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FAIRWOOD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 52)



INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

HIGHLIGHTS

- Revenue dropped by 16.4% to HK\$1,287.0 million as the COVID-19 pandemic continued to affect the economy and dampen customer sentiment.
- Profit for the period increased to HK\$65.0 million from HK\$57.3 million, representing a rise of 13.4%. Excluding the subsidies from the government of HK\$142.9 million ^{note 1} and impairment losses on assets of HK\$47.6 million ^{note 2}, the loss for the period was HK\$30.3 million.
- The Employment Support Scheme (“ESS”) subsidies of HK\$122.0 million representing approximately 29.1% of the Group’s staff costs in Hong Kong, were fully used for salaries and wages.
- The Group maintained a healthy financial position with bank deposits, cash and cash equivalents of HK\$562.0 million as at 30 September 2020.
- The Group had no bank borrowings and nil gearing ratio as at 30 September 2020.
- Basic earnings per share were HK50.14 cents, increasing by 13.2%.
- The Board of Directors declared an interim dividend of HK30.0 cents per share, increasing by 30.4%.

Note 1: The amount includes the ESS subsidies of HK\$122.0 million and the government grants of HK\$20.9 million, mainly from the food licence holders subsidy scheme.

Note 2: The amount includes the impairment losses on right-of-use assets of HK\$29.3 million and the impairment losses on other property, plant and equipment of HK\$18.3 million.

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 2020 together with the comparative figures for the six months ended 30 September 2019. 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 2020-UNAUDITED

		Six months ended	
		30 September	
		2020	2019
	Note	HK\$'000	HK\$'000
Revenue	3	1,286,985	1,538,972
Cost of sales		<u>(1,115,704)</u>	<u>(1,365,823)</u>
Gross profit		171,281	173,149
Other revenue	4	23,464	5,814
Other net loss	4	(710)	(1,839)
Selling expenses		(14,534)	(16,069)
Administrative expenses		(54,809)	(62,748)
Valuation losses on investment properties		(3,500)	(3,310)
Impairment losses on other property, plant and equipment	10	(18,260)	(5,194)
Impairment losses on right-of-use assets	10	<u>(29,259)</u>	<u>(729)</u>
Profit from operations		73,673	89,074
Finance costs	5(a)	<u>(19,295)</u>	<u>(18,430)</u>
Profit before taxation	5	54,378	70,644
Income tax credit/(expense)	6	<u>10,573</u>	<u>(13,382)</u>
Profit for the period attributable to equity shareholders of the Company		<u>64,951</u>	<u>57,262</u>
Earnings per share	8		
Basic		<u>HK50.14 cents</u>	<u>HK44.28 cents</u>
Diluted		<u>HK50.14 cents</u>	<u>HK44.11 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020-UNAUDITED

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period attributable to equity shareholders of the Company	64,951	57,262
Other comprehensive income for the period (after tax):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation of financial statements of subsidiaries in Mainland China	<u>2,283</u>	<u>(2,196)</u>
Total comprehensive income for the period attributable to equity shareholders of the Company	<u>67,234</u>	<u>55,066</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2020-UNAUDITED

		At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Investment properties		34,900	38,400
Other property, plant and equipment		463,677	474,711
Right-of-use assets		<u>1,208,597</u>	<u>1,433,611</u>
		1,707,174	1,946,722
Goodwill		1,001	1,001
Rental deposits paid		78,675	76,732
Other financial assets	9	11,600	15,821
Lease receivables		3,826	–
Deferred tax assets		<u>22</u>	<u>22</u>
		<u>1,802,298</u>	<u>2,040,298</u>
Current assets			
Inventories		46,467	50,828
Trade and other receivables	11	122,462	90,181
Lease receivables		2,239	–
Other financial assets	9	7,797	3,141
Current tax recoverable		25,160	13,423
Bank deposits and cash and cash equivalents		<u>562,021</u>	<u>511,047</u>
		<u>766,146</u>	<u>668,620</u>
Current liabilities			
Trade and other payables	12	389,060	418,445
Dividends payable		64,767	–
Lease liabilities		442,293	479,851
Current tax payable		15	–
Provisions	13	<u>18,556</u>	<u>17,356</u>
		<u>914,691</u>	<u>915,652</u>
Net current liabilities		<u>(148,545)</u>	<u>(247,032)</u>
Total assets less current liabilities		<u>1,653,753</u>	<u>1,793,266</u>

