



# Hop Hing Group Holdings Limited (stock code: 47)

2017 Interim Results Corporate Presentation

25 August 2017



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HOP HING GROUP HOLDINGS LIMITED  
(HKEx Stock code: 47)

# BUSINESS REVIEW



# Operational Updates



## 2017 Interim Results

**Revenue**  
**+8.1%** to  
**RMB926.4 million**  
(HK\$1,048 million; +3%)

**GP Margin**  
improved **+1.2% pts**  
to  
**64.2%**

**SSSG**

**+5.1%**  
吉野家 **+4.9%**  
DQ **+7.2%**

(In RMB)

**Net Store Opening**

吉野家 **+4**  
YOSHINOYA  
DQ **-3**  
Others **+10**

**Store EBITDA**  
improved **+4.8% pts**  
to  
**+24.1%**

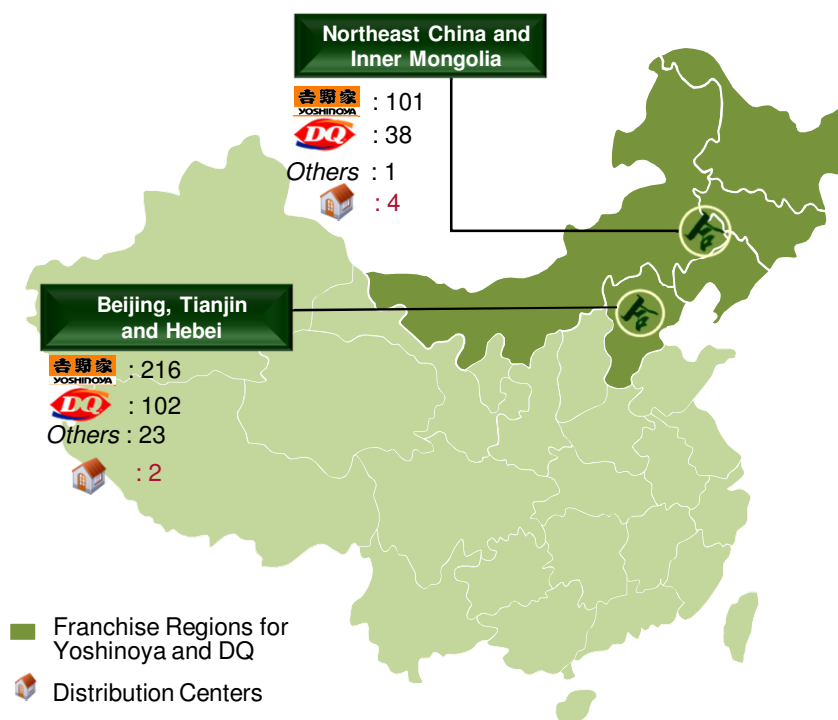
**Revenue from delivery**  
**31%**

**Net Profit**  
**+117.8%** to  
**HK\$86.3 million**

# Continued to Optimise Store Network



Total: 481 Stores (As of 30 June 2017)



Continued to Improve Quality of Our Store Network

	吉野家 YOSHINOYA		DQ		Others		Total	
	As of 30 Jun 2017	As of 31 Dec 2016	As of 30 Jun 2017	As of 31 Dec 2016	As of 30 Jun 2017	As of 31 Dec 2016	As of 30 Jun 2017	As of 31 Dec 2016
Beijing, Tianjin and Hebei	216	217	102	103	23	14	341	334
Northeast China and Inner Mongolia	101	96	38	40	1	N/A	140	136
<b>Total</b>	<b>317</b>	<b>313</b>	<b>140</b>	<b>143</b>	<b>24</b>	<b>14</b>	<b>481</b>	<b>470</b>

