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FAIRWOOD HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 52)



ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2022

HIGHLIGHTS

- Though Fairwood delivered a solid performance in the first three quarters of the year, the “fifth wave” of COVID-19 brought unprecedented challenges to the food and beverage sector in the last quarter. In addition, subsidies from the government decreased from last year’s HK\$272.5 million (including employment support scheme of HK\$183.2 million) to HK\$58.9 million this year. As a result, Fairwood recorded a drop of profit by 72.2% to HK\$42.6 million (2021: HK\$153.6 million).
- Revenue was HK\$2,881.9 million (2021: HK\$2,646.5 million), increased by 8.9%.
- The Group maintained a healthy financial position with bank deposits, cash and cash equivalents of HK\$557.1 million as at 31 March 2022.
- The Group had no bank borrowings and nil gearing ratio as at 31 March 2022.
- Basic earnings per share were HK32.91 cents (2021: HK118.59 cents), decreased by 72.2%.
- Final dividend of HK40.0 cents per share was proposed, representing a total dividend per share for the year of HK65.0 cents and a payout ratio of approximately 197%.

ANNUAL RESULTS

The Board of Directors (the “Board”) of Fairwood Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2022, together with the comparative figures for the year ended 31 March 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 MARCH 2022

		2022	2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	2,881,942	2,646,469
Cost of sales		<u>(2,659,381)</u>	<u>(2,318,873)</u>
Gross profit		222,561	327,596
Other revenue	4	62,156	93,785
Other net gain	4	14,107	6,136
Selling expenses		(37,165)	(34,511)
Administrative expenses		(130,449)	(115,526)
Impairment losses on other property, plant and equipment		(18,960)	(34,310)
Impairment losses on right-of-use assets		(30,312)	(59,377)
Valuation losses on investment properties		<u>(1,730)</u>	<u>(8,570)</u>
Profit from operations		80,208	175,223
Finance costs	5(a)	<u>(32,404)</u>	<u>(36,824)</u>
Profit before taxation	5	47,804	138,399
Income tax	6	<u>(5,164)</u>	<u>15,218</u>
Profit for the year attributable to equity shareholders of the Company		<u>42,640</u>	<u>153,617</u>
Earnings per share	8		
Basic		<u>HK32.91 cents</u>	<u>HK118.59 cents</u>
Diluted		<u>HK32.91 cents</u>	<u>HK118.59 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year attributable to equity shareholders of the Company	<u>42,640</u>	<u>153,617</u>
Other comprehensive income for the year:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
– Exchange differences on translation of financial statements of subsidiaries in Mainland China	<u>1,906</u>	<u>4,737</u>
Total comprehensive income for the year attributable to equity shareholders of the Company	<u>44,546</u>	<u>158,354</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2022

		At 31 March 2022 <i>HK\$'000</i>	At 31 March 2021 <i>HK\$'000</i>
Non-current assets			
Investment properties		28,100	29,830
Other property, plant and equipment		385,197	424,866
Right-of-use assets		<u>1,078,744</u>	<u>1,110,609</u>
		1,492,041	1,565,305
Lease receivables		609	2,768
Goodwill		1,001	1,001
Rental deposits paid		68,797	72,737
Deferred tax assets		<u>5,336</u>	<u>3,935</u>
		<u>1,567,784</u>	<u>1,645,746</u>
Current assets			
Inventories		57,278	46,008
Trade and other receivables	10	144,664	99,764
Other financial assets	9	—	16,745
Current tax recoverable		10,440	17,633
Bank deposits and cash and cash equivalents		<u>557,102</u>	<u>622,143</u>
		<u>769,484</u>	<u>802,293</u>
Current liabilities			
Trade and other payables	11	344,428	359,778
Lease liabilities		410,072	433,320
Current tax payable		41	20
Provisions	12	<u>27,781</u>	<u>18,784</u>
		<u>782,322</u>	<u>811,902</u>
Net current liabilities		<u>(12,838)</u>	<u>(9,609)</u>
Total assets less current liabilities		<u>1,554,946</u>	<u>1,636,137</u>

