

INTERIM REPORT 2008/2009



大快活
Fairwood

FAIRWOOD HOLDINGS LIMITED

(Incorporated in Bermuda with Limited Liability)
(Stock Code: 52)



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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
(Retired on 28 August 2008)
Peter Lau Kwok Kuen
Tony Tsoi Tung Hoo
(Appointed on 11 November 2008)

AUDIT COMMITTEE

Herald Lau Ling Fai *(Chairman)*
Joseph Chan Kai Nin
Peter Lee Sheung Yam
*(Ceased to be a member on
28 August 2008)*
Peter Lau Kwok Kuen
*(Appointed on 28 August 2008 and
ceased to be a member on
12 November 2008)*
Tony Tsoi Tung Hoo
(Appointed on 11 November 2008)

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 Bank (Hong Kong) Limited

The Bank of Tokyo-Mitsubishi UFJ, Limited
Hang Seng Bank Limited
Nanyang Commercial Bank, Limited
The Bank of East Asia, Limited
Chong Hing Bank Limited
Industrial and Commercial Bank of
China (Asia) Limited
UBS AG
Fubon Bank (Hong Kong) Limited

AUDITORS

KPMG

SOLICITORS

JSM
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



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 2008 together with the comparative figures for the period ended 30 September 2007. 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 2008 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	Note	2008 \$'000	2007 \$'000
Turnover	2	741,862	699,593
Cost of sales		(651,561)	(608,653)
Gross profit		90,301	90,940
Other revenue	3	1,614	3,806
Other net income	3	6,195	2,802
Administrative expenses		(36,688)	(34,489)
Impairment losses on fixed assets		–	(2,327)
Valuation (losses)/gains on investment properties	8(a)	(1,030)	3,122
Profit from operations		60,392	63,854
Finance costs	4(a)	(4,989)	(2,026)
Profit before taxation	4	55,403	61,828
Income tax	5	(8,985)	(9,320)
Profit for the period attributable to equity shareholders of the Company		46,418	52,508
Dividend payable to equity shareholders of the Company attributable to the interim period			
Interim dividend	6(a)	12,549	24,246
Earnings per share			
Basic	7(a)	36.75 cents	41.02 cents
Diluted	7(b)	36.68 cents	40.68 cents

The notes on pages 9 to 23 form part of this interim financial report.

Consolidated Balance Sheet

At 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

		At 30 September 2008 \$'000	At 31 March 2008 \$'000
Non-current assets			
Fixed assets	8		
– Investment properties		44,645	45,374
– Other property, plant and equipment		252,471	261,578
		297,116	306,952
Goodwill		1,001	1,001
Rental deposits paid		31,497	29,261
Other financial assets	9	17,350	39,345
Deferred tax assets		25	25
		346,989	376,584
Current assets			
Inventories		44,406	28,414
Trade and other receivables	10	46,317	41,933
Current tax recoverable		294	294
Other financial assets	9	7,816	–
Cash and cash equivalents	11	120,341	178,052
		219,174	248,693
Current liabilities			
Trade and other payables	12	170,684	219,758
Current portion of secured bank loans		1,850	3,000
Current tax payable		13,949	4,612
Provisions for long service payments and reinstatement costs		6,171	4,691
		192,654	232,061
Net current assets		26,520	16,632



Consolidated Balance Sheet

At 30 September 2008 – unaudited (Continued)

(Expressed in Hong Kong dollars)

	At 30 September 2008 \$'000	At 31 March 2008 \$'000
Total assets less current liabilities	373,509	393,216
Non-current liabilities		
Secured bank loans	–	350
Deferred tax liabilities	715	1,079
Rental deposits received	1,797	1,338
Provisions for long service payments and reinstatement costs	19,056	20,496
	21,568	23,263
Net assets	351,941	369,953
Capital and reserves 13		
Share capital	125,487	127,106
Reserves	226,454	242,847
Total equity attributable to equity shareholders of the Company	351,941	369,953