# Six Core Strategies Continued to Yield Results



1

## Enhance O2O Strategies and Delivery Capability

- Sales from **Yoshinoya delivery** rose **27.1%** and accounted for **31%** of Yoshinoya's total sales (1H2016: 26%)
- Following the launch of delivery services for certain Dairy Queen products, **Dairy Queen** recorded **SSSG of 7.2%** (1H2016: -9.5%)



2

## Continued Efforts to Strengthen Brand Image & Multi-brand Strategies

- **Around 40%** of our Yoshinoya stores featuring "**Yoshinoya 3.0**" or above experience – better kitchen design also helped raise efficiency
- Started evolving to "**Yoshinoya 4.0**" with more latest style stores to be introduced in 2H 2017
- Yoshinoya and Dairy Queen recorded **SSSG of 4.9% and 7.2%** respectively
- Introduction of a new brand 'Uncle Fong' to bring authentic HK snacks to Northern China



3

## Enhance Operating Efficiency with Careful Cost Control Measures

- **Incentive Scheme** has continued to improve store operating efficiency
- **Store EBITDA** improved 4.8% pts to **24.1%**
- Labour costs **dropped by 3.0%**, with labour cost to revenue ratio improved to 14.2% (1H2016: 15.1%)





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



4

## Progressive Store Opening Strategies

- New store opening models focus on expanding store network for greater service coverage and faster delivery
- Opened **29 stores** in 1H2017, including:
  - 10 Yoshinoya 
  - 9 Dairy Queen 
  - 10 Other brands
- Focus on building smaller stores → **rental expenses decreased by 4.6%**



5

## Utilise Information System to Develop Comprehensive and Innovative Product Portfolio

- Launched hotpot products in 2016 and plan to enhance the **hotpot series** to increase revenue during the **dinner segment**
- Through big data analysis, the Group launched new drinks products e.g. 双格杯缤纷花饮 which promised high profit margins



6

## Elevate Customer Satisfaction Level

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

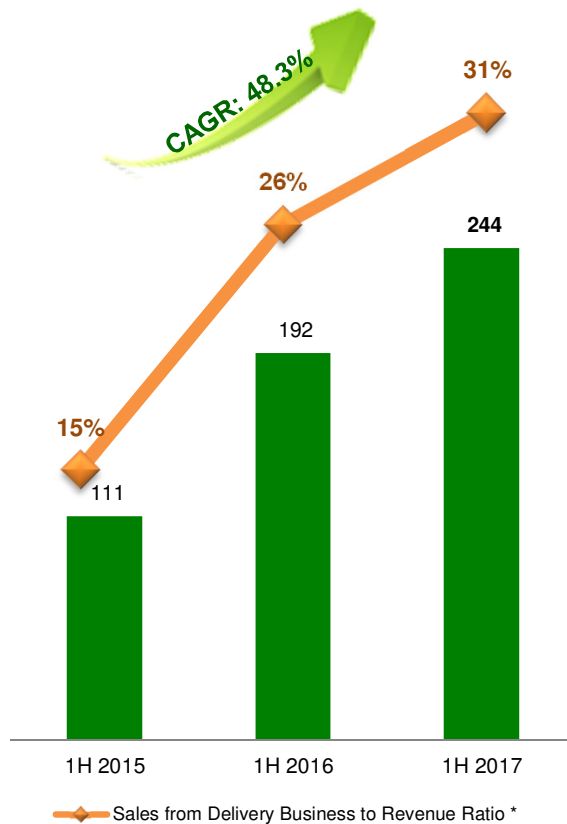


# Delivery Business Continued to Grow



Revenue from Yoshinoya's Delivery Business Continued to Grow

(RMB million)

