



**HOP HING GROUP HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

# 2012 Annual Results Presentation

March 2013



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# Presentation Team

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**Mr. Hung Ming Kei, Marvin**

- **Chief Executive Officer**



**Mr. Wong Kwok Ying, David**

- **Group Comptroller**



## Business Update



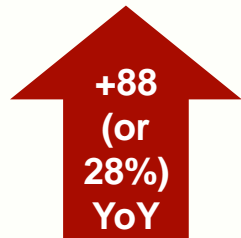
# Major Achievements in 2012

## Successful VSA of QSR Business

- ✓ Successfully completed VSA in March 2012
- ✓ Completed conversion of all convertible securities and placing in September 2012
  - Diversified and enhanced shareholders' base with high quality institutional investors
  - Substantially increased trading liquidity of shares

**1**

**Store Number**



- Leverage system advantage of standardized business to achieve scale advantage

**3**

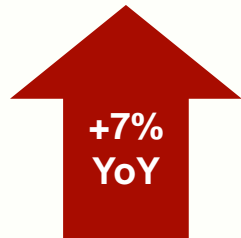
**Revenue**



- Increase in store number and SSSG
- Increase in product variety and marketing initiatives to enhance dining experience

**2**

**SSSG**



- Increased average spending per meal
- Customer traffic growth impacted by short-term macroeconomic and industry environment
  - Sluggish Chinese economy
  - Heavy rainfall in greater Beijing region in Jul/Aug
  - Sino-Japanese tension over the Diaoyu Islands in Sept
  - Chicken incident

**4**

**Net Profit**



- Effective cost control amidst increasing cost environment:
  - Food cost margin: up 0.1 pp YoY
  - Labor cost margin: up 0.1 pp YoY
  - Rental cost margin: up 0.8 pp YoY

(1) Excludes other income and gains and before unallocated head office expenses

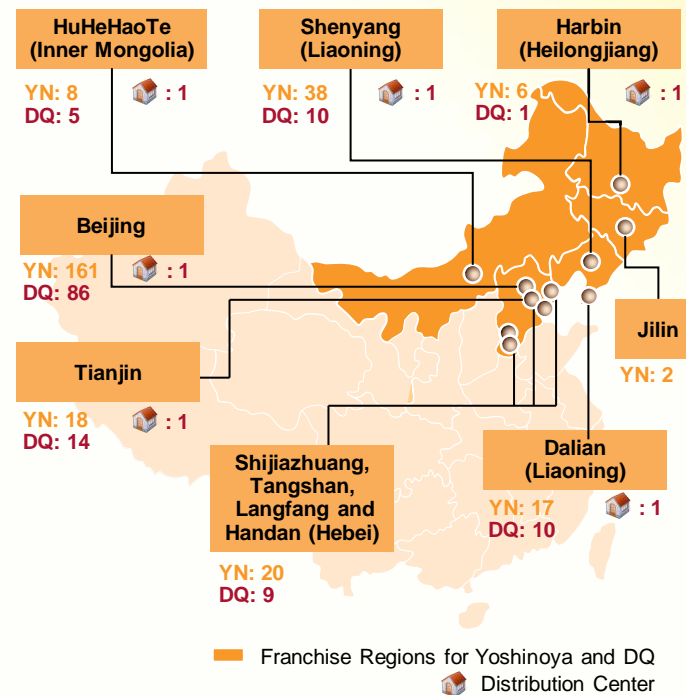


# QSR Business – 88 New Stores in 2012

## Store Network

	Total Population (mm) <sup>(1)</sup>	Yoshinoya		Dairy Queen		Total	
		Dec 31, 2012 <sup>(2)</sup>	Net New Stores	Dec 31, 2012 <sup>(2)</sup>	Net New Stores	Dec 31, 2012 <sup>(2)</sup>	Net New Stores
Beijing	20.2	161	20	86	10	247	30
Tianjin	13.6	18	6	14	6	32	12
Hebei <sup>(2)</sup>	72.4	20	13	9	5	29	18
Liaoning							
Dalian	5.9	17	1	10	-	27	1
Shenyang	7.2	38	12	10	4	48	16
Jilin	27.5	2	2	-	-	2	2
Inner Mongolia (HuHeHaoTe)	24.8	8	2	5	1	13	3
Heilongjiang (Harbin)	38.3	6	5	1	1	7	6
<b>Total</b>	<b>209.9</b>	<b>270</b>	<b>61</b>	<b>135</b>	<b>27</b>	<b>405</b>	<b>88</b>

