HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

2016 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

It is my pleasure to present my first Chairman's statement. I feel truly privileged and would like to take this opportunity to thank our former Chairman, Mr. Hung Hak Hip, Peter and all the directors of the board for their trust in me to lead and participate in the future development of the Hop Hing Group. The Group's achievements would not have been possible if not for the outstanding leadership and dedication of Mr. Hung over the past few decades. I have been an independent non-executive director of the Group since 2006 and have proudly witnessed the transition of its principal activities from edible oil to catering. Leveraging years of catering experience in Hong Kong and southern China, Hop Hing has expanded into northern China. Today, we are one of the top restaurant brands in China. Our Group has global visions with modern management philosophy and systems; totally committed to the operating principle of "Quality of Conscience" (良心品質). Hop Hing Group is well-positioned to grow and excel in China.

In 2016, despite China's continuing sluggish economy, competition increased as interests from various sectors, including internet companies, have tapped into the catering business. With ever-changing consumption behavior, caterers must be fast to react with the timely launch of new products and presentations. The rapid development of the internet and artificial intelligence technologies has brought about revolutionary changes in businesses. The catering business must be willing to adapt and embrace the new technology challenges. In 2016, the catering sector experienced low profitability, affected by high raw material, labour, rental and utility costs. In addition, new regulations and legislation on food safety in China as well as rising consumer expectations put pressure on the sector to improve quality control.

Despite the challenges, the Group has nonetheless recorded steady growth in sales income and profit for 2016. Credits are attributed to the execution of sound and prudent business strategies under the leadership of the Chief Executive Officer and the management team. The Group controlled operating costs and improved operating efficiency in an adverse economic environment. During the year, the Group has implemented an incentive scheme designed to give supervisors and staff members autonomy in store operations. This initiative lowered the operating costs and increased same store sales as the store managers' interests are aligned with the Group's interest. In 2016, China made the shift from business tax to value-added tax, resulting in a decline in expenses for the Group. For the year, the net profit of the Group improved to HK$124.6 million, representing a substantial increase of 89.4% from HK$65.8 million for 2015.

Looking ahead to 2017, quick service restaurants (QSR) are expected to grow rapidly in China's catering industry as retail consumption and consumer patterns change. Branded enterprises operating QSR chains should have a competitive advantage and our Group is well positioned in this regard. "Food is the paramount concern of the people." we recognise the importance that Chinese consumers attach to eating. The Group is steadfastly adhere to its operating principle of "Quality of Conscience" and exercises strict control over food quality, thereby offering safe, healthy, and delicious food to the customers. The Group will continue to participate in Online to Offline (O2O) to provide the best service to our customers. We will embrace and adopt new technologies and the internet to continue improvement on our information management system; which enables us to collect and analyse our customer preferences and needs for our products. We can now offer online ordering, online payment and online interaction for the consumers. We continue to make improvements to the design of restaurants to create a "homey" dining experience. The Group also aims to improve the quality and timeliness of food delivery service so as to offer "value for money" to our customers' dining experience.

In 2016, the Group has added “Uncle Fong”, a popular brand that makes custards, to its product offerings. While continuing to develop our existing portfolio of brands, the Group also plans to expand its product varieties via other means including acquisitions. It is our aim to plan long-term, have sustainable development for the Group, and create more value and returns for its shareholders.

In the years to come, I will work closely with the Group’s management and business partners to grow the Group into a leading brand in China’s catering industry. I would like to take this opportunity to thank my fellow board members, management and staff for their unswerving support. I would also like to express my sincere appreciation to our customers, shareholders and business partners for their confidence and support to the Hop Hing Group.