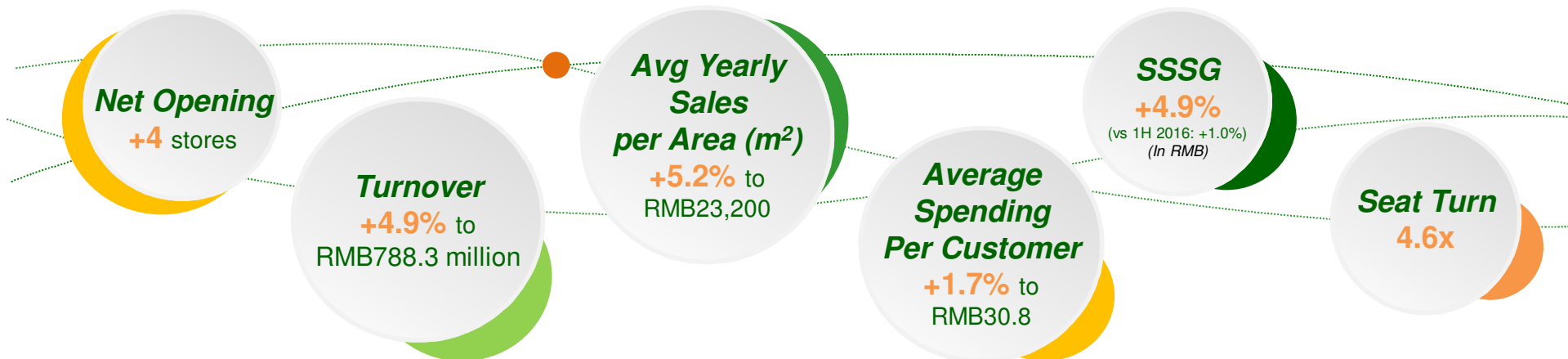


\* Refers to Yoshinoya's business only

## Integration of Online, Offline and Logistics







## Delivery Services

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



## Store Opening Strategy

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



## New Products

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





# Dairy Queen – Optimises Store Network to Raise Performance



**Optimised Store Network**

**Turnover**  
**+16.4%** to  
RMB102.2 million

**Started Delivery Services**

**Average Spending Per Customer**  
RMB12.9

**SSSG**  
**+7.2%**  
(vs 1H 2016: -9.5%)  
(In RMB)

**Avg Yearly Sales per Area (m<sup>2</sup>)**  
**+4.1%** to  
RMB40,400

## Delivery Services

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