		At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		849,258	981,512
Deferred tax liabilities		5,125	14,036
Rental deposits received		1,768	1,173
Provisions	<i>13</i>	<u>73,572</u>	<u>75,739</u>
		<u>929,723</u>	<u>1,072,460</u>
NET ASSETS		<u>724,030</u>	<u>720,806</u>
Capital and reserves			
Share capital		129,533	129,533
Reserves		<u>594,497</u>	<u>591,273</u>
TOTAL EQUITY		<u>724,030</u>	<u>720,806</u>

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 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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\$442,293,000 under current liabilities as at 30 September 2020. As at 30 September 2020, the Group’s total current assets were HK\$766,146,000 (31 March 2020: HK\$668,620,000) and total current liabilities were HK\$914,691,000 (31 March 2020: HK\$915,652,000).

Despite the net current liabilities as at 30 September 2020, the Group’s bank deposits and cash and cash equivalents amounted to HK\$562,021,000 (31 March 2020: HK\$511,047,000) on the same day and the Group reported a profit before tax of HK\$54,378,000 (2019: HK\$70,644,000) and recorded net cash generated from operating activities of HK\$342,947,000 (2019: HK\$342,903,000) during the six months ended 30 September 2020. Furthermore, based on the cash flow projection prepared by management which covers a period of not less than twelve months from 30 September 2020, 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 2020. 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 2020 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 2020 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 2020 are available from the Company’s registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 30 June 2020.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*

None of these 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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	
	2020	2019
	HK\$'000	HK\$'000
Sale of food and beverages	1,283,959	1,535,143
Property rental	3,026	3,829
	<u>1,286,985</u>	<u>1,538,972</u>

(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	
	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	1,235,507	1,468,640	48,452	66,503	3,026	3,829	1,286,985	1,538,972
Inter-segment revenue	—	—	—	—	1,260	2,428	1,260	2,428
Reportable segment revenue	<u>1,235,507</u>	<u>1,468,640</u>	<u>48,452</u>	<u>66,503</u>	<u>4,286</u>	<u>6,257</u>	<u>1,288,245</u>	<u>1,541,400</u>
Reportable segment profit/ (loss)	<u>114,383</u>	<u>72,842</u>	<u>(12,229)</u>	<u>187</u>	<u>3,243</u>	<u>6,848</u>	<u>105,397</u>	<u>79,877</u>

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	
	2020	2019
	HK\$'000	HK\$'000
Profit		
Reportable segment profit before taxation	105,397	79,877
Valuation losses on investment properties	(3,500)	(3,310)
Impairment losses on other property, plant and equipment	(18,260)	(5,194)
Impairment losses on right-of-use assets	<u>(29,259)</u>	<u>(729)</u>
Consolidated profit before taxation	<u>54,378</u>	<u>70,644</u>

4 OTHER REVENUE AND NET LOSS

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Other revenue		
Interest income	2,578	5,814
Government grants (<i>Note</i>)	<u>20,886</u>	<u>–</u>
	<u>23,464</u>	<u>5,814</u>
Other net loss		
Electric and gas range incentives	2,476	2,095
Profit on sale of redemption gifts	436	493
Net foreign exchange gain/(loss)	784	(4,284)
Net loss on disposal of other property, plant and equipment	(7,002)	(2,480)
Others	<u>2,596</u>	<u>2,337</u>
	<u>(710)</u>	<u>(1,839)</u>

Note: This mainly represented subsidies approved by the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region for Food Licence Holders Subsidy Scheme to cope with the operating pressure caused by the novel coronavirus epidemic.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
(a) Finance costs		
Interest expense on lease liabilities	<u>19,295</u>	<u>18,430</u>
(b) Other items		
Cost of inventories (<i>Note (i)</i>)	316,280	360,886
Depreciation		
– other property, plant and equipment	51,607	52,967
– right-of-use assets	230,231	198,388
Staff costs (<i>Note (ii)</i>)	325,050	500,951
Equity-settled share-based payment expenses	<u>757</u>	<u>862</u>

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

Note (ii): The item is net of employment support scheme subsidies from HKSAR Government of HK\$122,031,000.

