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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 2022**

#### **HIGHLIGHTS**

- Revenue decreased by 0.3% to HK\$1,494.7 million.
- Profit for the period decreased to HK\$42.8 million from HK\$52.5 million, representing a drop of 18.4%.
- The Group maintained a healthy financial position with bank deposits, cash and cash equivalents of HK\$698.0 million as at 30 September 2022.
- Basic earnings per share were HK33.06 cents, decreasing by 18.4%.
- The Board of Directors declared an interim dividend of HK18.0 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 2022 together with the comparative figures for the six months ended 30 September 2021. 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 2022-UNAUDITED

		Six months ended	
		30 September	
		2022	2021
	Note	HK\$'000	HK\$'000
<b>Revenue</b>	3	<b>1,494,720</b>	1,498,604
Cost of sales		<u>(1,357,504)</u>	<u>(1,341,322)</u>
<b>Gross profit</b>		<b>137,216</b>	157,282
Other revenue and other net gain	4	<b>21,684</b>	11,662
Selling expenses		<b>(16,583)</b>	(15,722)
Administrative expenses		<b>(58,993)</b>	(63,822)
Valuation losses on investment properties		<b>(3,830)</b>	(1,110)
Impairment losses on other property, plant and equipment	9	<b>(6,660)</b>	(2,401)
Impairment losses on right-of-use assets	9	<u><b>(9,292)</b></u>	<u>(3,939)</u>
<b>Profit from operations</b>		<b>63,542</b>	81,950
Finance costs	5(a)	<u><b>(16,204)</b></u>	<u>(16,044)</u>
<b>Profit before taxation</b>	5	<b>47,338</b>	65,906
Income tax expense	6	<u><b>(4,512)</b></u>	<u>(13,413)</u>
<b>Profit for the period attributable to equity shareholders of the Company</b>		<u><b>42,826</b></u>	<u>52,493</u>
<b>Earnings per share</b>	8		
Basic		<u><b>HK33.06 cents</b></u>	<u>HK40.52 cents</u>
Diluted		<u><b>HK33.06 cents</b></u>	<u>HK40.52 cents</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022-UNAUDITED*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period attributable to equity shareholders of the Company</b>	<b>42,826</b>	<b>52,493</b>
<b>Other comprehensive income for the period (after tax):</b>		
<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>(5,691)</u>	<u>202</u>
<b>Total comprehensive income for the period attributable to equity shareholders of the Company</b>	<b><u>37,135</u></b>	<b><u>52,695</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 SEPTEMBER 2022-UNAUDITED**

		At 30 September 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Investment properties		24,270	28,100
Other property, plant and equipment		390,256	385,197
Right-of-use assets		<u>1,000,373</u>	<u>1,078,744</u>
		<b>1,414,899</b>	1,492,041
Lease receivables		–	609
Goodwill		1,001	1,001
Rental deposits paid		69,970	68,797
Deferred tax assets		<u>4,494</u>	<u>5,336</u>
		<u><b>1,490,364</b></u>	<u>1,567,784</u>
<b>Current assets</b>			
Inventories		52,352	57,278
Trade and other receivables	10	115,233	144,664
Current tax recoverable		–	10,440
Bank deposits and cash and cash equivalents		<u>697,959</u>	<u>557,102</u>
		<u><b>865,544</b></u>	<u>769,484</u>
<b>Current liabilities</b>			
Trade and other payables	11	413,426	344,428
Lease liabilities		394,185	410,072
Dividends payable		51,821	–
Current tax payable		11,867	41
Provisions	12	<u>25,405</u>	<u>27,781</u>
		<u><b>896,704</b></u>	<u>782,322</u>
<b>Net current liabilities</b>		<u><b>(31,160)</b></u>	<u>(12,838)</u>
<b>Total assets less current liabilities</b>		<u><b>1,459,204</b></u>	<u>1,554,946</u>

		At 30 September 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current liabilities</b>			
Lease liabilities		<b>702,602</b>	776,158
Deferred tax liabilities		<b>108</b>	1,086
Rental deposits received		<b>1,160</b>	1,769
Provisions	<i>12</i>	<b>55,404</b>	61,697
		<u><b>759,274</b></u>	<u>840,710</u>
<b>NET ASSETS</b>		<u><b>699,930</b></u>	<u>714,236</u>
<b>Capital and reserves</b>			
Share capital		<b>129,553</b>	129,553
Reserves		<b>570,377</b>	584,683
<b>TOTAL EQUITY</b>		<u><b>699,930</b></u>	<u>714,236</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 Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in note 2.

