



**大快活**  
**Fairwood**

**FAIRWOOD HOLDINGS LIMITED**

*(Incorporated in Bermuda with Limited Liability)*

*(Stock Code: 52)*

**Interim Report 2007/2008**

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Dennis Lo Hoi Yeung  
(*Chairman and Chief Executive*)  
Ng Chi Keung  
Chan Chee Shing

#### Independent Non-executive Directors

Herald Lau Ling Fai  
Joseph Chan Kai Nin  
Peter Lee Sheung Yam  
Peter Lau Kwok Kuen

### AUDIT COMMITTEE

Herald Lau Ling Fai (*Chairman*)  
Joseph Chan Kai Nin  
Peter Lee Sheung Yam

### REMUNERATION COMMITTEE

Joseph Chan Kai Nin (*Chairman*)  
Ng Chi Keung  
Peter Lau Kwok Kuen

### REGISTERED OFFICE

Canon's Court, 22 Victoria Street,  
Hamilton HM12, Bermuda

### COMPANY SECRETARY

Ng Chi Keung

### PRINCIPAL BANKERS

Standard Chartered Bank  
(Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
DBS (Hong Kong) Limited  
The Bank of Tokyo-Mitsubishi UFJ, Limited  
Hang Seng Bank Limited  
Nanyang Commercial Bank Limited  
The Bank of East Asia, Limited  
Bank of Communications Company, Limited  
Chong Hing Bank Limited  
Industrial and Commercial Bank of  
China (Asia) Limited  
UBS AG  
Fubon Bank (Hong Kong) Limited

### AUDITORS

KPMG

### SOLICITORS

Johnson Stokes & Master  
Richards Butler

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2/F, TRP Commercial Centre,  
18 Tanner Road, North Point,  
Hong Kong

### PRINCIPAL REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited  
6 Front Street, Hamilton HM11,  
Bermuda

### HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor  
Services Limited  
17/F, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

### PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited  
Unit A, 29/F, Admiralty Centre,  
Tower 1, 18 Harcourt Road,  
Hong Kong

### WEBSITE

<http://www.fairwood.com.hk>

### STOCK CODE

52

## Financial Highlights

- **Turnover increased by 21.3% to HK\$699.6 million**
- **Gross profit margin improved from 12.4% to 13.0%**
- **Profit for the period increased by 27.2% to HK\$52.5 million**
- **The Board of Directors declared an interim dividend of HK19.0 cents (2006: HK16.0 cents) per share**
- **Earnings per share were HK41.02 cents (2006: HK32.69 cents)**



## 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 2007 together with the comparative figures for the period ended 30 September 2006. The results have been reviewed by the Company's auditors, KPMG, and the Company's audit committee.

## Consolidated Income Statement

For the six months ended 30 September 2007 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended	
		30 September 2007 \$'000	2006 \$'000
<b>Turnover</b>	2	<b>699,593</b>	576,976
Cost of sales		<b>(608,653)</b>	(505,490)
<b>Gross profit</b>		<b>90,940</b>	71,486
Other revenue		<b>3,806</b>	2,340
Other net income		<b>2,802</b>	2,509
Administrative expenses		<b>(34,489)</b>	(29,628)
Impairment losses on fixed assets	7(a)	<b>(2,327)</b>	(2,100)
Valuation gains on investment properties	7(b)	<b>3,122</b>	374
<b>Profit from operations</b>		<b>63,854</b>	44,981
Finance costs	3(a)	<b>(2,026)</b>	(339)
<b>Profit before taxation</b>	3	<b>61,828</b>	44,642
Income tax	4	<b>(9,320)</b>	(3,376)
<b>Profit for the period attributable to equity shareholders of the Company</b>		<b>52,508</b>	41,266
<b>Dividend payable to equity shareholders of the Company attributable to the interim period</b>			
Interim dividend	5(a)	<b>24,246</b>	20,290
<b>Earnings per share</b>			
Basic	6(a)	<b>41.02 cents</b>	32.69 cents
Diluted	6(b)	<b>40.68 cents</b>	32.08 cents

The notes on pages 9 to 21 form part of this interim financial report.