Seto Gin Chung, John
Chairman

Hong Kong, 28 March 2017

RESULTS

The board of directors (the "Board") of Hop Hing Group Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
TURNOVER	4	**2,091,313**	2,050,053
Cost of sales		**(752,885)**	(758,055)
Other income and gains, net		**7,072**	4,282
Selling and distribution expenses		**(980,645)**	(989,607)
General and administrative expenses		**(187,407)**	(212,574)
PROFIT FROM OPERATING ACTIVITIES	5	**177,448**	94,099
Finance costs	6	**(837)**	(1,507)
PROFIT BEFORE TAX		**176,611**	92,592
Income tax expense	7	**(51,996)**	(26,804)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**124,615**	65,788
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic		**HK1.26 cents**	HK0.66 cent
Diluted		**HK1.25 cents**	HK0.66 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**124,615**	65,788
OTHER COMPREHENSIVE EXPENSES		
Other comprehensive expenses to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(28,582)**	(16,059)
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR	**(28,582)**	(16,059)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**96,033**	49,729

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**188,907**	212,409
Deferred tax assets		**34,524**	26,789
Prepayments and rental deposits		**47,016**	45,945
Total non-current assets		**270,447**	285,143
CURRENT ASSETS			
Stocks		**94,758**	126,133
Accounts receivable	*10*	**8,142**	6,947
Prepayments, deposits and other receivables		**68,990**	53,702
Tax recoverable		**1,787**	5,808
Cash and cash equivalents		**537,086**	355,513
Total current assets		**710,763**	548,103
CURRENT LIABILITIES			
Accounts payable	*11*	**118,422**	101,479
Other payables and accrued charges		**313,884**	261,145
Interest-bearing bank loan		**10,000**	–
Tax payable		**11,939**	6,255
Total current liabilities		**454,245**	368,879
NET CURRENT ASSETS		**256,518**	179,224
TOTAL ASSETS LESS CURRENT LIABILITIES		**526,965**	464,367
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**23,168**	16,433
Net assets		**503,797**	447,934
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**1,007,043**	1,007,043
Reserves		**(503,246)**	(559,109)
Total equity		**503,797**	447,934

NOTES

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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 disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is the QSR business. In addition, the QSR business' revenue and non-current assets, other than deferred tax assets, are predominantly attributable to a single geographical region, which is the People's Republic of China. Therefore, no analysis by geographical region is presented.

4. TURNOVER

Turnover represents the net invoiced value received and receivable from the operation of QSR during the year.

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2016	2015
	HK$'000	HK$'000
Foreign exchange differences, net	**6,100**	7,268
Direct cost of stocks sold*	**697,420**	758,055
Loss on disposal/write-off of items of property, plant and equipment, net	**4,304**	7,187
Employee benefit expenses (including directors' emoluments):		
Wages and salaries	**351,807**	304,244
Pension scheme contributions**	**92,074**	91,418
Equity-settled share-based payment	**4,329**	3,184
	448,210	398,846
Depreciation	**100,056**	109,359
Impairment of items of property, plant and equipment	**1,154**	1,509
Write-back of impairment of accounts receivable***	**(2,023)**	(290)
Lease payments under operating leases:		
– Minimum lease payments	**264,211**	276,420
– Contingent rents	**33,583**	37,517

Notes:

* Direct cost of stocks sold is included in "Cost of sales" in the consolidated income statement.

** At 31 December 2016, the Group had no forfeited contributions available to reduce its future contributions to the pension schemes in future years (2015: Nil).

*** Write-back of impairment of accounts receivable is included in "General and administrative expenses" in the consolidated income statement.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	HK$'000	HK$'000
Interest on bank loans	**38**	494
Bank financing charges and others	**799**	1,013
	837	1,507

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The PRC corporate income tax rate for the Group's subsidiaries operated in Mainland China during the year was 25% on their taxable profits. One of the subsidiaries engaged in agricultural business was entitled to exemption from the standard income tax rate in 2016 and 2015.