As at 30 September 2022, the Group’s total current assets were HK\$865,544,000 (31 March 2022: HK\$769,484,000) and total current liabilities were HK\$896,704,000 (31 March 2022: HK\$782,322,000).

Despite the net current liabilities as at 30 September 2022, the Group’s bank deposits and cash and cash equivalents amounted to HK\$697,959,000 (31 March 2022: HK\$557,102,000) on the same day and the Group reported a profit before taxation of HK\$47,338,000 (2021: HK\$65,906,000) and recorded net cash generated from operating activities of HK\$414,871,000 (2021: HK\$358,089,000) during the six months ended 30 September 2022. Furthermore, based on the cash flow projection prepared by management which covers a period of not less than twelve months from 30 September 2022, 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 2022. Accordingly, the interim financial report has 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 and 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 2022 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 2022 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 2022 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 2022.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. 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 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.

## 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:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Sale of food and beverages at a point in time	<b>1,494,106</b>	1,497,207
Property rental	<b>614</b>	1,397
	<b><u>1,494,720</u></b>	<b><u>1,498,604</u></b>

### (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.

	Hong Kong restaurants		Mainland China restaurants		Other segments		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
For the six months ended 30 September								
Revenue from external customers	1,417,757	1,427,194	76,349	70,013	614	1,397	1,494,720	1,498,604
Inter-segment revenue	-	-	-	-	1,400	1,883	1,400	1,883
Reportable segment revenue	<u>1,417,757</u>	<u>1,427,194</u>	<u>76,349</u>	<u>70,013</u>	<u>2,014</u>	<u>3,280</u>	<u>1,496,120</u>	<u>1,500,487</u>
Reportable segment profit/(loss)	<u>68,663</u>	<u>78,653</u>	<u>(4,326)</u>	<u>(7,083)</u>	<u>2,783</u>	<u>1,786</u>	<u>67,120</u>	<u>73,356</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	
	2022 HK\$'000	2021 HK\$'000
<b>Profit</b>		
Reportable segment profit before taxation	67,120	73,356
Valuation losses on investment properties	(3,830)	(1,110)
Impairment losses on other property, plant and equipment	(6,660)	(2,401)
Impairment losses on right-of-use assets	<u>(9,292)</u>	<u>(3,939)</u>
Consolidated profit before taxation	<u>47,338</u>	<u>65,906</u>



#### 4 OTHER REVENUE AND OTHER NET GAIN

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Interest income	3,533	1,777
Government grants ( <i>Note</i> )	<u>16,752</u>	<u>3,884</u>
	<u>20,285</u>	<u>5,661</u>
<b>Other net gain</b>		
Electric and gas range incentives	2,751	2,840
Profit on sale of redemption gifts	337	427
Net foreign exchange (loss)/gain	(2,581)	611
Net loss on disposal of other property, plant and equipment	(1,212)	(2,264)
Others	<u>2,104</u>	<u>4,387</u>
	<u>1,399</u>	<u>6,001</u>
	<u>21,684</u>	<u>11,662</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:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>(a) Finance costs</b>		
Interest expense on lease liabilities	<u>16,204</u>	<u>16,044</u>
<b>(b) Other items</b>		
Cost of inventories ( <i>Note (i)</i> )	396,309	374,447
Depreciation		
– other property, plant and equipment	45,286	47,402
– right-of-use assets	196,524	201,364
Auditor's remuneration	2,260	2,245
Expenses related to short-term leases	5,498	3,331
Variable lease payments not included in the measurement of lease liabilities	3,067	2,511
Building management fee	24,570	25,624
Electricity, water and gas	87,572	80,450
Logistics expense	33,347	31,651
Repair and maintenance	22,564	20,826
Sanitation	29,570	26,932
Cost of subsequent replacement of cutlery and utensils	4,845	5,585
Staff costs ( <i>Note (ii)</i> )	480,734	500,463
Equity-settled share-based payment expenses	380	1,056
Other expenses	<u>83,971</u>	<u>81,257</u>
	<u>1,416,497</u>	<u>1,405,144</u>
Representing:		
Cost of sales	1,357,504	1,341,322
Administrative expenses	<u>58,993</u>	<u>63,822</u>
	<u>1,416,497</u>	<u>1,405,144</u>