## Geographic Distribution



270 Yoshinoya Stores and 135 Dairy Queen Stores

(1) CEIC and National Bureau of Statistics; 2011 data

(2) Cities in Hebei include Shijiazhuang, Tangshan, Langfang and Handan



# FY2012 Financial Overview

# Overview of Consolidated FY2012 Results



## For the Year Ended December 31

(HK\$ mm)	2012	2011	Change (%)
Turnover	2,878	2,450	+17.5%
Gross Profit	1,403	1,206	+16.3%
EBITDA <sup>(1)</sup>	318	303	+5.0%
Operating Profit <sup>(1)</sup>	204	206	(1.0%)
Reported Net Profit	144	156	(7.7%)
Adjusted Net Profit <sup>(1)</sup>	134	131	+2.3%
GP Margin (%)	48.8%	49.2%	(0.4pp)
EBITDA Margin (%)	11.1%	12.4%	(1.3pp)
OP Margin (%)	7.1%	8.4%	(1.3pp)
Adjusted Net Margin (%)	4.7%	5.3%	(0.6pp)
Basic EPS (HK cents) <sup>(2)</sup>	4.39	14.72	(70.2%)
Diluted EPS (HK cents) <sup>(2)</sup>	1.30	0.76	+71.1%
Dividend per share (HK cent)	0.25	-	N/A

(1) Excludes other income and gains and other expenses

(2) Earnings per share attributable to equity holders of the Company



# QSR Business



## QSR Business Overview

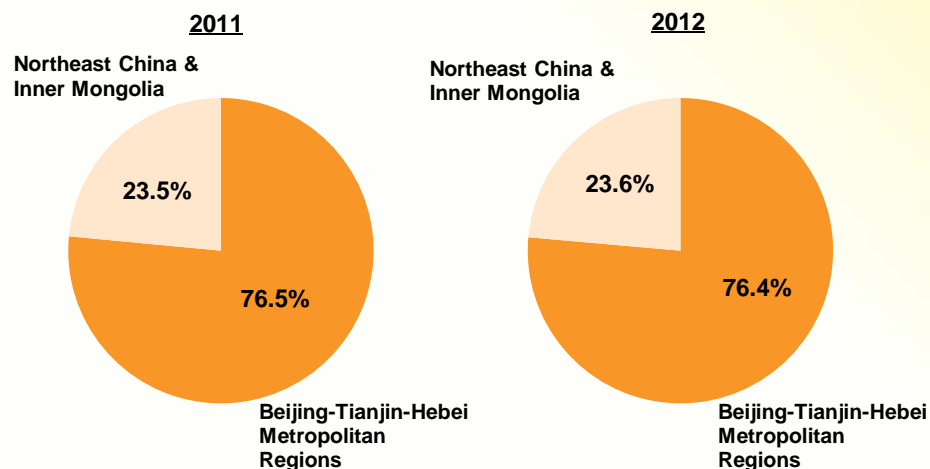
As of December 31

(All in HK\$ mm, unless otherwise stated)