6 INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	37	17,889
Over-provision in respect of prior years	<u>(1,699)</u>	<u>—</u>
	(1,662)	17,889
Deferred tax		
Origination and reversal of temporary differences	<u>(8,911)</u>	<u>(4,507)</u>
	<u>(10,573)</u>	<u>13,382</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the six months ended 30 September 2020, 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\$2.0 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 2019.

No provision has been made for the People's Republic of China (the "PRC") corporate income tax for the six months ended 30 September 2020 and 2019, 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	
	2020	2019
	HK\$'000	HK\$'000
Interim dividend declared and payable after the interim period of HK30.0 cents (2019: HK23.0 cents) per share	<u>38,860</u>	<u>29,793</u>

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	
	2020	2019
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year ended 31 March 2020, approved and payable during the following interim period, of HK50.0 cents (year ended 31 March 2019: HK81.0 cents) per share	64,767	104,922

In respect of the dividend for the year ended 31 March 2020, there is a difference of HK\$nil (year ended 31 March 2019: HK\$715,000) between the final dividend disclosed in the 2020 annual financial statements and amounts approved and payable during the period. The difference represented 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 2020 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$64,951,000 (2019: HK\$57,262,000) and the weighted average number of ordinary shares of 129,533,000 shares (2019: 129,330,000 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 2020 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$64,951,000 (2019: HK\$57,262,000) and the weighted average number of ordinary shares of 129,533,000 shares (2019: 129,808,000 shares), calculated as follows:

	Six months ended	
	30 September	
	2020	2019
	Number	Number
	of shares	of shares
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	129,533	129,330
Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration	—	478
Weighted average number of ordinary shares used in calculating diluted earnings per share	129,533	129,808

9 OTHER FINANCIAL ASSETS

	At 30 September 2020 HK\$'000	At 31 March 2020 HK\$'000
Non-current financial assets		
Debt securities at amortised cost		
– Unlisted but quoted	11,600	15,821
Current financial assets		
Debt securities at amortised cost		
– Unlisted but quoted	<u>7,797</u>	<u>3,141</u>
	<u>19,397</u>	<u>18,962</u>

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

The current debt securities as at 30 September 2020 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.

The current debt securities as at 31 March 2020 represented medium term notes issued by a financial institution in Mainland China, denominated in United States dollars, bore interest at a rate of 2.8% per annum with maturity date of 20 October 2020.

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 30 September 2020 and 31 March 2020.

10 IMPAIRMENT LOSSES ON RIGHT-OF-USE ASSETS AND OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group's management identified certain restaurants which continued to under-perform and estimated the recoverable amounts of the right-of-use assets and other property, plant and equipment of these restaurants. Based on these estimates, the carrying amount of the right-of-use assets and other property, plant and equipment was written down by HK\$29,259,000 (six months ended 30 September 2019: HK\$729,000) and HK\$18,260,000 (six months ended 30 September 2019: HK\$5,194,000) respectively during the period. The estimates of recoverable amount were based on the value in use of these right-of-use assets and other property, plant and equipment, determined using a discount rate of 13% (six months ended 30 September 2019: 16%).

11 TRADE AND OTHER RECEIVABLES

	At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
Trade debtors, net of loss allowance	5,598	4,261
Other debtors	17,891	13,367
Rental and utility deposits paid	45,584	50,085
Prepayments	22,791	16,468
Receivables in relation to government grants	<u>30,598</u>	<u>6,000</u>
	<u>122,462</u>	<u>90,181</u>

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 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
1 to 30 days	5,482	3,482
31 to 90 days	59	528
91 to 180 days	<u>57</u>	<u>251</u>
	<u>5,598</u>	<u>4,261</u>

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.