**Consolidated Balance Sheet**  
**At 30 September 2007 – unaudited**  
*(Expressed in Hong Kong dollars)*

	Note	At 30 September 2007 \$'000	At 31 March 2007 \$'000
<b>Non-current assets</b>			
Fixed assets	7		
– Investment properties		42,444	39,322
– Other property, plant and equipment		239,392	238,085
		<b>281,836</b>	277,407
Goodwill		1,001	1,001
Rental deposits paid		36,027	31,897
Other financial assets	8	38,572	40,439
Deferred tax assets		791	488
		<b>358,227</b>	351,232
<b>Current assets</b>			
Inventories		21,788	18,023
Trade and other receivables	9	43,191	34,248
Tax recoverable		123	118
Other financial assets	8	45,060	58,960
Cash and cash equivalents	10	146,090	115,197
		<b>256,252</b>	226,546
<b>Current liabilities</b>			
Bank overdrafts	10	1,990	–
Trade and other payables	11	209,618	199,907
Current portion of secured bank loans		3,000	3,000
Other loans		8,711	8,711
Tax payable		13,954	4,797
Provisions for long service payments and lease reinstatement costs		3,387	2,053
		<b>240,660</b>	218,468
<b>Net current assets</b>		<b>15,592</b>	8,078



## Consolidated Balance Sheet

At 30 September 2007 – unaudited (Continued)

(Expressed in Hong Kong dollars)

	At 30 September 2007 \$'000	At 31 March 2007 \$'000
Note		
<b>Total assets less current liabilities</b>	<b>373,819</b>	359,310
<hr/>		
<b>Non-current liabilities</b>		
Deferred tax liabilities	30	30
Secured bank loans	1,850	3,350
Rental deposits received	1,275	2,961
Provisions for long service payments and lease reinstatement costs	18,487	19,137
	<b>21,642</b>	25,478
<hr/>		
<b>Net assets</b>	<b>352,177</b>	333,832
<hr/>		
<b>Capital and reserves</b>	12	
Share capital	127,916	127,522
Reserves	224,261	206,310
<hr/>		
<b>Total equity attributable to equity shareholders of the Company</b>	<b>352,177</b>	333,832
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The notes on pages 9 to 21 form part of this interim financial report.

**Consolidated Statement of Changes in Equity**  
**For the six months ended 30 September 2007 – unaudited**  
*(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 September			
		2007		2006	
		\$'000	\$'000	\$'000	\$'000
<b>Shareholders' equity at 1 April</b>	12		<b>333,832</b>		<b>289,141</b>
<b>Net income recognised directly in equity</b>					
Exchange differences on translation of financial statements of the People's Republic of China ("PRC") subsidiaries	12	<b>347</b>		–	
<b>Net profit for the period</b>	12	<b>52,508</b>		<b>41,266</b>	
<b>Total recognised income and expense for the period attributable to equity shareholders of the Company</b>					
			<b>52,855</b>		<b>41,266</b>
Dividend approved in respect of the previous year	5(b), 12		<b>(30,758)</b>		<b>(22,790)</b>
<b>Movements in equity arising from capital transactions</b>					
Shares issued under share option scheme	12	<b>1,829</b>		1,017	
Issue expenses	12	<b>(9)</b>		–	
Repurchase of own shares					
– par value paid	12	<b>(597)</b>		–	
– premium and transaction costs paid	12	<b>(5,113)</b>		–	
Equity-settled share-based transactions	12	<b>138</b>		319	
			<b>(3,752)</b>		<b>1,336</b>
<b>Total equity at 30 September</b>			<b>352,177</b>		<b>308,953</b>

The notes on pages 9 to 21 form part of this interim financial report.





## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2007	2006
	\$'000	\$'000
	<i>Note</i>	
Cash generated from operations	<b>81,012</b>	88,280
Tax paid	<b>(470)</b>	(344)
Net cash generated from operating activities	<b>80,542</b>	87,936
Net cash used in investing activities	<b>(15,491)</b>	(57,019)
Net cash used in financing activities	<b>(36,148)</b>	(24,273)
Increase in cash and cash equivalents	<b>28,903</b>	6,644
Cash and cash equivalents at 1 April	<b>115,197</b>	74,056
Cash and cash equivalents at 30 September	<i>10</i> <b>144,100</b>	80,700

The notes on pages 9 to 21 form part of this interim financial report.

# Notes to the Unaudited Interim Financial Report

*(Expressed in Hong Kong dollars)*

## **1 Basis of preparation**

This interim financial report has 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”). It was authorised for issuance on 27 November 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements. In the current interim period, the Group has applied, for the first time, certain new standards and amendments issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new standards and amendments has no material effect on how the results for the current and/or prior accounting periods are prepared and presented.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains 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 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by 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 HKICPA. KPMG’s independent review report to the Board of Directors is included on pages 22 to 23. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.



## 1 Basis of preparation *(Continued)*

The financial information relating to the financial year ended 31 March 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 July 2007.

## 2 Segment reporting

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### *Business segments*

The Group's main business segments comprise:

Restaurant operation : Selling of food and beverages in restaurants.

Property leasing : Leasing of premises to generate rental income.

