good Movement" has seen us embrace initiatives to go the extra mile for our customers, and actively seek new ways of enhancing their Fairwood dining experience. The movement goes beyond a focus on high food quality, aiming also to touch customers' hearts and exceed their expectations at every level. At the same time, it involves us working hard to foster an internal "Happy Culture" that is bringing out the best in our staff.

We communicated our commitment to the "Feel Good" promise in the period by launching a new TV commercial featuring the Fairwood "Jumping Man". The 30-second commercial is upbeat and full of positive energy as it promises customers a dining experience combining great food with exceptional friendly service. The happy energy communicated in the TV commercial is a quality that we believe is a unique feature of our actual restaurant experience.

Our "Feel Good" dynamic is driven by multiple innovation strategies, developed based on what we know our customers are looking for. Our constant close engagement with customers through surveys and other feedback channels has enabled us to tailor enhancements to our products, services and attitudes closely to their needs and wishes. For example, our customers have told us they want a wider variety of healthy products. In response we added Omnipork, a plant-based meat substitute, to our continually expanding "Tasty and Green" series, an option that has gained excellent customer feedback so far. We have also continued to innovate new product lines in response to the latest taste and health preferences, through well-received lines such as our "No MSG Added", "Wholesome Delight" and "Low Sodium" series. Other highlights of the period have been enhancements to some of our signature dishes, and the introduction of regular seasonal dishes making the most of fresh seasonal ingredients.

Good value dining is increasingly important for many diners in Hong Kong. We have catered to our customers' desire for extra value with a series of flexible discount offers that are variously linked with new products, different periods or special occasions. We have also introduced useful "add-on" options so that customers can customize their meals to suit their tastes, appetites and budgets.

Even in so compact a city as Hong Kong, the tastes and dining preferences of our customers can vary quite significantly from district to district. To ensure we address these area-specific preferences, we have continued to research and adopt different product offerings and even operation strategies in different places across Hong Kong. The result is a city-wide brand which, while known for consistency of quality, also reflects the diversity of our customers wherever they may be.

Underpinning this flexibility and diversity is the performance of our staff. We have recently further enhanced our staff training to give all our staff the skills required to extend help to our customers whenever and however it is needed. A special focus has been on enhancing the observational skills of our staff, so they are able to notice and respond quickly to unexpected incidents and take proactive steps to assist customers. Driving all these initiatives is our core mission: "Enjoy Great Food. Live a Great Life" — a mission that recognizes that delicious food is only one part of the positive experience that we want our customers to enjoy.

Our success has been built on the recognition that to ensure excellent service and happy customers, we must first ensure that our workforce is contented and highly motivated. To achieve this, we have set ourselves the task of ensuring our various store teams work in harmony and each individual staff member feels a real connection with Fairwood. In a high turnover industry such as ours, we have also devoted much effort to showing our staff that we value and appreciate them, understand their needs, and care for their wellbeing. We make it a priority to recognize our stand-out staff, for example by arranging for members of our senior management team to visit individual stores to personally congratulate them on their exceptional performances. We have also developed a Fairwood "Hall of Fame" booklet that recognizes outstanding efforts of staff members and shares their stories with the wider workforce. To build the close relationships that lead to loyalty and high motivation, we provide staff with a variety of retreats, social gatherings and similar incentives. Equally importantly, we offer targeted, in-depth training that gives staff a clear sense of progress and achievement. In this period, we enriched our orientation programmes and enhanced our employee training programmes so that the amount of theory-based training has been reduced. Instead, we increased the amount of practical and skills training on offer, giving our staff valuable skillsets that they can apply in the workplace with great satisfaction. One positive result of these initiatives has been an increase in our staff retention rate across the board, from store operations to management.

Business review

Hong Kong

Rising hourly rates for staff and increased rentals for some store locations have posed some challenges in the period. However, our agility and our flexible systems have helped us react quickly to events and respond effectively. In particular, we have benefited from having highly responsive networks for sourcing ingredients as well as flexible menu planning systems, both of which have helped us cope with any supply issues and shortages that have arisen. In fact, across the period we have been able to negotiate some excellent deals on ingredients and other items by taking advantage of changing consumer dining patterns that have affected demand and distribution. Given this, Fairwood is moving forward with strong conviction of its market strength. We will continue to embrace and promote our "feel good" philosophy — more than ever important in the current environment — and work to react quickly and efficiently to every market challenge that arises.

We are particularly pleased with the performance of our specialty restaurants in the period. Overall, results were satisfactory. The strongest performer in the period was ASAP, which delivered double-digit same-store sales growth. We opened one new Taiwan Bowl restaurant in the period which has performed very well in its early stages, and will be following this up by opening our third ASAP in the second half of the fiscal year. Meanwhile, The Leaf Kitchen, Buddies Café and Kenting Tea House all continued to perform steadily.

