# HOP HING GROUP HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 47)**
**(Warrant Code: 134)**

## 2012 ANNUAL RESULTS ANNOUNCEMENT

### RESULTS

The board of directors (the "Board") of Hop Hing Group Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 together with the comparative figures for the previous year as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 (Restated) |
|---|---|---|---|
| **TURNOVER** | *4* | **2,878,212** | 2,450,307 |
| Direct cost of stocks sold and services provided | | **(1,475,043)** | (1,244,735) |
| Other income and gains, net | *4* | **11,378** | 35,155 |
| Other production and service costs | | **(56,887)** | (56,425) |
| Selling and distribution expenses | | **(962,162)** | (776,619) |
| General and administrative expenses | | **(180,299)** | (166,360) |
| Other expenses | | **(1,544)** | (10,280) |
| **PROFIT FROM OPERATING ACTIVITIES** | *5* | **213,655** | 231,043 |
| Finance costs | *6* | **(9,919)** | (11,968) |
| **PROFIT BEFORE TAX** | | **203,736** | 219,075 |
| Income tax expense | *7* | **(59,541)** | (62,754) |
| **PROFIT FOR THE YEAR** | | **144,195** | 156,321 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | | **129,834** | 75,348 |
| Non-controlling interests | | **14,361** | 80,973 |
| | | **144,195** | 156,321 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | *8* | | |
| Basic | | **HK4.39 cents** | HK14.72 cents |
| Diluted | | **HK1.30 cents** | HK0.76 cent |

Details of the proposed final dividend for the year are disclosed in the section "Dividend" below.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **PROFIT FOR THE YEAR** | **144,195** | 156,321 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Release of exchange fluctuation reserve upon disposal of a subsidiary | **(2,039)** | – |
| Release of exchange fluctuation reserve upon de-registration of a subsidiary | **(133)** | – |
| Exchange differences on translation of foreign operations | **5,482** | 14,509 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | **3,310** | 14,509 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **147,505** | 170,830 |
| **ATTRIBUTABLE TO:** | | |
| Equity holders of the Company | **134,143** | 85,399 |
| Non-controlling interests | **13,362** | 85,431 |
| | **147,505** | 170,830 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | *Notes* | **31 December 2012** **HK$'000** | 31 December 2011 *HK$'000* (Restated) | 1 January 2011 *HK$'000* (Restated) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | | **461,635** | 405,789 | 397,684 |
| Prepaid land lease payments | | **26,889** | 27,268 | 27,017 |
| Trademarks | | **125,299** | 124,310 | 124,274 |
| Deferred tax assets | | **1,340** | 476 | 989 |
| Rental deposits | | **41,105** | 32,629 | 25,860 |
| **Total non-current assets** | | **656,268** | 590,472 | 575,824 |
| **CURRENT ASSETS** | | | | |
| Stocks | | **240,795** | 222,852 | 211,922 |
| Accounts receivable | *9* | **147,808** | 120,342 | 113,257 |
| Prepayments, deposits and other receivables | | **90,234** | 61,103 | 71,124 |
| Securities at fair value through profit or loss | | **–** | – | 1,512 |
| Amount due from a then shareholder of a subsidiary | | **–** | – | 7,800 |
| Amount due from related companies | | **–** | 185 | 32,908 |
| Tax recoverable | | **2,003** | 290 | 1,511 |
| Pledged bank deposits | | **47,964** | 44,907 | 43,477 |
| Cash and cash equivalents | | **192,091** | 465,461 | 274,304 |
| **Total current assets** | | **720,895** | 915,140 | 757,815 |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | *10* | **181,305** | 173,955 | 143,752 |
| Bills payable | | **14,046** | 26,235 | 17,925 |
| Other payables and accrued charges | | **305,572** | 362,032 | 155,071 |
| Interest-bearing bank loans | | **149,239** | 228,766 | 200,913 |
| Tax payable | | **4,554** | 8,109 | 4,293 |
| Amounts due to related companies | | **–** | 7,095 | 81,069 |
| Amount due to a then shareholder of a subsidiary | | **–** | 44,389 | – |
| **Total current liabilities** | | **654,716** | 850,581 | 603,023 |