	Restaurant operation		Property leasing		Inter-segment elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from								
external customers	<b>692,373</b>	569,027	<b>7,220</b>	7,949	-	-	<b>699,593</b>	576,976
Inter-segment revenue	-	-	<b>3,118</b>	2,866	<b>(3,118)</b>	(2,866)	-	-
<b>Total</b>	<b>692,373</b>	569,027	<b>10,338</b>	10,815	<b>(3,118)</b>	(2,866)	<b>699,593</b>	576,976
Segment result	<b>53,831</b>	39,306	<b>6,619</b>	4,200	-	-	<b>60,450</b>	43,506
Unallocated operating income and expenses							<b>3,404</b>	1,475
Profit from operations							<b>63,854</b>	44,981
Finance costs							<b>(2,026)</b>	(339)
Income tax							<b>(9,320)</b>	(3,376)
<b>Profit for the period</b>							<b>52,508</b>	41,266

### 3 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 September	
	2007	2006
	\$'000	\$'000
(a) <i>Finance costs:</i>		
Change in fair value of other financial assets at fair value through profit or loss	1,867	–
Interest on bank borrowings	159	339
	<u>2,026</u>	<u>339</u>
(b) <i>Other items:</i>		
Cost of inventories (note)	200,122	150,013
Depreciation of fixed assets	21,285	20,735
Interest income from bank deposits	(3,806)	(2,340)
Net loss on disposal of fixed assets	24	168
	<u>200,122</u>	<u>150,013</u>

Note: This represents food costs.

### 4 Income tax

	Six months ended 30 September	
	2007	2006
	\$'000	\$'000
<b>Current tax</b>		
Provision for Hong Kong Profits Tax	9,144	2,219
PRC taxation	479	509
	<u>9,623</u>	<u>2,728</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(303)	648
	<u>(303)</u>	<u>648</u>
<b>Total income tax expense</b>	<u>9,320</u>	<u>3,376</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the six months ended 30 September 2007. PRC taxation represents PRC withholding tax and PRC foreign enterprise income tax for the period and is charged at the appropriate current rates of taxation ruling in the relevant provinces in the PRC.



## 5 Dividend

- (a) *Dividend payable to equity shareholders of the Company attributable to the interim period*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Interim dividend declared and payable after the interim period of 19.0 cents (2006: 16.0 cents) per share	<b>24,246</b>	20,290

The interim dividend has not been recognised as a liability at the balance sheet date.

- (b) *Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Final dividend in respect of the previous financial year ended 31 March 2007, approved and paid during the interim period, of 24.0 cents (31 March 2006: 18.0 cents) per share	<b>30,758</b>	22,790

## 6 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the period ended 30 September 2007 is based on the profit attributable to ordinary equity shareholders of the Company of \$52,508,000 (2006: \$41,266,000) and the weighted average of 128,012,000 ordinary shares (2006: 126,225,000 shares) in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 September 2007 is based on the profit attributable to ordinary equity shareholders of the Company of \$52,508,000 (2006: \$41,266,000) and the weighted average number of ordinary shares of 129,085,000 shares (2006: 128,631,000 shares), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	Six months ended 30 September	
	2007	2006
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>128,012</b>	126,225
Deemed issued of ordinary shares for nil consideration	<b>1,073</b>	2,406
	<hr/>	
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>129,085</b>	128,631

## 7 Fixed assets

- (a) During the six months ended 30 September 2007, the Group's management identified some branches which continuously underperformed and assessed the recoverable amounts of the fixed assets of those branches. Based on this assessment, the carrying amount of those fixed assets was written down by \$2,327,000 (six months ended 30 September 2006: \$2,100,000). The estimates of recoverable amount were based on the fixed assets' value in use, determined using a discount rate of 12% (six months ended 30 September 2006: 11%).



## 7 Fixed assets (Continued)

- (b) The investment properties of the Group were revalued as at 30 September 2007 by Asset Appraisal Limited, independent professional valuers, on an open market value basis. Based on the valuations, a net gain of \$3,122,000 (2006: \$374,000) has been included in the consolidated income statement.
- (c) During the six months ended 30 September 2007, the Group acquired items of leasehold improvements and other assets with a cost of \$24,246,000 (six months ended 30 September 2006: \$45,975,000).
- (d) At 30 September 2007, the net book value of properties pledged as security for certain banking facilities granted to the Group amounted to \$59,254,000 (31 March 2007: \$58,511,000).

## 8 Other financial assets

Other financial assets represent principal protected structured deposits placed with banks which are subject to call option at the discretion of the banks before the maturity dates. Interest is receivable on a quarterly or annual basis and calculated at fixed or variable rates with reference to market rate fluctuations, including LIBOR, foreign currency exchange rate and equity market performance.

## 9 Trade and other receivables

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis:

	<b>At 30 September 2007 \$'000</b>	At 31 March 2007 \$'000
Current to 30 days	<b>5,751</b>	5,425
31 to 90 days	<b>405</b>	327
91 to 180 days	<b>5</b>	15
181 to 365 days	<b>8</b>	–
	<b>6,169</b>	5,767

The Group's sales to customers are mainly on cash basis. The Group also grants certain customers of the Group's catering services with credit terms of between 30 to 90 days.