The major components of the income tax expense for the year are as follows:

	2016	2015
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**1,980**	–
Underprovision/(overprovision) in prior years	**2,049**	(564)
	4,029	(564)
Current – Elsewhere		
Charge for the year	**50,441**	30,639
Underprovision/(overprovision) in prior years	**269**	(192)
	50,710	30,447
Deferred	**(2,743)**	(3,079)
Total income tax charge for the year	**51,996**	26,804

8. DIVIDENDS

	2016	2015
	HK$'000	HK$'000
Dividends paid during the year:		
Final dividend for 2015 – HK0.25 cent		
(2014: HK0.25 cent) per ordinary share	**25,176**	25,176
Proposed final dividend:		
HK0.62 cent (2015: HK0.25 cent) per ordinary share	**62,437**	25,176

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$124,615,000 (2015: HK$65,788,000), and the weighted average number of 9,906,729,075 (2015: 10,006,270,304) ordinary shares in issue during the year, as adjusted to reflect the number of shares of 245,095,400 (2015: 66,903,400) held under the share award scheme of the Company.

(b) Diluted earnings per share

For the year ended 31 December 2016, the calculation of diluted earnings per share is based on the consolidated profit for the year attributable to equity holders of the Company of HK$124,615,000 and the weighted average number of 9,944,925,820 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 38,196,745 calculated as follows:

	2016	2015
	HK$'000	HK$'000
Consolidated profit attributable to equity holders of the Company	**124,615**	65,788

	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**9,906,729,075**	10,006,270,304
Effect of dilution – weighted average number of ordinary shares:		
Share award	**38,196,745**	25,257,844
Share options*	**–**	–
	9,944,925,820	10,031,528,148

* The outstanding share options of the Company have not been included in the computation of diluted earnings per share for the years ended 31 December 2016 and 2015 as these options had no dilutive effect on the Company's basic earnings per share.

10. ACCOUNTS RECEIVABLE

The Group's QSR products are mainly sold on a cash basis. Accounts receivable of the Group's QSR business were mainly due from shopping malls and internet platform service providers with credit terms within 60 days. The overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the payment due date and net of provisions, is as follows:

	2016	2015
	HK$'000	HK$'000
Current (neither past due nor impaired)	**7,592**	6,806
Within 60 days past due	**550**	141
	8,142	6,947

11. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the payment due date, is as follows:

	2016	2015
	HK$'000	HK$'000
Current and less than 60 days	**114,555**	97,797
Over 60 days	**3,867**	3,682
	118,422	101,479

The accounts payable are non-interest-bearing and are normally settled within credit terms of 7 to 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

For the year ended 31 December 2016, the turnover of the Group's business totalled HK$2,091.3 million (2015: HK$2,050.1 million). Earnings before interest, taxation, depreciation and amortisation ("EBITDA") for the year amounted to HK$277.5 million, representing an increase of 36.4% when compared to HK$203.5 million for the preceding year. Profit attributable to the equity holders of the Company for the year under review was HK$124.6 million, representing an increase of 89.4% or HK$58.8 million when compared to HK$65.8 million for the year ended 31 December 2015.

Basic and diluted earnings per share for the year were HK1.26 cents and HK1.25 cents, respectively (2015: HK0.66 cent and HK0.66 cent, respectively).

DIVIDENDS

On 30 June 2016, the Company made a final dividend payment of HK0.25 cent per share for the year ended 31 December 2015. The Directors recommend the payment of a final dividend of HK0.62 cent per share for the year ended 31 December 2016 (2015: HK0.25 cent per share). Subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company, the final dividend will be distributed on or about 28 June 2017 to shareholders whose names appear on the register of members of the Company as at 9 June 2017.

The amount of final dividend recommended was calculated based on the number of ordinary shares in issue at the date of approval of the consolidated financial statements. These financial statements do not reflect the final dividend payable.

