HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

2017 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

This is my second year as chairman of the board of directors (the "Board") of the Hop Hing Group Holdings Limited and its subsidiaries (the "Group"). With the support of my fellow directors and its diligent management staff, the Group continued to grow its sales and profit in the year 2017. Hence, I would like to take this opportunity to express my sincere gratitude to them.

In the past year, the Chinese economy recorded slightly stronger Gross Domestic Product (the "GDP") growth than in the previous year, edging up from 6.7% to 6.9%. The catering business in the People's Republic of China (the "PRC") market grew by more than 10%, showing marked improvements in quality of products and services.

The catering business saw increased rivalry from leading players moving into different new concepts while new entrants from supermarkets and online companies further intensified competition. Consumers are the sole beneficiary of the intense competition: more choices, better services, and better quality products. The business world is going through revolutionary changes driven by artificial intelligence, big data, mobile payments technologies and the catering business and its operating concepts need to adapt to the new environment. In 2017, increased cost in raw materials, labour, rents and utilities adversely affected the profit margins of the catering business. Furthermore, industry players needed to comply with more stringent government regulations on food and environmental safety.

Overall, the economic environment in 2017 produced steady growth, with the catering industry recording double digit increase. The growth in disposable income increased the desire for products and services, both in quantity and quality. Despite the intensive competitive environment for the catering businesses, the future remains optimistic, especially for the well known brands and chain stores. Our Group, with her experienced and progressive management team, is well positioned rise to the challenges.

Despite these challenges, the Group recorded growth in both revenue and profit in 2017. This was achieved through well considered business strategies to control costs and improve operating efficiency, diligently executed under the leadership of our chief executive officer and the management team. During the year, the Group continued to implement the incentive scheme designed to motivate store managers and staff to self-initiate on improving store operations. Positive results have been achieved in lowering operating costs and increasing sales. In 2017, China had a change in tax policy, shifting from business tax to value-added tax; this change resulted in reduced expenses to the Group. For the year, Group net profit improved by 34.3% to HK$167.4 million from HK$124.6 million in 2016.

For 2018, China is expecting continued economic growth. Strong consumer demand for goods and services will have a positive impact on the catering business. Quick service restaurants (the "QSR"), with well known brands should have an advantage. The Group is well positioned to capitalize on China's continued prosperity. We will steadfastly adhere to our operating principle of "Quality with Conscience", strictly control food quality and enhance services to ensure healthy, safe and delicious food products to our customers. To meet growing consumer expectations on products and services, the Group will continuously upgrade our restaurants and increase our new food product offers, to enhance consumer experiences. The Group will embrace innovations in the industry, adopt new technologies and big data, to better understand customer needs and deliver personalized services.

The Group's objective is to be a leading multi-brand QRS operator in the PRC. "Uncle Fong" was brought into the Group in previous year, the brand and its products have so far been well received. We will continue to grow its brand recognition and market share. The Group will continue to develop new products and brands and will also consider new investment opportunities that can help us to achieve our objectives.

With China's growing economy, and government's favourable policy to the industry, I believe the Group is on track to achieve its business targets in 2018. I would like to thank my fellow board members, the management team and staff for their hard work and unswerving support. My gratitude also goes to our customers, shareholders and business partners for their confidence in and support to the Group.

SETO GIN CHUNG, JOHN
Chairman

Hong Kong
27 March 2018

RESULTS

The Board of the Company is pleased to announce the consolidated results of the Group for the year ended 31 December 2017 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
TURNOVER	*4*	**2,218,323**	2,091,313
Cost of sales		**(809,505)**	(752,885)
Other income and gains, net		**24,559**	7,072
Selling and distribution expenses		**(1,002,908)**	(980,645)
General and administrative expenses		**(188,929)**	(187,407)
PROFIT FROM OPERATING ACTIVITIES	*5*	**241,540**	177,448
Finance costs	*6*	**(942)**	(837)
PROFIT BEFORE TAX		**240,598**	176,611
Income tax expense	*7*	**(73,246)**	(51,996)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**167,352**	124,615
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*9*		
Basic		**HK1.71 cents**	HK1.26 cents
Diluted		**HK1.69 cents**	HK1.25 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**167,352**	124,615
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**34,739**	(28,582)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	**34,739**	(28,582)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**202,091**	96,033