## 10 Cash and cash equivalents

	At 30 September 2007 \$'000	At 31 March 2007 \$'000
Deposits with banks	123,479	85,308
Cash at bank and in hand	22,611	29,889
<hr/>		
Cash and cash equivalents in the consolidated balance sheet	146,090	115,197
Bank overdrafts	(1,990)	–
<hr/>		
Cash and cash equivalents in the condensed consolidated cash flow statement	144,100	115,197
<hr/> <hr/>		

## 11 Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 September 2007 \$'000	At 31 March 2007 \$'000
Current to 30 days	66,369	61,002
31 to 90 days	6,319	3,208
91 to 180 days	235	2,202
181 to 365 days	486	71
Over one year	456	490
<hr/>		
	73,865	66,973
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## 12 Capital and reserves

		Attributable to equity shareholders of the Company						
	Note	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'000
At 1 April 2006		125,891	2,027	23,676	1,442	(7,529)	143,634	289,141
Dividend approved in respect of the previous year	5(b)	-	-	(22,790)	-	-	-	(22,790)
Profit for the period		-	-	-	-	-	41,266	41,266
Shares issued under share option scheme (note (a))		717	300	-	-	-	-	1,017
Equity-settled share-based transactions (note (a))		-	331	-	(12)	-	-	319
<b>At 30 September 2006</b>		<b>126,608</b>	<b>2,658</b>	<b>886</b>	<b>1,430</b>	<b>(7,529)</b>	<b>184,900</b>	<b>308,953</b>
At 1 October 2006		126,608	2,658	886	1,430	(7,529)	184,900	308,953
Shares issued under share option scheme		914	265	-	-	-	-	1,179
Issue expenses		-	(15)	-	-	-	-	(15)
Exchange differences on translation of financial statements of PRC subsidiaries		-	-	-	-	284	-	284
Profit for the period		-	-	-	-	-	43,403	43,403
Equity-settled share-based transactions		-	364	-	(46)	-	-	318
Dividend declared in respect of the current year	5(a)	-	-	-	-	-	(20,290)	(20,290)
<b>At 31 March 2007</b>		<b>127,522</b>	<b>3,272</b>	<b>886</b>	<b>1,384</b>	<b>(7,245)</b>	<b>208,013</b>	<b>333,832</b>

## 12 Capital and reserves (Continued)

	Note	Attributable to equity shareholders of the Company						Total
		Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Retained profits	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2007		127,522	3,272	886	1,384	(7,245)	208,013	333,832
Shares issued under share option scheme (note (a))		991	838	-	-	-	-	1,829
Issue expenses		-	(9)	-	-	-	-	(9)
Exchange differences on translation of financial statements of PRC subsidiaries		-	-	-	-	347	-	347
Dividend approved in respect of the previous year	5(b)	-	-	-	-	-	(30,758)	(30,758)
Profit for the period		-	-	-	-	-	52,508	52,508
Equity-settled share-based transactions (note (a))		-	707	-	(569)	-	-	138
Repurchase of own shares (note (b))								
- par value paid		(597)	-	-	-	-	-	(597)
- premium and transaction costs paid		-	(4,808)	(305)	-	-	-	(5,113)
<b>At 30 September 2007</b>		<b>127,916</b>	<b>-</b>	<b>581</b>	<b>815</b>	<b>(6,898)</b>	<b>229,763</b>	<b>352,177</b>

### Notes:

- (a) During the period, options were exercised to subscribe for 991,000 (six months ended 30 September 2006: 717,000) ordinary shares in the Company at a consideration of \$1,829,000 (six months ended 30 September 2006: \$1,017,000), of which \$991,000 (six months ended 30 September 2006: \$717,000) was credited to share capital and the balance of \$838,000 (six months ended 30 September 2006: \$300,000) was credited to the share premium account. \$707,000 (six months ended 30 September 2006: \$331,000) has been transferred from the capital reserve to the share premium account upon the exercise of respective share options during the period.



## 12 Capital and reserves (Continued)

Notes: (Continued)

- (b) During the period, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share \$	Lowest price paid per share \$	Aggregate price paid \$'000
August 2007	363,500	9.49	9.22	3,402
September 2007	233,000	9.92	9.70	2,285
				5,687

Pursuant to section 42A of the Bermuda Companies Act 1981, the above repurchased shares were cancelled and accordingly the issued share capital of the Company was diminished by the nominal values of these shares. The premium and transaction costs paid on the repurchase of the shares of \$5,090,000 and \$23,000 respectively were charged to share premium account of \$4,808,000 and contributed surplus accounts of \$305,000.