12 TRADE AND OTHER PAYABLES

	At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
Creditors and accrued expenses	353,507	386,957
Contract liabilities	12,479	9,354
Other payables and deferred income	22,526	20,992
Rental deposits received	<u>548</u>	<u>1,142</u>
	<u>389,060</u>	<u>418,445</u>

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

	At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
1 to 30 days	96,717	105,028
31 to 90 days	4,765	2,828
91 to 180 days	621	576
181 to 365 days	113	293
Over one year	<u>162</u>	<u>189</u>
	<u>102,378</u>	<u>108,914</u>

13 PROVISIONS

	At 30 September 2020 <i>HK\$'000</i>	At 31 March 2020 <i>HK\$'000</i>
Provision for long service payments	26,056	24,992
Provision for reinstatement costs for rented premises	<u>66,072</u>	<u>68,103</u>
	92,128	93,095
Less: Amount included under “current liabilities”	<u>(18,556)</u>	<u>(17,356)</u>
	<u>73,572</u>	<u>75,739</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overall performance

The Group's revenue for the period ended 30 September 2020 decreased by 16.4% to HK\$1,287.0 million (2019: HK\$1,539.0 million). Gross profit margin increased to 13.3% (2019: 11.3%), mainly due to reduction of revenue and Employment Support Scheme ("ESS") from HKSAR Government. Profit attributable to equity shareholders increased by 13.4% to HK\$65.0 million (2019: HK\$57.3 million) compared to the same period last year. Basic earnings per share were HK50.14 cents compared to HK44.28 cents for the last corresponding period.

Business review

Resilience and reassurance through the Fairwood culture

Without a doubt, COVID-19 was the overriding concern in Hong Kong during the period under review. The Government's efforts to control the virus had a particularly notable impact on the restaurant industry. At different times in the period, restaurants were subject to mandatory social distancing and seating restrictions, reduced dining hours and other constraints. The Government's ESS subsidies helped to offset some of these effects, but inevitably they affected Fairwood's bottom line.

On the positive side, the Fairwood corporate culture gave our Group a distinct competitive advantage in riding the storm. That culture is one of unrelenting customer and community care, of deep support for our personnel, and of resilience and flexibility in our approach to every problem. All these provided us with a significant head-start in managing our response to the pandemic.

In Hong Kong, the Fairwood brand is closely associated with total customer care and going the extra mile. In the face of COVID-19, we left our customers in no doubt about how seriously we were taking the health and safety issues associated with the pandemic. Informative posters were widely displayed explaining how we were caring for patrons, keeping the dining environment clean and germ-free, and managing staff safety and wellbeing. All our restaurant visitors saw these measures in highly visible practice — including frequent and thorough cleansing routines, universal use of masks, temperature checks for patrons, and much more. As a result, our customers felt reassured about the safety and care available at Fairwood Restaurants, helping us to maintain good levels of patronage.

This high responsiveness to the pandemic could only be achieved with full buy-in and commitment from our staff members. Fortunately, Fairwood has always been a company that values its people, shown in the ongoing training, workplace care, and valuable reward schemes and incentives that we provide. This has helped shape a passionate workforce that is willing to go the extra mile, something that was especially visible at a time when many of our staff were called upon to support Fairwood in new ways and to implement unfamiliar changes. When the pandemic struck, staff on the front line did their utmost to support the company fully in its response efforts, for instance by handing out paper bags for customers' masks while dining, sensitively reminding customers to put their masks back on after meals, delivering hot water to tables to clean utensils,

helping customers conform to social distancing regulations — all delivered with a “smile behind the mask”. Behind the scenes, staff worked hard to expand Fairwood’s existing ‘click-and-collect’ platform to create genuine contactless takeaway transactions. In these and many other ways, Fairwood’s caring staff culture was crucial in minimising disruptions to our high standards of service and helping to put customers at their ease.