BUSINESS REVIEW

Industry review

In 2016, the catering industry continued to face tough challenges. China's declining GDP growth indicated the weak performance of its real economy. Meanwhile, market leaders in upstream and downstream industries, including internet enterprises, began to enter the catering industry, which, coupled with the drastic increase in newly-opened restaurants in recent years, has created a saturated market with competition generally intensifying. Increasingly differentiated catering categories also drove out a large number of brands from the same niche. As more and more choices were available to the target customer group mainly comprising the post-1980s and post-1990s population segment, brand loyalty of customers has weakened, creating pressure on the revenue from outlets in the catering industry. While advances in internet technology and artificial intelligence have had an increasing impact on physical restaurants, enterprises that could not adapt to rapid technology development and fast-changing market demand were experiencing difficulty in surviving. Fortunately, investments in the catering industry regained some sense of rationality in recent years. As a result, the number of new industry players has trended downwards.

At the same time, the traditional "four highs one low" adverse factors, such as high raw material, labour, rental and utility costs and low profitability, continued to affect the development of the catering industry. In particular, rising rental and labour costs have further dragged down profitability. In addition, as Chinese consumers became more concerned about food safety, the country has been strengthening regulations on food enterprises, driving them to enhance standards and efforts on quality control.

In view of the challenging environment, the Group and other catering enterprises must keep abreast of the economic and social development trends and formulate their development plans in advance. They should also make adjustments to business strategy on a timely basis so as to enhance their competitiveness.

Despite the above difficulties and challenges, the outlook for the catering industry is promising for several reasons. Firstly, in terms of demand, mass catering tends to maintain steady growth due to rigid demand, the major driving force for the overall recovery of the industry. Secondly, in terms of policy, the government has clearly encouraged the development of branded catering, mass catering and catering chains. In March 2016, the "Guidelines of the Ministry of Commerce on Promoting the Transformation and Development of the Catering Industry" which aims at further optimising the development environment, reducing operating pressure and accelerating the transformation and growth of the catering industry was issued. The state expects that, with its facilitation, branded catering chains with a business focus on mass catering could be developed in five years' time, so that a reasonable regional layout could be built and there are synergies between the city and the countryside and co-ordination between all sectors, where the catering service system could fulfil multi-layered and diversified consumption needs. Thirdly, in terms of taxation, with the full implementation of the "shift from business tax to value-added tax", the majority of catering enterprises have benefited from the resulting cut in their taxes. Lastly, in terms of technology development, the "online to offline" ("O2O") operating model continued to evolve and gather momentum due to advances of internet technology and artificial intelligence, as well as rising demand for food delivery service. All these have created favourable conditions for the development of China's catering industry.

Brand and chain development of QSRs will become the mainstream trend within the catering industry in the future. Against the backdrop of increasingly high customer expectations on dining environment and experience, major chain restaurants with high brand awareness will be able to enhance their growth by leveraging their brand names and advantages of scale.

Business review

In 2016, the management actively sought innovative measures conducive to promoting performance and formulated six major business strategies at the beginning of the year including: enhancing O2O strategies and delivery capability, upgrading the information system, opening stores at suitable locations and opportune times, improving operating efficiency, elevating customer satisfaction level and strengthening the image of the Group's brands. The effective implementation of such strategies contributed in varying degrees to the improvement in sales, profits and morale of the Group during the period under review.

For the year ended 31 December 2016, the Group's sales revenue in Renminbi increased by 7.8% to RMB1,790.2 million (2015: RMB1,660.5 million), which was attributable to the additional sales brought by new stores, as well as further growth of the food delivery business due to change of consumers' habits. With an aim to provide more efficient and quality delivery services, the Group set up its own delivery team and fostered closer connections with other major catering delivery platforms, which provided customers with faster delivery and a more satisfactory delivery experience. Due to these initiatives, the delivery sales percentage of Yoshinoya has improved from 17% in 2015 to 28% in 2016. Furthermore, the active efforts to introduce new products with different flavours worked well in stimulating consumers' spending and substantially boosted the sales of the Group.

