

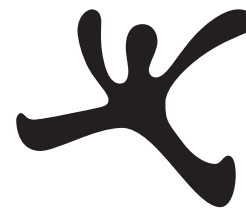
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FAIRWOOD HOLDINGS LIMITED

大快活集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 52)



ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2023

HIGHLIGHTS

- Profit for the year rose by 5.3% to HK\$44.9 million (2022: HK\$42.6 million). Excluding the Government subsidies of HK\$41.6 million (2022: HK\$58.9 million) for the year, profit for the year was HK\$3.3 million (2022: loss of HK\$16.3 million), a turnaround from a loss from the previous financial year.
- Revenue was HK\$3,024.2 million (2022: HK\$2,881.9 million), increased by 4.9%.
- The Group maintained a healthy financial position with bank deposits, cash and cash equivalents of HK\$646.8 million (2022: HK\$557.1 million) as at 31 March 2023.
- The Group had no bank borrowings and nil gearing ratio as at 31 March 2023.
- Basic earnings per share were HK34.64 cents (2022: HK32.91 cents), increased by 5.3%.
- Final dividend of HK40.0 cents per share and special final dividend of HK5.0 cents per share were proposed, representing a total dividend per share for the year of HK63.0 cents and a payout ratio of approximately 182%.

ANNUAL RESULTS

The Board of Directors (the “Board”) of Fairwood Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2023, together with the comparative figures for the year ended 31 March 2022, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 MARCH 2023

		2023	2022
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	3,024,152	2,881,942
Cost of sales	5(b)	<u>(2,767,394)</u>	<u>(2,659,381)</u>
Gross profit		256,758	222,561
Other revenue and other net gain	4	41,514	76,263
Selling expenses		(37,379)	(37,165)
Administrative expenses	5(b)	(132,058)	(130,449)
Impairment losses on other property, plant and equipment		(14,033)	(18,960)
Impairment losses on right-of-use assets		(26,600)	(30,312)
Valuation losses on investment properties		<u>(4,840)</u>	<u>(1,730)</u>
Profit from operations		83,362	80,208
Finance costs	5(a)	<u>(31,698)</u>	<u>(32,404)</u>
Profit before taxation	5	51,664	47,804
Income tax	6	<u>(6,784)</u>	<u>(5,164)</u>
Profit for the year attributable to equity shareholders of the Company		<u>44,880</u>	<u>42,640</u>
Earnings per share	8		
Basic		<u>HK34.64 cents</u>	<u>HK32.91 cents</u>
Diluted		<u>HK34.64 cents</u>	<u>HK32.91 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to equity shareholders of the Company	44,880	42,640
Other comprehensive income for the year:		
<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>(4,106)</u>	<u>1,906</u>
Total comprehensive income for the year attributable to equity shareholders of the Company	<u>40,774</u>	<u>44,546</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

		At 31 March 2023 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
	<i>Note</i>		
Non-current assets			
Investment properties		23,260	28,100
Other property, plant and equipment		379,399	385,197
Right-of-use assets		<u>1,033,885</u>	<u>1,078,744</u>
		1,436,544	1,492,041
Lease receivables		—	609
Goodwill		1,001	1,001
Rental deposits paid		68,483	68,797
Deferred tax assets		<u>4,070</u>	<u>5,336</u>
		<u>1,510,098</u>	<u>1,567,784</u>
Current assets			
Inventories		55,624	57,278
Trade and other receivables	9	90,033	144,664
Current tax recoverable		32	10,440
Bank deposits and cash and cash equivalents		<u>646,758</u>	<u>557,102</u>
		<u>792,447</u>	<u>769,484</u>
Current liabilities			
Trade and other payables	10	400,536	344,428
Lease liabilities		393,575	410,072
Current tax payable		406	41
Provisions	11	20,804	26,603
Long service payment obligation	12	<u>1,903</u>	<u>1,178</u>
		<u>817,224</u>	<u>782,322</u>
Net current liabilities		<u>(24,777)</u>	<u>(12,838)</u>
Total assets less current liabilities		<u>1,485,321</u>	<u>1,554,946</u>

		At 31 March 2023 <i>HK\$'000</i>	At 31 March 2022 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		732,878	776,158
Deferred tax liabilities		76	1,086
Rental deposits received		14	1,769
Provisions	<i>11</i>	47,450	41,477
Long service payment obligation	<i>12</i>	<u>24,274</u>	<u>20,220</u>
		<u>804,692</u>	<u>840,710</u>
Net assets		<u>680,629</u>	<u>714,236</u>
Capital and reserves			
Share capital		129,553	129,553
Reserves		<u>551,076</u>	<u>584,683</u>
Total equity		<u>680,629</u>	<u>714,236</u>

Notes:

1 BASIS OF PREPARATION

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 March 2023.