		At 31 March 2022 <i>HK\$'000</i>	At 31 March 2021 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Lease liabilities		776,158	785,222
Deferred tax liabilities		1,086	1,795
Rental deposits received		1,769	1,768
Provisions	<i>12</i>	61,697	69,516
		<u>840,710</u>	<u>858,301</u>
Net assets		<u>714,236</u>	<u>777,836</u>
Capital and reserves			
Share capital		129,553	129,533
Reserves		<u>584,683</u>	<u>648,303</u>
Total equity		<u>714,236</u>	<u>777,836</u>

Notes:

1 BASIS OF PREPARATION

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 March 2022.

As at 31 March 2022, the Group's total current assets were HK\$769,484,000 (2021: HK\$802,293,000) and total current liabilities were HK\$782,322,000 (2021: HK\$811,902,000). As a result, the Group recorded net current liabilities of HK\$12,838,000 (2021: HK\$9,609,000) mainly due to lease liabilities of HK\$410,072,000 (2021: HK\$433,320,000) recognised under current liabilities.

Despite the net current liabilities as at 31 March 2022, the Group's bank deposits and cash and cash equivalents amounted to HK\$557,102,000 (2021: HK\$622,143,000) on the same day and the Group reported a profit before taxation of HK\$47,804,000 (2021: HK\$138,399,000) and recorded net cash generated from operating activities of HK\$561,362,000 (2021: HK\$780,789,000) during the year ended 31 March 2022. Furthermore, based on the cash flow projection prepared by management which covers a period of not less than twelve months from 31 March 2022, the directors are of the opinion that anticipated cash flows generated from the Group's operations can strengthen the Group's financial position and enable the Group to have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 March 2022. Accordingly, the Group's consolidated financial statements have been prepared on a going concern basis.

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are operation of fast food restaurants and property investments. Revenue represents the sales value of food and beverages sold to customers and rental income and excludes value added tax or other sales taxes and is after deduction of any trade discounts. An analysis of revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sale of food and beverages at a point in time	2,879,467	2,641,319
Property rental	<u>2,475</u>	<u>5,150</u>
	<u><u>2,881,942</u></u>	<u><u>2,646,469</u></u>

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

(b) Segment reporting

The Group manages its businesses by two divisions, namely Hong Kong restaurants and Mainland China restaurants, which are organised by geographical location. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

(i) Segment results

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

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2022 and 2021 is set out below.

	Hong Kong		Mainland China		Other		Total	
	restaurants		restaurants		segments			
	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	2,733,685	2,525,542	145,782	115,777	2,475	5,150	2,881,942	2,646,469
Inter-segment revenue	—	—	—	—	393	1,804	393	1,804
Reportable segment revenue	<u>2,733,685</u>	<u>2,525,542</u>	<u>145,782</u>	<u>115,777</u>	<u>2,868</u>	<u>6,954</u>	<u>2,882,335</u>	<u>2,648,273</u>
Reportable segment profit/(loss)	<u>108,532</u>	<u>255,760</u>	<u>(15,690)</u>	<u>(19,917)</u>	<u>5,964</u>	<u>4,813</u>	<u>98,806</u>	<u>240,656</u>
Interest income	<u>3,130</u>	<u>4,288</u>	<u>57</u>	<u>33</u>	<u>108</u>	<u>116</u>	<u>3,295</u>	<u>4,437</u>
Interest expense	<u>(29,844)</u>	<u>(34,817)</u>	<u>(2,560)</u>	<u>(2,007)</u>	<u>—</u>	<u>—</u>	<u>(32,404)</u>	<u>(36,824)</u>
Depreciation	<u>(471,673)</u>	<u>(519,003)</u>	<u>(26,783)</u>	<u>(24,175)</u>	<u>(922)</u>	<u>(921)</u>	<u>(499,378)</u>	<u>(544,099)</u>
Impairment losses on other property, plant and equipment	<u>(15,385)</u>	<u>(28,723)</u>	<u>(3,575)</u>	<u>(5,587)</u>	<u>—</u>	<u>—</u>	<u>(18,960)</u>	<u>(34,310)</u>
Impairment losses on right-of-use assets	<u>(25,333)</u>	<u>(48,538)</u>	<u>(4,979)</u>	<u>(10,839)</u>	<u>—</u>	<u>—</u>	<u>(30,312)</u>	<u>(59,377)</u>