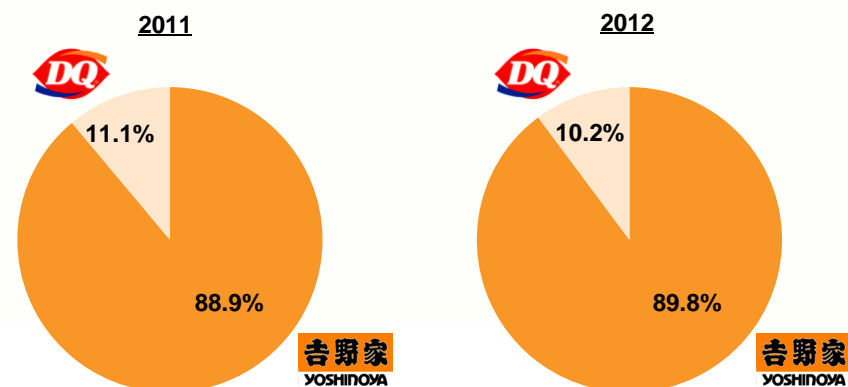
	2012	2011	Change
<b>Revenue</b>	<b>1,971.3</b>	<b>1,644.7</b>	<b>+19.9%</b>
<b>Gross Profit</b>	<b>1,186.8</b>	<b>992.1</b>	<b>+19.6%</b>
<b>Operating Profit<sup>(1)</sup></b>	<b>205.4</b>	<b>198.0</b>	<b>+3.7%</b>
<b>Reported Net Profit</b>	<b>153.3</b>	<b>152.0</b>	<b>+0.9%</b>
<b>Adjusted Net Profit<sup>(1)</sup></b>	<b>145.6</b>	<b>140.1</b>	<b>+3.9%</b>
<b>Gross Margin</b>	<b>60.2%</b>	<b>60.3%</b>	<b>(0.1pp)</b>
<b>Operating Profit Margin<sup>(1)</sup></b>	<b>10.4%</b>	<b>12.0%</b>	<b>(1.6pp)</b>