As at 31 March 2023, the Group's total current assets were HK\$792,447,000 (2022: HK\$769,484,000) and total current liabilities were HK\$817,224,000 (2022: HK\$782,322,000). As a result, the Group recorded net current liabilities of HK\$24,777,000 (2022: HK\$12,838,000) mainly due to lease liabilities of HK\$393,575,000 (2022: HK\$410,072,000) recognised under current liabilities.

Despite the net current liabilities as at 31 March 2023, the Group's bank deposits and cash and cash equivalents amounted to HK\$646,758,000 (2022: HK\$557,102,000) on the same day and the Group reported a profit before taxation of HK\$51,664,000 (2022: HK\$47,804,000) and recorded net cash generated from operating activities of HK\$709,393,000 (2022: HK\$561,363,000) during the year ended 31 March 2023. Furthermore, based on the cash flow projection prepared by management which covers a period of not less than twelve months from 31 March 2023, 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 31 March 2023. Accordingly, the Group's consolidated financial statements have been prepared on a going concern basis.

The Group's consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The Group's consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for 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 and excludes value added tax or other sales taxes and is after deduction of any trade discounts. An analysis of revenue is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Sale of food and beverages at a point in time	3,023,549	2,879,467
Property rental	<u>603</u>	<u>2,475</u>
	<u><u>3,024,152</u></u>	<u><u>2,881,942</u></u>

Further details regarding the Group's principal activities are disclosed below:

(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 restaurants in Hong Kong.
- Mainland China restaurants: this segment operates restaurants in Mainland China.

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

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

Performance is measured based on segment profit before taxation. Items not specifically attributable to individual segments are not allocated to the reportable segments.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment revenue) and cost of sales (including food cost, labour cost, rent and rates and depreciation charged

on other property, plant and equipment and right-of-use assets). The inter-segment transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business.

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

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 years ended 31 March 2023 and 2022 is set out below.

	Hong Kong		Mainland China		Other		Total	
	restaurants		restaurants		segments			
	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	2,873,125	2,733,685	150,424	145,782	603	2,475	3,024,152	2,881,942
Inter-segment revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>348</u>	<u>393</u>	<u>348</u>	<u>393</u>
Reportable segment revenue	<u>2,873,125</u>	<u>2,733,685</u>	<u>150,424</u>	<u>145,782</u>	<u>951</u>	<u>2,868</u>	<u>3,024,500</u>	<u>2,882,335</u>
Reportable segment profit/(loss)	<u>106,112</u>	<u>108,532</u>	<u>(13,255)</u>	<u>(15,690)</u>	<u>4,280</u>	<u>5,964</u>	<u>97,137</u>	<u>98,806</u>
Interest income	<u>14,643</u>	<u>3,130</u>	<u>68</u>	<u>57</u>	<u>46</u>	<u>108</u>	<u>14,757</u>	<u>3,295</u>
Interest expense	<u>(29,183)</u>	<u>(29,844)</u>	<u>(2,515)</u>	<u>(2,560)</u>	<u>—</u>	<u>—</u>	<u>(31,698)</u>	<u>(32,404)</u>
Depreciation	<u>(454,290)</u>	<u>(471,673)</u>	<u>(23,449)</u>	<u>(26,783)</u>	<u>(922)</u>	<u>(922)</u>	<u>(478,661)</u>	<u>(499,378)</u>
Impairment losses on other property, plant and equipment	<u>(11,024)</u>	<u>(15,385)</u>	<u>(3,009)</u>	<u>(3,575)</u>	<u>—</u>	<u>—</u>	<u>(14,033)</u>	<u>(18,960)</u>
Impairment losses on right-of-use assets	<u>(20,604)</u>	<u>(25,333)</u>	<u>(5,996)</u>	<u>(4,979)</u>	<u>—</u>	<u>—</u>	<u>(26,600)</u>	<u>(30,312)</u>