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**213,476**	188,907
Deferred tax assets		**44,528**	34,524
Prepayments and rental deposits		**51,618**	47,016
Total non-current assets		**309,622**	270,447
CURRENT ASSETS			
Stocks		**111,447**	94,758
Accounts receivable	*10*	**17,769**	8,142
Prepayments, deposits and other receivables		**97,960**	68,990
Tax recoverable		**196**	1,787
Other financial asset		**48,019**	–
Cash and cash equivalents		**641,693**	537,086
Total current assets		**917,084**	710,763
CURRENT LIABILITIES			
Accounts payable	*11*	**153,624**	118,422
Other payables and accrued charges		**374,664**	313,884
Interest-bearing bank loan		**10,000**	10,000
Tax payable		**9,857**	11,939
Total current liabilities		**548,145**	454,245
NET CURRENT ASSETS		**368,939**	256,518
TOTAL ASSETS LESS CURRENT LIABILITIES		**678,561**	526,965
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**24,751**	23,168
NET ASSETS		**653,810**	503,797
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**1,007,043**	1,007,043
Reserves		**(353,233)**	(503,246)
TOTAL EQUITY		**653,810**	503,797

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 except for other financial asset which has been measured at fair value. 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Other than as explained below regarding the impact of amendments to HKAS 7, the adoption of the above revised standards has had no significant effect on the financial statements.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financial activities is provided in financial statements in 2017 annual report.

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 PRC. 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):

	2017	2016
	HK$'000	*HK$'000*
Foreign exchange differences, net	**(7,874)**	6,100
Direct cost of stocks sold*	**742,527**	697,420
Loss on disposal/write-off of items of property, plant and equipment, net	**8,271**	4,304
Employee benefit expenses (including directors' emoluments):		
Wages and salaries	**391,160**	351,807
Pension scheme contributions**	**97,875**	92,074
Equity-settled share-based payments	**10,460**	4,329
	499,495	448,210
Depreciation	**97,147**	100,056
Impairment of items of property, plant and equipment	**1,477**	1,154
Write-back of impairment of accounts receivable***	**(1,702)**	(2,023)
Lease payments under operating leases:		
— Minimum lease payments	**257,985**	264,211
— Contingent rents	**38,278**	33,583
Auditor's remuneration	**2,500**	2,450

Notes:

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

** At 31 December 2017, the Group had no forfeited contributions available to reduce its future contributions to the pension schemes in future years (2016: 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:

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loan	**134**	38
Bank financing charges and others	**808**	799
	942	837

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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 2017 and 2016.

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

	2017	2016
	HK$'000	*HK$'000*
Current — Hong Kong		
Charge for the year	**288**	1,980
Underprovision in prior years	**5**	2,049
	293	4,029
Current — Elsewhere		
Charge for the year	**67,874**	50,441
Underprovision in prior years	**3,793**	269
	71,667	50,710
Deferred	**1,286**	(2,743)
Total income tax charge for the year	**73,246**	51,996

8. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Dividends paid during the year:		
Final dividend for 2016 — HK0.62 cent (2015: HK0.25 cent) per ordinary share*	**60,257**	25,176
Proposed final dividend:		
HK0.83 cent (2016: HK0.62 cent) per ordinary share	**83,585**	62,437

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 proposed final dividend payable.

* Final dividend for 2016 paid during the year ended 31 December 2017 represented the dividends paid for the issued ordinary shares, excluding treasury shares held by the trustee under the share award scheme.

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$167,352,000 (2016: HK$124,615,000), and the weighted average number of 9,812,206,150 (2016: 9,906,729,075) ordinary shares in issue during the year, as adjusted to reflect the number of shares of 259,487,400 (2016: 245,095,400) held under the share award scheme of the Company.

