



Hop Hing Group Holdings Limited (stock code: 47)

Q3 2017 Operational Update and Interim Results

October 2017



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Q3 2017 BUSINESS UPDATE



Q3 2017 Operational Update

For the three months ended 30 September 2017



Continual Expansion of Store Network with Favorable Sales Growth



New Stores Opened in Q3 2017



吉野家
YOSHINOYA

Fu'an West Road, Beijing
北京阜安西路



Fengke Wanda Plaza, Beijing
北京豐科萬達廣場



Wangfujing "Gold Street", Beijing
北京王府井「金街」



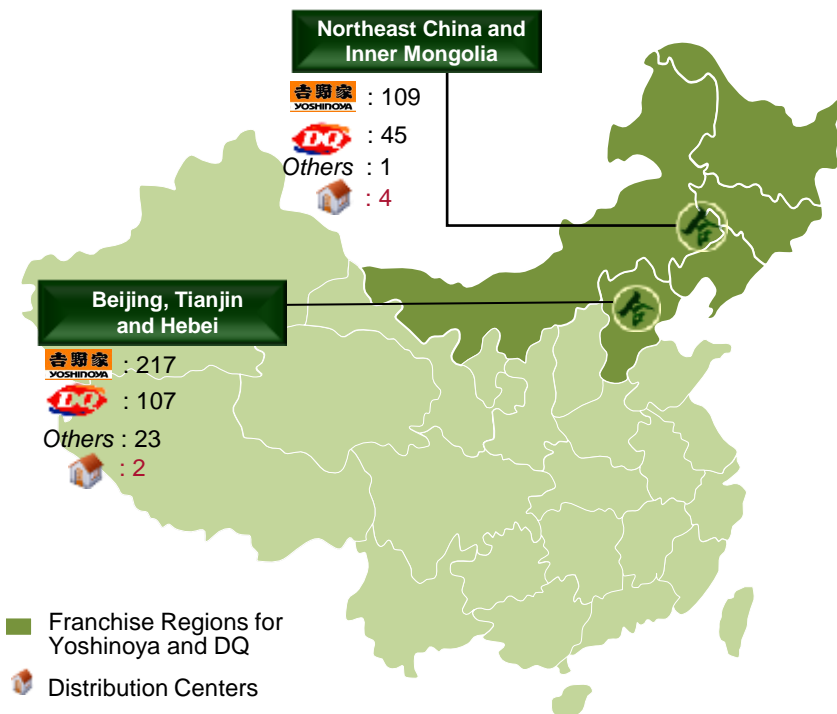
Dongsheng Science & Technology Park, Beijing
北京東升科技園



Continued to Optimise Store Network



Total: 502 Stores (As of 30 September 2017)



Continued to Improve Quality of Our Store Network

	吉野家 YOSHINOYA		DQ		Others		Total	
	As of 30 Sep 2017	As of 30 Jun 2017	As of 30 Sep 2017	As of 30 Jun 2017	As of 30 Sep 2017	As of 30 Jun 2017	As of 30 Sep 2017	As of 30 Jun 2017
Beijing, Tianjin and Hebei	217	216	107	102	23	23	347	341
Northeast China and Inner Mongolia	109	101	45	38	1	1	155	140
Total	326	317	152	140	24	24	502	481

2017 INTERIM RESULTS

– FINANCIAL HIGHLIGHTS



1H 2017 Financial Highlights



(HK\$ million)	For the six months ended 30 June		
	2017	2016	YoY Change
Turnover	1,048.0	1,017.4	+3.0%
Gross Profit	673.3	641.3	+5.0%
EBITDA	174.7	106.3	+64.3%
Operating Profit ¹	112.3	53.2	+111.1%
Profit for the Period	86.3	39.6	+117.8%
Basic EPS (HK cents)	0.88	0.40	+120.0%
Key Financial Ratio			
GP Margin (%)	64.2%	63.0%	+1.2% pts
EBITDA Margin (%)	16.7%	10.5%	+6.2% pts
OP Margin (%) ¹	10.7%	5.2%	+5.5% pts
NP Margin (%)	8.2%	3.9%	+4.3% pts
Expenses			
Selling and distribution expenses ²	(420.8)	(444.5)	-5.3%
<i>Selling and distribution expenses (%)²</i>	40.1%	43.7%	-3.5% pts
General and administrative costs ²	(88.3)	(92.6)	-4.7%
<i>General and administrative costs (%)²</i>	8.4%	9.1%	-0.7% pts
Depreciation	(52.0)	(51.0)	+1.9%
<i>Depreciation (%)</i>	5.0%	5.0%	0% pts