(ii) *Reconciliations of reportable segment profit*

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit		
Reportable segment profit before taxation	97,137	98,806
Valuation losses on investment properties	(4,840)	(1,730)
Impairment losses on other property, plant and equipment	(14,033)	(18,960)
Impairment losses on right-of-use assets	<u>(26,600)</u>	<u>(30,312)</u>
Consolidated profit before taxation	<u><u>51,664</u></u>	<u><u>47,804</u></u>

(iii) *Geographic information*

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases, right-of-use assets and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of investment properties, other property, plant and equipment, interests in leasehold land held for own use under operating leases and right-of-use assets, and the location of the operation to which they are allocated in the case of goodwill.

	Revenue from external customers		Specified non-current assets	
	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Hong Kong (place of domicile)	2,873,282	2,733,848	1,309,064	1,345,237
Mainland China	<u>150,870</u>	<u>148,094</u>	<u>128,481</u>	<u>147,805</u>
	<u><u>3,024,152</u></u>	<u><u>2,881,942</u></u>	<u><u>1,437,545</u></u>	<u><u>1,493,042</u></u>

4 OTHER REVENUE AND OTHER NET GAIN

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Other revenue		
Interest income	14,757	3,295
Government grants (<i>Note</i>)	<u>17,619</u>	<u>58,861</u>
	<u>32,376</u>	<u>62,156</u>
Other net gain		
Net loss on disposal of other property, plant and equipment	(4,819)	(5,291)
Net foreign exchange (loss)/gain	(2,062)	2,064
Electric and gas range incentives	5,412	5,735
Profit on sale of redemption gifts	580	585
Write-back of other payables	141	1,901
Gain on lease modifications	7,238	6,804
Others	<u>2,648</u>	<u>2,309</u>
	<u>9,138</u>	<u>14,107</u>
	<u>41,514</u>	<u>76,263</u>

Note: This mainly represented subsidies approved by the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region (“HKSAR”) 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/(crediting):

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(a) Finance costs		
Interest expense on lease liabilities	<u>31,698</u>	<u>32,404</u>
(b) Other items		
Cost of inventories (<i>Note (i)</i>)	789,047	737,734
Depreciation charge		
– Other property, plant and equipment	89,122	90,948
– Right-of-use assets	389,539	408,430
Auditor's remuneration		
– Audit services	3,553	3,853
– Tax services	179	184
– Other services	28	240
Expense relating to short-term leases	14,679	6,823
Variable lease payments not included in the measurement of lease liabilities	6,469	5,507
Building management fee	50,325	50,909
Rentals receivable		
– Investment properties, less direct outgoings of HK\$7,000 (2022: HK\$7,000)	(439)	(2,305)
– Other operating sub-leases	(157)	(163)
Electricity, water and gas	175,730	154,570
Logistic expense	68,880	64,567
Repair and maintenance	45,144	40,015
Sanitation	50,349	53,309
Cost of subsequent replacement of cutlery and utensils	11,058	10,727
Salaries, wages and other benefits (<i>Note (ii)</i>)	971,148	955,974
Contributions to defined contribution retirement plan	48,585	46,883
Equity-settled share-based payment expenses	760	1,636
Other expenses	<u>185,453</u>	<u>159,989</u>
	<u>2,899,452</u>	<u>2,789,830</u>
Representing:		
Cost of sales	2,767,394	2,659,381
Administrative expenses	<u>132,058</u>	<u>130,449</u>
	<u>2,899,452</u>	<u>2,789,830</u>

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

Note (ii): The item during the year ended 31 March 2023 was net of employment support scheme subsidies from HKSAR Government of HK\$24,000,000 (2022: Nil).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	6,588	7,307
Over-provision in respect of prior years	(60)	(33)
Deferred tax		
Origination and reversal of temporary differences	<u>256</u>	<u>(2,110)</u>
	<u>6,784</u>	<u>5,164</u>

The provision for Hong Kong Profits Tax for 2022/2023 is calculated at 16.5% (2021/2022: 16.5%) of the estimated assessable profits for the year, 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 2021/2022.