## Store Opening Strategy

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

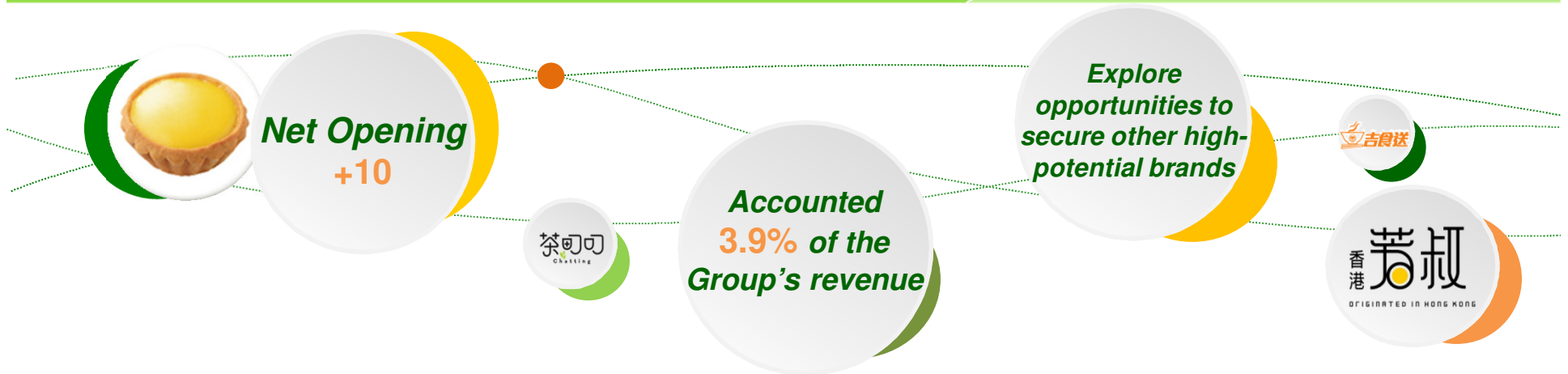


## New Products

- ✓ Stimulate the taste buds of by introducing innovative new products



# Other Brands – Progressively Expands Sales Network to Diversify Brand Portfolio



## Store Opening Strategy

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



## Authentic Products

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



# FUTURE GROWTH STRATEGIES

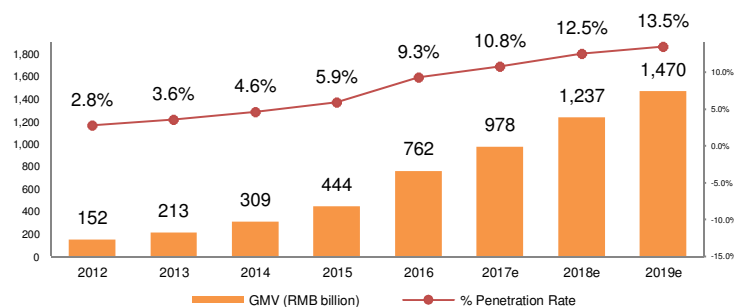


# Market Overview



## Fierce competition in catering industry affected by Internet

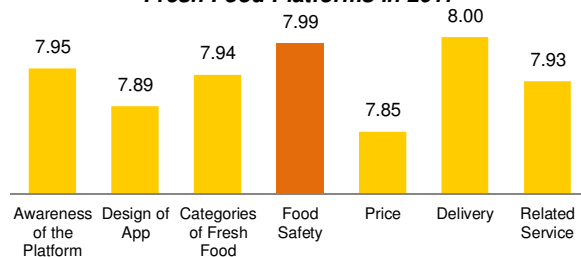
GMV of China's O2O Industry 2012-2019



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

## Concerns on food safety continue to grow

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



Source: iResearch Inc.