The notes on pages 9 to 23 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September			
		2008		2007	
		\$'000	\$'000	\$'000	\$'000
Shareholders' equity at 1 April	13		369,953		333,832
<hr/>					
Net income recognised directly in equity:					
Revaluation gain recognised upon transfer from property held for own use to investment property	13		241		–
Exchange differences on translation of financial statements of the People's Republic of China (the "PRC") subsidiaries	13		1,043		347
			1,284		347
<hr/>					
Net profit for the period	13		46,418		52,508
<hr/>					
Total recognised income and expense for the period			47,702		52,855
<hr/>					
Dividends approved in respect of the previous year	6(b), 13		(51,670)		(30,758)
<hr/>					



Consolidated Statement of Changes in Equity

For the six months ended 30 September 2008 – unaudited (Continued)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September			
		2008		2007	
		\$'000	\$'000	\$'000	\$'000
Movements in equity arising from capital transactions					
Shares issued under share option scheme	13	233		1,829	
Issue expenses	13	(4)		(9)	
Repurchase of own shares					
– par value paid	13	(1,719)		(597)	
– premium and transaction costs paid	13	(12,565)		(5,113)	
Equity-settled share-based transactions	13	11		138	
			(14,044)		(3,752)
Total equity at 30 September		351,941		352,177	

The notes on pages 9 to 23 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2008 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	Note	2008 \$'000	2007 \$'000
Cash generated from operations		26,878	81,012
Tax paid		–	(470)
Net cash generated from operating activities		26,878	80,542
Net cash used in investing activities		(17,363)	(15,491)
Net cash used in financing activities		(67,226)	(36,148)
(Decrease)/increase in cash and cash equivalents		(57,711)	28,903
Cash and cash equivalents at 1 April		178,052	115,197
Cash and cash equivalents at 30 September	11	120,341	144,100

The notes on pages 9 to 23 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”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements. HKICPA has issued a number of interpretations that are effective for accounting periods beginning on or after 1 January 2008. The Group has carried out an assessment of these interpretations and considered that they have no significant impact on the interim financial report.

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 2008 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 24 to 25. 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 2008 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 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 July 2008.

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:

Restaurants operation : Selling of food and beverages in restaurants.

Property leasing : Leasing of premises to generate rental income.

	Restaurants operation		Property leasing		Inter-segment elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	737,240	692,373	4,622	7,220	-	-	741,862	699,593
Inter-segment revenue	-	-	3,118	3,118	(3,118)	(3,118)	-	-
Total	737,240	692,373	7,740	10,338	(3,118)	(3,118)	741,862	699,593
Segment result	54,350	53,831	4,891	6,619	-	-	59,241	60,450
Unallocated operating income and expenses							1,151	3,404
Profit from operations							60,392	63,854
Finance costs							(4,989)	(2,026)
Income tax							(8,985)	(9,320)
Profit for the period							46,418	52,508



3 Other revenue and net income

	Six months ended 30 September	
	2008	2007
	\$'000	\$'000
Other revenue		
Interest income	1,614	3,806
Other net income		
Compensation received on early termination of lease	7,000	–
Loss on disposal of fixed assets from early termination of lease	(2,661)	–
Net loss on disposal of fixed assets from normal activities	(406)	(24)
Profit on sale of redemption gifts	664	646
Electric and gas range incentives	841	763
Others	757	1,417
	6,195	2,802

4 Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 September	
	2008	2007
	\$'000	\$'000
(a) <i>Finance costs:</i>		
Change in fair value of other financial assets at fair value through profit or loss (<i>note</i>)	4,943	1,867
Interest on bank borrowings	46	159
	4,989	2,026

Note: The other financial assets are principal protected structured deposits placed with financial institutions. According to the prevailing accounting standards, certain structured deposits are stated at their fair value at the balance sheet date, with any resultant gain or loss being recognised in the income statement. As such, a change in fair value loss of \$4.9 million was recognised in the current interim period. Such fair value loss has no impact on the cash flows of the Group. The Group will receive the principal amount in full upon the maturity of these structured deposits.

4 Profit before taxation *(Continued)*

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
<i>(b) Other items:</i>		
Cost of inventories <i>(note)</i>	211,760	200,122
Depreciation of fixed assets	24,728	21,285
	<u>211,760</u>	<u>200,122</u>

Note: This represents food costs.