No provision has been made for the PRC corporate income tax for 2023 and 2022, 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 year

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interim dividend declared and paid of HK18.0 cents (2022: HK25.0 cents) per share	23,320	32,388
Final dividend proposed after the end of the reporting period of HK40.0 cents (2022: HK40.0 cents) per share	51,821	51,821
Special final dividend proposed after the end of the reporting period of HK5.0 cents (2022: Nil) per share	<u>6,477</u>	<u>—</u>
	<u>81,618</u>	<u>84,209</u>

The final and special final dividends proposed after the end of the reporting period have 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 paid during the year

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK40.0 cents (2022: HK60.0 cents) per share	<u>51,821</u>	<u>77,731</u>

In respect of the final dividend for the year ended 31 March 2021, there was a difference of HK\$11,000 between the final dividend disclosed in the 2021 annual financial statements and the amount approved and paid during the year which represented dividends attributable to new shares issued upon the exercise of share options, before the closing date of the Register of Members. There was no such difference for the year ended 31 March 2022.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$44,880,000 (2022: HK\$42,640,000) and the weighted average number of ordinary shares of 129,553,000 shares (2022: 129,550,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2023 Number of shares '000	2022 Number of shares '000
Issued ordinary shares at 1 April	129,553	129,533
Effect of share options exercised	<u>—</u>	<u>17</u>
Weighted average number of ordinary shares at 31 March	<u>129,553</u>	<u>129,550</u>

(b) Diluted earnings per share

Basic earnings per share are the same as diluted earnings per share for both years as the Company has no potential dilutive shares outstanding for both years.

9 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 follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
1 to 30 days	8,737	15,404
31 to 90 days	790	1,882
91 to 180 days	85	2
181 to 365 days	<u>51</u>	<u>—</u>
	<u>9,663</u>	<u>17,288</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.

10 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors, based on the invoice date, with the following ageing analysis as of the end of the reporting period:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
1 to 30 days	125,045	104,122
31 to 90 days	83	855
91 to 180 days	491	1,011
181 to 365 days	40	19
Over one year	<u>165</u>	<u>170</u>
	<u>125,824</u>	<u>106,177</u>

11 PROVISIONS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Provision for reinstatement costs for rented premises	68,254	68,080
Less: Amount included under "current liabilities"	<u>(20,804)</u>	<u>(26,603)</u>
	<u>47,450</u>	<u>41,477</u>

12 LONG SERVICE PAYMENT OBLIGATION

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Long service payment obligation	26,177	21,398
Less: Amount included under "current liabilities"	<u>(1,903)</u>	<u>(1,178)</u>
	<u>24,274</u>	<u>20,220</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overall performance

Revenue of the Group for the year ended 31 March 2023 increased by 4.9% year-on-year, to HK\$3,024.2 million (2022: HK\$2,881.9 million). Profit attributable to equity shareholders rose by 5.3% to HK\$44.9 million (2022: HK\$42.6 million). Excluding Government subsidies of HK\$41.6 million for the year and HK\$58.9 million for the previous financial year, profit for the year was HK\$3.3 million, a turnaround from a loss from the previous financial year. Gross profit margin increased to 8.5% (2022: 7.7%). Basic earnings per share amounted to HK34.64 cents (2022: HK32.91 cents).

Business review

The past twelve months have seen extremes of the pandemic situation in both Hong Kong and Mainland China. In Hong Kong, the period began with the city in the midst of the ‘fifth wave’ of COVID-19 outbreak. The government’s anti-pandemic efforts involved stringent social distancing measures that once again posed challenges to mass restaurant chains like Fairwood. These measures began to be eased or removed in the final quarter of 2022, and by early 2023 all COVID-19 measures had been cancelled. Meanwhile, in Mainland China, the pandemic recovery played out very differently. Extremely strict anti-pandemic measures, often involving district-wide lockdowns, remained in place until almost the end of 2022. This was followed by the abrupt dismantling of all COVID-19 controls, leading to widespread outbreaks of COVID-19 across China in late 2022 and early 2023 that disrupted economic activity.