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

*Note (ii)* : The amount during the six months ended 30 September 2022 was net of employment support scheme subsidies from HKSAR Government of HK\$24,000,000 (six months ended 30 September 2021: HK\$nil).

## 6 INCOME TAX EXPENSE

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the period	4,707	9,994
Over-provision in respect of prior years	(59)	(34)
	<u>4,648</u>	<u>9,960</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(136)	3,453
	<u>4,512</u>	<u>13,413</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the six months ended 30 September 2022, 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 2021.

No provision has been made for the People's Republic of China (the "PRC") corporate income tax for the six months ended 30 September 2022 and 2021, 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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend declared and payable after the interim period of HK18.0 cents (2021: HK25.0 cents) per share	<u>23,320</u>	<u>32,388</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**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Final dividend in respect of the previous financial year ended 31 March 2022, approved and payable during the following interim period, of HK40.0 cents (year ended 31 March 2021: HK60.0 cents) per share	<u><b>51,821</b></u>	<u><b>77,731</b></u>

In respect of the dividend for the year ended 31 March 2022, there is a difference of HK\$nil (year ended 31 March 2021: HK\$11,000) between the final dividend disclosed in the 2022 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 2022 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$42,826,000 (2021: HK\$52,493,000) and the weighted average number of ordinary shares of 129,553,000 shares (2021: 129,547,000 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 2022 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$42,826,000 (2021: HK\$52,493,000) and the weighted average number of ordinary shares of 129,553,000 shares (2021: 129,547,000 shares) in issue during the period.

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

During the six months ended 30 September 2022, 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\$9,292,000 (six months ended 30 September 2021: HK\$3,939,000) and HK\$6,660,000 (six months ended 30 September 2021: HK\$2,401,000) 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 pre-tax discount rate of 15% (six months ended 30 September 2021: 15%).

## 10 TRADE AND OTHER RECEIVABLES

	At 30 September 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
Trade debtors, net of loss allowance	12,900	17,288
Other debtors	18,948	51,301
Rental and utility deposits paid	55,971	51,483
Lease receivables	1,745	2,239
Prepayments	25,669	22,353
	<u>115,233</u>	<u>144,664</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 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
1 to 30 days	11,524	15,404
31 to 90 days	683	1,882
91 to 180 days	692	2
181 to 365 days	1	-
	<u>12,900</u>	<u>17,288</u>

The Group's sales to customers are mainly on cash and e-payment 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 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
Creditors and accrued expenses	388,733	320,347
Contract liabilities	7,448	6,520
Other payables and deferred income	16,433	17,357
Rental deposits received	812	204
	<u>413,426</u>	<u>344,428</u>

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

	At 30 September 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
1 to 30 days	123,505	104,122
31 to 90 days	10,116	855
91 to 180 days	659	1,011
181 to 365 days	121	19
Over one year	161	170
	<u>134,562</u>	<u>106,177</u>

## 12 PROVISIONS

	At 30 September 2022 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
Provision for long service payments	12,637	21,398
Provision for reinstatement costs for rented premises	68,172	68,080
	80,809	89,478
Less: Amount included under "current liabilities"	<u>(25,405)</u>	<u>(27,781)</u>
	<u>55,404</u>	<u>61,697</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall performance

The Group's revenue for the period ended 30 September 2022 was HK\$1,494.7 million (2021: HK\$1,498.6 million). Gross profit margin decreased to 9.2% (2021: 10.5%). Profit attributable to equity shareholders decreased by 18.4% to HK\$42.8 million (2021: HK\$52.5 million). Basic earnings per share were HK33.06 cents compared to HK40.52 cents for the corresponding period in 2021.