(ii) *Reconciliations of reportable segment profit*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit		
Reportable segment profit before taxation	98,806	240,656
Valuation losses on investment properties	(1,730)	(8,570)
Impairment losses on other property, plant and equipment	(18,960)	(34,310)
Impairment losses on right-of-use assets	(30,312)	(59,377)
	<u>47,804</u>	<u>138,399</u>
Consolidated profit before taxation	<u>47,804</u>	<u>138,399</u>

(iii) *Geographic information*

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

	Revenue from external customers		Specified non-current assets	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong (place of domicile)	2,733,848	2,527,330	1,345,237	1,442,495
Mainland China	148,094	119,139	147,805	123,811
	<u>2,881,942</u>	<u>2,646,469</u>	<u>1,493,042</u>	<u>1,566,306</u>

4 OTHER REVENUE AND NET GAIN

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other revenue		
Interest income	3,295	4,437
Government grants (<i>Note</i>)	<u>58,861</u>	<u>89,348</u>
	<u><u>62,156</u></u>	<u><u>93,785</u></u>
Other net gain		
Net loss on disposal of other property, plant and equipment	(5,291)	(9,779)
Net foreign exchange gain	2,064	2,038
Electric and gas range incentives	5,735	5,166
Profit on sale of redemption gifts	585	766
Write-back of other payables	1,901	1,702
Gain on lease modifications	6,804	1,591
Others	<u>2,309</u>	<u>4,652</u>
	<u><u>14,107</u></u>	<u><u>6,136</u></u>

Note: This mainly represented subsidies approved by the Finance Committee of the Legislative Council of the Hong Kong Special Administrative Region (“HKSAR”) for Food Licence Holders Subsidy Scheme to cope with the operating pressure caused by the novel coronavirus epidemic.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(a) Finance costs		
Interest expense on lease liabilities	<u>32,404</u>	<u>36,824</u>
(b) Other items		
Cost of inventories (<i>Note</i>)	737,734	657,543
Depreciation charge		
– Other property, plant and equipment	90,948	100,865
– Right-of-use assets	<u>408,430</u>	<u>443,234</u>

Note: The cost of inventories represents food costs.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Provision for the year	7,307	79
(Over)/under-provision in respect of prior years	(33)	857
Deferred tax		
Origination and reversal of temporary differences	<u>(2,110)</u>	<u>(16,154)</u>
	<u>5,164</u>	<u>(15,218)</u>

The provision for Hong Kong Profits Tax for 2021/2022 is calculated at 16.5% (2020/2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rate regime.

For this subsidiary, the first HK\$2.0 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020/2021.

No provision has been made for the PRC corporate income tax for 2022 and 2021, as the Group's Mainland China operations sustained a loss for taxation purpose.

7 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interim dividend declared and paid of HK25.0 cents (2021: HK30.0 cents) per share	32,388	38,860
Final dividend proposed after the end of the reporting period of HK40.0 cents (2021: HK60.0 cents) per share	<u>51,821</u>	<u>77,720</u>
	<u>84,209</u>	<u>116,580</u>

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK60.0 cents (2021: HK50.0 cents) per share	<u>77,731</u>	<u>64,767</u>