IMPROVED

1.Excluding other income and gains
2.Excluding depreciation



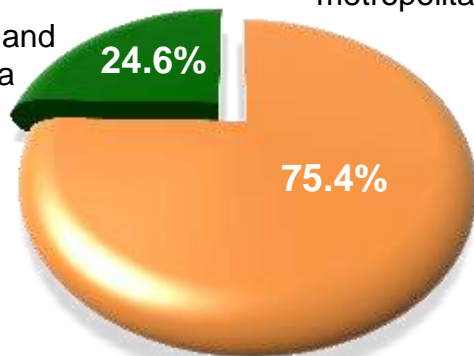
Segmental Breakdown



Revenue by Region

1H 2017

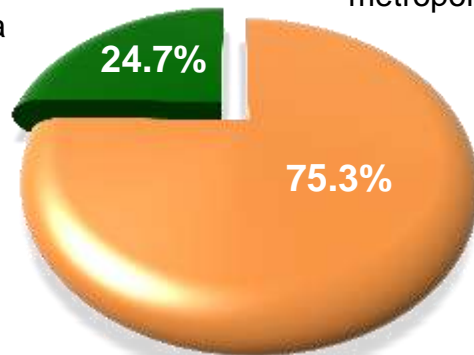
Northeast China and Inner Mongolia



Beijing-Tianjin-Hebei metropolitan region

1H 2016

Northeast China and Inner Mongolia



Beijing-Tianjin-Hebei metropolitan region

Revenue by Major Brand

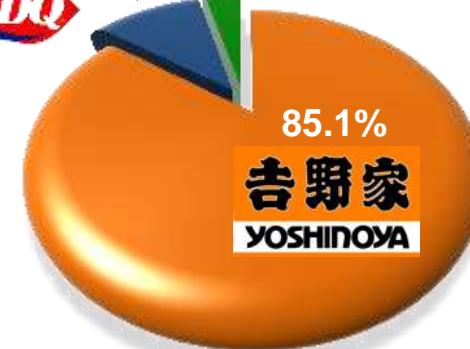
1H 2017



11.0%

3.9%

Others



1H 2016



10.3%


2.0%


Others




Stable Cost & Expense Structure




Reinforced by the shift from business tax to value-added tax, the success of these strategies led to the reduction in the cost of sales


Constantly strives to motivate staff with the effective incentive scheme → Made staff more enthusiastic and motivated at work


Slightly decreased rental expenses due to opening smaller stores and closing underperforming stores

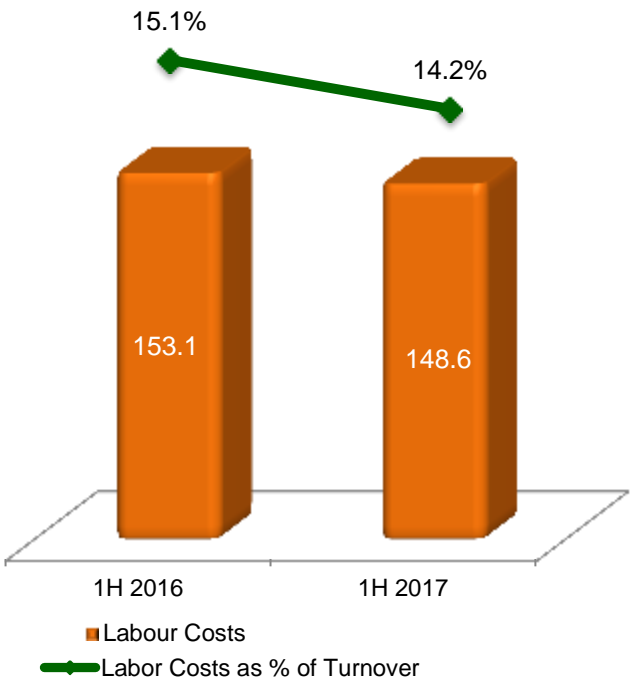
Cost of Sales

(HK\$ million)