| | Notes | **31 December 2012** *HK$'000* | 31 December 2011 *HK$'000* (Restated) | 1 January 2011 *HK$'000* (Restated) |
|---|---|---|---|---|
| **NET CURRENT ASSETS** | | **66,179** | 64,559 | 154,792 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **722,447** | 655,031 | 730,616 |
| **NON-CURRENT LIABILITIES** | | | | |
| Deferred tax liabilities | | **7,400** | 12,918 | 20,263 |
| **NET ASSETS** | | **715,047** | 642,113 | 710,353 |
| **EQUITY** | | | | |
| **Equity attributable to equity holders of the Company** | | | | |
| Issued share capital | | **991,687** | 51,566 | 51,154 |
| Reserves | | **(276,834)** | 516,961 | 535,624 |
| | | **714,853** | 568,527 | 586,778 |
| **Non-controlling interests** | | **194** | 73,586 | 123,575 |
| **Total equity** | | **715,047** | 642,113 | 710,353 |

## 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 the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain land and buildings, classified as property, plant and equipment, which were carried at 1993 valuation. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### 2.1 MERGER ACCOUNTING FOR BUSINESS COMBINATION UNDER COMMON CONTROL

On 1 December 2011, the Company and Queen Board Limited ("Queen Board"), a company controlled by a substantial shareholder of the Company, entered into an acquisition agreement (the "Acquisition") pursuant to which Queen Board has agreed to sell the entire issued share capital of Hop Hing Fast Food Group Holdings Limited ("Hop Hing Fast Food") (formerly known as Summerfield Profits Limited), an investment holding company of a group of companies that own rights to operate quick service restaurants ("QSR") in their franchised regions in the People's Republic of China (the "PRC") which include Beijing municipality, Tianjin municipality, the provinces of Hebei, Liaoning, Heilongjiang and Jilin, and the Inner Mongolia Autonomous Region (excluding airports, railway stations or highway service areas), and the loans of HK$44,389,000 owed by Hop Hing Fast Food to Queen Board and its associates. Details of the Acquisition were set out in the Company's announcements made on 1 December 2011 and 12 March 2012 and circular dated 30 December 2011.

Prior to the Acquisition, Hop Hing Fast Food has undergone a group reorganisation (the "Reorganisation") to rationalise its group structure for the purpose of the Acquisition. Details of the Reorganisation were set out in the Company's circular dated 30 December 2011.

The Acquisition was completed on 12 March 2012 with the total consideration of HK$4,964,232,000 being satisfied by an issue of Perpetual Subordinated Convertible Securities ("PSCS") by the Company to companies as directed by Queen Board. Details of the PSCS are set out in note 11.

The financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Acquisition had been completed at the beginning of the earliest period presented because the Acquisition were regarded as a business combination under common control of the substantial shareholder of the Company before and after the Acquisition.

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 December 2012 and 2011 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the dates when the subsidiaries first came under common control of the substantial shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2011 and 1 January 2011 have been prepared to present the assets and liabilities of the Group using the existing carrying values from the substantial shareholder perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Acquisition.

Equity interests in subsidiaries and/or business held by parties other than the substantial shareholder prior to the Acquisition are presented as non-controlling interests in equity in applying the principles of merger accounting.

The effect of the merger accounting restatement described above on the consolidated income statement for the year ended 31 December 2011 by line items is as follows:

| | **Year ended 31 December 2011** *HK$'000* (As previously reported) | **Merger accounting restatement** *HK$'000* | **Year ended 31 December 2011** *HK$'000* (Restated) |
|---|---|---|---|
| Turnover | 805,565 | 1,644,742 | 2,450,307 |
| Direct cost of stocks sold and services provided | (592,119) | (652,616) | (1,244,735) |
| Other income and gains, net | 23,314 | 11,841 | 35,155 |
| Other production and service costs | (56,425) | – | (56,425) |
| Selling and distribution expenses | (103,090) | (673,529) | (776,619) |
| General and administrative expenses | (45,712) | (120,648) | (166,360) |
| Other expenses | (10,280) | – | (10,280) |
| Profit from operating activities | 21,253 | 209,790 | 231,043 |
| Finance costs | (10,286) | (1,682) | (11,968) |
| Profit before tax | 10,967 | 208,108 | 219,075 |
| Income tax expense | (6,635) | (56,119) | (62,754) |
| Profit for the year | 4,332 | 151,989 | 156,321 |
| Attributable to: | | | |
| Equity holders of the Company | 1,299 | 74,049 | 75,348 |
| Non-controlling interests | 3,033 | 77,940 | 80,973 |
| | 4,332 | 151,989 | 156,321 |
| Earnings per share | | | |
| Basic | HK0.25 cent | HK14.47 cents | HK14.72 cents |
| Diluted | HK0.23 cent | HK0.53 cent | HK0.76 cent |