(1) Excludes other income and gains and before unallocated head office expenses

## QSR Business Revenue by Region



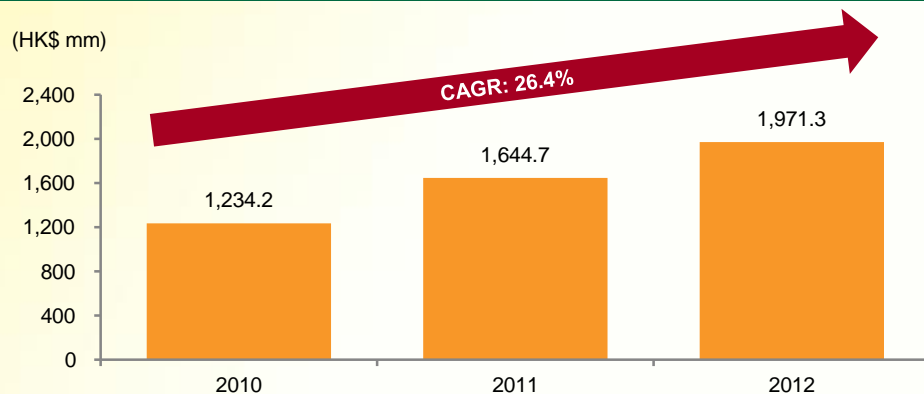
## QSR Business Revenue by Brand



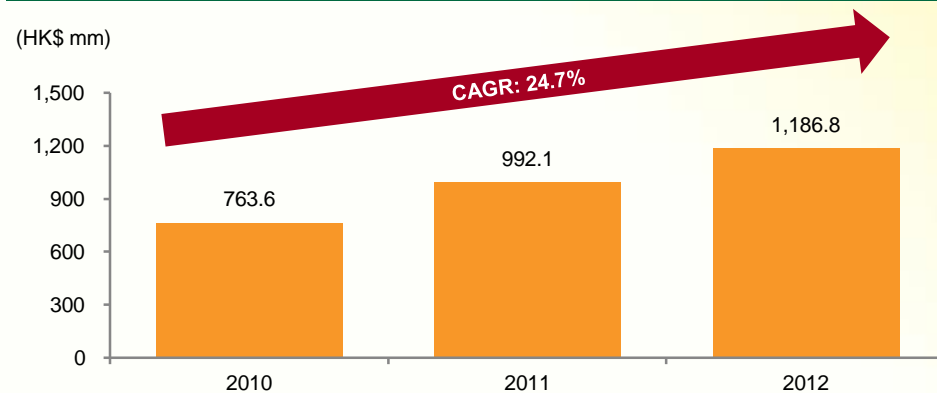


# QSR Business – Financial Summary

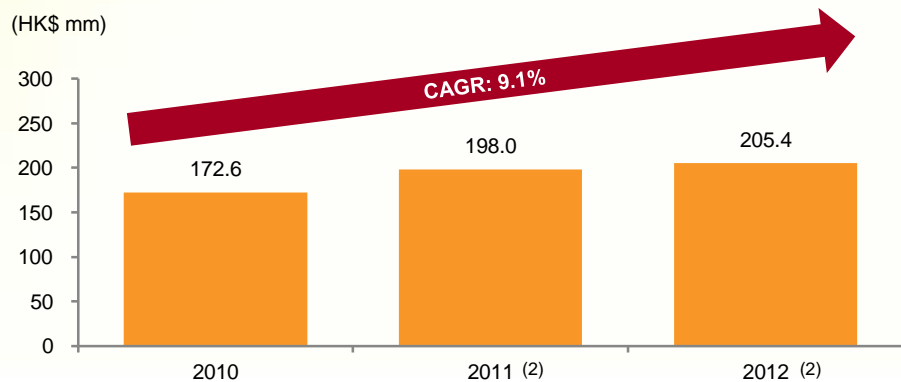
## QSR Business Revenue



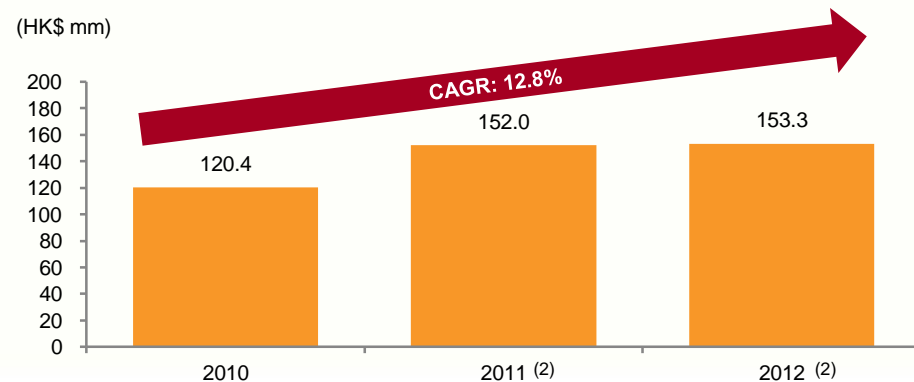
## QSR Business Gross Profit



## QSR Business EBIT<sup>(1)</sup>



## QSR Business Net Profit



(1) Excludes other income and gains

(2) Before unallocated head office expenses

# QSR Business – Effective Cost Control in an Inflationary Environment

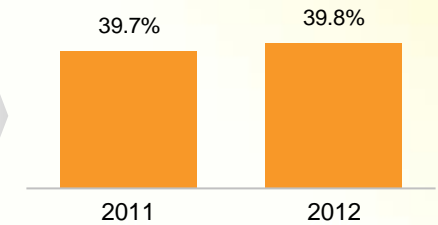


## QSR Business Cost Savings Initiatives

### Food Cost

- Food cost as % of revenue increased by 0.1 pp to 39.8%
- Maintained cost at ~40% of revenue via
  - Strategic alliances with local farmers (农餐对接)
  - Improvements in procurement efficiencies via direct purchases from state-owned enterprises
  - Balanced menu price adjustment

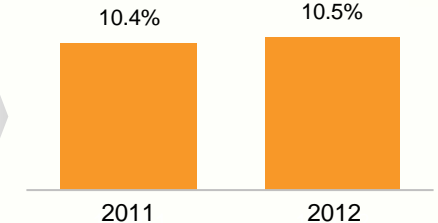
### Food Cost as % of Sales



### Labor Cost

- QSR Business' labor cost as % of revenue increased by 0.1 pp to 10.5%
  - In contrast to a ~10% average labor cost increase within the PRC consumer food service industry
- Stable labor cost as % of revenue despite significant store rollouts in the period
- Improved work process and system to continuously increase labor productivity

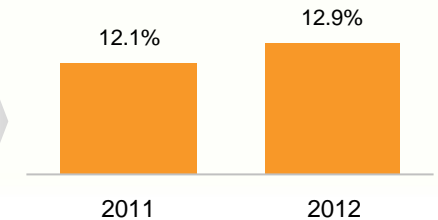
### Labor Cost as % of Sales



### Rental Cost

- With faster urbanization rate, rental cost has gone up in recent years
- Rental cost as % of revenue increased by 0.8 pp to 12.9%
- Strategic relationship with key landlords allow for rapid store rollout at stable rental cost per store
- Long-term lease with 5-10 years, some of which may contain extension option for another 1-5 years