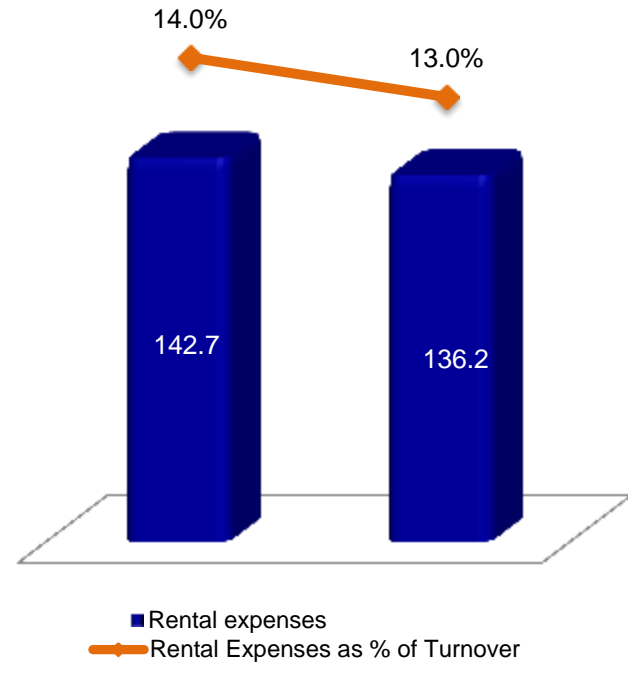
Labour Costs

(HK\$ million)



Rental Expenses

(HK\$ million)



Sound Working Capital Management



(Days)	As of 30 Jun 2017	As of 31 Dec 2016
Receivable Turnover Days	1.4	1.3
Inventory Turnover Days	55.1	53.7
Payable Turnover Days	64.6	53.4
Cash Conversion Cycle	(8.1)	1.6

Active Cash Management Results in a Healthy Cash Conversion Cycle

Strong Cash-flow & Healthy Balance Sheet



Cash Flow Generation

As of 30 June

(HK\$ million)	2017	2016
Net cash inflows from operation	151.7	150.3
Purchase of property, plant and equipment items	(59.4)	(44.8)
Interest payments and net movement of bank loans	(0.5)	9.5
Shares purchased under share award scheme	(2.3)	(15.3)
Dividends paid	(60.3)	(25.2)
Others	7.0	(1.6)
Net increase in cash	36.2	72.9

Gearing Summary

(HK\$ million)	As of 30 Jun 2017	As of 31 Dec 2016
Cash	573.3	537.1
Total Debt	(10.0)	(10.0)
Net Cash	563.3	527.1

Maintained a Strong and Healthy Cash Inflow from Operations

BUSINESS REVIEW



Remains Committed to Six Core Strategies



1

Progressive Store Opening Strategies

- New store opening models focus on expanding store network for greater service coverage and faster delivery
- In the first 9 months in 2017, Hop Hing net opened **32 stores**, including:
 - 13 Yoshinoya 
 - 9 Dairy Queen 
 - 10 other brands



2

Enhance O2O Strategies and Delivery Capability

- Sales from Yoshinoya delivery business **rose 27.1%** in 1H 2017, continuing to grow with an expanding delivery team and a broadening store network
- Following the launch of delivery services for certain Dairy Queen products, **Dairy Queen** recorded **SSSG of 7.2%** in 1H 2017 (1H 2016: -9.5%)



3

Utilise Information System to Develop Comprehensive and Innovative Product Portfolio

- Launched hotpot products in 2016 and plan to enhance the **hotpot series** to increase revenue from the **dinner session**
- After conducting big data analysis, the Group launched new drink products, e.g. 雙格杯繽紛花飲 which are promising in terms of profit margins



Six Core Strategies Continued to Yield Results (Con't)



4

Continued Efforts to Strengthen Brand Image & Multi-brand Strategies

- **Around 40%** of our Yoshinoya stores featuring “**Yoshinoya 3.0**” or above experience – better kitchen design also helped raise efficiency
- Started evolving to “**Yoshinoya 4.0**” with more latest style stores introduced in Q3 2017
- Introduction of a new brand “**Uncle Fong**” to bring authentic HK snacks to Northern China