In respect of the final dividend for the year ended 31 March 2021, there was a difference of HK\$11,000 (final dividend for the year ended 31 March 2020: HK\$nil) between the final dividend disclosed in the 2021 annual financial statements and amount approved and paid during the year which represented dividends attributable to new shares issued upon the exercise of share options, before the closing date of the Register of Members.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$42,640,000 (2021: HK\$153,617,000) and the weighted average number of ordinary shares of 129,550,000 shares (2021: 129,533,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2022 Number of shares '000	2021 Number of shares '000
Issued ordinary shares at 1 April	129,533	129,533
Effect of share options exercised	<u>17</u>	<u>–</u>
Weighted average number of ordinary shares at 31 March	<u>129,550</u>	<u>129,533</u>

(b) Diluted earnings per share

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

9 OTHER FINANCIAL ASSETS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current financial assets		
Debt securities at amortised cost		
– Unlisted but quoted	<u>—</u>	<u>16,745</u>

The current debt securities as at 31 March 2021 represented medium term notes (a) issued by a financial institution in Luxembourg, denominated in United States dollars, bore interest at a rate of 2.3% per annum with maturity date on 12 July 2021; and (b) issued by a financial institution in Hong Kong, denominated in Renminbi, bore interest at a rate of 4.5% per annum with maturity date on 20 November 2021.

10 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
1 to 30 days	15,404	4,693
31 to 90 days	1,882	1,254
91 to 180 days	2	56
181 to 365 days	<u>—</u>	<u>61</u>
	<u>17,288</u>	<u>6,064</u>

The Group's sales to customers are mainly on a cash basis. The Group also grants credit terms of 30 to 75 days to certain customers to which the Group provides catering services.

11 TRADE AND OTHER PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
1 to 30 days	104,122	106,975
31 to 90 days	855	68
91 to 180 days	1,011	528
181 to 365 days	19	62
Over one year	<u>170</u>	<u>196</u>
	<u>106,177</u>	<u>107,829</u>

12 PROVISIONS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Provision for long service payments	21,398	22,073
Provision for reinstatement costs for rented premises	<u>68,080</u>	<u>66,227</u>
	89,478	88,300
Less: Amount included under “current liabilities”	<u>(27,781)</u>	<u>(18,784)</u>
	<u><u>61,697</u></u>	<u><u>69,516</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Overall performance

Revenue of the Group for the year ended 31 March 2022 increased by 8.9% year-on-year, to HK\$2,881.9 million (2021: HK\$2,646.5 million). Profit attributable to equity shareholders dropped by 72.2% to HK\$42.6 million (2021: HK\$ 153.6 million). Gross profit margin decreased to 7.7% (2021: 12.4%). Basic earnings per share amounted to HK32.91 cents (2021: HK118.59 cents).

Business review

With COVID-19 largely under control in Hong Kong throughout the first nine months of the financial year, the Group delivered a solid performance from April to December 2021. Despite mandatory social distancing measures that included limits on diner numbers and restrictions on restaurant opening hours, Fairwood adapted well to the situation and embarked on a number of successful initiatives to attract and retain customers. We were also agile and responsive in our response to rise in food costs due to supply chain disruptions and global logistics difficulties, and were quick to adjust our operations to mitigate the impact of these external factors. In addition, the Group benefited from various forms of support and subsidies provided by the Government to the sector throughout the period. Overall, for the first three quarters of the year, Fairwood's performance was very satisfactory when set against the particular challenges and difficulties faced by the F&B sector as a whole.

In January 2022, however, dining restrictions were further tightened upon the outbreak of the "fifth wave" of the pandemic. This was also a period when many diners also became more cautious than ever about visiting restaurants. High levels of COVID-19 infections among the public in this period also affected restaurant traffic, and some restaurant chains in fact suspended operations completely during this challenging period. For the F&B sector, the final quarter was a time of significant disruption, which required considerable patience and resilience to weather successfully. Despite being significantly impacted by this "fifth wave" outbreak, Fairwood remained determined to support Hong Kong people at a time of unprecedented difficulty and disruption. In the face of often severe logistical challenges, we kept our stores open throughout the worst of the outbreak period, subject to localised closures due to staff shortages. We are proud to have been able to contribute to keeping our city going at a time that tested the resources of many. Nevertheless, the difficult final quarter did impact what had been to that point quite satisfactory results for the Group.