### Rental Cost as % of Sales



# QSR Business – Sound Working Capital Management



## Active Cost Management Results in Healthy Cash Conversion Cycle <sup>(1)</sup>

Days	As of December 31	
	2012	2011
Receivable Turnover Days	0.8	0.8
Inventory Turnover Days	43.3	37.3
Payable Turnover Days	59.6	57.4
Cash Conversion Cycle	(15.5)	(19.3)

Note: Figures refer to QSR Business

(1) Calculated based on average balance sheet figures



# QSR Business – Healthy Cash Flow and Financial Position

## QSR Business Cash Flow Generation

As of December 31

(HK\$ mm)	2012	2011
<b>Net Cash inflow from Operation before adjusting for the other cash flows items below</b>	<b>225.3</b>	<b>219.1</b>
<b>Purchase of PP&amp;E</b>	<b>(163.5)</b>	<b>(99.6)</b>
<b>Interest payments, net drawing and repayment of bank and non-controlling shareholder loans</b>	<b>(13.4)</b>	<b>8.1</b>
<b>Fund movements with group companies and related companies</b>	<b>(53.3)</b>	<b>84.9</b>
<b>Dividends paid</b>	<b>(148.0)</b>	<b>(74.6)</b>
<b>Net increase / (decrease) in cash and cash equivalent</b>	<b>(152.9)</b>	<b>137.9</b>

## QSR Business Gearing Summary

	As of December 31	As of June 30	As of December 31
(HK\$ mm)	2012	2012	2011
<b>Cash</b>	<b>178.4</b>	<b>142.7</b>	<b>176.2<sup>(1)</sup></b>
<b>Total Debt</b>	<b>26.3</b>	<b>26.0</b>	<b>37.0</b>
<b>Net Cash</b>	<b>152.1</b>	<b>116.7</b>	<b>139.2</b>

## QSR Business Return on Equity<sup>(2)</sup>

	As of December 31	
	2012	2011
<b>ROE</b>	<b>76.3%</b>	<b>76.8%</b>

Note: Figures refer to Hop Hing's QSR Business

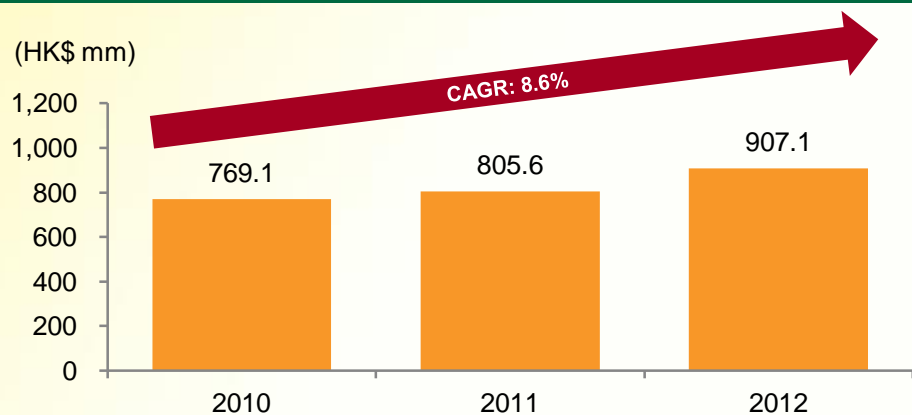
(1) Adjusted for HK\$155.5 mm dividend payable declared out of profit before 2010

(2) Calculated as net profit excludes other income and gains and before unallocated head office expenses divided by average total equity