In 2016, despite the difficult business environment, the Group persisted with its six major business strategies and successfully improved its same-store sales. During the period under review, the Group's overall same-store sales (denominated in Renminbi) increased by 2.3% (2015: -3.1%), and Yoshinoya recorded a 3.1% same-store sales growth (2015: -3.0%). As for Dairy Queen, which stores are mainly in shopping malls, the decline in shopping mall traffic due to internet technology and the resulting change of consumption pattern in China caused its same-store sales to go down by 5.2%

(2015: -4.2%). The decrease in sales was mostly found in second- and third-tier cities. The Group has been adjusting the operating strategy of Dairy Queen with an aim to rebrand it for a clearer identification and relocate underperforming stores so as to adapt to changes in the business environment. In the year, it also strengthened the brand's penetration at strategic locations to boost its appeal to younger consumers. Coupled with the new delivery service for certain products at the end of the year, same-store sales of Dairy Queen have seen improvement as compared to the first half of 2016.

	Percentage Increase in Same Stores Sales (denominated in Renminbi)	
	2016	2015
Overall	**2.3%**	-3.1%
By main brands		
Yoshinoya	**3.1%**	-3.0%
Dairy Queen	**-5.2%**	-4.2%

In 2016, in terms of revenue, the Beijing-Tianjin-Hebei Province Metropolitan Region remained the largest market of the Group and sales revenue from Yoshinoya's products accounted for approximately 88% of the Group's total sales.

	2016		2015	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**1,347,304**	**75.3%**	1,233,617	74.3%
Northern China [1]	**442,860**	**24.7%**	426,926	25.7%

[1] Including Liaoning, Inner Mongolia, Heilongjiang and Jilin.

b. By Main Brands				
Yoshinoya	**1,572,357**	**87.8%**	1,495,964	90.1%
Dairy Queen	**172,160**	**9.6%**	162,654	9.8%

In 2016, a net total of 15 new stores (2015: 30 net new stores), including 10 new Yoshinoya stores (net) and one new Dairy Queen store (net), were opened in existing markets. As of 31 December 2016, there were 470 stores in operation.

	As at 31 December	
	2016	2015
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**217**	212
Liaoning	**73**	69
Inner Mongolia	**12**	10
Heilongjiang	**9**	10
Jilin	**2**	2
	313	303

	As at 31 December	
	2016	2015
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**103**	106
Liaoning	**22**	22
Inner Mongolia	**7**	6
Heilongjiang	**8**	6
Jilin	**3**	2
	143	142
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**14**	10
Total	**470**	455

Under a competitive market environment and rising overall operating costs, the Group continued to execute its effective cost control system. It implemented the proven strategy on bulk procurement of key food ingredients through strategic sourcing and continuous extension and improvement of its supply chain without compromising the food quality. As a result, it managed to lower its procurement cost of key food ingredients compared to 2015.

In addition, the Group adjusted the sales product mix through launching new products, which enabled effective control of food costs. These initiatives, coupled with the shift from business tax to value-added tax, which was favourable to the industry as a whole, have boosted the Group's gross profit margin by 1.0 percentage point from 63.0% in 2015 to 64.0% in 2016.

	2016	2015
Gross profit margin	**64.0%**	63.0%

In addition, the Group constantly strives to motivate its team and its incentive scheme has achieved satisfactory results in 2016. Thanks to these efforts, staff members have become more enthusiastic and motivated at work, which has boosted operating efficiency. Despite the increase in the percentage of store bonuses, the growth of labour costs was partially offset by enhanced staff efficiency. The Group also improved interaction with fans by tapping into the wide coverage of the internet to roll out its marketing strategy, thus greatly enhancing the cost-effectiveness of its advertising and publicity. At the same time, rental cost of the Group decreased in the year under review due to its proactive efforts in opening smaller stores and favourable factors arising from the shift from business tax to value-added tax. The closure of underperforming stores in the second half of 2015 and in 2016 also helped cut rental costs and depreciation and amortisation for the year under review.