## 13 Capital commitments

- (a) Capital commitments outstanding at 30 September 2007 not provided for in the Group's interim financial report were as follows:

	At 30 September 2007 \$'000	At 31 March 2007 \$'000
Authorised and contracted for	11,630	4,414
Authorised but not contracted for	4,442	5,622
	16,072	10,036

- (b) At 30 September 2007, the Group had outstanding other commitments of \$992,000 (31 March 2007: \$1,358,000) in respect of the contracting fee for operation of a fast food restaurant not provided for in the Group's interim financial report.

## 14 Contingent liabilities

At 30 September 2007, 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 balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under the guarantee arrangements. The maximum liability of the Company at the balance sheet date under the guarantee is the amount of the bank guarantee and loan facilities drawn down by all the subsidiaries that are covered by the guarantee, being \$30,125,000 (31 March 2007: \$33,162,000).

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.

## 15 Material related party transactions

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group for the six months ended 30 September 2007 is as follows:

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
Salaries and other short-term employee benefits	<b>5,820</b>	4,975
Contribution to defined contribution retirement plans	<b>18</b>	18
Equity-settled share-based payment expenses	<b>–</b>	10
	<b>5,838</b>	5,003

### (b) Recurring transactions

In addition to the transactions and balances disclosed elsewhere in this interim report, the Group entered into the following material related party transactions during the period ended 30 September 2007.



## 15 Material related party transactions *(Continued)*

### *(b) Recurring transactions (Continued)*

- (i) During the period, a subsidiary of the Company leased a property from New Champion International Limited ("New Champion"). New Champion is wholly-owned by Pengto International Limited ("Pengto"), which in turn is a company beneficially owned by a trust of which Mr Dennis Lo Hoi Yeung, a director of the Company, is a discretionary object. In addition, Mr Dennis Lo Hoi Yeung and his wife, Madam Cindy Lau Shuk Ching are directors of New Champion. Rental expenses incurred during the period amounted to \$623,000 (2006: \$623,000).

As confirmed by the Board, monthly rental of the lease was determined with reference to the open market rental value of the property advised by independent professional valuer.

- (ii) Upon completion of the sale of a property to Front Land Properties Limited ("Front Land") in the financial year 2005/06, a subsidiary of the Group entered into a tenancy agreement with Front Land to lease back the property at a monthly rental of \$163,800 for a term of two years and six months. The ultimate beneficial owners of Front Land are Mr Lo Hoi Chun, who is a cousin of Mr Dennis Lo Hoi Yeung, and his associate. Under the tenancy agreement, the Group is granted two options to renew the tenancy for an aggregate term of three years and six months after the expiry of the initial term. During the period, the Group has exercised the first option to renew the tenancy of the property for a further term of one year and six months commencing on 1 February 2008 at the predetermined rental provided in the tenancy agreement. Rental expenses incurred during the period amounted to \$983,000 (2006: \$983,000).

As confirmed by the Board, monthly rental was agreed with reference to the prevailing market rental advised by independent professional valuer.

## 16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ending 31 March 2008

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 March 2008 and which have not been adopted in this interim financial report.

**16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ending 31 March 2008** *(Continued)*

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the annual financial statements:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009





## **Independent Review Report to the Board of Directors of Fairwood Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

### **Introduction**

We have reviewed the interim financial report set out on pages 4 to 21 which comprises the consolidated balance sheet of Fairwood Holdings Limited as of 30 September 2007, the consolidated income statement, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and the explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of review**

We conducted our review 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 HKICPA. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2007 is not prepared, in all material respects, in accordance with HKAS 34 “Interim financial reporting”.

## **KPMG**

*Certified Public Accountants*

8th Floor, Prince’s Building  
10 Chater Road  
Central, Hong Kong

Hong Kong, 27 November 2007







## Management Discussion and Analysis

### Overall performance

Total turnover of the Group for the six months ended 30 September 2007 increased by 21.3% to HK\$699.6 million from HK\$577.0 million booked in the last corresponding period. Gross profit margin improved slightly to 13.0% for the six months ended 30 September 2007 (six months ended 30 September 2006: 12.4%). Profit attributable to equity shareholders was HK\$52.5 million, an increase of 27.2% as compared to HK\$41.3 million for the six months ended 30 September 2006. Basic earnings per share were HK41.02 cents (six months ended 30 September 2006: HK32.69 cents).

### Business review

Since the launch of Fairwood's re-branding campaign in November 2003, the "Fairwood" brand has been recognised by customers at large for its innovativeness. Entering its second 3-year plan, Fairwood continued to enhance its brand value through the implementation of a new series of marketing strategies and introduction of new recipes. Its latest advertising campaign featuring three young celebrities was shot on several locations in Italy for promoting the exquisite taste of the Group's products.

To accelerate expansion in Mainland China is one of the major goals of the Group's new 3-year plan. With the rapid growth of the China economy, the Group continued to report growth of its business in that sector and achieved a 26.8% growth in sales during the period under review.