Mainland China

The adjustments we have made to our business model in Mainland China led to an improved sales performance in the period compared with the same period in the previous year. We have moved to operate smaller stores, yet with a strong focus on providing delivery options for customers preferring to eat at home or in the workplace. To this end, we have continued to work closely with two of the country's biggest food delivery service providers, Meituan and Ele.me, to expand our service network in the areas around our stores. The decline in segment profit was partially due to the adoption of HKFRS 16 and the pre-commencement expenses of a newly opened store. In the period, we also opened a new store in North Shenzhen, and have plans to open two further stores in the second half of the year.

Network

During the period under review, the Group opened eight new stores, of which seven were in Hong Kong and one was in Mainland China. As of 30 September 2019, the Group had a total of 155 stores in Hong Kong, including 143 fast food stores and 12 specialty restaurants, made up of two ASAP, three Taiwan Bowl, five The Leaf Kitchen, one Buddies Café and one Kenting Tea House. In Mainland China, the Group was operating 12 stores as at 30 September 2019.

Giving back to the community

We have continued to work hard on behalf of the community over the past six months. By the end of the period, we had distributed over 210,000 of our "Care for Seniors" cards, offering special dining discounts to senior citizens as a token of our appreciation for their roles in building our city. Extra offers for cardholders are added at popular festival times. Meanwhile, our "Give Warmth Campaign" introduced more in-store events which have been effective in engaging local communities and helping the public see Fairwood as a contributor to social wellbeing, as well as a great place to eat.

Prospects

Various external factors have impacted the Hong Kong business environment in recent months, making for a challenging time for many businesses and especially those in the restaurant industry. Although not exempt from this situation, the well-established and resilient Fairwood brand has benefited from its scale and its experience. Management has been fast to respond to the market, and has gone to great lengths to be supportive to staff at a time of some uncertainty. Whatever the market situation, we will consistently deliver great quality food, heartfelt service and a comfortable dining environment which will win customer support and approval in Hong Kong. For this reason, despite challenges ahead, we remain positive about the Group's prospects. Moving forward, we will put extra effort towards margin improvement, with various measures ready to be implemented. We also see opportunities in the current climate to negotiate with landlords for more favourable rental terms. In addition, we believe that many opportunities remain for growth in the current market, especially in terms of our increasingly successful specialty restaurants and our Mainland operations.

Ultimately though, we measure our success not simply in economic terms but also in terms of our social impact. Internally, we take pride in our strong and happy staff culture, and the positive feedback we receive about our customers' dining experiences. Externally, our activities as a socially conscious enterprise are very meaningful to us, and we believe our efforts to engage our community have begun to make an impact. In this latter respect, we are determined to continue finding new ways to serve the community that we are such an integral part of. For the fast food industry, too, we aim to be a benchmark for good practice and good attitudes. These goals are important to us, as part of our ambition to make the people of Hong Kong "Feel Good". Only by delivering on all fronts — including serving consistent high quality food, delivering exceptional service, and fostering a true feel good culture, can we achieve our ultimate mission of helping our customers "Enjoy Great Food. Live a Great Life!"

Financial Review

Liquidity and financial resources

As at 30 September 2019, total assets of the Group amounted to HK$2,723.9 million (31 March 2019: HK$1,275.8 million). The increase is primarily due to the recognition of right-of-use assets of HK$1,349.3 million by the adoption of HKFRS 16 at 1 April 2019. The Group's net current liabilities was HK$205.7 million (31 March 2019: net current assets of HK$248.3 million), represented by total current assets of HK$773.8 million (31 March 2019: HK$667.8 million) against total current liabilities of HK$979.5 million (31 March 2019: HK$419.5 million) and the current ratio, being the proportion of total current assets against total current liabilities, was 0.8 (31 March 2019: 1.6). The change was mainly due to the recognition of current lease liabilities of HK$420.9 million under current liabilities. Total equity was HK$746.9 million (31 March 2019: HK$777.7 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2019, the Group had bank deposits and cash and cash equivalents amounting to HK$636.3 million (31 March 2019: HK$519.9 million), representing an increase of 22.4%. Most bank deposits and cash and cash equivalents were denominated in Hong Kong dollars, United States dollars and Renminbi.

As at 30 September 2019, the Group had no bank loan (31 March 2019: HK$0.1 million). The lease liability to equity ratio of the Group was 178.9% (31 March 2019: 0.0%), which was calculated based on the total lease liability over total equity. The unutilised banking facilities were HK$260.0 million (31 March 2019: HK$216.2 million).