	2016		2015	
	HK$'000	***% of sales***	*HK$'000*	*% of sales*
Labour costs	**292,607**	**14.0%**	280,193	13.7%
Rental expense	**279,594**	**13.4%**	289,673	14.1%
Depreciation and amortization	**90,586**	**4.3%**	96,769	4.7%
Other operation expenses	**317,858**	**15.2%**	322,972	15.8%
Total selling and distribution costs	**980,645**	**46.9%**	989,607	48.3%

For the purposes of further lowering cost and boosting profitability, the Group continued to implement the "staff efficiency enhancement" and "multiple functions for one position" strategies, which effectively cut administrative expenses at headquarter. As the Group has been actively optimising the store network in recent years, provisions made for closure costs of underperforming stores declined in the year under review, as compared with 2015. Nonetheless, the management will continue to review store performance from time to time and is formulating an appropriate plan for optimising its store network.

Effective from 1 May 2016, the change from business tax to value-added tax was applicable to the catering industry. The policy aims to reduce the tax burden of catering industry taxpayers and improve their operating profitability through offsetting a reasonable amount of output value-added tax with input value-added tax.

In summary, the Group has driven down the costs of food ingredients in 2016 through effective strategic and bulk procurement. It has lowered store rental costs to a certain extent by continuously opening smaller stores and adopting the six major business strategies. The efforts in promoting the food delivery business made a remarkable contribution to the growth in sales. In addition, the internet-based structure and management reform of the operation system, as well as the successful implementation of incentive scheme at stores gave employees more autonomy in operations and effectively encouraged frontline staff to be more enthusiastic and motivated at work. This initiative not only enhanced operating efficiency, but also lowered operating costs and increased sales. Moreover, with the shift from business tax to value-added tax cutting tax expenses, the profit of the Group recorded a tremendous increase of 89.4% from HK$65.8 million in last year to HK$124.6 million in the year under review.

FINANCIAL REVIEW

Equity

The number of issued shares of HK$0.10 each of the Company as at 31 December 2016 was 10,070,431,786 (31 December 2015: 10,070,431,786).

As at 1 January 2016, the Company had 326,167,320 outstanding share options. During the year, no share options were granted, exercised or lapsed.

Liquidity and gearing

The Group's gearing ratio (expressed as a percentage of interest-bearing bank loans over equity attributable to equity holders of the Company) as at 31 December 2016 was 2% (31 December 2015: 0%). The increase in gearing ratio was attributable to the borrowing of the interest-bearing bank loan.

As at 31 December 2016, the Group recorded a net cash position of HK$527.1 million (2015: HK$355.5 million) (being cash and cash equivalents less interest-bearing bank loans). The increase in net cash position of the Group was mainly due to the profits earned during the year.

The Group's finance costs for the year was HK0.8 million (2015: HK$1.5 million).

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group continues to adopt the policy of hedging foreign currency liabilities with foreign currency assets.

REMUNERATION POLICIES

Staff remuneration packages comprise salary and discretionary bonuses and are determined with reference to the market conditions and the performance of the Group and the individuals concerned. The Group also provides other staff benefits including medical insurance, continuing education allowances, provident funds and long-term incentives to eligible staff. The total remuneration paid to the employees (including pension costs, share-based payment and the directors' remuneration) of the Group in the year under review was HK$448.2 million (2015: HK$398.8 million). As at 31 December 2016, the Group had 7,912 full-time and temporary employees (2015: 7,705).

During the year ended 31 December 2016, the Board resolved to grant share awards in respect of 17,030,499 shares to certain selected participants who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them.

All directors' remunerations were determined by the board of directors (the "Board") of the Company after considering the recommendations of the remuneration committee of the Company.

OPERATING SEGMENT INFORMATION

Details of the operating segment information are set out in note 3.