The fast food industry in the Hong Kong market remained highly competitive. Rising food costs and appreciation of the RMB posed further pressure on the profitability of the Group. Despite the continuing market and operational challenges, the Group managed to maintain its growth momentum and profit margin through the offering of products of contemporary tastes that appealed to young and affluent customers and continuous improvement in operational efficiency. For the six months ended 30 September 2007, the Group recorded double-digit sales growth with increases in both customer headcount and average customer spending.

During the period under review, the Group opened 4 new fast food outlets including 3 in Hong Kong and 1 in Mainland China. As at 30 September 2007, the Group had a total of 90 outlets in operation in Hong Kong, including 82 fast food outlets, 3 Buddies Cafes and 5 specialty restaurants. As for the Mainland China operation, it had 9 fast food outlets and 2 institutional catering outlets as at period end.

## **Prospect**

The Hong Kong economy expanded rapidly in the second quarter of 2007. The improving labour market and strong consumer confidence is expected to continue to support consumption spending in the retail market in the second half year. However, the rising rental, food prices and labour costs that come along with a strengthening economy will put pressure on the Group's profitability. With Fairwood's vibrant brand image and proven operational procedures, the Group will continue its focus on enhancing product and service quality and developing new products in order to further strengthen its position in the local fast food industry. The Group's new outlet in the departure terminal of the Hong Kong International Airport, one of the busiest airports in the world, gives the Group the opportunity to testify the suitability of its products to the tastes of customers of different nationalities.

Looking ahead, the Group will accelerate its expansion plan for Mainland China by adding new outlets at prime locations in Guangzhou to capture the fast growing market in Southern China. On the production front and as part of the long term expansion strategy of the Group, studies on building a central kitchen and supporting infrastructure in Guangdong province are underway. The central kitchen will ensure products are of consistently high quality and at the same time optimize production cycle time to further enhance both economy of scale and profitability of the Group in the long term.

To complement the plan of operating 100 fast food outlets in Hong Kong and 40 in Mainland China by 2010, the Group will continue to focus on improving customers' dining experience, assuring premier food quality, developing new dishes and creating the most comfortable and pleasant dining environment for customers. The management, while expecting market conditions to remain challenging, is optimistic about the Group's performance in the medium to long term.



## Financial Review

### *Liquidity and financial resources*

At 30 September 2007, the Group had total assets of HK\$614.5 million (31 March 2007: HK\$577.8 million) and total equity attributable to equity shareholders of HK\$352.2 million (31 March 2007: HK\$333.8 million). The Group's working capital at 30 September 2007 was HK\$15.6 million (31 March 2007: HK\$8.1 million), represented by total current assets of HK\$256.3 million (31 March 2007: HK\$226.5 million) against total current liabilities of HK\$240.7 million (31 March 2007: HK\$218.4 million). The current ratio, being the proportion of total current assets against total current liabilities, was 1.1 (31 March 2007: 1.0).

The Group continued to maintain a strong financial position. At 30 September 2007, the Group had net cash and cash equivalents amounted to HK\$144.1 million (31 March 2007: HK\$115.2 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2007, the Group had total bank loans of HK\$4.9 million (31 March 2007: HK\$6.4 million) which was denominated in Hong Kong dollars and repayable within 2 years. Unutilised banking facilities were HK\$262.0 million (31 March 2007: HK\$260.9 million). The gearing ratio of the Group was 0.5% (31 March 2007: 1.0%), which was calculated based on the non-current bank loans over shareholders' equity.

The Group's transaction 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 2007, the net book value of properties pledged as security for certain banking facilities granted to the Group amounted to HK\$59.3 million (31 March 2007: HK\$58.5 million).

### *Commitments*

The Group's capital commitments outstanding at 30 September 2007 of HK\$16.1 million (31 March 2007: HK\$10.0 million) were mainly associated to store renovations. The Group also had outstanding other commitments of HK\$1.0 million (31 March 2007: HK\$1.4 million) in respect of the contracting fee for the operation of a fast food restaurant.

### *Contingent liabilities*

At 30 September 2007, 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 balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under the guarantee arrangements. The maximum liability of the Company at the balance sheet date under the guarantee is the amount of the bank guarantee and loan facilities drawn down by all the subsidiaries that are covered by the guarantee, being HK\$30.1 million (31 March 2007: HK\$33.2 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*

At 30 September 2007, the total number of employees of the Group was approximately 4,600 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 basing on performance appraisals and other relevant factors.

The Group continues to offer competitive remuneration packages, share options and bonus to eligible staff, basing 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.