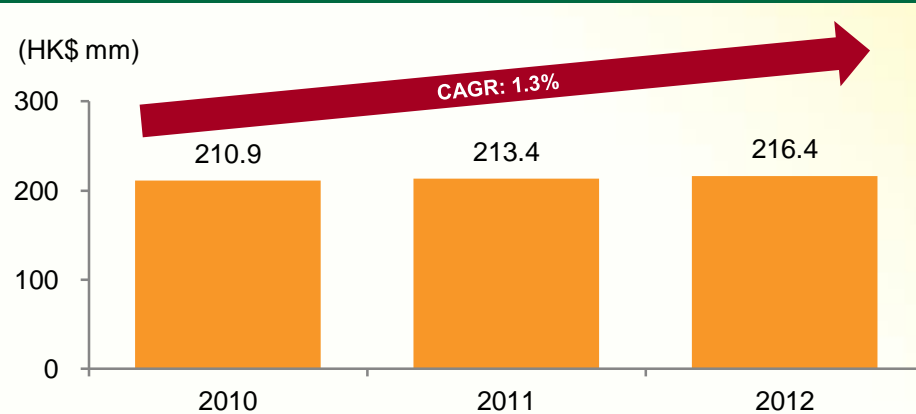


# Edible Oils Business – Performance Overview

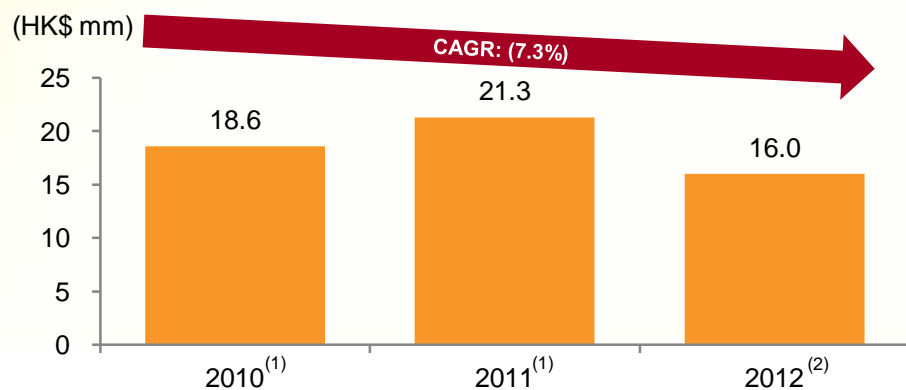
## Edible Oils Business Revenue



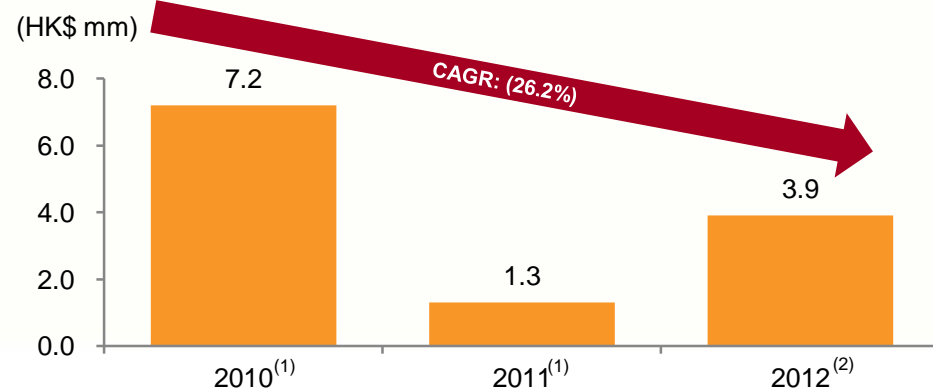
## Edible Oils Business Gross Profit



## Edible Oils Business EBIT



## Edible Oils Business Net Profit



(1) Source: 2010 and 2011 annual reports  
(2) Before unallocated head office expenses



## Future Outlook



# Management Outlook

## Short to Medium Term

### Remain cautions in short to medium term outlook

- General impact on the fast food industry as a result of the chicken incident
- Sino-Japanese political tension
- General Chinese macroeconomic environment

## Medium to Long Term

### Remain confident in medium to long term outlook

- Robust industry fundamentals
- Hop Hing's highly standardized business model with an integrated infrastructure advantage to manage food quality and safety
- Hop Hing's effective cost management advantage allows Hop Hing to outperform peers
- Management advantage with a team of passionate, dedicated and experienced senior management who have extensive on-the-ground local retail experience with international management experience and industry knowledge