(b) Diluted earnings per share

For the year ended 31 December 2017, 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$167,352,000 and the weighted average number of 9,922,200,550 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 109,994,400 calculated as follows:

	2017	2016
	HK$'000	*HK$'000*
Consolidated profit attributable to equity holders of the Company	**167,352**	124,615

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**9,812,206,150**	9,906,729,075
Effect of dilution — weighted average number of ordinary shares:		
Share award	**71,989,156**	38,196,745
Share options*	**38,005,244**	–
	9,922,200,550	9,944,925,820

* The outstanding share options of the Company have not been included in the computation of diluted earnings per share for the year ended 31 December 2016 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:

	2017	2016
	HK$'000	*HK$'000*
Current (neither past due nor impaired)	**17,231**	7,592
Within 60 days past due	**538**	550
	17,769	8,142

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:

	2017	2016
	HK$'000	*HK$'000*
Current and less than 60 days	**140,275**	114,555
Over 60 days	**13,349**	3,867
	153,624	118,422

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 2017, turnover of the Group's business totalled HK$2,218.3 million (2016: HK$2,091.3 million). Earnings before interest, taxation, depreciation and amortisation for the year amounted to HK$338.7 million, representing an increase of 22.0% when compared to the HK$277.5 million for the preceding year. Profit attributable to the equity holders of the Company for the year under review was HK$167.4 million, representing an increase of 34.3% or HK$42.8 million when compared to HK$124.6 million for the year ended 31 December 2016.

Basic and diluted earnings per share for the year were HK1.71 cents and HK1.69 cents, respectively (2016: HK1.26 cents and HK1.25 cents, respectively).

DIVIDENDS

On 28 June 2017, the Company made a final dividend payment of HK0.62 cent per share for the year ended 31 December 2016. The Directors recommend payment of a final dividend of HK0.83 cent per share for the year ended 31 December 2017 (2016: HK0.62 cent per share). Subject to approval by the shareholders at the forthcoming annual general meeting (the "AGM") of the Company, the final dividend will be distributed on or about 29 June 2018 to shareholders whose names appear on the register of members of the Company as at 15 June 2018.

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 2017, the catering industry continued to face tough challenges. China's GDP growth improved from 6.7% in the previous year to 6.9% in the year under review, with economic growth reinforced by the improving quality, structure and efficiency of the economy. The catering industry developed in two different directions. One is towards speciality and cultural catering to meet the consumption needs for personalization, diversity and socializing, and the other is towards chain stores, retail and industrial catering to meet the consumption needs for swiftness and convenience. The online take-out market sustained rapid growth, becoming a main driver for the industry innovation. The in-depth integration of online and offline businesses create the new business model of "Supermarket plus Catering". Online retail sales volume increased substantially by nearly one third as compared with last year amid soaring development of the platform business. Sharing businesses such as bike sharing and car sharing grew rapidly.

However, investment returns in the real economy were still weak dampening investment sentiment, which required transformation and upgrade to reinvigorate. Although the overall catering market recorded double-digit growth in 2017, the rate of closing down of catering enterprises was high at 30%. Restaurants in shopping malls faced even more difficulties. In the past few years, the industry saw more and more online companies, large supermarkets, and leading players in the upstream and downstream industry chain entering the catering market. This phenomenon, coupled with the increase in new restaurants in recent years, brought the market to saturation and as such competition intensified. Increasingly differentiated catering categories also ousted a number of brands from the market. The availability of more and more choices is affecting brand loyalty among restaurant goers comprising mainly those born in the 1980s and 1990s. In addition, apart from having high demand on food safety, consumers also want the food they eat to be natural and healthy and restaurants to offer customised dining experiences. All these trends are creating pressure on the revenue of catering operators. The continuous advance of internet technologies, big data and artificial intelligence have been fuelling online sales and has helped enhance catering service efficiency and product quality, but at the same time has also created pressure on physical restaurants. Under the above pressure, catering enterprises began to polarize. On the one hand, catering enterprises which continue to operate with traditional concepts and unable to reform their business to adapt to the rapid technology development and fast-changing market demand and still rely on traffic flow, single product and traditional operating mode will have difficulties in surviving the competition.

