HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULTS

The Board of Directors (the "**Board**") of Hop Hing Group Holdings Limited (the "**Company**") herein present their unaudited condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018, together with the comparative amounts.

These interim financial results have not been audited, but have been reviewed by the Company's audit committee and the Company's auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited For the six months ended 30 June 2018 HK$'000	2017 HK$'000
TURNOVER	*5*	**1,195,588**	1,048,039
Cost of sales		**(431,441)**	(374,735)
Other income and gains, net	*5*	**5,251**	10,414
Selling and distribution expenses		**(555,049)**	(469,035)
General and administrative expenses		**(103,137)**	(91,981)
PROFIT FROM OPERATING ACTIVITIES	*6*	**111,212**	122,702
Finance costs	*7*	**(376)**	(524)
PROFIT BEFORE TAX		**110,836**	122,178
Income tax expense	*8*	**(35,013)**	(35,887)
PROFIT FOR THE PERIOD		**75,823**	86,291
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**75,823**	86,291
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*10*		
Basic		**HK0.77 cent**	HK0.88 cent
Diluted		**HK0.77 cent**	HK0.87 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**75,823**	86,291
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,188)**	12,507
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**(3,188)**	12,507
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**72,635**	98,798
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**72,635**	98,798

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 June 2018** *HK$'000*	Audited 31 December 2017 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**202,028**	213,476
Deferred tax assets		**46,524**	44,528
Prepayment and rental deposits		**48,286**	51,618
Total non-current assets		**296,838**	309,622
CURRENT ASSETS			
Stocks		**150,004**	111,447
Accounts receivable		**17,000**	17,769
Prepayments, deposits and other receivables		**114,492**	97,960
Tax recoverable		**869**	196
Other financial assets		**120,485**	48,019
Cash and cash equivalents		**513,985**	641,693
Total current assets		**916,835**	917,084
CURRENT LIABILITIES			
Accounts payable	*11*	**174,805**	153,624
Other payables, accrued charges and contract liabilities		**350,349**	374,664
Interest-bearing bank loan		**10,000**	10,000
Tax payable		**12,161**	9,857
Total current liabilities		**547,315**	548,145
NET CURRENT ASSETS		**369,520**	368,939
TOTAL ASSETS LESS CURRENT LIABILITIES		**666,358**	678,561
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,163**	24,751
NET ASSETS		**646,195**	653,810
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**1,007,043**	1,007,043
Reserves		**(360,848)**	(353,233)
Total equity		**646,195**	653,810

Notes:

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Save for the adoption of new and revised HKFRSs during the period as set out in note 2 below, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2017.

2. IMPACT OF REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK (IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the new and revised HKFRSs has had no significant impact on the condensed consolidated interim financial statements of the Group. The principal effects of adopting HKFRS 9 and HKFRS 15 are as follows:

HKFRS 9 Financial Instruments

HKFRS 9 brings together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("**FVPL**"), amortised cost, or fair value through other comprehensive income ("**FVOCI**"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "**SPPI criterion**").

(a) ***Classification and measurement***

The new classification and measurement of the Group's financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's accounts receivable, other receivables and cash and cash equivalents.

Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. The Group classified its derivative instruments as derivative instruments at FVPL.

A reconciliation between the carrying amounts under HKAS 39 to the balances under HKFRS 9 which require reclassification as of 1 January 2018 is as follows:

	HKAS 39 Measurement	**Reclassification**	**HKFRS 9 Measurement**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Available-for-sale investment	48,019	(48,019)	–
Debt instruments at fair value through profit or loss	–	48,019	48,019
	48,019	–	48,019

(b) ***Impairment***

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("**ECL**") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The adoption of the ECL requirements of HKFRS 9 does not have a significant financial effect on the condensed consolidated financial statements.