Despite these exceptional circumstances, overall the trajectory of the year for Fairwood has been a positive one. Although the Group experienced a decrease in customer traffic by comparison with the previous year, mainly as a result of the fifth wave of COVID-19, this was offset by a gratifying increase in the average spending of each guest once normal dining resumed. Overall, Fairwood reported a positive performance and a solid increase in its top line results. Although performance had not yet recovered to pre-COVID levels by year-end, the positive trend is clear.

The return to normality post-COVID was boosted by the launch of the Group’s 50th Anniversary (“50A”) celebrations from October 2022 onwards. The entire 50A campaign was a well-planned and orchestrated event that looked back on Fairwood’s long history in Hong Kong, triggering many warm nostalgic memories among long-time residents. At the same time, the campaign introduced many younger diners to the long and vibrant Fairwood heritage. Among the highlights of the 50A campaign were the launch of a special 50A logo, used in conjunction with the original Fairwood ‘clown face’ logo, instore anniversary décor that included decorations, packaging and staff uniforms, a series of 50A posters featuring stories by Fairwood staff, and a 90-second TV commercial. The anniversary was also widely promoted on Fairwood’s own and third-party social media channels, achieving an estimated 5.2 million views in total.

One particularly successful innovation of the 50A campaign was the relaunch of seven nostalgic meals from years gone by. These proved exceptionally popular and generated record-breaking sales. One Fairwood store in Mong Kok was also given a ‘vintage-look’ makeover for the duration of the campaign, a move that also struck a chord with diners. Overall, the 50A proved to be not only a celebration of everything that Fairwood has meant to Hong Kong over half a century, but also a very effective sales driver and brand promotional tool. It underpinned Fairwood’s strong recovery in the second half of the year.

Fairwood is always looking to generate consumer interest and excitement by introducing new dishes and meal sets, and it continued to launch these regularly throughout the year. Major innovations introduced in the second half of the year included popular new Claypot Rice, Mixian and Pandan dishes for lunch, which played significant parts in pushing up the average spend of diners. Meanwhile, a number of new items introduced to breakfast and tea menus were bread-based, building on Fairwood’s acquisition of its own bakery two years ago. The acquisition has continued to prove its worth, producing exciting bread products that have enabled Fairwood to expand its offerings in this popular field. Several dinner products also helped push the dinner segment forward. Other popular innovations for this segment were the CNY Combo, such as the Chicken with Sichuan Spicy Sauce in Claypot with Puff Pastry.

Fairwood aims to keep its brand fresh and relevant to each new generation of diners in Hong Kong, and to attract younger diners to its restaurants. The launch of its Fairwood app was a major step in this direction, focused squarely on a generation of diners who want information and ordering power in the palms of their hands. The app was launched in conjunction with a series of attractive promotional offers and struck an immediate chord: over 500,000 members had signed up for the app by year-end.

Alongside this, Fairwood has continued to roll out its new fourth-generation store design. The new design is especially appealing to young people, and involves a reduction in the traditional Fairwood orange alongside a minimalist and contemporary design vibe. The stores also incorporate the latest digital menu boards and other innovations associated with contemporary trends. Elements of this core design will eventually be incorporated in all Fairwood restaurants, with adaptations based on each store’s local environment and clientele.

The last few years have been especially challenging for the F&B industry as costs have spiralled upwards. In particular, food costs have risen dramatically, while the serious labour shortage in Hong Kong has brought its own pressures to bear on restaurant operators like Fairwood. Fairwood has been managing these challenges with a set of diversified initiatives that address every aspect of expenditure. For some of its key staple food items, such as eggs, it has increased its reliance on direct imports from trusted suppliers, reducing the per-item cost accordingly. It has continued to optimise and reduce its packaging, particularly when it comes to takeout meals. Further productivity enhancements have been introduced in the Master Kitchen where much food is prepared in a centralised location. Digitalisation initiatives that not only help enhance efficiency but also improve the customer experience have continued to be rolled out. Rental lease renewals have been opportunities for Fairwood to negotiate with landlords for better rental deals.