On the other hand, companies with sophisticated management philosophy and extensive management experience, open corporate culture, and experienced teams being able to accurately gauge the situation, proactively reform, and relentlessly innovate, would able to achieve substantial operating results and build up promising development momentum by combining the supply chain system, growing and strengthening online sales, and achieving in-depth integration of online and offline businesses. As a seasoned catering enterprise with a well developed brand, the Group prides itself of all the aforementioned desirable qualities for obtaining sustainable development, and is confident about winning the trust and recognition of consumers.

Meanwhile, the catering industry showed an increasing in 2017. On the one hand, customer spending was increasingly rational. The clever gimmicks and at-all-cost promotions previously employed by certain catering enterprises ceased to appeal to customers, whereas pleasant dining ambience, "delicious, healthy and safe" food, and personalized service were critical in attracting consumers. On the other hand, investments and management of catering enterprises became more rational as well, with more attention paid to consumers' real needs as well as legal and compliant operations. As a result, rat-race competition was reduced, bringing the market to normal order, enabling enterprises such as the Group which conducted business in a compliant manner to focus on brand building and long-term development and adopt appropriate operation and development approaches, so as to achieve healthy growth.

At the same time, the traditional "four highs one low" — high raw material, labour, rental and utility costs and low profitability — continued to affect development of the catering industry. Procurement, rental and labour costs have kept climbing year after year. In particular, with the takeaway market growing, food delivery and related costs have been rising, while dine-in spending shrinks and catering enterprises' unit efficiency declines. All these have dragged down profitability.

In addition, tightening government policies on catering operations are posing bigger impact on catering enterprises. With Chinese consumers giving increasing attention to food safety and the country keen on protecting the environment and promoting sustainable development, more stringent food safety and environmental protection regulations have been introduced for food enterprises, commanding them to enhance operational standards and quality control. Moreover, with China adjusting the positioning and functions of core cities such as Beijing, catering enterprises in those cities are compelled to adjust business strategy to address challenges including rising labour costs, declining foot traffic in business districts and climbing store construction costs.

Despite the aforementioned challenges and pressure, the Chinese economy continued to operate within a reasonable range throughout 2017. All macro indicators remained stable with promising prospects. The Chinese service industry, including the catering industry, grew stably and rapidly, with markedly enhanced quality effects. The Chinese economic development was transitioning from high-speed development to high-quality development, presenting catering businesses with desirable attractive opportunities for continuous development. Moreover, as per capita disposable income and per capita consumption expense continued to increase, the per capita number of restaurants failed to meet the dining needs of consumers despite further segmentation of the catering market, which means there remains plenty of room for market growth. Catering enterprises, the Group included, must accurately take the pulse of the economic development and seize the opportunities arising therefrom, understand the emerging needs of customers, relentlessly innovate, and continuously develop and adjust development strategies, using advanced technologies such as artificial intelligence, mobile payment, and big data, to establish customer relationship management systems, achieve targeted marketing, and facilitate the in-depth integration of online and offline business, thereby further improving our business model and service quality to "fulfil the people's growing need for a happy life".

Business review

In 2017, the management actively rolled out innovative measures conducive to improving the Group's business performance, and formulated six major business strategies at the beginning of the year, including (1) Enhancing customer satisfaction and strengthening customer touch point management; (2) Enhancing O2O business model; (3) Developing new stores and new brands; (4) Exploring and evaluating potential merger and acquisition opportunities; (5) Brand Upgrade to enhance customers' dining experience, and (6) Strategic human resources strategy. The different strategies effectively implemented had contributed in varying extent to the improvement in sales and profits of the Group and staff morale during the period under review.