### Business review

The transition out of the fifth wave of COVID-19 which battered Hong Kong in the first three months of 2022 has been steady but far from easy. Severe restrictions on the number of guests that could dine together at restaurants and on restaurant opening hours only began to be eased in late April, while dine-in dinners were banned for the first 20 days of that month, seriously affecting Fairwood's sales. As restrictions were eased and public confidence returned, Fairwood's performance registered a steady uptick, and by the end of September its sales was already close to that of the same half last year. However, the slow recovery process has meant Fairwood's bottom line dropped by comparison with the same period last year, when Hong Kong enjoyed a relatively stable period of the pandemic.

### *Focused multi-directional post-pandemic initiatives for stabilisation and growth*

To encourage customers back to its restaurants, Fairwood undertook a number of initiatives across the period designed to further enhance customer satisfaction, food quality, and operation efficiency. It launched a series of innovative new products that expanded the meal options available to customers and attracted new customers. As an increasingly gloomy economy began to impact consumer spending, Fairwood introduced attractive value-for-money dishes across all its meal segments, while continuing to focus on expanding its increasingly popular takeaway options. Meanwhile, in the face of rapidly rising labour and food costs, the Group undertook some wide-ranging cost management and productivity enhancement initiatives.

Fairwood worked to rekindle customer enthusiasm and excitement by launching several limited-time special dishes as well as re-running previous well-received offers. Mainly targeted at the lunch segment, they included highly popular dishes in its Baked'n Cheese, White Curry, Japanese Cuisine and Thai Chill series. At the same time, an increasing selection of high quality buns and toast items produced by the Group's bakery enabled Fairwood to expand and enhance its breakfast and tea set options and drive new sales.

Restrictions on evening dining meant that the dinner segment suffered hardest during the height of the pandemic, and there was some work to be done in the period to rebuild. From July Fairwood began to introduce a number of new high quality premium dinner dishes that expanded the appeal of its dinner segment for many customers who might previously have opted for higher-cost restaurants. Initial response has been very positive, as diners have embraced dishes such as Special Seafood and Winter Melon Soup that can be bundled with dinner sets, and deluxe dishes such as Stewed Rice with Mini Abalone and Fish Maw in Shrimp Sauce among other well-received offerings. By widening the range and quality of Fairwood's dinner daypart products, the Group is increasing the attraction of its restaurants as dinner options, especially as the economy worsens and many diners consider downscaling their dining choices. The Group sees this newly enriched dinner segment as an area with strong potential for future expansion.

Fairwood has also been aware of its traditional appeal to customers looking for high value products. In an environment of rapidly rising food and labour costs, the Group has had to exercise all its ingenuity to deliver new sets that represent real value for money. It has done this across all its dayparts, introducing HK\$27 breakfast combinations for both dine-in and takeaway customers, a HK\$27 tea set, and special lunch value meals priced from HK\$33. It has also continued to ride on the success of its takeaway dinner deal, the HK\$99 for three dishes special.

Fairwood's takeaway sales, which only got underway during the pandemic, have continued to thrive, with the Click & Collect platform now generating double digit sales as a percentage of overall sales. Click & Collect members have continued to grow too, with membership standing at 320,000 as at the end of September 2022. The Group has introduced regular special offers to drive new customer engagement and maintain high interest in the platform, and expects Click & Collect to grow further once the dedicated app is launched later in the year.