The challenge of staff retention has been a tougher nut to crack, with turnover rates for catering staff very high across the industry. Post-COVID, Fairwood was able to launch several staff appreciation initiatives, which included company BBQ, cake-cutting celebrations at all stores, and visits to movies and theme parks for staff. At the same time our special 50A staff appreciation initiative, which involved collecting and sharing positive staff stories in a colourful poster format, helped reinforce the value Fairwood places on its employees. The result was an enhanced sense of belonging among many staff. This was boosted by an improved learning and development platform launched this year. Now fully digitalised, Fairwood's staff training programmes offer new skills and potential career paths that are proving attractive to many. These initiatives have definitely given Fairwood an edge in today's challenging labour market.

Hong Kong

Fairwood's fast food restaurant chain in Hong Kong performed steadily in the year, with performance improving as the year went on due to the relaxation of pandemic measures and the highly successful 50A campaign. Same Store Sales Growth ("SSSG") improved year on year, accompanied by a healthy increase in average spending per guest. The SSSG was approximately 5%. Demand for takeout meals dropped after COVID restrictions were eased but remain strong, indicating that takeout food sales are likely to remain an important segment of business in the foreseeable future. They sit currently at around 36% of total sales, higher than pre-COVID, and are remaining steady. Meanwhile, recovery at the Group's specialty restaurants has been slower, as this dining segment was particularly hard-hit by COVID-19.

Mainland China

The Group's Mainland China operations, focused in Shenzhen and the Greater Bay Area, were impacted by the country's anti-pandemic policies during the year. The SSSG was approximately negative 7% in local currency amid COVID. Long periods of lockdown affected operations significantly, while the rapid dismantling of pandemic restrictions led to outbreaks of COVID-19 that impacted staffing levels. Despite this, the Mainland China operations have continued to take positive steps towards a scalable, profitable business model suited to the Mainland environment. With a fully localised management team, the Group is continuing to open stores that are often significantly smaller than their Hong Kong counterparts, and with a higher proportion of delivery sales. Although these stores may have a lower sales intensity, they also have the ability to deliver higher profits when well-placed and managed.

Network

During the year under review, the Group opened 12 new stores, of which 8 were in Hong Kong and 4 in Mainland China. In the same period it closed 10 underperforming stores, 8 in Hong Kong and 2 in Mainland China. As a result, at 31 March 2023 it was operating with 179 stores, 157 in Hong Kong and 22 in Mainland China.

The Group's Fairwood fast food restaurant chain in Hong Kong finished the year with 147 stores, after 7 were opened and 5 closed during the year. As for its specialty restaurants, at year-end there were a total of 10 in operation: 3 ASAP, 4 Taiwan Bowl, and 3 The Leaf Kitchen.

Giving back to the community

It has been gratifying this year to be able to restart face-to-face community initiatives that had been put on hold during the height of the pandemic. Our Fairwood Care for Seniors Card has continued to go from strength to strength, with membership numbers now having broken the 400,000 mark. This was achieved on the back of a range of new card promotions which have proved very attractive to elderly diners.

Heartwarming Food Donation programme, under Fairwood Care for the Community Programme, was conducted in 14 stores, in which food and daily necessities were distributed to the needy. Another activity under the programme, the Joyous Meal with Seniors, took place in 12 stores, when elderly people living alone were invited to sit down to a Fairwood meal in a warm and supportive environment.

Also during the year, Fairwood launched a special meal donation initiative that has proved effective at addressing its Environmental, Social and Governance (ESG) responsibilities from two perspectives simultaneously. The Group introduced a plastic cutlery reduction initiative under which for every eight 'cutlery-free actions' (i.e. times that a customer selects not to include plastic cutlery in his or her meal set), Fairwood will donate one meal on behalf of the customer and a matching donation to those in need. In partnership with Po Leung Kuk, by year-end (just four months into the programme) the Group had converted its customers' cutlery-free actions into 23,438 meals under the scheme. It has been especially gratifying to see plastic usage drop and social welfare increase at the same time.

Prospects

Halfway through 2023, the Hong Kong market is showing considerable resilience despite threats of a global downturn. The air of confidence suggests that, for Fairwood, the coming year is likely to be one of steady recovery after the difficult times of COVID-19.