As mentioned, for most of the year Fairwood coped well with COVID-19 rules, developing initiatives to address new needs and enable diners to better manage the restrictions. Innovations and improvements to some of our popular baked rice and pasta dishes, and claypot dishes, were very well received and proved especially popular as takeaway items. We also upgraded the product quality of some dishes, and added new twists to meals aimed at attracting younger diners. We are very aware that value for money is an important factor in our diners' Fairwood experience, so to offset essential price adjustments due to rising costs, we introduced new low-

priced meal sets that gave diners greater flexibility in their meal choices. We also made good strides forward in sales of festive catering dishes such as pun choi and Christmas meals, driven by an upgraded online ordering platform, new products, and special offers.

Restrictions on in-store dining led to healthy growth in Fairwood's takeaway sales over the year. Takeaway services have been especially important for our specialty restaurants, which rely heavily on the hard-hit evening dining segment. Sales of meals from our restaurants for home delivery via various delivery service platforms rose significantly over the year. Fairwood's takeaway sales were further boosted by the launch of new takeaway meal sets designed specially for home dining, advertised through a range of promotional programmes and purchase discounts. Especially successful was a HK\$99 for three dishes campaign, launched in January 2022, which offered excellent value takeaway dishes for eating at home.

Our "Click-and-Collect" online ordering platform went from strength to strength in the year, with the percentage of Fairwood sales being made via this platform continuing to rise steadily. Originally launched in August 2020, the platform was upgraded in August 2021 to further improve its user-friendliness. At the same time, we launched a new "Click-and-Collect Customer Loyalty Programme" which immediately proved very popular. To date, over 260,000 members have been recruited to the programme through various offers, fostering brand loyalty and boosting sales.

The Group faced steady rises in both food and labour costs across the year. To offset their impact, we looked at ways of further optimising our menus to create more cost-effective combinations of ingredients and dishes. We introduced a number of initiatives to enhance productivity in our central food processing plant, which in turn brought about improvements in the quality and consistency of our menu items at the individual store level. We also enhanced the internal collaboration between departments to reduce food costs, for instance by creating improved synergies between our procurement and menu planning teams so that menu choices are better linked with the availability of cost-effective ingredients.

The Group has been taking steps in recent times to further modernise its brand image and elevate the Fairwood brand experience, to make Fairwood even more appealing to younger mass market consumers. In February 2022, we opened our first store with a new 4th generation design in Mong Kok, a shopping district popular with young people. Featuring a new brand look that includes a sleek urban design vibe, trendy staff uniforms, and a greater range of digital options instore, the store is acting as a prototype for brand experience initiatives that we plan to roll out more widely in the future.

In October 2021 we upgraded our corporate website (<https://www.fairwoodholdings.com.hk/en>) to make it mobile friendly and enhance the user experience. Its fresh new look and updated corporate information has prompted significant increases in both page views and viewing times since the new website was launched.

Hong Kong

In the first three quarters of 2021–22, Fairwood’s ability to adapt to the constraints of Hong Kong’s strict COVID-19 policies and its launch of various new initiatives to drive growth resulted in a steady overall performance. However, the “fifth wave” COVID-19 outbreak of the final quarter disrupted the market severely, causing Fairwood’s Same Store Sales Growth (“SSSG”) to fall from +17% in the 1st half to around +10% for the full 2021–22 year.

Despite this, Fairwood delivered a positive performance for the year, once Government subsidies of some HK\$57 million are taken into account. As mentioned above, an increased focus on takeaway sales and enhancements to the Group’s digital presence proved effective in helping to counteract the inevitable impact of the pandemic measures on Fairwood’s business.

Our specialty restaurants, highly dependent on the evening dinner segment, have shown great creativity and resilience in managing the challenges associated with the pandemic. As society transitions into the next phase, these restaurants are well-positioned to cater for diners in what we expect to be a narrower market following the shake-up in the sector caused by COVID-19.

