

## **INTERIM DIVIDEND DISTRIBUTION**

The Board of Directors has resolved to declare an interim dividend distribution of 8.8 HK cents (2003: HK\$Nil) per share to shareholders whose names appear on the Register of Members of the Company at the close of business on 29 December 2004. This represents a distribution of approximately 50% of the Group's profit attributable to shareholders. The interim dividend distribution will be paid on or before 5 January 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 28 December 2004 to 29 December 2004 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend distribution, all transfer of shares, accompanied by the relevant share certificates, must be lodged with the Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 4:00 p.m. on 24 December 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review**

Riding on the momentum of the re-branding campaign and revived consumer sentiments, the Group attained remarkable growth both in turnover and operating profit for the six months ended 30 September 2004. The Group's turnover for the period under review reached HK\$413,760,000, an increase of 16.7% from HK\$354,681,000 recorded in the same period last year. Including a gain of approximately HK\$9,000,000 from the disposal of a property during the period, profit attributable to shareholders amounted to HK\$21,532,000, a turnaround from a loss of HK\$2,642,000 in the last corresponding period.

Management is pleased to see that the re-branding campaign does not only contribute to the Group's improved results but also revitalizes the Fairwood brand in the minds of customers. Recent research showed that Fairwood's revamped brand image worked well on consumers of different demographics with the strongest appeal to young and affluent consumers within the "professional and executive" occupational group aged 25 to 34. Average spending-per-head has increased following the re-branding campaign, with a corresponding improvement in gross margin. As at the date of this report, 15 of the Group's fast food outlets have been upgraded with the new theme. Turnover of those outlets after renovation recorded significant growth in the subsequent months.



Along with the branding activities, the Group's continuous efforts in refining product quality and offering wider range of food also contributed to the improved sales. "Ah Wood" signature products such as freshly brewed premium coffee, rice with baked pork chop and rice with curry beef brisket were well received by customers. Seasonal items, such as salad meals in summer and Japanese and Korean crossover hot pots in winter, were introduced to enrich the menu.

During the period under review, the Group won three highly regarded awards. In addition to the HKMA/TVB award for Marketing Excellence 2004 – Certificate of Merit and the 2004 Superbrands Award, Fairwood also became the first fast food chain in Hong Kong awarded Service Q-Mark by the Hong Kong Q-Mark Council of the Federation of Hong Kong Industries in May 2004. All these awards are recognition of the success of the new Fairwood brand and its continuous improvement in service level.

Besides its commitment to maintain high quality standard, the Group has continued with its uncompromising focus in enhancing marketing and operational efficiencies. Part of the proceeds received from the sale of a property during the period under review was used to upgrade the central kitchen and management information system. With a better understanding of customer consumption patterns and preference, the Group has been able to make more accurate sales forecast, thus enhancing food cost and inventory control and illuminating the new product development strategy.

The Group's school-catering business achieved an improved margin through concentration of its efforts on serving high volume accounts.

The Group's Mainland operation was profitable during the period under review. The Group will continue to expand its Mainland fast food operations at a cautious pace.

## **Prospects**

Management believes that the turnaround was a result of the Group's focus in and commitment to improving its fundamentals especially in product and service quality.

With economy gradually picking up, sales performance of the Group is expected to improve in the second half of the financial year. The Group plans to open more outlets at prime locations close to major business or commercial centers at a more rapid pace. With consumer spending increasing and employment rate improving, the Group is confident to achieve improvement in results with its focus on turnover growth and margin improvement. The Group will continue to refine and strengthen its "Ah Wood" products and leverage on its upgraded management information system to improve operational efficiency. Consistent with the Group's improved cashflow position, the Group will be more aggressive in new shop opening and renovation of existing outlets. It is currently intended that the Group will open a total of 5 new outlets and renovated 11 existing outlets in the second half of the year. Accordingly, the Group's depreciation charges will increase in the second half of the year.

Looking forward, Fairwood will continue to ride on its improving brand profile to achieve growth in turnover and operating margin and to expand its distribution network. The combination of Fairwood's enhanced brand image and the improved fundamentals paves the way for the Group's sustainable growth in the years ahead.

### **Liquidity and financial resources**

The Group generally finances its business with internally generated cash flows and banking facilities. At 30 September 2004, the Group had cash balance of HK\$112,209,000 (31 March 2004: HK\$76,294,000) and total bank borrowings of HK\$23,100,000 (31 March 2004: HK\$56,109,000). The gearing of the Group was 6% (31 March 2004: 17%), which was calculated based on the long term borrowings over shareholders' fund. The Directors believe that the Group has maintained sufficient liquidity to finance its working capital and investment needs. The Group's cash deposits and bank balance is in either Hong Kong Dollars or Renminbi. The exposure to exchange fluctuation is minimal.

### **Employee information**

At 30 September 2004, total number of employees of the Group was approximately 3,000 (31 March 2004: approximately 3,000) in Hong Kong and the PRC. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. The Group continued to remain committed to its staff training and development programme.

The Company operates a share option scheme under which the Directors may, at their discretion, invite employees of the Company or its wholly-owned subsidiaries, including Directors, to take up options to subscribe for shares in the Company. The subscription price and the exercisable period is determined in accordance with prescribed formula and terms.