(c) Hedge accounting

Under HKFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. Therefore, upon adoption of HKFRS 9, the net gain or loss on cash flow hedges was presented under "Other comprehensive income not to be reclassified to profit or loss in subsequent periods". As the Group has no financial assets qualified as hedge, the adoption of the hedge accounting requirements of HKFRS 9 had no financial effect on the Group's condensed consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has elected to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as adjustment to the opening balance of retained profits as at 1 January 2018 and only apply to contracts that are not completed before 1 January 2018. The adoption does not have a significant financial effect on the opening balance of retained profits at 1 January 2018 and the effect for the period under review is set out below.

The Group is in the business of operation of quick service restaurants ("**QSR**") mainly under the brand names of Yoshinoya and Dairy Queen in Northern China. The Group has concluded that revenue from the operation of QSR business should be recognised at the point in time when the products is delivered to the customers. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Loyalty point programme

The Group operates a loyalty point programme, which allows customers to accumulate points when they purchase products. The points can be redeemed for the free products or cash coupon. Prior to the adoption of HKFRS 15, the loyalty programme offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under HKFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customer and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The deferred revenue related to this loyalty point programme of HK$3,232,000 was reclassified from other payables to contract liabilities at 1 January 2018.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK (IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2021
[3] No mandatory effective date yet determined but available for adoption

The Group is in the progress of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is QSR business. Since the QSR business is the only operating segment of the Group, no further analysis thereof is presented. All revenue from contracts with customers was recognised when the products were delivered at a point in time.

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 PRC. Therefore, no analysis by geographical regions is presented.

5. TURNOVER AND OTHER INCOME AND GAINS, NET

Turnover represents the invoiced value of goods sold, net of sales related taxes, during the period.

An analysis of turnover and other income and gains, net is as follows:

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Turnover		
Sales	**1,195,588**	1,048,039
Other income and gains, net		
Bank interest income	**7,082**	3,211
Foreign exchange differences, net	**(6,670)**	3,716
Government grants*	**3,912**	2,300
Others	**927**	1,187
	5,251	10,414

* Government grants represent the subsidies received from the local government for the Group's business activities carried out locally. There were no unfulfilled conditions during the period in which they were recognised.

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Direct cost of stocks sold*	**393,378**	343,958
Depreciation	**50,062**	51,993
Lease payments under operating leases in respect of lands and buildings		
— minimum lease payments	**141,556**	127,698
— contingent rents	**20,658**	17,063
Loss on write-off of items of property, plant and equipment, net	**4,940**	3,176
Impairment of items of property, plant and equipment	**171**	–

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**6**	133
Bank financing charges and others	**370**	391
	376	524

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. 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 period was 25% (2017: 25%) on their taxable profits. One of the subsidiaries engaged in agricultural business is entitled to exemptions from the standard income tax rate in 2017 and 2018.

The major components of the income tax expense/(credit) for the period are as follows:

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Current — Hong Kong		
Charge for the period	**711**	1,009
Current — Elsewhere		
Charge for the period	**33,778**	34,727
Under/(over)-provision in prior years	**(984)**	665
Deferred tax	**1,508**	(514)
Total tax charge for the period	**35,013**	35,887

9. DIVIDEND

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Dividend paid during the period:		
Final dividend for 2017 — HK0.83 cent (2016: HK0.62 cent) per ordinary share	**81,797**	60,257

Note:

Final dividend paid during the periods ended 30 June 2018 and 2017 represented the dividends paid for issued ordinary shares, excluding treasury shares held by the trustee under the share award scheme.

10. 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 period attributable to equity holders of the Company, and the weighted average number of 9,819,427,735 (2017: 9,813,488,828) ordinary shares in issue during the period, as adjusted to reflect the number of shares of 240,050,867 (2017: 259,487,400) held under the share award scheme of the Company.

b. Diluted earnings per share

For the period ended 30 June 2018, the calculation of diluted earnings per share is based on the consolidated profit for the period attributable to equity holders of the Company and the weighted average number of 9,889,141,923 (2017: 9,908,274,022) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 69,714,188 (2017: 94,785,194) calculated as follows:

	Unaudited For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Consolidated profit attributable to equity holders of the Company	**75,823**	86,291