## Other Information

### Directors' Interests in shares

As at 30 September 2007, the interests or short positions of the Directors and chief executives of the Company and their associates in the issued share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

#### (a) *Interests in the Company*

	Ordinary shares of HK\$1 each				Total	Percentage of total issued shares
	Personal interests	Family interests	Corporate interests	Other interests		
Dennis Lo Hoi Yeung	3,451,105	-	-	51,984,279 (Note 1)	55,435,384	43.34%
Ng Chi Keung	1,254,000	-	-	-	1,254,000	0.98%
Chan Chee Shing	265,000	-	-	-	265,000	0.21%

*Note 1:* These shares were held by Neblett Investments Limited ("Neblett"), a company beneficially owned by a trust of which Mr Dennis Lo Hoi Yeung is a discretionary object. Mr Dennis Lo Hoi Yeung, by virtue of his interest in the trust as a discretionary object and as the Chairman and Chief Executive of the Company, was deemed to be interested in the shares held by Neblett.

(b) *Interests in Fairwood Fast Food Limited*

	Non-voting deferred shares of HK\$10 each				
	Personal interests	Family interests	Corporate interests	Other interests	Total
Dennis Lo Hoi Yeung	11,500	–	–	279,357 (Note 2)	290,857

Note 2: These shares were held by Pengto, a company beneficially owned by a trust of which Mr Dennis Lo Hoi Yeung is a discretionary object. Mr Dennis Lo Hoi Yeung, by virtue of his interest in the trust as a discretionary object and as the Chairman and Chief Executive of the Company, was deemed to be interested in the shares held by Pengto.

All the interests stated above represent long positions.

Apart from the foregoing and those disclosed under the section “Share Option Scheme” below, as at 30 September 2007, none of the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been entered in the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## Share Option Scheme

As at 30 September 2007, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company pursuant to the share option scheme of the Company:

	Number of options outstanding at 1 April 2007	Number of options granted during the period	Date granted	Exercisable period	Number of options cancelled during the period	Number of options exercised during the period	Number of options outstanding at 30 September 2007	Exercise price per share (HK\$)	Closing price per share immediately before date of grant of options (HK\$)	Closing price per share immediately before date of exercise of options* (HK\$)
Chan Chee Shing (Director)	250,000	-	7 February 2003	1 January 2004 to 31 December 2008 (Note 1)	-	(250,000)	-	1.00	0.75	10.80
Employees	164,500	-	7 February 2003	1 January 2004 to 31 December 2008 (Note 1)	(10,000)	(121,000)	33,500	1.00	0.75	11.11
Employee	700,000	-	2 August 2004	1 January 2006 to 31 December 2008 (Note 2)	-	(500,000)	200,000	2.075	2.10	10.80
Employee	400,000	-	1 September 2004	23 September 2005 to 22 September 2009 (Note 3)	-	-	400,000	2.325	2.35	-
Employee	480,000	-	25 April 2005	14 June 2006 to 13 June 2013 (Note 4)	-	(120,000)	360,000	3.50	3.50	10.46

\* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were exercised.

Notes:

- (1) These options were granted on 7 February 2003 and are exercisable in four batches as follows:
  - (i) One-fourth of the options is exercisable during the period from 1 January 2004 to 31 December 2008;
  - (ii) One-fourth of the options is exercisable during the period from 1 January 2005 to 31 December 2008;
  - (iii) One-fourth of the options is exercisable during the period from 1 January 2006 to 31 December 2008; and
  - (iv) One-fourth of the options is exercisable during the period from 1 January 2007 to 31 December 2008.
  
- (2) These options were granted on 2 August 2004 and are exercisable in three batches as follows:
  - (i) 500,000 options were exercisable during the period from 1 January 2006 to 31 December 2008 and had been exercised during the year ended 31 March 2006;
  - (ii) 500,000 options were exercisable during the period from 1 January 2007 to 31 December 2008 and had been exercised during the six months ended 30 September 2007; and
  - (iii) 200,000 options are exercisable during the period from 1 January 2008 to 31 December 2008.
  
- (3) These options were granted on 1 September 2004 and are exercisable in four batches as follows:
  - (i) One-fourth of the options was exercisable during the period from 23 September 2005 to 22 September 2006 and had been exercised during the year ended 31 March 2006;
  - (ii) One-fourth of the options was exercisable during the period from 23 September 2006 to 22 September 2007 and had been exercised during the year ended 31 March 2007;
  - (iii) One-fourth of the options is exercisable during the period from 23 September 2007 to 22 September 2008; and
  - (iv) One-fourth of the options is exercisable during the period from 23 September 2008 to 22 September 2009.





- (4) These options were granted on 25 April 2005 and are exercisable in five batches as follows:
- (i) One-fifth of the options was exercisable during the period from 14 June 2006 to 13 June 2009 and had been exercised during the year ended 31 March 2007;
  - (ii) One-fifth of the options was exercisable during the period from 14 June 2007 to 13 June 2010 and had been exercised during the six months ended 30 September 2007;
  - (iii) One-fifth of the options is exercisable during the period from 14 June 2008 to 13 June 2011;
  - (iv) One-fifth of the options is exercisable during the period from 14 June 2009 to 13 June 2012; and
  - (v) One-fifth of the options is exercisable during the period from 14 June 2010 to 13 June 2013.