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



# Growth Strategies – Short to Medium Term



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



Enhance the store image to provide comfortable dining environment to customers



Extend product portfolio and increase sales during the dinner session



Comprehensive information collection, analysis and processing system



# Growth Strategies – Long Term



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



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



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# FINANCIAL HIGHLIGHTS



吉野家  
YOSHINOYA

吉食送



芳叔

茶+可可  
Chatting



# 1H 2017 Financial Highlights



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

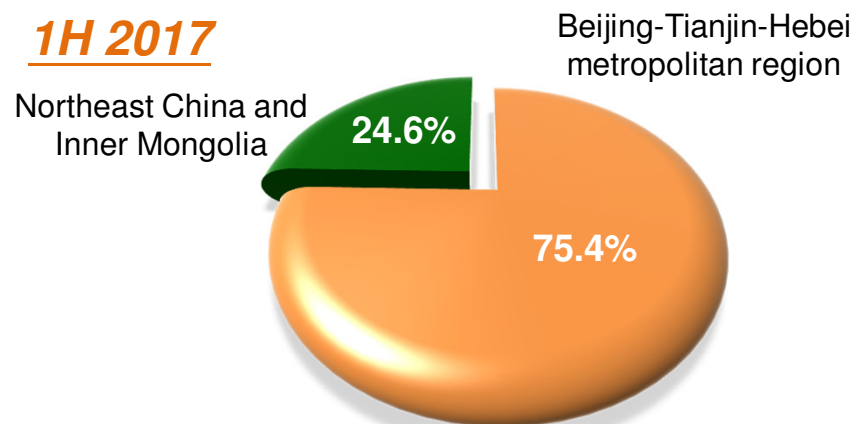
**IMPROVED**

# Segmental Breakdown

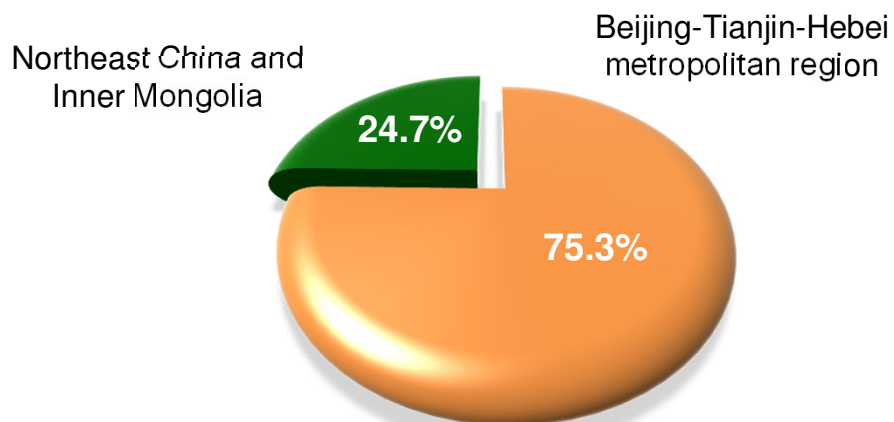


## Revenue by Region

**1H 2017**

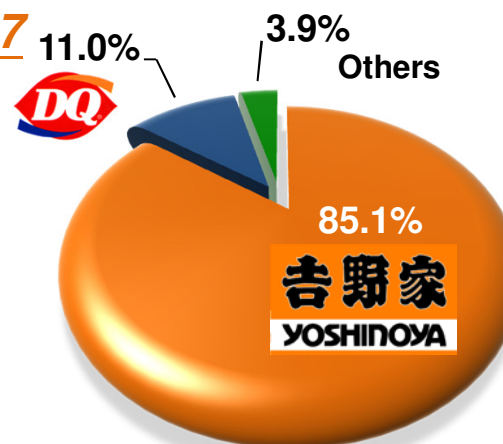


**1H 2016**

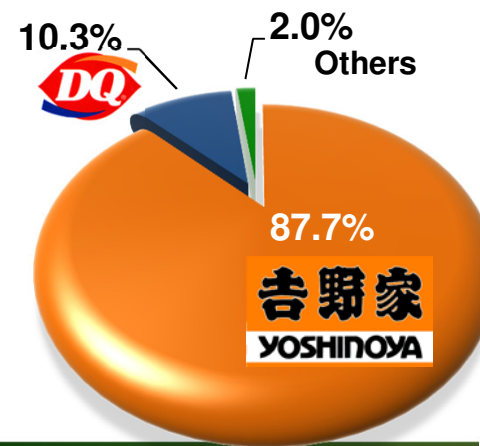


## Revenue by Major Brand

**1H 2017**





**1H 2016**



# Stable Cost & Expense Structure



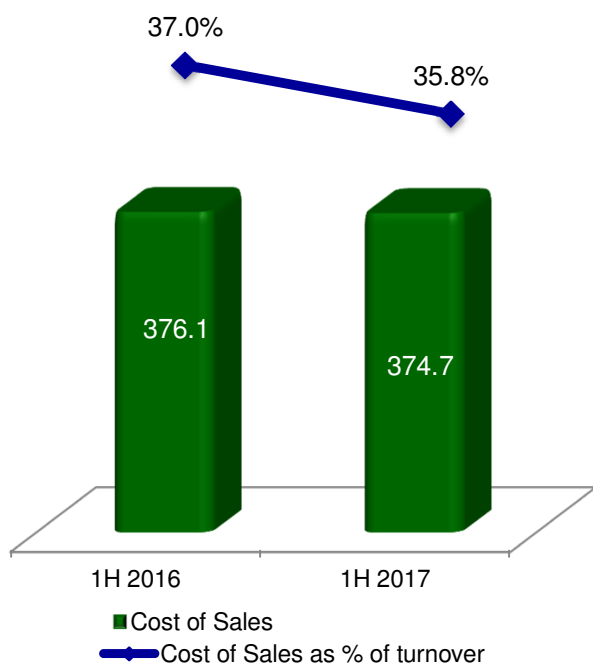

**Reinforced by the shift from business tax to value-added tax, the success of these strategies lead to the reduction in the cost of sales**