	Unaudited Number of shares	
	30 June 2018	30 June 2017
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**9,819,427,735**	9,813,488,828
Effect of dilution — weighted average number of ordinary shares:		
Share options	**12,420,835**	31,980,518
Share award	**57,293,353**	62,804,676
	9,889,141,923	9,908,274,022

11. ACCOUNTS PAYABLE

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

	Unaudited 30 June 2018	Audited 31 December 2017
	HK$'000	*HK$'000*
Current and less than 60 days	**158,251**	140,275
Over 60 days	**16,554**	13,349
	174,805	153,624

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 period under review, the turnover of the Group's business amounted to HK$1,195.6 million (for the first half of 2017: HK$1,048.0 million). Earnings before interest, tax, depreciation and amortization (EBITDA) were HK$161.3 million, representing a decrease of HK$13.4 million from HK$174.7 million recorded for the same period in 2017. Profit attributable to equity holders of the Company for the period under review was HK$75.8 million, representing a decrease of HK$10.5 million or 12.1% when compared with HK$86.3 million for the first half of last year. The decrease in profit was mainly due to the price driven promotions in the QSR market in China in the period under review.

Basic and diluted earnings per share for the period were HK0.77 cent and HK0.77 cent respectively (six months ended 30 June 2017: HK0.88 cent and HK0.87 cent respectively).

DIVIDEND

On 29 June 2018, the Company made a final dividend payment of HK0.83 cent per share for the year ended 31 December 2017. The directors of the Company (the "**Directors**") do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

REVIEW OF OPERATION AND PROSPECTS

Industry review

In the first half of 2018, China's economy maintained stable and positive development momentum. Also, the service sector continued to maintain steady growth. At the same time, people have continued to pursue higher quality consumption. Retailing, especially online, express delivery and related industries continued to grow rapidly. New business models are constantly emerging and expanding, with "+Internet", for example, becoming further integrated into various industries. Online shopping and the internet platform economy have achieved high-speed growth, bringing new vitality to China's economic development.

During the first half of 2018, along with dine-in and delivery businesses, new forms of business such as "Sharing Restaurants" have begun to emerge. The development momentum of new retailing is rapid, and major e-commerce giants have utilized their existing internet resources, such as big data and mobile payment, as well as their mature logistic operations to deploy physical stores on a large scale to further expand their new integrated online-and-offline retail operations. The fusion of new retailing and catering business has had a significant impact on the traditional catering business, with competition in the catering segment becoming increasingly fierce. The new retailing industry is morphing into a combination of catering, retailing, leisure and entertainment, in which the catering segment is driven by various forces, including "dine-in", "take-away", "delivery", and "pre-packed food". The application of intelligent technology, robotic machines, automatic ordering machines and vending machines have also contributed significantly to the catering and retail industries in terms of improving efficiency, controlling costs, optimizing the customer experience, and enhancing revenue. Under such keen competition of the catering market, only those who can adapt to the rapid changes can survive.

From the consumers' perspective, the post-90s became the mainstay of food and beverage consumption. In addition to taste, young people are also concerned with appearance, service and value for money. This is a reminder to catering operators that they need to stay up-to-date on market trends and adjust their strategies in terms of products, services, and pricing. The involvement of e-commerce giants in the catering industry via new retail models as well as their massive investment in the industry will exacerbate competition among industry players. The low-price strategy frequently adopted by competitors to compete for market share has placed immense pressure on profitability of catering operators. Fierce market competition has also made the development and expansion of new stores more difficult, especially in obtaining top locations. Operating costs continue to be of concern as well, driven by growth of the delivery business and increase in labor cost. In the first half of 2018, the cost of delivery services remained among the major factors that affected profitability. At the same time, the government's introduction of more strict food safety and labor policies led to an increase in operating costs for catering operators as they sought to achieve compliance. Overall, the unfavorable factors of "four highs and one low" (high raw material cost, high labor cost, high rental expense, high utility cost and low return) continued to affect the profitability of the catering industry.