5

Enhance Operating Efficiency with Careful Cost Control Measures

- **Incentive Scheme** has continued to improve store operating efficiency
- **Store EBITDA** improved 4.8% pts to **24.1%** in 1H 2017
- Labour costs **dropped by 3.0%**, with labour cost to revenue ratio improved to 14.2% in 1H 2017 (1H 2016: 15.1%)



6

Elevate Customer Satisfaction Level

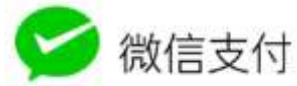
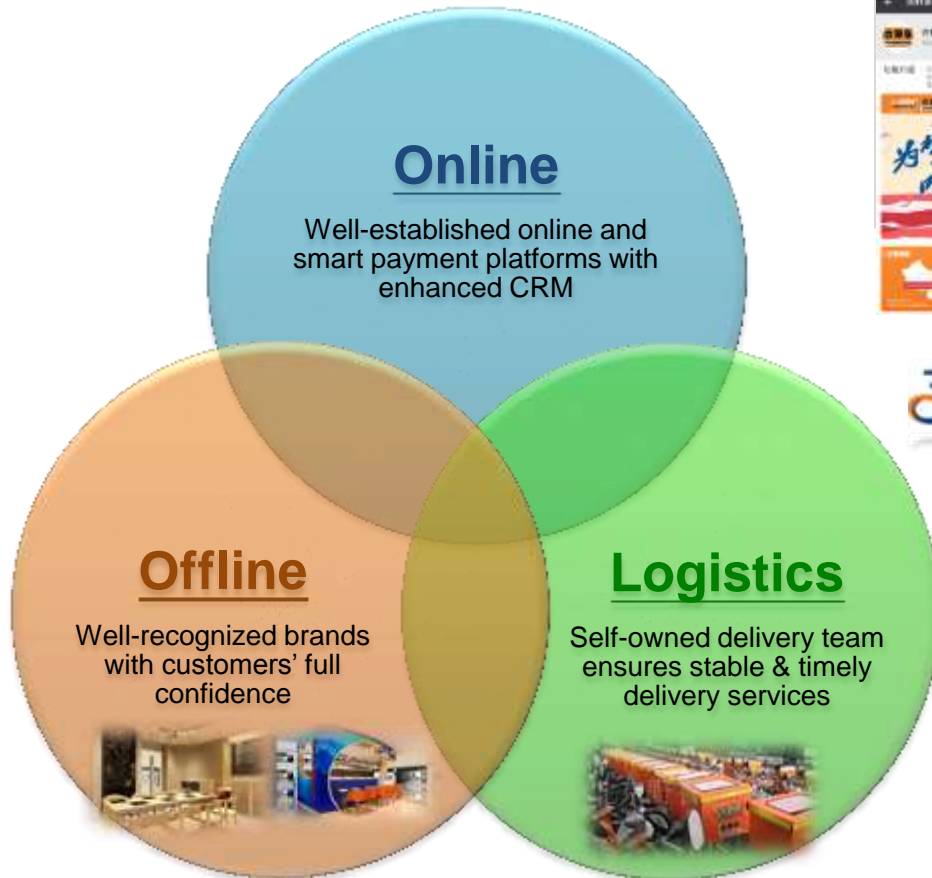
- Earned **ISO22000** and **OHSAS18001** certifications
- Continuous extension and improvement of our supply chains without compromising on food quality
- Received numerous awards and certifications on food safety