5 Income tax

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
Current tax		
Provision for Hong Kong Profits Tax	9,444	9,144
PRC taxation	(95)	479
	<u>9,349</u>	<u>9,623</u>
<hr style="border-top: 1px dashed black;"/>		
Deferred tax		
Origination and reversal of temporary differences	(364)	(303)
	<u>(364)</u>	<u>(303)</u>
Total income tax expense	<u>8,985</u>	<u>9,320</u>

In June 2008, the Hong Kong Government promulgated a decrease in Profits Tax rate applicable to the Group's operations in Hong Kong from 17.5% to 16.5%. This decrease is taken into account in the preparation of the Group's 2009 interim financial report. Accordingly, the provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 September 2008. PRC taxation represents PRC foreign enterprise income tax for the period and is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions in the PRC.



6 Dividend

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

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
Interim dividend declared and payable after the interim period of 10.0 cents (2007: 19.0 cents) per share	12,549	24,246

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*

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
Final dividend in respect of the previous financial year ended 31 March 2008, approved and paid during the interim period, of 29.0 cents (year ended 31 March 2007: 24.0 cents) per share	36,547	30,758
Special dividend in respect of the previous financial year ended 31 March 2008, approved and paid during the interim period, of 12.0 cents (year ended 31 March 2007: nil) per share	15,123	–
	51,670	30,758

7 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the period ended 30 September 2008 is based on the profit attributable to ordinary equity shareholders of the Company of \$46,418,000 (2007: \$52,508,000) and the weighted average of 126,297,000 ordinary shares (2007: 128,012,000 shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the period ended 30 September 2008 is based on the profit attributable to ordinary equity shareholders of the Company of \$46,418,000 (2007: \$52,508,000) and the weighted average number of ordinary shares of 126,556,000 shares (2007: 129,085,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted):

	Six months ended	
	30 September	
	2008	2007
	Number of	Number of
	shares	shares
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	126,297	128,012
Deemed issued of ordinary shares for nil consideration	259	1,073
	126,556	129,085



8 Fixed assets

- (a) The investment properties of the Group were revalued as at 30 September 2008 by Asset Appraisal Limited, independent professional valuers, on an open market value basis. Based on the valuations, a loss of \$1,030,000 (2007: a gain of \$3,122,000) has been included in the consolidated income statement.
- (b) During the six months ended 30 September 2008, the Group acquired items of leasehold improvements and other assets with a cost of \$17,361,000 (six months ended 30 September 2007: \$24,246,000).
- (c) During the six months ended 30 September 2008, a property held in Hong Kong with net book value of \$300,000 was transferred to investment property because the Group had changed its intention and it is now held for rental to a third party.
- (d) At 30 September 2008, the net book value of properties pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to \$43,883,000 (31 March 2008: \$59,818,000).

9 Other financial assets

Other financial assets represent principal protected structured deposits placed with financial institutions which are subject to call option at the discretion of the financial institutions 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.

10 Trade and other receivables

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

	At	At
	30 September	31 March
	2008	2008
	\$'000	\$'000
1 to 30 days	1,730	2,817
31 to 90 days	8	117
91 to 180 days	4	9
	1,742	2,943

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

11 Cash and cash equivalents

	At	At
	30 September	31 March
	2008	2008
	\$'000	\$'000
Deposits with banks	79,265	124,018
Cash at bank and in hand	41,076	54,034
Cash and cash equivalents in the consolidated balance sheet and condensed consolidated cash flow statement	120,341	178,052



12 Trade and other payables

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

	At 30 September 2008 \$'000	At 31 March 2008 \$'000
1 to 30 days	50,144	63,897
31 to 90 days	3,982	3,380
91 to 180 days	1,076	406
181 to 365 days	222	79
Over one year	460	568
	55,884	68,330