Business review

In response to the various challenges, Hop Hing earnestly implemented its business strategies at the beginning of the year, comprising: (1) store upgrades, including service, brand image, and product enhancement; (2) self-owned brand expansion, which involves the creation and nurturing of new brands to expedite expansion of self-owned brands; (3) ongoing organizational development (through network-structure sharing system) to improve efficiency, including the allocation of more resources towards training potential staff to enhance their performance; (4) launch of new retail business model, applying customers feeback data to stimulate "impulse purchasing through different scenarios", establishing a "full channel" service mode to provide "solutions for eating", and providing value-added services to increase customer satisfaction; and (5) modifying the customer relationship management ("**CRM**") membership system, including enhancing customer-data management and intelligent management of all networks.

To enrich the product portfolio, Hop Hing has intensified product development, including expanding product categories and developing cost-effective products to combat the low-price strategies employed by rivals. In view of the booming beverage market, Hop Hing has also developed and increased the variety of beverage products offered to its customers. At the same time, it has launched salad products under the new brand of "Take a Green Break" to satisfy consumers' desire for "natural" and "healthy" food options to capture the customer behavior with increasing awareness of green and healthy dining habit. On the other hand, new technologies and equipment such as, self-service ordering machines, and self-service vending machines have been introduced as well, which not only enable the Group to promote a high-technology image, but also allow it to effectively reduce the impact of high labor costs. What's more, to cater for the younger generation customers' needs and evolve into a new retail business model, apart from opening stores and introduction of new products and new brands, the Group has launched artificial intelligence (A.I.) vending machines with a wide variety of products including fresh food, pre-packed food and salad products to capture the new market segment. At the same time, Hop Hing has been actively exploring different employee incentive schemes in an effort to promote camaraderie, innovation and execution.

In the first half of 2018, the Group's sales revenue increased by 4.8% year-on-year to RMB970,818,000 (1H2017: RMB926,364,000). Apart from additional sales brought by new stores and increased consumption from members under the CRM system, delivery sales also increased owing to the efficient and quality delivery services provided by the Group's self-owned delivery team. In order to enhance customers' dining experience and provide more healthy products to choose from, the Group also launched salad products, thereby broadening its product line. It is worth noting as well that stores under the "Uncle Fong" brand have started to expand to the northeastern region of China.

During the period under review, the Group continued to open stores in accordance with its strategy, which also corresponds with products, services and brands upgrades, as well as the establishment of facilities for enhancing the efficiency of delivery sales services. While the speed of expansion of the Yoshinoya and DQ store network during the period under review was at the same level as the corresponding period last year, the Group expects the number of net store openings in the second half year will increase at a faster pace once more details about the integration of the Beijing-Tianjin-Hebei Province Metropolitan Region are known. As at 30 June 2018, the Group had 521 stores in operation.

	As at	
	30 June 2018	31 December 2017
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**218**	218
Liaoning	**83**	81
Inner Mongolia	**12**	12
Heilongjiang	**19**	16
Jilin	**2**	2
	334	329
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**114**	117
Liaoning	**22**	24
Inner Mongolia	**7**	7
Heilongjiang	**11**	11
Jilin	**2**	2
	156	161
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**29**	25
Liaoning	**2**	1
	31	26
Total	**521**	516

In the first half of 2018, the QSR market was very competitive. Many of the QSR market players offered deep discounts to customers so as to boost their top line. With the implementation of the Group's five business strategies, including increasing the variety and combination of the Group's product offered to customers and intensifying promotional activities, the Group was able to report an increase in same-store sales of 1.7% (the first half of 2017: 4.9%) from the Yoshinoya network during the period under review. Apart from competition, adjustments were made to certain DQ stores to meet the new food preparation requirements imposed by local authorities; hence, sales of DQ products were affected. As a result, DQ experienced a decline in same-store sales of 6.7% in the first half year (1H2017: increase of 7.2%). The Group's overall same-store sales increased by 0.9% (first half of 2017: 5.1%).