As mentioned, the pandemic squeeze was accompanied by significant rises in both food costs and labour costs in what has been a difficult labour market for some time. There are no easy answers to these issues, but Fairwood successfully pared back costs by applying creative thinking and expanding its productivity initiatives. For instance, it began to move beyond its traditional suppliers to explore new supply sources (including direct import options) and a wider range of vendors. As its takeaway business continued to grow, Fairwood reassessed its packaging levels for takeaway products and found ways to reduce packaging and cut associated costs. It also rationalised its discount strategy, retaining its practice of offering attractive discounts but restricting such discount offers to areas where discounts have been proven to drive sales, a move that has helped improve margins.

Productivity initiatives have included expanding the use of part-time workers and outsourcing basic jobs such as dishwashing and cleaning. Further productivity changes were also made in Fairwood's Master Kitchen where many of its dishes are part-prepared, making in-store food preparation easier and faster than ever. The trend towards digitalisation was also continued (for example the installation of digital menu boards), a move which is not only delivering greater efficiencies but also making for a better all-round customer experience. Meanwhile, Fairwood has been negotiating rental renewals strenuously in a more favourable leasing environment than has been the case for some time, bringing cost savings in many cases.



## ***Hong Kong***

In Hong Kong, store numbers have remained stable at a time when the focus has been on riding the storm and rebuilding confidence in in-store dining. At the end of the period there were 148 Fairwood stores in operation in the city. The Group's specialty restaurants, meanwhile, were especially susceptible to the difficulties of the period; it is expected that some time will be needed before they regain full momentum.

One especially gratifying development of the past six months has been Fairwood's gradual resumption of its community service initiatives, which have been severely constrained over the past two years. Around 10 stores were able to engage in CSR activities in the period under the "Fairwood Care for the Community Programme", run in conjunction with selected NGOs. Their activities included the Heartwarming Food Donation Programme under which meal boxes were donated to the needy, and some Joyous Meals with Seniors, meal gatherings where volunteers interacted with elderly people who live alone. Fairwood also continued to roll out new surprises and special offers as part of the Fairwood Care for Seniors card, which remains as popular as ever among the elderly. Over 350,000 Hong Kong seniors are now members of the card programme, and all benefited from Fairwood increasing the frequency of its card promotions in the period.

## ***Mainland China***

On the Mainland, anti-COVID measures in Guangdong Province (where Fairwood's Mainland stores are located) caused disruptions to its business throughout the period. Physical lockdowns in the Guangzhou metro area and Shenzhen meant compulsory store closures that pushed sales down. Despite this, the Group's Mainland operations are moving along the right track in terms of overall performance, and more stores are being opened. These Mainland Fairwood stores are smaller than their Hong Kong counterparts and offer extensive delivery options, so when freed from the lockdowns, they have the potential for rapid recovery.

## **Network**

In the period under review, the Group opened nine new stores, made up of six in Hong Kong and three in Mainland China. As of 30 September 2022, the Group had a total of 160 stores in Hong Kong, including 148 fast food stores and 12 specialty restaurants — three ASAP, five Taiwan Bowl, three The Leaf Kitchen and one Kenting Tea House. In Mainland China, the Group was operating 22 stores as at 30 September 2022.

## PROSPECTS

At the time of writing, the Hong Kong government had relaxed a number of its anti-pandemic measures and reasserted its commitment to the economy, reviving public confidence. At the same time, global tensions and rising inflation have signalled the likelihood of a significant global economic downturn, if not a recession. These two developments both represent relatively positive opportunities for Fairwood which, as a fast food company, occupies a strong position within any recessionary-trending market. As belts are tightened, it is common to see diners ‘trading down’ their restaurant choices, especially in the dinner segment. Fairwood’s recent initiatives to expand and enhance its dinner offerings have great potential to bring such diners into Fairwood restaurants. Meanwhile, renovations introducing the new Fairwood design have been successful in pilot stores, and the design changes will continue to be implemented gradually across the network.

In Mainland China, Fairwood intends to stay prudent with its expansion plans. More consolidation and enhancement on operation will be done internally in the second half, to get the business prepared for capturing opportunities once lockdowns are over. Gross sales from its Mainland stores have continued to improve, and the Group will get prepared to capture the relevant opportunities once Mainland China is able to stabilise its pandemic situation.