The effect of the merger accounting restatement described above on the consolidated statement of comprehensive income for the year ended 31 December 2011 by line items is as follows:

| | **Year ended 31 December 2011** *HK$'000* (As previously reported) | **Merger accounting restatement** *HK$'000* | **Year ended 31 December 2011** *HK$'000* (Restated) |
|---|---|---|---|
| Profit for the year | 4,332 | 151,989 | 156,321 |
| Other comprehensive income | | | |
| Exchange differences arising on translation of foreign operations | 6,123 | 8,386 | 14,509 |
| Total comprehensive income for the year | 10,455 | 160,375 | 170,830 |
| Attributable to: | | | |
| Equity holders of the Company | 7,394 | 78,005 | 85,399 |
| Non-controlling interests | 3,061 | 82,370 | 85,431 |
| | 10,455 | 160,375 | 170,830 |

The effects of the merger accounting restatement described above on the consolidated statements of financial position as at 1 January 2011 and 31 December 2011 by line items are as follows:

| | 31 December 2011 HK$'000 (As previously reported) | Merger accounting restatement HK$'000 | 31 December 2011 HK$'000 (Restated) | 1 January 2011 HK$'000 (As previously reported) | Merger accounting restatement HK$'000 | 1 January 2011 HK$'000 (Restated) |
|---|---|---|---|---|---|---|
| Non-current assets | | | | | | |
| Property, plant and equipment | 207,154 | 198,635 | 405,789 | 226,743 | 170,941 | 397,684 |
| Prepaid land lease payments | 27,268 | – | 27,268 | 27,017 | – | 27,017 |
| Trademarks | 124,310 | – | 124,310 | 124,274 | – | 124,274 |
| Deferred tax assets | 476 | – | 476 | 989 | – | 989 |
| Rental deposits | – | 32,629 | 32,629 | – | 25,860 | 25,860 |
| Total non-current assets | 359,208 | 231,264 | 590,472 | 379,023 | 196,801 | 575,824 |
| Current assets | | | | | | |
| Stocks | 143,507 | 79,345 | 222,852 | 158,028 | 53,894 | 211,922 |
| Accounts receivable | 116,251 | 4,091 | 120,342 | 109,928 | 3,329 | 113,257 |
| Prepayments, deposits and other receivables | 24,836 | 36,267 | 61,103 | 21,561 | 49,563 | 71,124 |
| Securities at fair value through profit or loss | – | – | – | – | 1,512 | 1,512 |
| Amount due from a then shareholder of a subsidiary | – | – | – | – | 7,800 | 7,800 |
| Amounts due from related companies | – | 185 | 185 | – | 32,908 | 32,908 |
| Tax recoverable | 290 | – | 290 | 1,511 | – | 1,511 |
| Pledged bank deposits | 44,907 | – | 44,907 | 43,477 | – | 43,477 |
| Cash and cash equivalents | 133,752 | 331,709 | 465,461 | 80,608 | 193,696 | 274,304 |
| Total current assets | 463,543 | 451,597 | 915,140 | 415,113 | 342,702 | 757,815 |
| Current liabilities | | | | | | |
| Accounts payable | 51,876 | 122,079 | 173,955 | 60,613 | 83,139 | 143,752 |
| Bills payable | 26,235 | – | 26,235 | 17,925 | – | 17,925 |
| Other payables and accrued charges | 49,337 | 312,695 | 362,032 | 42,857 | 112,214 | 155,071 |
| Interest-bearing bank loans | 191,729 | 37,037 | 228,766 | 176,191 | 24,722 | 200,913 |
| Tax payable | 2,732 | 5,377 | 8,109 | 730 | 3,563 | 4,293 |
| Amounts due to related companies | – | 7,095 | 7,095 | – | 81,069 | 81,069 |
| Amount due to a then shareholder of a subsidiary | – | 44,389 | 44,389 | – | – | – |
| Total current liabilities | 321,909 | 528,672 | 850,581 | 298,316 | 304,707 | 603,023 |
| Net current assets/(liabilities) | 141,634 | (77,075) | 64,559 | 116,797 | 37,995 | 154,792 |
| Total assets less current liabilities | 500,842 | 154,189 | 655,031 | 495,820 | 234,796 | 730,616 |
| Non-current liabilities | | | | | | |
| Deferred tax liabilities | 1,949 | 10,969 | 12,918 | 1,890 | 18,373 | 20,263 |
| Net assets | 498,893 | 143,220 | 642,113 | 493,930 | 216,423 | 710,353 |
| Equity | | | | | | |
| Equity attributable to equity holders of the Company | | | | | | |
| Issued share capital | 51,566 | – | 51,566 | 51,154 | – | 51,154 |
| Reserves | 441,978 | 74,983 | 516,961 | 433,875 | 101,749 | 535,624 |
| | 493,544 | 74,983 | 568,527 | 485,029 | 101,749 | 586,778 |
| Non-controlling interests | 5,349 | 68,237 | 73,586 | 8,901 | 114,674 | 123,575 |
| Total equity | 498,893 | 143,220 | 642,113 | 493,930 | 216,423 | 710,353 |