A third aspect of Fairwood culture that came to the fore in the period was our tradition of flexibility and rapid responsiveness. More than ever before, COVID-19 demanded all our ingenuity to manage unfamiliar situations and find solutions to unexpected problems. This was a challenge, but it was an opportunity too — a time when we were able to identify new economies, create new products, and adapt to new realities. One of our first moves was to add more items to our menu suitable for takeaway, and to create more value dinner bundles. This kind of response is far more complex than it sounds, as it involves rapidly sourcing new ingredients and supplies and changing production schedules at short notice. Overall it proved highly successful. In fact, the menu changes in combination with the enhanced ‘click-and-collect’ platform mentioned above led to an increase in takeaway business revenue up to approximately 40% of the overall revenue across the period.

Through all this, though, we have not stopped looking towards the future and finding new ways to implement our vision and values. We have always recognised the importance that our customers place on social responsibility, and have continued to develop these facets of our company culture despite the challenges of the period. For example, we have taken steps to help Hong Kong’s youth by launching a range of special student discounts and other benefits especially for young people. We have also continued supporting our elderly, further extending the distribution of our “Care for Seniors” cards that bring all sorts of added dining benefits for senior citizens.

Part of our social commitment is to our workforce. We really do wish to be a role model for the industry when it comes to how we treat and support our staff members. Despite the pandemic, we continued to offer them enhanced training opportunities, including enriched orientation training and succession training, to help each one feel an integral and highly valued part of the Fairwood organisation. In addition, our effective appreciation and recognition programme has been instrumental in motivating and inspiring our staff members. We also showed our commitment to our staff in very concrete terms by making no lay-offs in our Fairwood family during this tough period.

Hong Kong

The third wave of COVID-19 created an unstable business environment that dampened consumer sentiment in the period and had an inevitable impact on the performance of our Fairwood Restaurants in Hong Kong. However, the Group used its traditional agility and flexibility to respond quickly to the changing situation, and to capitalise on opportunities arising. For example, we remained highly flexible in our ingredients-sourcing operations, adapting our menus to match the changing availability of ingredients. At the same time, we stepped up our cost management

activities, negotiating with landlords for better rental deals, reducing advertising expenses, increasing logistical cost efficiencies, shortening operating hours in some cases, and more generally finding ways to improve the efficiency and productivity of our workers.

Our range of specialty restaurants was also impacted by COVID-19, but to a lesser extent than the Fairwood Restaurants. These restaurant brands benefited from the popularity of online delivery platforms, as many residents managed the pandemic by eating at home more often. As a result, our key specialty brands ASAP and Taiwan Bowl, and our other brands The Leaf Kitchen, Buddies Café and Kenting Tea House, were all able to minimise the downturn in business during the height of the pandemic, despite periods of Government restrictions on dining. The solid performance of these brands has been encouraging, and we will be looking for other appropriate sites to expand to in the future. Our short-term target is to open more stores in the coming year.

Mainland China

The Group's Mainland China revenue was likewise affected by the COVID-19 pandemic, especially at stores near Hong Kong border control points. In the period, we restructured our Mainland China operations by replacing what had previously been a Hong Kong management team with local management talents. Having local managers who understand our Mainland China customers well has led to better and more agile decision-making, in turn delivering significant enhancements in our business operations and in the pace of expansion. One new store was opened in the period, and we plan to open a further four in the second half of the year. At the same time, cost management measures have been introduced including rental negotiations with landlords and more efficient capital investment in renovations. Our Mainland China operations have been working closely and successfully with the popular food service provider Meituan to make food delivery an important part of the Fairwood profile. This will continue to be a focus as we expand, by opening relatively smaller stores (compared with sizes in Hong Kong) that are nevertheless strong in fulfilling delivery needs for their local area.

Network

In the period under review, the Group opened four new stores, made up of three in Hong Kong and one in Mainland China. As of 30 September 2020, the Group had a total of 157 stores in Hong Kong, including 145 fast food stores and 12 specialty restaurants — three ASAP, three Taiwan Bowl, four The Leaf Kitchen, one Buddies Café and one Kenting Tea House. In Mainland China, the Group was operating 13 stores as at 30 September 2020.