CONTINGENT LIABILITIES

Group

Pursuant to the agreement entered into between the Company and Harvest Trinity Limited for the disposal of the edible oils business (the "Disposal") in 2013, the Company undertook to indemnify Harvest Trinity Limited for tax liabilities relating to periods prior to the date of completion of the Disposal. In the opinion of the management, adequate tax provision had been made by the edible oils group before the date of completion of the Disposal.

PLEDGE OF ASSETS

The Group did not have any pledge of assets as at 31 December 2016.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries or affiliated companies during the year under review.

FUTURE DEVELOPMENT IN THE GROUP'S BUSINESS

Catering Industry Development Trends in 2017

With the downturn in high-end catering and full transformation of service operations, China's catering industry will focus on the development of QSRs, group catering, casual catering and simple dining in 2017. QSRs have no doubt become the mainstream in mass catering and a crucial driving force in the growth of the catering market. QSRs took up around 5% of the catering industry in China, as compared to approximately 35% in the United States. Hence, QSRs have good potential for future development in China and the Group is optimistic about the long-term development of QSRs in the country.

In 2017, the food delivery market with O2O as the dominant mode of operation will experience strong growth. With the advances of internet technology and artificial intelligence, the O2O market has become increasingly diversified. In the course of the development of the catering industry, advances in technology, in particular internet and e-commerce technology, will continue to play an important role. It is expected that technology development will affect all elements from placing an order and making online payment to taking the meal offline.

In 2017, the ever-changing consumption needs which have been dominated by the target customer group mainly comprising the post-1980s and post-1990s population segment, coupled with the intensifying competition in the catering industry require market players to enrich their product mix to meet the different demands of consumers and provide a diverse and high quality customer experience. An important prerequisite to enhancing the customer experience is attaching importance to staff benefits and adopting an effective staff incentive scheme, so as to motivate employees to provide superior services that enable consumers to feel satisfied and valued.

The Group is aware that major catering enterprises have been launching sub-brands since 2014 for the purpose of consolidating their market positions. This trend is expected to continue in 2017.

Despite the above favourable factors, the management is also aware that the competition in the catering industry will intensify as the economy continues to slow down. While rental costs and labour costs remain high, price competition nonetheless leads to a decrease in spending per customer, thus the market will remain challenging. In view of the evolving internet technology and business environment, the management expects that China's QSRs will face a tougher operating environment and the industry will continue its consolidation in 2017. Market players will therefore need to stay prudent.

Future Development Strategy

In 2016, the sales growth of the Group was driven by the connection with major online food delivery platforms and the well-established delivery team which has significantly boosted delivery sales. The shift from business tax to value-added tax in May 2016 is expected to drive the profit growth in the first half of 2017. Looking ahead, with the slowdown in the growth in the number of mobile internet users and the gradual saturation of internet penetration, back to basics has become the development trend for traditional industries which also have to compete with online companies going offline. From the Group's perspective, guided by its three major strategies – "de-centralising", "accelerating collection and processing of information" and "optimising customer experience" – it will continue to bring about more changes in terms of innovation in the business model.

In 2017, the Group will focus on achieving the following key objectives: 1) to expand the store network for larger service coverage and faster delivery; 2) to enhance online and offline marketing through the newly launched internet platform and more precise collection and analysis of consumer data, with the aim to understand and cater for customers' ever-changing needs, thereby upgrading the efficiency and effectiveness of marketing efforts.

In addition to improving the food delivery service, the Group will also enhance customers' dining experience on all fronts. In terms of the environment of the restaurants, we will spare no efforts to roll out new initiatives that aim at offering an enjoyable consumer experience. We will boost unit efficiency through optimisation and renovation of restaurant and kitchen design as well.

The newly included "Uncle Fong" brand will enrich our product offerings to customers. In 2017, the Group will continue to identify suitable sites for opening "Uncle Fong" physical stores.

In terms of staff management, the Group will keep expanding its incentive scheme so as to further motivate employees and achieve a higher operating efficiency. It will expand the training programme for key personnel for the purpose of improving organisational effectiveness and performance as well as customer service.