Mainland China

Results for the Group’s Fairwood stores in Mainland China reflected a different set of responses to COVID-19 outbreaks across the border from those in Hong Kong. Most parts of Guangzhou and Shenzhen were subject to localised lockdowns in June 2021 and March 2022, which restricted the movements of locals and resulted in temporary store closures. As a result, the year-on-year SSSG for Fairwood’s Mainland China stores fell from around 10% for the first half to finish almost unchanged for the full year. Despite this, the Group continued pushing forward with its expansion plans in Mainland China. A further five stores were opened there in the year, offset by the closure of one, making for a total of 20 stores operating as at 31 March 2022. Localisation of the Mainland management team was completed during the year, and a new POS system was rolled out in the first half, supplemented by an E-workflow system to enhance efficiency in the second half. Fairwood’s collaboration with Mainland delivery service providers such as Meituan continued to mature, pushing up takeaway sales at its stores.

Network

During the year under review, the Group opened 11 new stores, of which six were in Hong Kong and five in Mainland China. In the same period it closed six underperforming stores, five in Hong Kong and one in Mainland China. As a result, at 31 March 2022 it was operating with 177 stores, 157 in Hong Kong and 20 in Mainland China.

The Group’s Fairwood fast food restaurant chain in Hong Kong finished the year with 145 stores, after five were opened and five closed during the year. As for its specialty restaurants, one additional store was opened in the year, and at year-end there were a total of 12 specialty stores in operation: three ASAP, one Kenting Tea House, four Taiwan Bowl, and four The Leaf Kitchen.

Giving back to the community

Once again this year, COVID-19 restrictions imposed constraints on our ability to deliver our usual range of community care initiatives. We did continue to actively promote our popular Fairwood Care For Seniors Card, and saw the number of members climb further to approximately 323,000. The special discounts available through the card are much treasured by these senior card-holders, and we continued to help them ‘Live a Great Life’ by launching regular new promotions throughout the year.

In October 2021, we revamped our Fairwood Give Warmth programme and renamed it as the “Fairwood Care for Community Programme” to better reflect its scope. Meanwhile, our “Heartwarming Food Donation Programme” continued to provide a valuable channel for meal donations to those in need. As for our “Joyous Meal with Seniors” activities, though social distancing restrictions impacted the number we could organise, we did manage to provide several special meal gatherings at Fairwood restaurants for groups of around 20 elderly people who live alone, organised together with local NGOs.

Prospects

After a final quarter of 2021–22 that tested the resilience of Hong Kong across the board, the easing of the pandemic outbreak gives reason for confidence looking forward. Fairwood sales began to pick up once again towards the end of the period, and the government’s road map for opening up helped improved sentiment among diners. With case numbers falling, consumers have begun to regain confidence in dining environments and return to their favourite restaurants. As one of Hong Kong’s best-loved and most trusted fast food chains, Fairwood has quickly benefited from this shift in mood.

As Fairwood has changed and adapted in the face of the pandemic, so we have continued to reflect on our history and role in Hong Kong. Fairwood is a dynamic, adaptable and creative Group, and we wish to reflect these qualities in our brand image. To this end, we will be continuing to refresh and rejuvenate our Fairwood brand in the year ahead. These brand initiatives are especially apt because 2022 marks Fairwood’s 50th anniversary. To celebrate Fairwood’s special place in Hong Kong for over half a century, we will be launching a major anniversary campaign later this year.

Food and staff costs look set to rise further going forward. Improvements in the rental market give us some scope to offset these rises by favourable negotiations for lease renewals, but we will also be looking at other ways of enhancing our efficiency and productivity in the year ahead. Our staff numbers at year-end stood at around 5,700, and it remains important for us to attract and retain committed, well-trained staff going forward. We plan to continue to invest time and resources into staff development and training, which among other things will help us enhance our succession planning and ensure steady long-term continuity in our operations.