# Future Strategies and Key Focus for 2013

## Future Strategies

- 1 Continuously Improve Customer Satisfaction
- 2 Open New Stores with High Quality Earnings and Returns
- 3 Improve Brand Competitiveness and Increase SSSG
- 4 Ensure Food Safety and Quality of Operation
- 5 Enhance HR Management and Minimize Staff Turnover

## Key Focus for 2013

2 Core Operations:  
Financial Budget Management;  
Strategic Brand Development



3 Basic Requirements:  
Future Insight; Innovation; Cooperation



4 Strategic Initiatives:  
New Stores Sales; Product Launch; Information  
System Build-up; HR Management



# Key Growth Drivers for 2013

## 1 Stores Opening Strategy



- Target IRR of >50%
- Efficient planning to reduce the time required to set up new stores

## 2 Product Portfolio Extension



- Ramen (Feb 2013) and Sukiyaki series (Winter 2012)
- Pork rice series (Jan 2013)
- Waffle cone series (Jan 2013)

## 3 Online Platform



- Roll-out of online platform (2H 2013)
- Proactive customer outreach with online ordering, call centre and delivery capabilities

## 4 Optimization of Existing Store Network



- Closely monitor operational performance of different regions
- Strategic planning of store layout design and improve dining environment of existing stores

## 5 Food Safety and Quality



- Continue to improve third-party inspection and cross-regional inspection system
- Improve suppliers management system - identification of new suppliers, establish and strengthen strategic partnerships and promote strategic sourcing and procurement

## 6 Improvement in System Efficiency




- Special division set up in 2012 to develop efficiency improvement strategies
- Kitchen and equipment improvements allow higher efficiency and minimize costs




## Appendix

# Overview of QSR Business



Offers a variety of products including primarily rice bowls with beef, chicken or pork



Offers a range of ice-cream cakes, frozen treats and beverages, including the “Blizzard” treats

- Exclusive franchisee in Franchise Regions (including Beijing, Tianjin, Hebei, Liaoning, Heilongjiang, Jilin and Inner Mongolia)
- Franchisors generally do not have early termination rights except in very limited circumstances, e.g. default or breach of franchise agreements without remedy, bankruptcy, etc
- Attractive franchise agreement terms with minimal restrictions on business operations (e.g. store opening, product development, pricing, ingredients procurement, etc)





# Key Competitive Strengths

## Management Advantage



Experienced management with over 20 years of track record in the QSR business in China  
Management synergy achieved via combining local-rooted retail experience and international vision and corporate governance

## Proven Track Record of Creating Multiple QSR Brands



QSR Business accounted for 68.5% and 94.2% of the Group's revenue and operating EBIT in 2012, respectively  
Record net store rollouts = 88 stores (For the year ended December 31, 2012)

## Cost Advantage



Focused on forming strategic alliances with local farmers (农餐对接)  
Control rental cost through systematic store opening procedure; labor cost through enhancing store-level productivity by introducing standardized performance measures

## System Advantage



Localized procurement, logistics, processing, and quality control systems developed over the past 20 years of presence in China  
Highly standardize and scalable business built upon international standards

## Conscientiousness Towards Quality (良心品质)



Stringent internal control to achieve consistency in delivering safe and delicious food products  
快子大学("Kuai Zi University") – promotes awareness and corporate culture among employees to focus on producing the best quality products

High Quality and Safe Food Offering Sold at Affordable Price



# Sophisticated Supply and Production Chain Management

## Well-Designed Supply Chain Under Best-In-Class Management

### Upstream Sourcing



- Stringent requirement for selection of suppliers ensuring stable supply of high quality food supply at a reasonable cost

### Quality Inspection



- Maintain high hygiene standards throughout food production process from procurement, storage and processing to food preparation at store level

### State-of-the-Art Logistics Facilities



- Transportation, warehouse, distribution centers are all well-designed, maintained and managed

### Standardized Food Processing



- Centralized and standardized food processing & preparation procedures
- Generally purchases processed ingredients to maximize food safety