The Group recognises the advantages that adopting new technologies can bring to its business. Therefore, it will carry on with the development strategy of improving its information systems. By establishing a comprehensive information collection, analysis and processing system, the Group will enhance its capabilities in internet marketing, data collection and delivery as well as big data analysis.

The Group will also adhere to its operating principle of "Quality of Conscience" and continue to adopt careful risk management and control to provide healthy and safe food.

Apart from the existing QSR brand and business, the Group will continue to identify and evaluate opportunities with the potential to bring long-term growth and facilitate its development into a leading multi-brand QSR operator in China.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company complied with the code provisions ("CP") of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year ended 31 December 2016.

The principles as set out in the CG Code have been adopted into our corporate governance practice. To ensure strict compliance with the latest CG Code, the Board will review and regularly update the corporate governance policies and practices of the Company; review and oversee the continuous training of the directors and the senior management; and examine and monitor the compliance and disclosure of legal and regulatory requirements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct of dealings in securities of the Company by the directors. The Model Code also applies to "relevant employees" as defined in the CG Code.

Based on specific enquiry of the Company's directors, the directors confirmed that they complied with the required standards in the Model Code adopted by the Company throughout the financial year ended 31 December 2016.

AUDIT COMMITTEE

The Company has established an audit committee with terms of reference aligned with the CP of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process and risk management and internal controls. For details of the role and function of the committee, please refer to its terms of reference which aligns with the CP of the CG Code and have also been posted on the websites of HKEx and the Company.

The audit committee of the Company has met the external auditors of the Company, Messrs. Ernst & Young, and reviewed the Group's results for the year ended 31 December 2016.

The figures in respect of the Group's results for the year ended 31 December 2016 as set out in this preliminary results announcement have been agreed by the Group's independent auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an 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 Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Ernst & Young on this preliminary results announcement.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

During the year ended 31 December 2016, the trustee of the Company's share award scheme ("Share Award Scheme") as adopted on 20 March 2015, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 178,192,000 shares of the Company at a total consideration of approximately HK$19,323,000. As the shares are held by the trustee for the award of shares pursuant to the Share Award Scheme and the trust deed, and the shares were therefore not cancelled. Apart from the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities during the year ended 31 December 2016.

AGM AND PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.hophing.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The AGM of the Company is expected to be held on 2 June 2017. A notice convening the AGM and the annual report will be published on the Company's website and the website of Hong Kong Exchanges and Clearing Limited and will be despatched to all shareholders in due course.

CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the shareholders who are entitled to attend the AGM, the register of members of the Company will be closed from 29 May 2017 to 2 June 2017 (both days inclusive), during which period no share transfers will be registered.

In addition, in order to determine the shareholders who are entitled to receive the final dividend for the year ended 31 December 2016, the register of members of the Company will be closed from 8 June 2017 to 9 June 2017 (both days inclusive), during which period no share transfers will be registered. The final dividend will be distributed on or about 28 June 2017 to shareholders whose names appear on the register of members of the Company as at 9 June 2017.

In order to qualify for attending and voting at the forthcoming AGM, and the entitlement for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 26 May 2017 and 7 June 2017 respectively.

VOTE OF THANKS

On behalf of the Group, I would like to thank all of our customers, suppliers, business associates and bankers for their unwavering support. I wish to also express my gratitude to members of our management team and staff for their diligence and perseverance during the past year.

By Order of the Board
Hung Ming Kei, Marvin
Chief Executive Officer

Hong Kong, 28 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Hung Ming Kei, Marvin and Mr. Wong Kwok Ying. The independent non-executive directors of the Company are Mr. Seto Gin Chung, John (Chairman), Dr. Hon. Wong Yu Hong, Philip, GBS, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, BBS, Hon. Shek Lai Him, Abraham, GBS, JP and Mr. Wan Sai Cheong, Joseph. The non-executive director of the Company is Ms. Lam Fung Ming, Tammy.