	Percentage Increase in Same Stores Sales (denominated in Renminbi) Six months ended 30 June	
	2018	2017
Overall	**0.9%**	5.1%
By Main Brands		
Yoshinoya	**1.7%**	4.9%
Dairy Queen	**-6.7%**	7.2%

During the period under review, the Beijing-Tianjin-Hebei Province Metropolitan Region remained the largest market of the Group based on revenue, with sales revenue from Yoshinoya products accounting for approximately 85% of the Group's total revenue.

	Six months ended 30 June			
	2018		2017	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**722,085**	**74.4%**	698,927	75.4%
Northeast China [(1)]	**248,733**	**25.6%**	227,437	24.6%

(1) Including Liaoning, Inner Mongolia, Jilin and Heilongjiang.

	Six months ended 30 June			
	2018		2017	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
b. By Main Brands				
Yoshinoya	**822,377**	**84.7%**	788,252	85.1%
Dairy Queen	**107,756**	**11.1%**	102,198	11.0%

The substantial increase in price of certain food materials in the second half of 2017 continued during the period under review. Various actions were taken by the management, including offering different food combinations, promoting products with more stable cost prices and revising selling prices of certain products, which enabled the Group to reduce the impact of such price increases. A gross profit margin of 63.9% has been recorded for the period under review, which is a modest decline of 0.3 percentage point when compared with the corresponding period of 2017.

	Six months ended 30 June	
	2018	2017
Gross Profit Margin	**63.9%**	64.2%

The number of loyalty members of the Group's CRM system increased notably since its launch in the second half of 2017. This has enabled the Group to analyse the data captured and understand the consumption habits of its members. Together with the Group's streamlined management and reporting system for improving the efficiency of the Group's decision making process, the Group has been able to launch new products and develop "Precision marketing" and promotional activities within a short period of time. Also, the strategy of opening stores with smaller area has resulted in higher rental cost efficiency as evidenced by the decrease in rental expense as a percentage of sales. As third-party online ordering platforms have been able to attract sizeable traffic in the past years, they have started to raise their service fees to increase income. While the Group has placed greater effort to divert sales to its own website and delivery platform, the increase in service fees charged by third-party online ordering platforms have an adverse impact on the Group during the period under review.

	Six months ended 30 June			
	2018		2017	
	HK$'000	***% of sales***	*HK$'000*	*% of sales*
Labour Costs	**173,021**	**14.5%**	148,603	14.2%
Rental Expenses	**152,844**	**12.8%**	136,221	13.0%
Depreciation	**46,936**	**3.9%**	48,273	4.6%
Other Operation Expenses	**182,248**	**15.2%**	135,938	13.0%
Total Selling and Distribution costs	**555,049**	**46.4%**	469,035	44.8%

Financial Review

Equity

The number of issued shares of HK$0.10 each of the Company as at 30 June 2018 was 10,070,431,786 (31 December 2017: 10,070,431,786).

Liquidity and gearing

As at 30 June 2018, the Group's total bank borrowing, which was in the form of a bank loan of HK$10 million (31 December 2017: 10 million), was unsecured, denominated in Hong Kong dollars and repayable within one year.

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 30 June 2018 was 1.5% (31 December 2017: 1.5%).

The finance costs for the period were HK$0.4 million (six months ended 30 June 2017: HK$0.5 million).

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group's bank facilities were available in both Hong Kong dollars and Renminbi. The Group continues to adopt the policy of hedging foreign currency liabilities with foreign currency assets.

Remuneration policies

Staff remuneration packages of the Group consist of 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 provided other staff benefits including medical insurance, continuing education allowances, provident funds, share options and share awards to eligible staff of the Group. The total remuneration paid to the employees (including pension costs and the Directors' remuneration) of the Group in the period under review was HK$234 million (six months ended 30 June 2017: HK$205 million). As at 30 June 2018, the Group had 8,105 full-time and temporary employees (30 June 2017: 7,999).