For the year ended 31 December 2017, the Group's sales revenue in Renminbi increased by 7.4% to RMB1,923.3 million (2016: RMB1,790.2 million), which was attributable to the additional sales brought by new stores, as well as growth of the food delivery business. Dairy Queen launched delivery service for certain products in the fourth quarter of 2016. Operating its own delivery team, the Group is able to provide more efficient and quality delivery services to customers. Affording consistently faster delivery and more satisfactory delivery experience for customers, the delivery sales percentage of Yoshinoya improved from 28% in 2016 to 32% in 2017. Furthermore, after the launch of the upgraded customer relationship management system, which offers customers bonus points on purchases that can be used to redeem products later, customer spending increased.

In 2017, despite the difficult business environment, the Group persisted with the six major business strategies and successfully improved same-store sales. During the period under review, the Group's overall same-store sales (denominated in Renminbi) increased by 4.5% (2016: 2.3%) and Yoshinoya recorded a 4.6% same-store sales growth (2016: 3.1%). As for Dairy Queen, after delivery service was launched, it recorded same-store sales growth of 4.2% for the year (2016: -5.2%).

	Percentage Increase in Same Stores Sales (in Renminbi)	
	2017	2016
Overall	**4.5%**	2.3%
By main brands		
Yoshinoya	**4.6%**	3.1%
Dairy Queen	**4.2%**	–5.2%

In 2017, 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 85.8% of the Group's total sales.

	2017		2016	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**1,445,938**	**75.2%**	1,347,304	75.3%
Northern China [(1)]	**477,348**	**24.8%**	442,860	24.7%

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

b. By Main Brand				
Yoshinoya	**1,650,462**	**85.8%**	1,572,357	87.8%
Dairy Queen	**194,108**	**10.1%**	172,160	9.6%

In 2017, a net total of 46 new stores (2016: 15 net new stores), including 16 new Yoshinoya stores (net), 18 new Dairy Queen stores (net) and 12 new Uncle Fong stores (net), were opened in existing markets. As at 31 December 2017, the Group had 516 stores in operation.

	As at 31 December	
	2017	2016
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**218**	217
Liaoning	**81**	73
Inner Mongolia	**12**	12
Heilongjiang	**16**	9
Jilin	**2**	2
	329	313
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**117**	103
Liaoning	**24**	22
Inner Mongolia	**7**	7
Heilongjiang	**11**	8
Jilin	**2**	3
	161	143
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**25**	14
Liaoning	**1**	–
	26	14
Total	**516**	470

Operating in a competitive market and with operating costs on general rise, the Group continued to execute its effective cost control system. It implemented the proven strategy of bulk procurement of key food ingredients through strategic sourcing and continuous extension and improvement of its supply chain without compromising food quality. However, the costs of some of its major raw materials spiked in the second half of 2017, even though there was a costs saving from the business tax to value-added tax reform helping to improve the Group's gross profit margin, net gross profit margin was down by 0.5 percentage point from 64.0% in 2016 to 63.5% in 2017.

At the end of 2017, the Group adjusted the prices and sales product mix by launching new products, moves expected to improve its effective gross profit margin in the future.

	2017	2016
Gross profit margin	**63.5%**	64.0%

In addition, the Group constantly strives to motivate its team and, in 2017, its incentive scheme achieved satisfactory results. Thanks to these efforts, staff members have become more enthusiastic and motivated at work, helping improve the Group's operational efficiency. The rise of labour costs was partially offset by enhanced staff efficiency and decrease in store utility and repair costs. With the help of the upgraded customer relationship management system, the Group greatly enhanced the cost-effectiveness of advertising and publicity programmes. At the same time, with the Group actively opening smaller stores and benefiting from favourable conditions brought by the tax reform, its rental cost decreased in the year under review.