Prospects

Although restaurant dining in Hong Kong is now once again operating without significant restrictions, the pandemic remains not yet fully under control and the future is uncertain. Fairwood will therefore look to strengthen the culture of unremitting customers and community care. That means continuing to place our customers at the centre of all our decisions, and ensuring that our staff are united in their commitment to Fairwood's vision and mission.

We will maintain a high level of alertness and flexibility at management level, ready to respond effectively to any changes and developments. Meanwhile, we will be looking to further expand our customer base, for example by placing a greater focus on younger consumers who represent a potential large future market. Looking ahead, we will also continue the process we have begun of upgrading our technology and systems as we fully embrace digitisation, in a process that will improve our efficiency and align us more closely with new digital consumer preferences.

The Fairwood mission is “Enjoy Great Food. Live a Great Life!” Even a serious public health threat does not change these goals. We have continued to find ways to help our customers enjoy great food, and our staff to enjoy making and serving it, while ensuring the health and safety of our team and our customers. We have continued to believe that even in tough times, a great life is still possible with the right mindset, the right support and the right spirit. These values will drive Fairwood forward with resilience and strength, as Hong Kong gradually resumes its upward path.

Financial Review

Liquidity and financial resources

As at 30 September 2020, total assets of the Group amounted to HK\$2,568.4 million (31 March 2020: HK\$2,708.9 million). The Group’s net current liabilities was HK\$148.5 million (31 March 2020: net current liabilities of HK\$247.0 million), represented by total current assets of HK\$766.1 million (31 March 2020: HK\$668.6 million) against total current liabilities of HK\$914.6 million (31 March 2020: HK\$915.6 million) and the current ratio, being the proportion of total current assets against total current liabilities, was 0.8 (31 March 2020: 0.7). Total equity was HK\$724.0 million (31 March 2020: HK\$720.8 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2020, the Group had bank deposits and cash and cash equivalents amounting to HK\$562.0 million (31 March 2020: HK\$511.0 million), representing an increase of 10.0%. Most bank deposits and cash and cash equivalents were denominated in Hong Kong dollars, United States dollars and Renminbi.

As at 30 September 2020, the Group had no bank loan (31 March 2020: nil). The gearing ratio of the Group was 0.0% (31 March 2020: 0.0%), which was calculated based on the total bank loan over total equity. The unutilised banking facilities were HK\$264.5 million (31 March 2020: HK\$247.4 million).

Profitability

Annualised return on average equity was 18.0% (year ended 31 March 2020: 8.1%), 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 other financial assets and bank deposits and cash and cash equivalents 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 Hong Kong dollar is pegged to United States 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\$1.1 million (31 March 2020: HK\$1.1 million).

Commitments

As at 30 September 2020, the Group's outstanding capital commitments was HK\$11.4 million (31 March 2020: HK\$19.5 million).

Contingent liabilities

As at 30 September 2020, 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\$94.4 million (31 March 2020: HK\$101.5 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 2020, the total number of employees of the Group was approximately 5,700 (31 March 2020: 5,800). 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 HK30.0 cents (2019: HK23.0 cents) per share for the six months ended 30 September 2020 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 16 December 2020. The declared dividend represented a distribution of approximately 60% (2019: 52%) of the Group's profit for the period attributable to equity shareholders. The interim dividend will be paid on or before Thursday, 31 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 14 December 2020 to Wednesday, 16 December 2020 (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 4:30 p.m. on Friday, 11 December 2020 for registration.

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

During the six months ended 30 September 2020, 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 2020, 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 auditor the unaudited financial information and interim results for the six months ended 30 September 2020.

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 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the respective websites of the Company (www.fairwoodholdings.com.hk) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 September 2020 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 2020

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

Executive Directors: Mr Dennis Lo Hoi Yeung (Executive Chairman), Mr Lo Fai Shing Francis (Chief Executive Officer), Ms Mak Yee Mei and Ms Peggy Lee; 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.