On the Mainland China, we expect the year ahead to move us considerably closer to our initial goal of achieving profitability following our initial investment phase. We will continue to open new stores in the coming months, with the aim of establishing a profitable network of 30 stores by the end of 2022. Our store model in Mainland China is different from in Hong Kong, reflecting different clientele and eating habits there; new stores are typically smaller than Hong Kong ones, so they can be opened more quickly and with less expense. Our Mainland Fairwood network will be focused on the Greater Bay Area (“GBA”), where we see very high potential, and will target a younger clientele of office workers and professionals. The stores will all offer convenient takeaway options, and in-store mobile ordering will be introduced to all our Mainland China stores in 2022.

Financial review

Liquidity and financial resources

At 31 March 2022, total assets of the Group were HK\$2,337.3 million (2021: HK\$2,448.0 million). The Group’s net current liabilities were HK\$12.8 million (2021: HK\$9.6 million), represented by total current assets of HK\$769.5 million (2021: HK\$802.3 million) against total current liabilities of HK\$782.3 million (2021: HK\$811.9 million). Current ratio, being the proportion of total current assets against total current liabilities, was 1.0 (2021: 1.0). Total equity was HK\$714.2 million (2021: HK\$777.8 million).

The Group finances its business with internally generated cash flows and available banking facilities. At 31 March 2022, the Group had bank deposits and cash and cash equivalents amounting to HK\$557.1 million (2021: HK\$622.1 million), representing a decrease of 10.5%. Most bank deposits and cash and cash equivalents were denominated in Hong Kong dollars, United States dollars and Renminbi.

As at 31 March 2022 and 2021, the Group had no bank loan and the gearing ratio was nil, which was calculated based on the total bank loan over the total equity. The unutilised banking facilities were HK\$335.9 million (2021: HK\$269.7 million).

Depreciation

The Group’s depreciation of other property, plant and equipment decreased by HK\$10.0 million from HK\$100.9 million to HK\$90.9 million mainly due to fewer renovation works during the year.

The depreciation charges of right-of-use assets, which were amortised the right-of-use assets in a straight-line basis over the lease term in accordance with HKFRS 16, decreased by HK\$34.8 million from HK\$443.2 million to HK\$408.4 million. The decrease was primarily due to the closure of shops during the year and impairment recognised in prior years.

Finance costs

During the year, the Group recorded the finance costs of HK\$32.4 million (2021: HK\$36.8 million). The finance costs represented the interest expenses accrued on the outstanding balance of the lease liabilities.

Profitability

Return on average equity was 5.7% (2021: 20.5%), being profit attributable to equity shareholders of the Company against the average total equity at the beginning and the end of the year.

Capital expenditure

During the year, capital expenditure (excluding right-of-use assets) was approximately HK\$74.6 million (2021: HK\$93.5 million). The decrease was mainly due to fewer renovation works for new shops and existing shops compared to last year.

Financial risk management

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

The Group is exposed to foreign currency risk primarily through cash at banks and other financial assets that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi. As Hong Kong dollar is pegged to United States dollar, the Group does not expect any significant movements in the United States dollar/Hong Kong dollar exchange rate. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

Charges on the Group's assets

At 31 March 2022, the net book value of properties pledged as security for banking facilities granted to certain subsidiaries of the Group amounted to HK\$0.9 million (2021: HK\$1.0 million) and no bank deposits and cash was used to pledge any loans or banking facilities.

Commitments

The Group's capital commitments outstanding at 31 March 2022 were HK\$27.0 million (2021: HK\$7.9 million).

Contingent liabilities

At 31 March 2022, guarantees are given to banks by the Company in respect of banking facilities extended to certain wholly-owned subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under these guarantee arrangements. The maximum liability of the Company at the end of the reporting period under these guarantees is the amount of the facilities drawn down by all the subsidiaries that are covered by these guarantees, being HK\$88.0 million (2021: HK\$89.2 million).