In the second half of the year, Fairwood will celebrate the 50th anniversary of its founding back in 1972. This represents a major brand-building opportunity for the Group, and much planning is being put into various upcoming promotional campaigns. The launch of the Fairwood app in October will be a first step, which will be followed by the roll-out of many new and exciting meal products, many great offers, and much more besides. The goal is both to express Fairwood’s gratitude for its customers’ support over the last 50 years, and to share excitement regarding its next 50 years in Hong Kong.

Overall, the macro environment is improving in terms of customer confidence, although this is being offset to an extent by lingering challenges of inflationary food costs and labour shortages. Fairwood is addressing these cost difficulties robustly and will continue to face them head-on in the months ahead. Although there is a risk of economic downturn in the air, this in many respects represents an opportunity for a fast food business like Fairwood. Although its interim results have been modest, Fairwood’s position at the end of the period was stable and show it to be well on the road to full recovery.

## Financial Review

### *Liquidity and financial resources*

As at 30 September 2022, total assets of the Group amounted to HK\$2,355.9 million (31 March 2022: HK\$2,337.3 million). The Group’s net current liabilities were HK\$31.2 million (31 March 2022: net current liabilities of HK\$12.8 million), represented by total current assets of HK\$865.5 million (31 March 2022: HK\$769.5 million) against total current liabilities of HK\$896.7 million (31 March 2022: HK\$782.3 million) and the current ratio, being the proportion of total current assets against total current liabilities, was 1.0 (31 March 2022: 1.0). Total equity was HK\$699.9 million (31 March 2022: HK\$714.2 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2022, the Group had bank deposits and cash and cash equivalents amounting to HK\$698.0 million (31 March 2022: HK\$557.1 million), representing an increase of 25.3%. Most bank deposits and cash and cash equivalents were denominated in Hong Kong dollars, United States dollars and Renminbi.

As at 30 September 2022, the Group had no bank loan (31 March 2022: nil). The gearing ratio of the Group was 0.0% (31 March 2022: 0.0%), which was calculated based on the total bank loan over total equity. The unutilised banking facilities were HK\$328.0 million (31 March 2022: HK\$335.9 million).

### ***Profitability***

Annualised return on average equity was 12.1% (year ended 31 March 2022: 5.7%), 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\$0.9 million (31 March 2022: HK\$0.9 million).

### ***Commitments***

As at 30 September 2022, the Group's outstanding capital commitments was HK\$5.2 million (31 March 2022: HK\$27.0 million).

### *Contingent liabilities*

As at 30 September 2022, 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\$85.9 million (31 March 2022: HK\$88.0 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 2022, the total number of employees of the Group was approximately 5,500 (31 March 2022: 5,700). 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 HK18.0 cents (2021: HK25.0 cents) per share for the six months ended 30 September 2022 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 16 December 2022. The declared dividend represented a distribution of approximately 54% (2021: 62%) of the Group's profit for the period attributable to equity shareholders. The interim dividend will be paid on or before Friday, 30 December 2022.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Wednesday, 14 December 2022 to Friday, 16 December 2022 (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 Tuesday, 13 December 2022 for registration.

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

Throughout the six months ended 30 September 2022, 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 (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2022, 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 (the "Bye-laws").

Code provision B.2.2. 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. 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 three 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 2022.

## **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 2022.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the respective websites of the Company ([www.fairwoodholdings.com.hk](http://www.fairwoodholdings.com.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report of the Company for the six months ended 30 September 2022 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  
**Fairwood Holdings Limited**  
**Dennis Lo Hoi Yeung**  
*Executive Chairman*

Hong Kong, 29 November 2022

*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) and Ms Peggy Lee; and*

*Independent Non-executive Directors: Mr Ng Chi Keung, Mr Joseph Chan Kai Nin, Dr Peter Lau Kwok Kuen, Mr Peter Wan Kam To and Mr Yip Cheuk Tak.*