Within this environment, Fairwood is in a strong position. Its financial situation is healthy, and it enjoys a steady cash-flow. Importantly in the current high-interest rate environment, Fairwood is debt-free and thus unaffected by interest rate risks. These qualities in a company specialising in lower-cost dining are significant, especially in a downward economic cycle where more people are looking for good value dining options.

On top of this, Fairwood has built a brand that is trusted and respected in Hong Kong, as our 50th Anniversary celebrations made clear. The Fairwood name is associated not simply with value but also with a better quality of service, and with knowing what customers want. These are extremely valuable connotations that, among other things, mean that Fairwood has the ability to price its

offerings higher and to more easily make price adjustments where necessary. Meanwhile, our debt-free status gives us the ability to capture profitable investment opportunities should such arise.

We do not expect any let-up in the cost and labour pressures associated with food ingredients and staff turnover in the year ahead. However we do have a detailed strategy for cost-saving and productivity enhancement which has served us well over the years, and which we will continue to implement in the year ahead. Fairwood has always kept a tight rein on expenses, and this will not change.

We are optimistic about the progress of our Mainland China operations in the months ahead. It has been challenging working on the Mainland to perfect a business model for Fairwood there, while simultaneously being buffeted by all the complications associated with COVID-19. But with the ending of COVID-19 controls and the successful operation of several of our stores there, we believe we are on track for positive results from our Mainland operations very soon.

As for our small stable of specialty restaurants, full recovery looks set to be a longer-term goal. The years of COVID-19 restrictions severely impacted evening dining habits in Hong Kong, and fewer people are now going out for dinner than was once the case. We will be looking closely at Hong Kong's mid-level dining scene over the coming months and seeing how we can best position ourselves in this changing market. We are fortunate in having the resources available to consider further targeted investment in this area if needed.

Financial review

Liquidity and financial resources

At 31 March 2023, total assets of the Group were HK\$2,302.5 million (2022: HK\$2,337.3 million). The Group's net current liabilities were HK\$24.8 million (2022: HK\$12.8 million), represented by total current assets of HK\$792.4 million (2022: HK\$769.5 million) against total current liabilities of HK\$817.2 million (2022: HK\$782.3 million). Current ratio, being the proportion of total current assets against total current liabilities, was 1.0 (2022: 1.0). Total equity was HK\$680.6 million (2022: HK\$714.2 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 31 March 2023, the Group had bank deposits and cash and cash equivalents amounting to HK\$646.8 million (2022: HK\$557.1 million), representing an increase of 16.1%. Most bank deposits and cash and cash equivalents were denominated in Hong Kong dollars, United States dollars and Renminbi.

As at 31 March 2023 and 2022, the Group had no bank loan and the gearing ratio was nil, which was calculated based on the total bank loan over the total equity. The unutilised banking facilities were HK\$260.0 million (2022: HK\$335.9 million).

Depreciation

The Group's depreciation of other property, plant and equipment decreased by HK\$1.8 million from HK\$90.9 million to HK\$89.1 million due to the closure of shops during the year and impairment recognised in prior years.

The depreciation charges of right-of-use assets, which were amortised on a straight-line basis over the lease term in accordance with HKFRS 16, decreased by HK\$18.9 million from HK\$408.4 million to HK\$389.5 million. The decrease was primarily due to the closure of shops during the year and impairment recognised in prior years.

Finance costs

During the year, the Group recorded the finance costs of HK\$31.7 million (2022: HK\$32.4 million). The finance costs represented the interest expenses accrued on the outstanding balance of the lease liabilities.

Profitability

Return on average equity was 6.4% (2022: 5.7%), being profit attributable to equity shareholders of the Company against the average total equity at the beginning and the end of the year.

Capital expenditure

During the year, capital expenditure (excluding right-of-use assets) was approximately HK\$104.7 million (2022: HK\$74.6 million). The increase was mainly due to more renovation works for new shops and existing shops compared to last year.

Financial risk management

The Group's receipts and expenditures were mainly denominated in Hong Kong dollars and Renminbi. The impact of the fluctuation in exchange rate is immaterial to the Group's financial position.

The Group is exposed to foreign currency risk primarily through cash at banks 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 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

At 31 March 2023, the net book value of properties pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to HK\$0.8 million (2022: HK\$0.9 million) and no bank deposits and cash was used to pledge any loans or banking facilities.