Delivery Business Continued to Grow



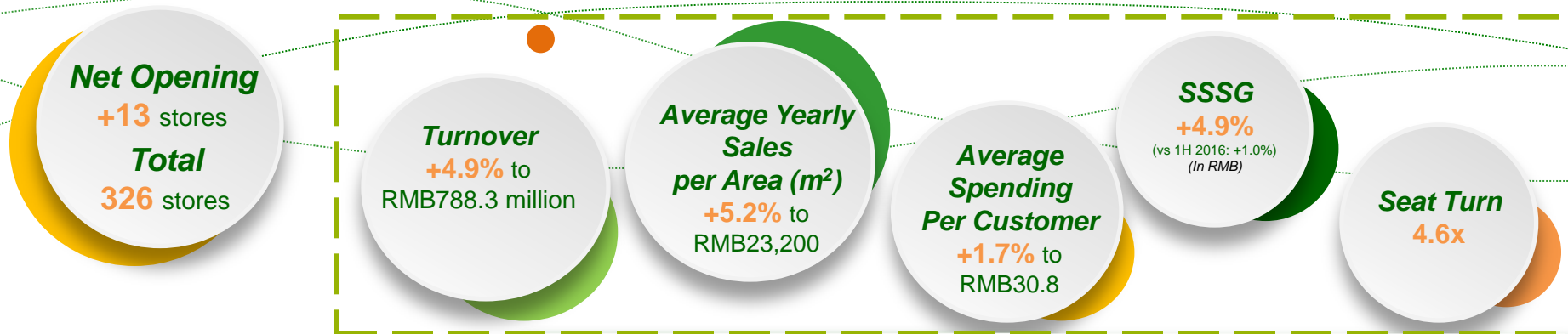
Integration of Online, Offline and Logistics





9-month as at 30 Sep

1H 2017



Store Opening Strategy

- ✓ Expansion of store network for greater service coverage to support faster delivery
- ✓ Adopt a 3-tier system
 - Continue to open **Flagship Stores** and **Regular Stores** progressively particularly in the capital city
 - Open **smaller stores** to cater for **takeaway orders**, complementing O2O strategies



Delivery Services

- ✓ About **95% of the Yoshinoya stores** provide delivery services in Beijing area
- ✓ **Own delivery team** assures stable delivery services and product quality all-year round
- ✓ Achieve greater penetration of Yoshinoya's delivery services in Northern China
- ✓ Enhance the self-operated delivery platforms (including website, mobile WAP, WeChat Malls and call centers) to complement delivery services



New Products

- ✓ Stimulate customers' taste buds by introducing innovative new products
- ✓ Enhance **hotpot series** to increase revenue during the dinner session



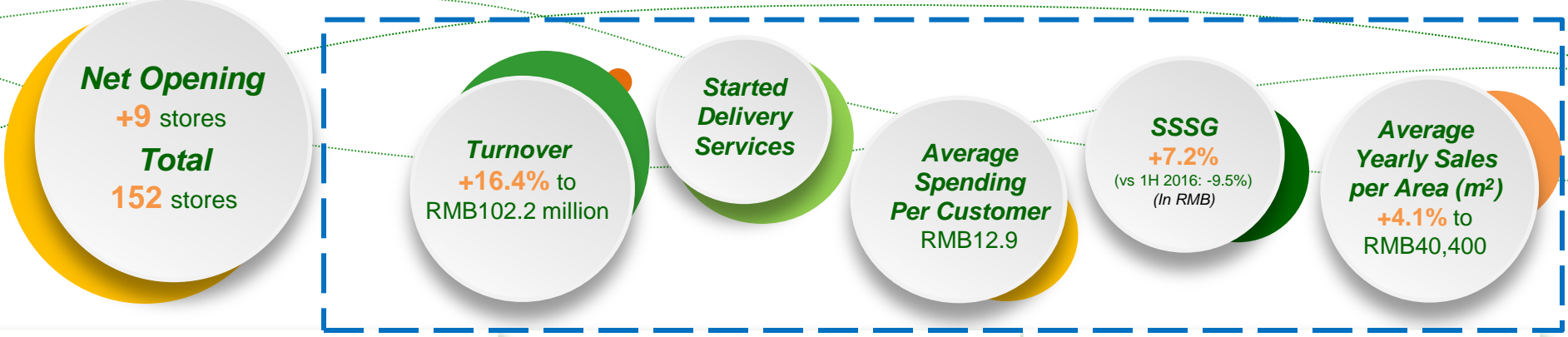


Dairy Queen – Optimises Store Network to Raise Performance



9-month as at 30 Sep

1H 2017



Store Opening Strategy

- ✓ Focus on **optimising store network** and **opening stores in mega malls** with good traffic to adapt to the changing consumption pattern in China
- ✓ Build stylish new stores and renovate old stores to enhance dining experience
- ✓ Continue to add new elements to attract the young generation



Delivery Services

- ✓ Started to provide **delivery services** for selected products of Dairy Queen since end of 2016
- ✓ Continue to extend delivery coverage and increase brand exposure through third parties' delivery and self-owned social media platforms



New Products

- ✓ Stimulate customers' taste buds by introducing innovative new products



Other Brands – Progressively Expands Sales Network to Diversify Brand Portfolio



9-month as at 30 Sep

Net Opening
+10 stores
Total
24 stores



茶町町
T.A.T.T.