Depreciation and amortisation

The Group's depreciation and amortisation charges were increased by HK$200.9 million from HK$50.5 million to HK$251.4 million, primarily due to the implementation of HKFRS 16, this year. HKFRS 16 required the lessee to amortise the right of use assets in a straight-line basis over the lease term.

Finance costs

During the reporting period, the Group recorded the finance costs of HK$18.4 million (2018: nil) due to the initial adoption of HKFRS 16, at 1 April 2019. The finance costs represented the interest expenses accrued on the outstanding balance of the lease liabilities.

Profitability

Annualised return on average equity was 15.0% (year ended 31 March 2019: 23.4%), being profit for the period attributable to equity shareholders of the Company against the average total equity at the beginning and the end of the reporting period and then multiplied by two.

Financial risk management

The Group is exposed to foreign currency risk primarily through cash at bank and other financial assets that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. As United States dollar is pegged to Hong Kong dollar, the Group does not expect any significant movements in the United States dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

Charges on the Group's assets

As at the end of the reporting period, the net book value of properties pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to HK$1.2 million (31 March 2019: HK$1.2 million).

Commitments

As at 30 September 2019, the Group's outstanding capital commitments was HK$21.9 million (31 March 2019: HK$16.0 million).

Contingent liabilities

As at 30 September 2019, guarantees are given to banks by the Company in respect of mortgage loans and other banking facilities extended to certain wholly-owned subsidiaries.

As at the end of the reporting period, the directors of the Company do not consider it probable that a claim will be made against the Company under the guarantee arrangement. The maximum liability of the Company at the end of the reporting period under the guarantees is the amount of the outstanding utilised facilities by all the subsidiaries that are covered by the guarantees, being HK$98.9 million (31 March 2019: HK$92.8 million).

The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and there is no transaction price.

Employee information

As at 30 September 2019, the total number of employees of the Group was approximately 6,000 (31 March 2019: 5,600). Employees' remuneration is commensurate with their job nature, qualifications and experience. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors.

The Group continues to offer competitive remuneration packages, share options and bonus to eligible staff, based on the performance of the Group and the individual employee. Also, the Group has committed to provide related training programme to improve the quality, competence and skills of all staff.

DIVIDEND

The Board declared an interim dividend of HK23.0 cents (2018: HK37.0 cents) per share for the six months ended 30 September 2019 to shareholders whose names appear on the Register of Members of the Company at the close of business on Monday, 16 December 2019. The declared dividend represented a distribution of approximately 52% (2018: 47%) of the Group's profit for the period attributable to equity shareholders. The interim dividend will be paid on or before Tuesday, 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 12 December 2019 to Monday, 16 December 2019 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712–6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 11 December 2019 for registration.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2019, save and except that the Chairman and the Managing Director (Chief Executive Officer) of the Company are not subject to retirement by rotation under the Bye-Laws of the Company.

Code provision A.4.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; however, the Chairman and the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company. The Board considers that the exemption of both the Chairman and the Managing Director (the Chief Executive Officer) of the Company from such retirement by rotation provisions would provide the Group with strong and consistent leadership, efficient use of resources, effective planning, formulation and implementation of long-term strategies and business plans. The Board believes that it would be in the best interest of the Company for such Directors to continue to be exempted from retirement by rotation provisions.

AUDIT COMMITTEE

The audit committee comprises four Independent Non-executive Directors of the Company and reports to the Board. The audit committee has reviewed with the management and the Company's external auditors the unaudited financial information and interim results for the six months ended 30 September 2019.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company. Following specific enquiry by the Company, all Directors of the Company confirmed their compliance with the required standards set out in the Model Code throughout the six months ended 30 September 2019.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the websites of the Company (www.fairwoodholdings.com.hk) and the Stock Exchange (www.hkex.com.hk). The interim report of the Company for the six months ended 30 September 2019 containing all information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

By Order of the Board
Dennis Lo Hoi Yeung
Executive Chairman

Hong Kong, 27 November 2019

As at the date of this announcement, the Directors of the Company are:

Executive Directors: Mr Dennis Lo Hoi Yeung (Executive Chairman), Mr Chan Chee Shing (Chief Executive Officer), Ms Mak Yee Mei, Ms Peggy Lee and Lo Fai Shing Francis; and
Independent Non-executive Directors: Mr Ng Chi Keung, Mr Joseph Chan Kai Nin, Dr Peter Lau Kwok Kuen, Mr Tony Tsoi Tong Hoo and Mr Peter Wan Kam To.