Commitments

The Group's capital commitments outstanding at 31 March 2023 were HK\$10.3 million (2022: HK\$27.0 million).

Contingent liabilities

At 31 March 2023, guarantees are given to banks by the Company in respect of banking facilities extended to certain wholly-owned subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under these guarantee arrangements. The maximum liability of the Company at the end of the reporting period under these guarantees is the amount of the facilities drawn down by all the subsidiaries that are covered by these guarantees, being HK\$88.9 million (2022: HK\$88.0 million).

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

Employee information

At 31 March 2023, the total number of employees of the Group was approximately 5,600 (2022: 5,700). Staff costs for the year were approximately HK\$1,020.5 million (2022: HK\$1,004.5 million). During the reporting period, the staff cost was net of the employment support scheme of HK\$24.0 million subsidies from HKSAR Government. 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 employees. Also, the Group has committed to provide related training programme to improve the quality, competence and skills of all staff.

DIVIDENDS

The Board recommends to pay a final dividend of HK40.0 cents (2022: HK40.0 cents) per share and a special final dividend of HK5.0 cents (2022: Nil) per share for the year ended 31 March 2023. Together with the interim dividend of HK18.0 cents (2022: HK25.0 cents) per share paid during the year, the total dividend for the year ended 31 March 2023 amounts to HK63.0 cents (2022: HK65.0 cents) per share, representing a total distribution of approximately 182% of the Group's profit for the year. The proposed final and special final dividends will be paid on or before Thursday, 5 October 2023 to shareholders whose names appear on the Register of Members of the Company at the close of business on Monday, 18 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 1 September 2023 to Thursday, 7 September 2023 (both days inclusive) during which period no transfer of shares will be registered. In order for the shareholders to be eligible to attend and vote at the forthcoming annual general meeting of the Company, 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 Room 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 31 August 2023 for registration.

The Register of Members of the Company will also be closed from Thursday, 14 September 2023 to Monday, 18 September 2023 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final and special final dividends, 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 Room 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 13 September 2023 for registration.

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

Throughout the year ended 31 March 2023, 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 as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2023, save and except that the Chairman and the Managing Director (the Chief Executive Officer) of the Company are not subject to retirement by rotation under the Bye-laws of the Company. Further information will be provided in the "Corporate Governance Report" of the 2022/2023 Annual Report.

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 annual results for the year ended 31 March 2023 and discussed internal control and risk management system of the Company with the management.

SCOPE OF WORK OF THE INDEPENDENT AUDITOR

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 March 2023 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by KPMG.

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 year ended 31 March 2023.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the respective websites of the Company (www.fairwoodholdings.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2022/2023 Annual Report of the Company 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.

APPRECIATION

The year under review has certainly been an interesting one. We can look back on a satisfactory performance and point to many positive achievements in the past 12 months. These things could not have been achieved without the dedicated contributions from many parties. First and foremost, my thanks go out to our Fairwood management and staff, who have worked together for the good of the company and of Hong Kong in the face of many pressures. The remarkable success of our 50A campaign bears witness to just how much effort and goodwill was contributed by our staff members.

I would like to pay special tribute to former Fairwood director Mr Ng Chi Keung, who sadly passed away recently. Mr Ng has served the Board for over 27 years; he was an influential figure in building Fairwood into the respected Hong Kong institution it is today.

I also thank our loyal Fairwood customers, old and new. Fairwood is here to serve people, and the people we serve are at the heart of everything we do. I am very grateful for the suppliers and other business partners we work with, who have played a major part in helping Fairwood deliver steady, consistent quality on time and at reasonable cost. Finally, I would like to acknowledge the support of our shareholders, who have recognised the Group's vision and potential. With a new post-pandemic era dawning, I am confident that our shareholders have much to look forward to.

By Order of the Board
Fairwood Holdings Limited
Dennis Lo Hoi Yeung
Executive Chairman

Hong Kong, 30 June 2023

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 Joseph Chan Kai Nin, Dr Peter Lau Kwok Kuen, Mr Peter Wan Kam To and Mr Yip Cheuk Tak.