The effects of the merger accounting restatement described above to the Group's equity on 1 January 2011 and 31 December 2011 are as follows:

| | **31 December 2011** *HK$'000* (As previously reported) | **Merger accounting restatement** *HK$'000* | **31 December 2011** *HK$'000* (Restated) | **1 January 2011** *HK$'000* (As previously reported) | **Merger accounting restatement** *HK$'000* | **1 January 2011** *HK$'000* (Restated) |
|---|---|---|---|---|---|---|
| Issued share capital | 51,566 | – | 51,566 | 51,154 | – | 51,154 |
| Share premium account | 11,513 | – | 11,513 | 11,143 | – | 11,143 |
| Merger reserve | – | 3,479 | 3,479 | – | – | – |
| Share option reserve | 6,645 | – | 6,645 | 6,306 | – | 6,306 |
| Exchange fluctuation reserve | 29,293 | 14,745 | 44,038 | 23,198 | 10,789 | 33,987 |
| Properties revaluation reserve | 2,080 | – | 2,080 | 2,080 | – | 2,080 |
| Statutory reserve | – | 15,157 | 15,157 | – | 15,157 | 15,157 |
| Capital and other reserves | 434,025 | 5,309 | 439,334 | 434,025 | 5,309 | 439,334 |
| Retained profits/ (accumulated losses) | (41,578) | 36,293 | (5,285) | (42,877) | 70,494 | 27,617 |
| Non-controlling interests | 5,349 | 68,237 | 73,586 | 8,901 | 114,674 | 123,575 |
| | 498,893 | 143,220 | 642,113 | 493,930 | 216,423 | 710,353 |

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* |

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

## 2.3 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 financial statements.

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2] |
| HKFRS 9 | *Financial Instruments*[4] |
| HKFRS 10 | *Consolidated Financial Statements*[2] |
| HKFRS 11 | *Joint Arrangements*[2] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[2] |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3] |
| HKFRS 13 | *Fair Value Measurement*[2] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1] |
| HKAS 19 (2011) | *Employee Benefits*[2] |
| HKAS 27 (2011) | *Separate Financial Statements*[2] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[2] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3] |
| HK(IFRIC) – Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[2] |
| *Annual Improvements 2009–2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012[2] |

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the QSR business; and

(b) the edible oils business.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that head office expenses included in the general and administrative expenses is excluded from such measurement.

There are no significant intersegment sales. The interest expenses of intersegment loans are charged at the prevailing market interest rates.