13 Capital and reserves

	Attributable to equity shareholders of the Company						
	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Exchange reserve \$'000	Retained profits \$'000	Total \$'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	6(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							
– par value paid	(597)	-	-	-	-	-	(597)
– premium and transaction costs paid	-	(4,808)	(305)	-	-	-	(5,113)
At 30 September 2007 (unaudited)	127,916	-	581	815	(6,898)	229,763	352,177

13 Capital and reserves *(Continued)*

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Retained profits	Total
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 October 2007	127,916	-	581	815	(6,898)	229,763	352,177
Shares issued under share option scheme	313	347	-	-	-	-	660
Issue expenses	-	(12)	-	-	-	-	(12)
Exchange differences on translation of financial statements of PRC subsidiaries	-	-	-	-	1,063	-	1,063
Release of exchange reserve upon dissolution of a PRC subsidiary	-	-	-	-	1,351	-	1,351
Profit for the period	-	-	-	-	-	48,519	48,519
Equity-settled share-based transactions	-	261	-	648	-	-	909
Repurchase of own shares							
– par value paid	(1,123)	-	-	-	-	-	(1,123)
– premium and transaction costs paid	-	(596)	(581)	-	-	(8,168)	(9,345)
Dividend declared in respect of the current year	6(a)	-	-	-	-	(24,246)	(24,246)
At 31 March 2008 (audited)	127,106	-	-	1,463	(4,484)	245,868	369,953



13 Capital and reserves (Continued)

Note	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Contributed surplus	Capital reserve	Exchange reserve	Asset		Total
						revaluation reserve	Retained profits	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2008	127,106	-	-	1,463	(4,484)	-	245,868	369,953
Shares issued under share option scheme (note (a))	100	133	-	-	-	-	-	233
Issue expenses	-	(4)	-	-	-	-	-	(4)
Exchange differences on translation of financial statements of PRC subsidiaries	-	-	-	-	1,043	-	-	1,043
Dividends approved in respect of the previous year	6(b)	-	-	-	-	-	(51,670)	(51,670)
Profit for the period	-	-	-	-	-	-	46,418	46,418
Equity-settled share-based transactions (note (a))	-	90	-	(79)	-	-	-	11
Revaluation gain recognised upon transfer from property held for own use to investment property	-	-	-	-	-	241	-	241
Repurchase of own shares (note (b))								
- par value paid	(1,719)	-	-	-	-	-	-	(1,719)
- premium and transaction costs paid	-	(219)	-	-	-	-	(12,346)	(12,565)
At 30 September 2008 (unaudited)	125,487	-	-	1,384	(3,441)	241	228,270	351,941

Notes:

- (a) During the period, options were exercised to subscribe for 100,000 (six months ended 30 September 2007: 991,000) ordinary shares in the Company at a consideration of \$233,000 (six months ended 30 September 2007: \$1,829,000), of which \$100,000 (six months ended 30 September 2007: \$991,000) was credited to share capital and the balance of \$133,000 (six months ended 30 September 2007: \$838,000) was credited to the share premium account. \$90,000 (six months ended 30 September 2007: \$707,000) has been transferred from the capital reserve to the share premium account upon the exercise of respective share options during the period.

13 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
May 2008	1,181,500	8.78	8.70	10,307
September 2008	537,500	7.60	6.25	3,912
	1,719,000			14,219

The above repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium and transaction costs paid on the repurchase of the shares of \$12,500,000 and \$65,000 respectively were charged to the Group's reserves.

14 Capital commitments

Capital commitments outstanding at 30 September 2008 not provided for in the Group's interim financial report were as follows:

	At 30 September 2008 \$'000	At 31 March 2008 \$'000
Authorised and contracted for	13,598	48
Authorised but not contracted for	128,607	2,373
	142,205	2,421

Included in capital commitments outstanding at 30 September 2008 is an amount of \$116,611,000 for setting up a new central food processing plant to replace the existing one in operation to cope with the Group's long term business growth.



15 Contingent liabilities

At 30 September 2008, 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 balance sheet date, the Directors do not consider it probable that a claim will be made against the Company under the guarantee arrangement. The maximum liability of the Company at the balance sheet date under the guarantee is the amount of the facilities drawn down by all the subsidiaries that are covered by the guarantee, being \$29,198,000 (31 March 2008: \$31,919,000).