During the period ended 30 June 2018, the Board resolved to grant share awards in respect of 38,699,120 shares to certain selected participants who were not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them.

Operating segment information

Details of the operating segment information are set out in note 4.

Contingent liabilities

The Group had no material contingent liability outstanding as at 30 June 2018.

Pledge of assets

The Group had no pledge of assets as at 30 June 2018.

Future Development of the Group's Business

Catering development trends

With ongoing reforms and market liberalization resulting from favorable government policies, growth drivers have emerged. From an industrial point of view, China's economy will continue to maintain favorable growth in the near future. From caterers' perspective, fundamental growth in consumption will become more prominent, which will invariably lead to an expansion in consumption scale, upgrading in consumption structure, and increase in consumption contribution.

After a cycle of offering deep discounts to customers to boost top lines, it is expected that the market players will be back to rational. The catering industry is expected to maintain stable growth, while the delivery business will continue to expand. Also, further integration of online-and-offline operations and continuous innovation of cross-border operations will result in more new business models. However, in first-tier cities, competition will become more intense, and operating costs such as labor and delivery will continue to increase, hence catering operators will have to review their current status, actively adjust their business strategy, explore market opportunities, and enhance their ability to capture greater market share so as to generate higher profits.

Future development strategy

The China QSR operating experience accumulated by Hop Hing over the past 27 years and its responsive management team will enable the Group to capitalize on the trend towards high-quality consumption. The Group will also review market developments, actively transform and innovate, continue to implement its five business strategies, and further optimize and upgrade services, brand image and product quality. The Group also strives to improve and optimise its new retail business model by integrating its well-established brands, extensive store network and high quality products, together with the new technology and artificial intelligence. These objectives will be facilitated by efforts at gauging market potential, obtaining greater understanding of market changes and customer needs, modifying development strategies, increasing research and development, and exploiting new retail and beverage markets, including the interest in "natural" and "healthy" food. Integration of new technologies will also be pursued, such as artificial intelligence, mobile payment, and analysis of customer data and preferences. Furthermore, the CRM membership system will be modified to support cross-brand membership, achieve precise marketing, and cultivate and strengthen online sales. The Group will also seek to expand coverage of self-owned delivery teams, so as to facilitate further integration of online-and-offline operations, leading to better business performance and service quality. In addition, through the adoption of new technologies, operating costs can be controlled, such as labour. As for improving profitability, raising the efficiency and effectiveness of the logistics system will be pursued; as such effort would also enable the Group to reduce the impact of continuously rising food material costs. Focus on opening high-quality new stores is yet another objective, which will enable the Group to enhance total revenue contributions, while at the same time reduce pressure from rising labor costs and service charges from third-party internet platforms. With more details on the integration of the Beijing-Tianjin-Hebei Province Metropolitan Region available in the near future, the Group will expand its store network in a faster pace.

The Group will continue to adopt safety and hygiene management and control measures so as to ensure that healthy and safe food are provided to customers. With respect to the management of staff, the Group will further expand its incentive scheme in order to better motivate employees and to achieve higher operational efficiency.

Looking ahead, the Group will continue to explore various opportunities, including advancing cooperation with its franchisors and existing business partners, and exploring possible merger and acquisition opportunities that enable the Group to develop into a leading multi-brand QSR operator in China.

On Behalf of the Board
Hop Hing Group Holdings Limited
Hung Ming Kei, Marvin
Chief Executive Officer

Hong Kong, 24 August 2018

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules for the period from 1 January 2018 to 30 June 2018. The principles as set out in the CG Code have been adopted into our corporate governance practice.

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 accounting period covered by the interim report.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

During the six months ended 30 June 2018, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim 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 interim report will be despatched to shareholders of the Company and made available at the aforesaid websites in due course.

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 period under review.

On Behalf of the Board
Hop Hing Group Holdings Limited
Seto Gin Chung, John
Chairman

Hong Kong, 24 August 2018

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), Mr. Sze Tsai To, Robert, 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.