	2017		2016	
	HK$'000	***% of sales***	*HK$'000*	*% of sales*
Labour costs	**315,511**	**14.2%**	292,607	14.0%
Rental expenses	**278,893**	**12.6%**	279,594	13.4%
Depreciation and amortization	**89,106**	**4.0%**	90,586	4.3%
Other operating expenses	**319,398**	**14.4%**	317,858	15.2%
Total selling and distribution costs	**1,002,908**	**45.2%**	980,645	46.9%

To summarise, the costs of some core food materials increased sharply in the second half of 2017, and although the impact of the increase was mitigated through effective strategic and bulk procurement and VAT reform, the Group's gross profit margin was still affected. By continuously opening smaller stores and adopting the six major business strategies, the Group was able to lower store rental costs to some extent. Efforts to promote food delivery business made a remarkable contribution to sales growth, which has to a certain extent been offset by an increase in the delivery logistics and delivery related costs in the second half of the year. In addition, the incentive scheme implemented at stores succeeded in encouraging employees to take initiative to improve store operations and frontline staff have become more enthusiastic and motivated at work. The scheme not only enhanced operational efficiency, but also helped lower operating costs and increase sales. During the second half of 2017, Renminbi appreciated and the Group recorded exchange gains in 2017 against exchange loss in 2016. All in all, profit of the Group recorded an increase of 34.3% from HK$124.6 million last year to HK$167.4 million in the year under review.

Beijing Yoshinoya Fast Food Company Limited (the "Beijing Subsidiary"), a subsidiary of the Company, received a notice from the Beijing tax authority in January 2018 stating that the Beijing tax authority will carry out a tax inspection on the Beijing Subsidiary in relation to previous tax periods. As at the date hereof, no finding has been made in respect of the tax inspection. The Board will continue to closely monitor the progress of this matter and will update shareholders and potential investors as and when appropriate and necessary.

FINANCIAL REVIEW

Equity

The number of issued shares of HK$0.10 each of the Company as at 31 December 2017 was 10,070,431,786 (31 December 2016: 10,070,431,786).

As at 1 January 2017, the Company had 326,167,320 outstanding share options. During the year, 72,500,000 share options were granted. No share options were exercised or lapsed during the year.

Liquidity and gearing

The Group's gearing ratio (expressed as a percentage of interest-bearing bank loan over equity attributable to equity holders of the Company) as at 31 December 2017 was 1.5% (31 December 2016: 2.0%).

As at 31 December 2017, the Group recorded a net cash position of HK$631.7 million (2016: HK$527.1 million) (being cash and cash equivalents less interest-bearing bank loan). 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 HK0.9 million (2016: HK$0.8 million).

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group continues to adopt a 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 incentive schemes to eligible staff. The total remuneration paid to the employees (including pension costs, share-based payments and the directors' remunerations) of the Group in the year under review was HK$499.5 million (2016: HK$448.2 million). As at 31 December 2017, the Group had 8,248 full-time and temporary employees (2016: 7,912).

During the year ended 31 December 2017, the Board resolved to grant share awards in respect of 29,634,959 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 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

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 further 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 Hop Hing Oil Group Limited and its subsidiaries and joint ventures before the date of completion of the Disposal.

PLEDGE OF ASSETS

The Group did not have any pledge of assets as at 31 December 2017.

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 BUSINESS DEVELOPMENT PLAN

Catering Industry Development Trends in 2018

Despite the difficulties and challenges it faces, the catering industry in the PRC has reasons for expecting growth. First of all, bolstered by the rapidly developing Chinese economy, particularly its tourism industry, mass catering in rigid demand is expected to maintain steady growth and remain the greatest driving force of overall recovery of the industry. The social and industrial status of QSR is established, hence it is assuming a bigger role in the economic system and will continue to be a major platform powering development of the modern catering industry. The O2O operating model continues to evolve and gathers momentum thanks to the continuously rising demand for food delivery service. Secondly, in terms of government policies, the Mainland China government introduced a series of policies to overtly encourage development of branded catering, mass catering and catering chains, and branded catering chains in particular, with the intention of building a catering service system that can satisfy multi-layered and diversified consumption needs. Thirdly, in terms of taxation, with business tax being replaced by value-added tax in China, the majority of catering enterprises will continue to benefit from the resulting tax payment cut. Fourthly, in terms of technological development, by employing tools such as big data, artificial intelligence and mobile payment technologies, catering enterprises can now accurately identify customers' individual needs and carry out targeted marketing to effectively improve efficiency and production and service quality. All these factors are favourable to the development of China's catering industry. Lastly, the push for Beijing-Tianjin-Hebei integration of the Chinese government is presenting development opportunities unprecedented to the Group's QSR business, because Tianjin and Hebei are the major sales territories of the business. The business has much room to grow in the two places.

