Hop Hing Group Holdings Limited Announces Interim Results 2012

Net Profit grew 19.9% Despite Challenging Environment

Hong Kong – 30 August, 2012 – Hop Hing Group Holdings Limited ("Hop Hing" or "the Company") (HKEx: 47) today announced its unaudited interim results for the six months ended 30 June 2012.

Financial Highlights:

(HK$ million)	Unaudited For the six months ended 30 June 2012	2011 (Restated)	Change
Turnover	1,389	1,128	+23.1%
Gross Profit	677	547	+23.7%
Profit from Operating Activities	118	99	+18.8%
Profit for the Period	74	62	+19.9%

Business Highlights:

- Successfully completed the acquisition of Yoshinoya and Dairy Queen in March 2012, quick service restaurant ("QSR") business which accounted for 69% and 95% of the Company's turnover and earnings before interest and taxation ("EBIT") in the first half of 2012 respectively.
- QSR business was able to record a surge of revenue to HK$956.5 million during the period under review, representing a growth of 28.7% from the corresponding period in 2011. Profit before unallocated head office expenses and taxation of HK$114.1 million was reported which was 20.2% higher than that of the same period in 2011. The same store sales growth of 11.8% (six months ended 30 June 2011: 16.9%) was recorded for the period under review.
- 51 net new stores of Yoshinoya restaurants and Dairy Queen stores were opened during the period under review.

Mr. Marvin Hung, Chief Executive Officer of Hop Hing, commented, "After the completion of the Acquisition in March this year, the profitability and financial position of the Company have been substantially improved. Despite the negative impact of the global macro-economy, hiking food cost and fierce competition from industry peers, our QSR business achieved satisfactory growth by improving its same store sales and expanding store network. We will continue to look for opportunities that may bring us steady long term growth and fit with our strategy to become a multi-brand QSR chain operator."

BUSINESS REVIEW

QSR business: Despite this competitive market environment, the Group's QSR business was able to record a surge of revenue to HK$956.5 million during the period under review, representing a growth of 28.7% from the corresponding period in 2011. Such satisfactory growth in revenue was achieved by the successful implementation of the Group's strategy of improving its same stores sales and expanding its store network. With effective cost control measures in place, the QSR business reported a profit before unallocated head office expenses and taxation of HK$114.1 million which was 20.2% higher than that of HK$94.9 million for the same period in 2011. The encouraging financial performance is a testimony of the Company's QSR business' resilience to market volatilities.

Among the 90 new stores planned for 2012, 51 net new stores were opened (1H 2011: 16 net new stores) in existing markets and selected regions during the period under review. These 51 stores included 30 Yoshinoya restaurants and 21 Dairy Queen stores. On 30 June 2012, there were 368 stores in operation. (Please refer to the Appendix for the geographical distribution)

Apart from strengthening our store penetration, the Company managed to increase its same store sales of the QSR business by implementing various initiatives in product improvement, delivery service, daytime expansion, menu mix and price adjustment. In the first half of 2012, the QSR business recorded same store sales growth of 11.8% (six months ended 30 June 2011: 16.9%).

Managing and minimizing the impact of the continuous increase in three major cost elements, namely labor cost, food cost, and rental cost, was the major challenge for the catering industry during the period under review. Apart from adjusting our menu prices on a selective basis, the management was able to maintain the gross profit margin at 60% by implementing strategic procurement of key food ingredients, improvement in logistics efficiency and effective tendering.

During the first half of this year, the labor and related cost of store and distribution centre went up slightly by 0.4 percentage points of sales. This was mainly due to the hiring of additional staff to pave the way for the opening of 51 net new stores, which operated for only part of the six-month period, as well as additional labor costs incurred for meeting the increasing demand for delivery services. This is a stable level given our rapid expansion.

The long-term strategic relationship with key landlords built up by the management allowed us to negotiate better lease terms and to minimize the impact of the rising rental cost. Together with improvement in business processes, we were able to contain the increase in rental as a percentage of sales within 12.5% during the period under review.

Edible Oil: During the period under review, the edible oil operating environment remained challenging. Escalating edible oil costs remained one of the major factors that affected the edible oil market. The upward trend of edible oil costs that started in the latter half of 2010 continued, and the cost of certain types of edible oil in the current period was one-third higher than that in the first half of last year. Despite these challenging factors, the management's persistence in providing health conscious customers with healthy and quality products over the years enabled the Company to record a growth in sales. According to the data reported by Nielsen, one of the most reputable international research companies in Hong Kong, through its MarketTrack Service on The Edible Oil Category in Total Supermarket and Convenience Stores for the period between May 2011 and April 2012, the Company's flagship edible oil brand "Lion & Globe" was ranked first in sales value and sales volume for the given period.

In Mainland China, the edible oil market environment remained difficult. The rising cost during the period under review affected its business volume negatively and squeezed its profit margin. Although positive EBITDA (earnings before interest, taxation and depreciation and amortization) was recorded by this segment in the six months ended 30 June 2012, the performance of its operation in Mainland China was not satisfactory and the management will continue to tackle the challenging market environment through closely monitoring cost and deploying flexible business strategies.

OUTLOOK

Economic uncertainty in the first half of this year is likely to continue in the short-run, despite this, the management is cautiously optimistic about the medium to long term economic growth of Mainland China.

Comment on the Company's future development strategy, Mr. Marvin Hung said, "To address future market challenges, the management will continue its strategy of achieving steady long term sustainable growth by executing a strategic store expansion plan. We aim to penetrate cities with high potential for quality returns and enhance relationships with key landlords as well as property developers that have development projects in the pipeline. Our plan to open 90 stores this year will further enhance our economies of scale and in turn, support the maintenance of a stable cost level despite the rising cost in general."

The management will also continue to uphold its standard of food safety by deploying monitoring resources and through stringent up-stream supply chain management. The management will also continue to drive the growth momentum by further improving same store sales growth through various initiatives, such as, standardizing the production process to ensure consistent quality and attracting more customers during non-peak hours, e.g. offering breakfast choices. For continuous growth, the Company believes it is critical to enhance customer experience by improving the in-store environment, increasing service speed during peak hours as well as developing new products. With efficient operation and effective cost control in place, the impact of the increasing food and labor costs can be minimized. The management believes that the above strategies and measures will bring steady and sustainable long term growth.

About Hop Hing Group Holdings Limited

In March 2012, Hop Hing completed the acquisition of a multi-brand quick service restaurant chain operator who are licensed to operate the "Yoshinoya (吉野家)" and "Dairy Queen" QSR restaurants in the Northern China. On 30 June 2012, Hop Hing had 239 and 129 Yoshinoya restaurants and Dairy Queen stores respectively. The Company is also engaged in the purchasing, extracting, refining, blending, bottling, marketing and distribution of edible oils for consumption by households and restaurants and other catering establishments in Hong Kong, Macau and China with a range of well-known brands for instance "Lion &Globe" (獅球嘜) and "Camel" (駱駝嘜).

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Appendix: Total Number of Stores

	As at		
	30 June 2012	31 Dec 2011	30 June 2011
Yoshinoya:			
Beijing	153	141	130
Tianjin	17	12	10
Hebei	14	7	3
Shenyang	30	26	25
Dalian	16	16	16
HuHeHaoTe	7	6	6
Harbin	2	1	-
Subtotal:	239	209	190
Dairy Queen:			
Beijing	85	76	72
Tianjin	14	8	8
Hebei	9	4	4
Shenyang	7	6	6
Dalian	10	10	10
HuHeHaoTe	4	4	4
Subtotal:	129	108	104
Total	**368**	**317**	**294**