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


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

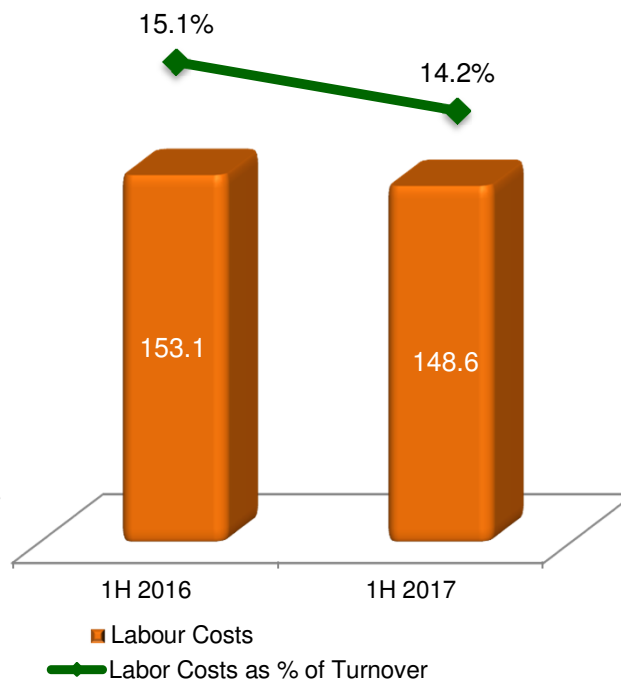
## Cost of Sales

(HK\$ million)



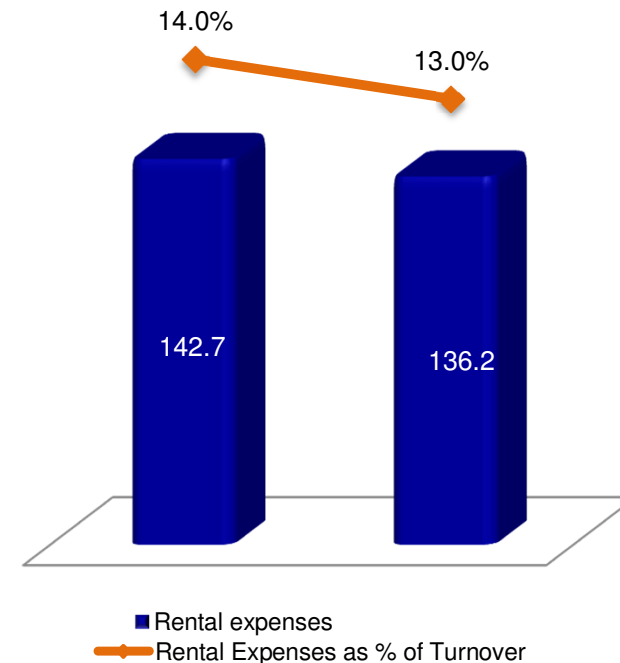
## Labour Costs

(HK\$ million)



## Rental Expenses

(HK\$ million)



# Sound Working Capital Management



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

*Active Cash Management Results in a Healthy Cash Conversion Cycle*

# Strong Cash-flow & Healthy Balance Sheet



## Cash Flow Generation

As of 30 June

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

## Gearing Summary

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

*Maintained a Strong and Healthy Cash Inflow from Operations*

# Our Mission



## *Leading Multi-brand QSR Operator in the PRC*



HOP HING GROUP HOLDINGS LIMITED  
(HKEx Stock code: 47)

# Q&A



# Contact Us



# Follow Us

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