Accounted for
3.9% of the
Group's revenue
In 1H 2017

Explore
opportunities to
secure other high-
potential brands



Store Opening Strategy

- ✓ High ROI and faster payback period (around a year)
- ✓ Progressively expand store network from Beijing to other parts in Northern China (e.g. Tianjin)
- ✓ Gradually add more innovative elements to the store setting and decorations



Authentic Products

- ✓ Continue to launch new authentic HK snacks
- ✓ Introduce new drink products from time to time to enhance customers' loyalty



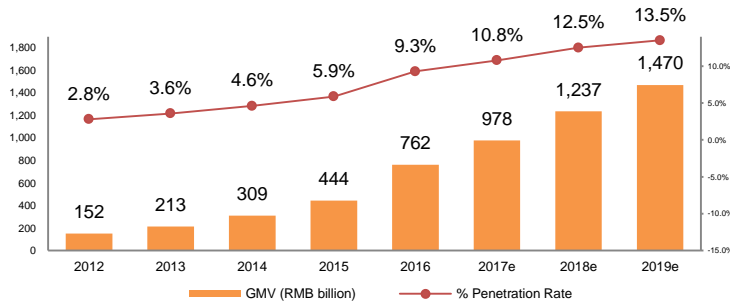
FUTURE GROWTH STRATEGIES





Fierce competition in catering industry affected by Internet

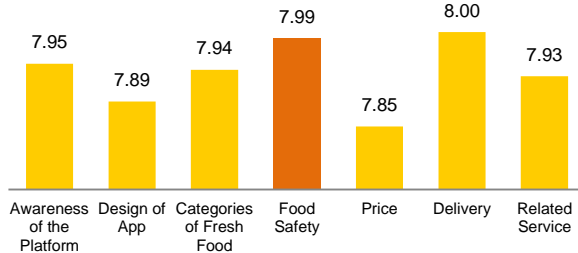
GMV of China's O2O Industry 2012-2019



- The China economy maintained steady growth by 6.9% in Q1 and Q2 of 2017, but the catering industry was still affected by the internet and fierce competition coming from different market segment players
- Catering Industry affected by O2O due to the consumption patterns change, shifting from offline to online
- Some of the PRC caterers who depend on third parties' online delivery platforms experienced margin squeeze due to the increase of service charges by certain dominant online delivery platform operators

Concerns on food safety continue to grow

Shoppers' Satisfaction With Different Aspects of Fresh Food Platforms in 2017



Source: iResearch Inc.

- On 1 Oct 2016, China Food and Drug Administration announced the “**Measures for investigating and handling on violations of internet food safety**” which stipulates that caterers which sell products through the internet must have physical stores in operation with the same brand in the area
- Customers are looking for food safety and better dining experience



Growth Strategies – Short to Medium Term



Expansion of store network for greater service coverage to support faster delivery



Extend product portfolio and increase sales during the dinner session



Enhance store image to provide comfortable dining environment to customers



Comprehensive information collection, analysis and processing system



Growth Strategies – Long Term



- The Group will benefit from the great potential of the “Integration of Jing-Jin-Ji Area” (京津冀一體化) policy in coming 3-5 years to realign functions and priorities of the areas and cities surrounding the capital and the Northern China region
- The urbanisation rate in China in 2030 will rise from 56% today to 70%. The continued improvement of the living standard and rising disposable income of Chinese people will lay a solid foundation for further growth



- Introduction of either self-developed new brands or searching for already well-known F&B related brands with promising prospects
- Explore and evaluate potential M&A candidates





Leading Multi-brand QSR Operator in the PRC





Q&A



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