

Management Discussion and Analysis

Overall Performance

For the six months ended 30 September 2006, turnover of the Group reached HK\$577.0 million, an increase of 22.5% from HK\$471.1 million booked in the same period last year. Gross profit margin improved from 10.8% to 12.4%. Profit attributable to equity shareholders increased by 0.4% to reach HK\$41.3 million, compared with HK\$41.1 million in the six months ended 30 September 2005. Excluding the gain of HK\$16.9 million from property disposal in the corresponding period last year, the Group recorded a 70.9% increase in profit attributable to equity shareholders. Basic earnings per share were HK32.69 cents (six months ended 30 September 2005: HK33.13 cents).

Business Review

For the six months ended 30 September 2006, the Group continued to deliver double-digit percentage growth for same store sales. Same store sales have recorded double-digit growth every year since the re-branding of Fairwood three years ago in November 2003. Overall sales have increased at a healthy rate with gross profit margin expanding from 5.7% for the six months ended 30 September 2003 to 12.4% for the reporting period.

The launch of the re-branding campaign, which has been critical in energizing the Fairwood brand and giving it a fresh new appealing image in the fast food market, was a milestone in the Group's corporate history. In the three years following the opening of its new flagship store in Causeway Bay on 18 November 2003, Fairwood's new dining experience that sets the standard in food quality and store design has revolutionized the culture of fast food in Hong Kong.

The ongoing introduction of new ranges of contemporary products and cooking techniques has contributed to the success of the campaign. These products bring innovative dining experience to Hong Kong fast food market and have been extremely well received, especially among affluent customers including professionals and young families.

The Group's untiring efforts at upgrading its brand image and service quality have been recognized by the several awards it received during the last few years. In particular, Fairwood was awarded with Service Q-Mark in May 2004 which had made the Group the first fast food chain in Hong Kong to earn the prestigious award. Moreover, the Group has also led in providing a smoke-free dining environment in its entire chain of stores.



In Mainland China, the Group's operations continued to report positive growth for the period under review, recording a same store sales increase of approximately 20%.

During the period under review, the Group opened 7 new fast food outlets including 6 outlets in Hong Kong and 1 outlet in the Mainland, and renovated 12 existing stores. As at 30 September 2006, the Group had a total of 84 outlets under operation in Hong Kong, including 74 fast food outlets, 2 institutional catering outlets, 3 Buddies Cafes and 5 specialty restaurants. The Mainland operation had 7 fast food outlets and 3 institutional catering outlets as at period end.

Prospects

The decrease in unemployment rate and the increase in consumer purchasing power are favorable to the Group's business. However, the fast food industry in Hong Kong is still fraught with challenges under the pressure of rental hikes, rising food costs and labor costs. In order to provide a solid foothold for further business expansion, the management will place more emphasis on product development, improvement in service and store ambience to drive brand loyalty.

The Group will continue its focus on Hong Kong as its core market and direct its efforts towards growth in turnover and margin improvements through tighter controls on costs of sales. The deployment of the SAP Enterprise Resources Planning System in the latter part of the year will help to raise the Group's operational efficiency. Management is of the view that the recovery of the local economy will sustain to propel future growth in the Group's business and plans to open more outlets in the second half of the year, bringing the total number of fast food outlets in Hong Kong to 80 by the end of the financial year.

Riding on the success of Fairwood's re-branding campaign in Hong Kong, the Group will accelerate its expansion program in Mainland China with a target of around 30 outlets in operation by the year 2010 to capitalise on the Mainland's economic growth. Management sees the tremendous opportunities for the fast food industry in the Mainland – particularly within the Pearl River Delta region – and will adopt pragmatic expansion strategies at a manageable pace of growth.

Although the Group is faced with a highly competitive business environment ahead, the management will strive to make the best of the current momentum and is optimistic to consolidate its position as one of the excellent players in Hong Kong's fast food industry and to bring growth to the Group's business in the long run.

Financial review

Working capital

At 30 September 2006, the net current assets reduced by HK\$24.2 million to HK\$21.7 million (31 March 2006: HK\$45.9 million), represented by total current assets of HK\$223.3 million (31 March 2006: HK\$213.6 million) against total current liabilities of HK\$201.6 million (31 March 2006: HK\$167.7 million). During the period, an amount of HK\$19.4 million was placed with bank as structured deposit which was classified as non-current assets. The current ratio, being the proportion of total current assets against total current liabilities, was 1.1 (31 March 2006: 1.3).

Cash flow and financial assets

At 30 September 2006, the net cash and cash equivalents and total financial assets amounted to HK\$80.7 million (31 March 2006: HK\$74.1 million) and HK\$82.2 million (31 March 2006: HK\$70.7 million) respectively. The financial assets represent structured deposits placed with banks and are principal protected.

During the period under review, the net cash generated from operating activities was HK\$87.9 million (six months ended 30 September 2005: HK\$64.4 million). The increase was due to continued improvement in gross profit margin and operating profit from the core business.

Net cash used in investing activities was HK\$57.0 million (six months ended 30 September 2005: HK\$23.2 million) including the capital expenditures of HK\$46.0 million (six months ended 30 September 2005: HK\$30.7 million). In corresponding period of previous year, the net proceeds from the disposal of a property of HK\$27.5 million has reduced the net cash used in investing activities.

Net cash used in financing activities was HK\$24.3 million (six months ended 30 September 2005: HK\$15.2 million) mainly attributable to the dividend distributions of HK\$22.8 million (six months ended 30 September 2005: HK\$11.4 million) and net repayment of bank borrowings of HK\$2.5 million (six months ended 30 September 2005: HK\$4.2 million).

Liquidity and financial resources

At 30 September 2006, the total assets of the Group were HK\$515.4 million (31 March 2006: HK\$463.1 million) and the equity attributable to equity shareholders of the Company was HK\$309.0 million (31 March 2006: HK\$289.1 million).



The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2006, the total bank loans reduced by HK\$2.5 million to HK\$8.1 million (31 March 2006: HK\$10.6 million) which were denominated in HK dollars and repayable within 5 years. The unutilised banking facilities were HK\$200.6 million (31 March 2006: HK\$160.5 million). The gearing of the Group was 1.6% (31 March 2006: 2.2%), which was calculated based on non-current bank loans over shareholders' equity.

The Group's transactions and monetary base were denominated in HK dollars, US dollars and Renminbi. The impact of the fluctuation in exchange rate is immaterial to the Group's financial position.

Charges on Group's assets

At 30 September 2006, the net book value of properties pledged as security for liabilities amounted to HK\$58.5 million (31 March 2006: HK\$57.7 million).

Commitments

The Group's capital commitments outstanding at 30 September 2006 amounting to HK\$7.5 million (31 March 2006: HK\$18.4 million) were mainly associated to various store renovation. The Group also had outstanding other commitments of HK\$1.7 million (31 March 2006: HK\$2.1 million) in respect of contracting fee for the operation of a fast food restaurant.

Contingent liabilities

At 30 September 2006, the Company had contingent liabilities in respect of guarantees given to banks in respect of banking facilities extended to certain wholly-owned subsidiaries amounting to HK\$246.4 million (31 March 2006: HK\$201.4 million).

Employee information

At 30 September 2006, the total number of employees of the Group was approximately 3,900 in Hong Kong and the Mainland. Employees' remuneration is commensurate with their job nature, qualifications and experience. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

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