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.

16 Material related party 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 2008:

- (a) Remuneration for key management personnel of the Group for the six months ended 30 September 2008 is as follows:

	Six months ended	
	30 September	
	2008	2007
	\$'000	\$'000
Salaries and other short-term employee benefits	4,830	5,820
Contribution to defined contribution retirement plans	18	18
	4,848	5,838

16 Material related party transactions *(Continued)*

- (b) During the period, a subsidiary of the Company leased a property from New Champion International Limited ("New Champion"). New Champion is wholly beneficially owned by Pengto International Limited ("Pengto"), a company beneficially owned by a trust of which Mr Dennis Lo Hoi Yeung, 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 (2007: \$623,000).
- (c) During the period, a subsidiary of the Company leased a property from Front Land Properties Limited ("Front Land"). 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. Rental expenses incurred during the period amounted to \$983,000 (2007: \$983,000).
- (d) During the period, New Champion agreed to grant a licence to a subsidiary of the Company to use a storeroom in Hong Kong. Licence fee paid during the period amounted to \$90,000 (2007: \$90,000).

17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ending 31 March 2009

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 2009 and which have not been adopted in this interim financial report.

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.



17 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ending 31 March 2009 *(Continued)*

The following developments are considered to be relevant to the Group's annual financial statements and may result in new or amended disclosures in the future years' annual financial statements:

		Effective for accounting periods beginning on or after
HK (IFRIC) 13	Customer loyalty programmes	1 July 2008
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (revised)	Presentation of financial statements	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 3 to 23 which comprises the consolidated balance sheet of Fairwood Holdings Limited as of 30 September 2008, 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 2008 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 2008

Management Discussion and Analysis

Overall performance

For the six months ended 30 September 2008, the Group achieved a turnover of HK\$741.9 million, representing a modest increase of 6.0% over the corresponding period of last year. Gross profit margin decreased by 0.8 percentage point from the same period last year to 12.2% but had improved by 0.3 percentage point over that of the last financial year ended 31 March 2008. Profit attributable to equity shareholders was HK\$46.4 million, which represented a decline of 11.6% year on year. Basic earnings per share were HK36.75 cents (six months ended 30 September 2007: HK41.02 cents).

Business review

During the first six months of FY2008/09, high rental expenses and surging food costs were the major challenges to the operations of the Group in Hong Kong. Escalating rental expenses had slowed down the opening of new shops which directly affected the growth in turnover. Capitalising on its strong brand and reputation for offering quality food, the Group implemented incremental price adjustments in early 2008 to counter the surging food costs.

In order to achieve higher sales and to offset higher rental and operational costs, emphasis was placed on product development to target at a broader market segment. The "No MSG-added" series is one of the higher margin products that was introduced to attract health-conscious customers. To lower food costs, the Group has sought to adjust its menu as well as improve its sourcing mix.

With regard to its operations in Mainland China, the Group recorded sales growth of 28.7% during the review period. The Group had streamlined procurement policy through which food costs were lowered. Despite the sales growth, management remained watchful of the continual surge in operating costs, rental expenses and the new labour law that resulted in increased staff costs.

During the review period, the Group opened 4 new fast food outlets in Hong Kong. As at 30 September 2008, the Group had a total of 92 outlets in Hong Kong, including 86 fast food outlets, 2 Buddies Cafes and 4 specialty restaurants. In Mainland China, the Group's operations comprised 12 fast food outlets.



Prospect

Management expects business conditions to remain challenging for the second half of the financial year. The outbreak of the global financial crisis has dampened consumer sentiment while food costs have not shown signs of softening until recently. Nevertheless, management believes that with a sound business model and strong financial position, the Group will be able to meet such challenges over the difficult period ahead.