China's catering industry will focus on developing QSRs, group catering, casual catering and simple dining in 2018. In addition, QSR brand and chain development will be the main endeavour of the catering industry in the future. Against the backdrop of customers having ever higher expectations of a dining environment and dining experience, major restaurant chains that enjoy high brand awareness, boast advanced management concepts and solid management experiences will stand prime in achieving ongoing growth on their brand names and scale advantages. The Group has confidence in the long-term development of QSRs in the country.

Future Development Strategy

Stores of a catering enterprise play a key role in helping the enterprise provide high-quality products and services to consumers. They are where consumption happens. Those good in-store consumer experiences in complement with online sales promotion will boost overall sales. In 2018, the Group will continue with its store upgrade strategy. It will enhance service quality and the image of its brands, optimise and upgrade products, and increase customer satisfaction through technologies and precise service marketing. By rebuilding store images and optimising management of customer touch points, the Group expects to see an upgraded brand image. The Group will also leverage big data to understand customers' needs and help it continuously revamp and upgrade different product lines, thereby strengthening the competitiveness of its products.

Talent is another element critical to the success of an enterprise's operation. In 2018, the Group will continue to reform its organisational structure and system to enthrall, motivate and stimulate the creativity of employees, and strive to improve execution and management efficiency, as well as its market competitiveness. The human resources measures used by the Group primarily include: continuing to implement the virtual partnership scheme, with the aim of improving overall efficiency of the operational teams; continuing to implement the network sharing system, so as to improve the efficiency of each business unit of the Group; and implementing internal entrepreneurship mechanism to unearth resources and bring out the strengths of all parties in the Group.

Building a customer-centric operational mode, fostering long-term, stable and close relationship and mutual trust with customers, implementing targeted marketing, enhancing customer satisfaction and thereby strengthening profitability make up the Group's overall strategy for 2018. The Group will provide personalised products and services to customers via building and application of a CRM system, that can help it strengthen profitability and competitive advantages.

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 2017.

The principles as set out in the CG Code have been adopted into our corporate governance practices. To ensure strict compliance with the latest CG Code, the Board will (a) review and regularly update the corporate governance policies and practices of the Company; (b) review and oversee the continuous training of the directors and the senior management; (c) examine and monitor the compliance and disclosure of legal and regulatory requirements; (d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and (e) review the Company's compliance with the code and disclosure in the corporate governance report of the 2017 annual report.

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 2017.

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 align with the CP of the CG Code and have also been posted on the websites of both the Hong Kong Exchanges and Clearing Limited (the "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 2017.

The figures in respect of the Group's results for the year ended 31 December 2017 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 2017, the trustee of the Company's share award scheme (the "Share Award Scheme") adopted on 20 March 2015, purchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a total of 14,392,000 shares of the Company at a total consideration of approximately HK$2,281,000. As the shares are held by the trustee for the award of shares pursuant to the Share Award Scheme and the trust deed, 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 2017.

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 the HKEx at www.hkexnews.hk. The AGM of the Company is expected to be held on 8 June 2018. A notice convening the AGM and the annual report will be published on the Company's website and the website of the HKEx 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 5 June 2018 to 8 June 2018 (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 2017, the register of members of the Company will be closed from 14 June 2018 to 15 June 2018 (both days inclusive), during which period no share transfers will be registered. The final dividend will be distributed on or about 29 June 2018 to shareholders whose names appear on the register of members of the Company as at 15 June 2018.

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 4 June 2018 and 13 June 2018 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.

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

Hong Kong, 27 March 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, GPS, JP and Mr. Wan Sai Cheong, Joseph. The non-executive director of the Company is Ms. Lam Fung Ming, Tammy.