Apart from the foregoing, at no time during the six months ended 30 September 2007 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any of its associated corporations within the meaning of the SFO.

## Substantial interests in the share capital of the Company

As at 30 September 2007, the interests or short positions of every person, other than the Directors and chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, were as follows:–

	<i>Note</i>	<b>Shares directly and/or indirectly held</b>	<b>Percentage of total issued shares</b>
(i) Neblett	(1)	51,984,279	40.64%
(ii) Jumbo Easy Limited	(1)	51,984,279	40.64%
(iii) Winning Spirit International Corp	(1)	51,984,279	40.64%
(iv) HSBC International Trustee Limited	(1)	51,984,279	40.64%
(v) Lloyd George Investment Management (Bermuda) Limited		11,876,000	9.28%
(vi) Veer Palthe Voute NV	(2)	10,124,000	7.91%
(vii) Dresdner Bank Aktiengesellschaft	(2)	10,124,000	7.91%
(viii) Allianz SE	(2)	10,124,000	7.91%
(ix) Allard Partners Limited		6,467,000	5.06%
(x) Deutsche Bank Aktiengesellschaft		6,432,000	5.03%



*Notes:*

- (1) These interests represent the same block of shares and were held by Neblett. Neblett was a company wholly-owned by Winning Spirit International Corp, which in turn was a company wholly-owned by HSBC International Trustee Limited in the capacity of trustee. Jumbo Easy Limited was deemed to be interested in these shares by virtue of its capacity of a discretionary object of the trust which beneficially owned Neblett and being a wholly-owned company of Mr Dennis Lo Hoi Yeung. HSBC International Trustee Limited was deemed to be interested in the shares held by Neblett in the capacity of trustee of the trust which beneficially owned Neblett.
- (2) These interests represent the same block of shares and were shares in which Veer Palthe Voute NV was interested as an investment manager. Veer Palthe Voute NV was a wholly-owned subsidiary of Dresdner Bank Aktiengesellschaft which was in turn a subsidiary in which Allianz SE indirectly held 81.10 per cent controlling interests. Dresdner Bank Aktiengesellschaft and Allianz SE were thereby deemed to have an interest in the shares in which Veer Palthe Voute NV was interested.

All the interests stated above represent long positions.

Save as disclosed above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO as at 30 September 2007.

### **Interim dividend**

The Board declared an interim dividend of HK19.0 cents (2006: HK16.0 cents) per share for the six months ended 30 September 2007 to the shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 14 December 2007. This represents a distribution of approximately 46% of the Group's profit attributable to equity shareholders. The interim dividend will be paid on or before Friday, 21 December 2007.

## **Closure of register of members**

The Register of Members of the Company will be closed from Thursday, 13 December 2007 to Friday, 14 December 2007 both days inclusive, during which no transfer of shares will be effected. 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 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 Wednesday, 12 December 2007.

## **Purchase, sale or redemption of the Company's listed securities**

Save for the repurchases of shares by the Company as disclosed in note 12 on page 18, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

## **Corporate governance**

The Board is committed to maintaining high standards of corporate governance practices as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules. The Company has complied with the CG Code throughout the six months ended 30 September 2007, save and except that (i) the roles of the Chairman and Chief Executive of the Company are vested in the same person (Code Provision A.2.1); and (ii) the Chairman and/or the Managing Director of the Company are not subject to retirement by rotation (Code Provision A.4.2).

Currently, Mr Dennis Lo Hoi Yeung holds both positions of Chairman and Chief Executive. In view of the extensive experience of Mr Dennis Lo Hoi Yeung in the industry and the fact that day-to-day management of the Group is led by him, the Board believes that vesting the roles of both Chairman and Chief Executive in Mr Lo provides the Group with strong and consistent leadership, efficient usage of resources and enables effective planning, formulation and implementation of long-term strategies and business plans. For the same reasons set out herein, the Board considers that it would be in the best interest of the Company to continue the exemption of both the Chairman and/or Managing Director from retirement by rotation provisions.



## **Compliance with the Model Code**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the period ended 30 September 2007.

## **Audit committee**

The audit committee comprises three Independent Non-executive Directors and reports to the Board. The audit committee has reviewed with the management and the Company's external auditors the unaudited financial information and interim results for the six months ended 30 September 2007.

## **Appreciation**

I would like to take this opportunity to thank my fellow directors for their invaluable advice and guidance, and to each and every one of our staff for their hard work and loyalty to the Group.

By Order of the Board  
**Dennis Lo Hoi Yeung**  
*Chairman and Chief Executive*

Hong Kong, 27 November 2007