To improve its infrastructure, the Group has committed to set up a new central food processing plant and to implement the second phase of the SAP Enterprise Resources Planning (ERP) System. The new central food processing plant, to be established at the Tai Po Industrial Estate, will have production facilities of approximately 6,700 sq. m. and is expected to commence operation by the end of 2009. The Group plans to invest approximately HK\$120 million in this project over the next few years. The facilities if operated at full capacity will support extensive product portfolio, optimise production capacity, enhance production efficiency as well as economies of scale. The SAP system will help to monitor food costs and inventory, thus resulting in better control of the operation of the central food processing plant.

On network expansion, the Group is committed to realising its plan to operate 100 fast food outlets in Hong Kong and 40 outlets in Mainland China by 2010. With rental market anticipated to stabilise in Hong Kong, the Group will continue its prudent approach to open outlets at prime locations. Likewise, the Group will also closely monitor the market trend in Mainland China and continue to strengthen its foothold through new openings in the major cities in Southern China.

Moving forward, Fairwood will focus on maintaining sales growth by expanding its product portfolio to include innovative and high-end products to attract a broader customer base. The Group will improve on providing quality products and services at affordable prices to customers while at the same time seek to enhance its margin by controlling costs through advanced operating systems.

Financial Review

Liquidity and financial resources

At 30 September 2008, the Group had total assets of HK\$566.2 million (31 March 2008: HK\$625.3 million). The Group's working capital was HK\$26.5 million (31 March 2008: HK\$16.6 million), represented by total current assets of HK\$219.2 million (31 March 2008: HK\$248.7 million) against total current liabilities of HK\$192.7 million (31 March 2008: HK\$232.1 million). The current ratio, being the proportion of total current assets against total current liabilities, was 1.1 (31 March 2008: 1.1). Total equity attributable to equity shareholders of the Company was HK\$351.9 million (31 March 2008: HK\$370.0 million).

The Group continued to maintain a strong financial position. At 30 September 2008, the Group had cash and cash equivalents amounting to HK\$120.3 million (31 March 2008: HK\$178.1 million). The decrease in cash and cash equivalents at 30 September 2008 was mainly due to the payment of a special dividend of HK\$15.1 million in respect of the previous financial year ended 31 March 2008 to mark the Group's 35th anniversary, the payment of HK\$14.3 million for the repurchase of the Company's own shares during the six months ended 30 September 2008 and the increase in buffer inventories of HK\$16.0 million as compared with the inventory balance at 31 March 2008 to protect the Group from the global increase in raw material costs and unstable supplies. With the recent stabilisation of raw material prices, the inventory is resuming to normal level, as a result of which the cash and cash equivalents will be improved.

The Group finances its business with internally generated cash flows and available banking facilities. At 30 September 2008, the Group had total bank loans of HK\$1.9 million (31 March 2008: HK\$3.4 million) which was denominated in Hong Kong dollars. The unutilised banking facilities were HK\$317.5 million (31 March 2008: HK\$274.3 million). The gearing ratio of the Group was nil (31 March 2008: 0.1%), which was calculated based on the non-current bank loans over total equity attributable to equity shareholders of the Company.

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



Charges on Group's assets

At 30 September 2008, the net book value of properties pledged as security for banking facilities granted to certain subsidiaries of the Group amounting to HK\$43.9 million (31 March 2008: HK\$59.8 million).

Commitments

The Group's capital commitments outstanding at 30 September 2008 was HK\$142.2 million (31 March 2008: HK\$2.4 million). The increase is primarily due to an amount of HK\$116.6 million to be invested in setting up a new central food processing plant to replace the existing one in operation to cope with the Group's long term business growth. On 26 November 2008, the Group has accepted an offer from Hong Kong Science and Technology Parks Corporation for granting a site, with land and building, at Tai Po Industrial Estate for setting up the new central food processing plant.