### Stringent Quality Control



- Award winning quality control system ensuring highest food quality

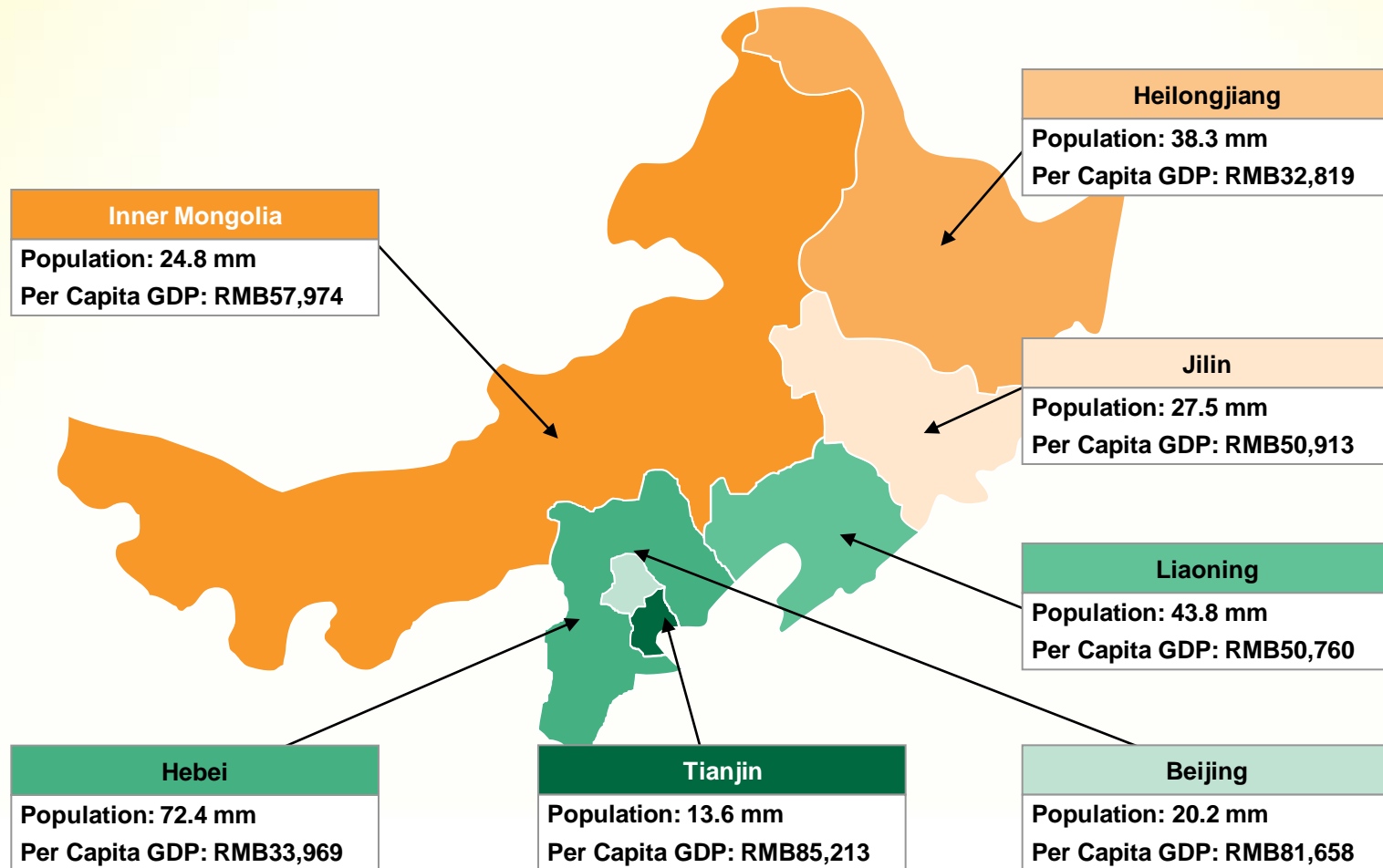
- Continuous Improvement
- Research and Investment
- Sophisticated IT system
- Human Resources Management
- Senior Management's Support and Vision





# Significant Growth Opportunities in Existing Franchise Regions

>240 mm Addressable Market in Existing Franchise Regions



Source: CEIC; 2011 data