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

Employee information

At 31 March 2022, the total number of employees of the Group was approximately 5,700 (2021: 5,600). Staff costs for the year were approximately HK\$1,004.5 million (2021: HK\$734.3 million). The increase was mainly due to the employment support scheme of HK\$183.2 million subsidies from HKSAR Government last year. Employees' remuneration is commensurate with their job nature, qualifications and experience. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors.

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

DIVIDEND

The Board recommends to pay a final dividend of HK40.0 cents (2021: HK60.0 cents) per share for the year ended 31 March 2022. Together with the interim dividend of HK25.0 cents (2021: HK30.0 cents) per share paid during the year, the total dividend for the year ended 31 March 2022 amounts to HK65.0 cents (2021: HK90.0 cents) per share, representing a total distribution of approximately 197% of the Group's profit for the year. The proposed final dividend will be paid on or before Thursday, 6 October 2022 to shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 20 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 2 September 2022 to Thursday, 8 September 2022 (both days inclusive) during which period no transfer of shares will be registered. In order for the shareholders to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Room 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 1 September 2022 for registration.

The Register of Members of the Company will also be closed from Friday, 16 September 2022 to Tuesday, 20 September 2022 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer of shares accompanied by the

relevant share certificates must be lodged with the Company's Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Room 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 15 September 2022 for registration.

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

Throughout the year ended 31 March 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2022, save and except that the Chairman and the Managing Director (the Chief Executive Officer) of the Company are not subject to retirement by rotation under the Bye-laws of the Company. Further information will be provided in the "Corporate Governance Report" of the 2021/2022 Annual Report.

AUDIT COMMITTEE

The audit committee comprises three Independent Non-executive Directors of the Company and reports to the Board. The audit committee has reviewed with the management and the Company's external auditor the annual results for the year ended 31 March 2022 and discussed internal control and risk management system of the Company with the management.

SCOPE OF WORK OF THE INDEPENDENT AUDITOR

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 March 2022 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by KPMG.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company. Following specific enquiry by the Company, all Directors of the Company confirmed their compliance with the required standards set out in the Model Code throughout the year ended 31 March 2022.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.fairwoodholdings.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2021/2022 Annual Report of the Company containing all information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

APPRECIATION

Although no business enjoys dealing with headwinds like those we have faced over the past year, a number of positives have emerged from the situation for Fairwood. We once again had the opportunity to demonstrate the spirit of resilience and adaptability that has underpinned the Fairwood brand for the past half century. We continued to deliver high quality, excellent value meals to the Hong Kong public even during the height of the pandemic, at a time when others had left the field. And, with the help of Government support, we managed to deliver a solid bottom line in the face of one of the most unpromising environments ever for the F&B sector.

All this was the result of a dedicated effort from everyone associated with Fairwood. I am proud of the Fairwood team, who not only continued to support the first part of our motto, 'Enjoy Great Food', but also helped realise the second part, 'Live a Great Life', in an environment where life was tough for many. Their efforts cannot be praised highly enough, especially in the final quarter when many businesses were struggling to operate normally. I would also like to thank our loyal customers, who continued to support Fairwood even when they could not dine in person. Thanks are also due to our suppliers and other stakeholders, who helped us manage the challenges of ingredient supply and maintain continuity in our operations in uncertain times.

With the fifth wave subsiding and the F&B sector set to return to a more normal mode of operations, we are confident that Fairwood's efforts to manage and overcome the pandemic over the past year will bear fruit in the year to come. As we approach our special 50th anniversary year, we are indeed getting ready to celebrate not only a successful past, but a bright and prosperous future too.

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

Hong Kong, 30 June 2022

As at the date of this announcement, the Directors of the Company are:

Executive Directors: Mr Dennis Lo Hoi Yeung (Executive Chairman), Mr Lo Fai Shing Francis (Chief Executive Officer), Ms Mak Yee Mei and Ms Peggy Lee; and

Independent Non-executive Directors: Mr Ng Chi Keung, Mr Joseph Chan Kai Nin, Dr Peter Lau Kwok Kuen, Mr Peter Wan Kam To and Mr Yip Cheuk Tak.