Contingent liabilities

At 30 September 2008, 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 arrangement. The maximum liability of the Company at the balance sheet date under the guarantee is the amount of the facilities drawn down by all the subsidiaries that are covered by the guarantee, being HK\$29.2 million (31 March 2008: HK\$31.9 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 2008, the total number of employees of the Group was approximately 4,100. Employees' remunerations are commensurate with their job nature, qualifications and experience. Salaries and wages are normally reviewed annually 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 2008, 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	44.18%
Ng Chi Keung	1,254,000	-	-	-	1,254,000	1.00%
Chan Chee Shing	165,000	-	-	-	165,000	0.13%

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 2008, 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 2008, 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 2008	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 2008	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\$)
Ng Chi Keung (Director)	400,000	-	3 December 2007	Exercisable in five batches during the period from 1 December 2008 to 30 November 2014	-	-	400,000	9.97	9.72	-
Chan Chee Shing (Director)	400,000	-	3 December 2007	Exercisable in five batches during the period from 1 December 2008 to 30 November 2014	-	-	400,000	9.97	9.72	-
Employees	21,000	-	7 February 2003	Exercisable in four batches during the period from 1 January 2004 to 31 December 2008	-	-	21,000	1.00	0.75	-
Employee	300,000	-	1 September 2004	Exercisable in four batches during the period from 23 September 2005 to 22 September 2009	-	(100,000)	200,000	2.325	2.35	8.40
Employee	360,000	-	25 April 2005	Exercisable in five batches during the period from 14 June 2006 to 13 June 2013	(360,000)	-	-	3.50	3.50	-
Employees	3,300,000	-	3 December 2007	Exercisable in five batches during the period from 1 December 2008 to 30 November 2014	(90,000)	-	3,210,000	9.97	9.72	-



Apart from the foregoing, at no time during the six months ended 30 September 2008 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 2008, 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>	Shares directly and/or indirectly held	Percentage of total issued shares
(i) Neblett	(1)	51,984,279	41.43%
(ii) Jumbo Easy Limited	(1)	51,984,279	41.43%
(iii) Winning Spirit International Corp	(1)	51,984,279	41.43%
(iv) HSBC International Trustee Limited	(1)	51,984,279	41.43%
(v) Allard Partners Limited		10,323,500	8.23%
(vi) Deutsche Bank Aktiengesellschaft		10,263,500	8.18%
(vii) Veer Palthe Voute NV	(2)	8,780,000	7.00%
(viii) Dresdner Bank Aktiengesellschaft	(2)	8,780,000	7.00%
(ix) Allianz SE	(2)	8,780,000	7.00%
(x) Lloyd George Investment Management (Bermuda) Limited		7,496,500	5.97%

Notes:

- (1) These interests represented 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 represented 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 2008.

Interim dividend

The Board declared an interim dividend of HK10.0 cents (2007: HK19.0 cents) per share for the six months ended 30 September 2008 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 17 December 2008. This represents a distribution of approximately 27% of the Group's profit attributable to equity shareholders. The interim dividend will be paid on or before Wednesday, 24 December 2008.

Closure of register of members

The Register of Members of the Company will be closed from Tuesday, 16 December 2008 to Wednesday, 17 December 2008, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 15 December 2008 for registration.



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

Save for the repurchases of shares by the Company as disclosed in note 13 on page 20, 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 Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2008, except that (i) the roles of Chairman and Chief Executive of the Company are vested in the same person (Code Provision A.2.1); and (ii) the Chairman and/or Managing Director of the Company are not subject to retirement by rotation (Code Provision A.4.2).

Currently, Mr Dennis Lo Hoi Yeung ("Mr Lo") holds both positions of Chairman and Chief Executive. In view of the extensive experience of Mr Lo 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. The Board considers that the balance of power and authority is adequately ensured by the operation of the Board. 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.

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 auditors the unaudited financial information and interim results for the six months ended 30 September 2008.

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 2008.

Appreciation

I would like to take this opportunity to express my gratitude to my fellow directors for their continuous and unfailing support. In particular, I would like to thank Mr Peter Lee Sheung Yam, who had retired on 28 August 2008, for his long and dedicated contributions to the Company during his tenure of service as an Independent Non-executive Director since 1995. At the same time I also welcome Mr Tony Tsoi Tong Hoo, who joined the Company on 11 November 2008 as an Independent Non-executive Director. I trust that the Company will benefit from the invaluable financial expertise and experience of Mr Tsoi. Last but not least, I thank the management and staff for their concerted efforts during these challenging times.

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

Hong Kong, 27 November 2008