**Year ended 31 December 2012**

| | **QSR** *HK$'000* | **Edible oils** *HK$'000* | **Inter-segment elimination** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| **Segment revenue and results** | | | | |
| Sales to external customers | 1,971,321 | 907,065 | (174) | 2,878,212 |
| Direct cost of stocks sold and services provided | (784,542) | (690,675) | 174 | (1,475,043) |
| Other income and gains, net | 7,731 | 6,058 | (2,411) | 11,378 |
| Other production and service costs | – | (56,887) | | (56,887) |
| Selling and distribution expenses | (852,764) | (109,398) | | (962,162) |
| General and administrative expenses | (128,665) | (40,159) | | (168,824) |
| **Profit from operating activities before unallocated head office expenses** | 213,081 | 16,004 | | 226,674 |
| Finance costs | (2,648) | (9,682) | 2,411 | (9,919) |
| **Profit before unallocated head office expenses and tax** | 210,433 | 6,322 | | 216,755 |
| Income tax expense | (57,129) | (2,412) | | (59,541) |
| **Profit before unallocated head office expenses and after tax** | 153,304 | 3,910 | | 157,214 |
| Unallocated head office expenses | | | | (13,019) |
| **Profit for the year** | | | | 144,195 |

**As at 31 December 2012**

| | QSR<br>*HK$'000* | Edible oils<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Segment assets and liabilities** | | | |
| *NON-CURRENT ASSETS* | | | |
| Property, plant and equipment and prepaid land lease payments | 267,887 | 220,637 | 488,524 |
| Trademarks | – | 125,299 | 125,299 |
| Other non-current assets | 41,105 | 1,340 | 42,445 |
| Total non-current assets | 308,992 | 347,276 | 656,268 |
| *CURRENT ASSETS* | | | |
| Stocks | 106,887 | 133,908 | 240,795 |
| Accounts receivable | 4,931 | 142,877 | 147,808 |
| Cash and cash equivalents and pledged bank deposits | 178,408 | 61,647 | 240,055 |
| Other current assets | 66,017 | 26,220 | 92,237 |
| Total current assets | 356,243 | 364,652 | 720,895 |
| *CURRENT LIABILITIES* | | | |
| Accounts payable | (133,984) | (47,321) | (181,305) |
| Interest-bearing bank loans | (26,250) | (122,989) | (149,239) |
| Other current liabilities | (260,048) | (64,124) | (324,172) |
| Total current liabilities | (420,282) | (234,434) | (654,716) |
| NET CURRENT ASSETS/(LIABILITIES) | (64,039) | 130,218 | 66,179 |
| *NON-CURRENT LIABILITIES* | | | |
| *Deferred tax liabilities* | (6,311) | (1,089) | (7,400) |
| **Net assets** | 238,642 | 476,405 | 715,047 |

**For the year ended 31 December 2011**
**(Restated)**

| | QSR<br>*HK$'000* | Edible oils<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| **Segment revenue and results** | | | |
| Sales to external customers | 1,644,742 | 805,565 | 2,450,307 |
| Direct cost of stocks sold and services provided | (652,616) | (592,119) | (1,244,735) |
| Other income and gains, net | 11,841 | 23,314 | 35,155 |
| Other production and service costs | – | (56,425) | (56,425) |
| Selling and distribution expenses | (673,529) | (103,090) | (776,619) |
| General and administrative expenses | (120,648) | (42,146) | (162,794) |
| **Profit from operating activities before unallocated head office expenses** | 209,790 | 35,099 | 244,889 |
| Finance costs | (1,682) | (10,286) | (11,968) |
| **Profit before unallocated head office expenses and tax** | 208,108 | 24,813 | 232,921 |
| Income tax expense | (56,119) | (6,635) | (62,754) |
| **Profit before unallocated head office expenses and after tax** | 151,989 | 18,178 | 170,167 |
| Unallocated head office expenses | | | (13,846) |
| **Profit for the year** | | | 156,321 |

**As at 31 December 2011**
**(Restated)**

| | QSR | Edible oils | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment assets and liabilities** | | | |
| *NON-CURRENT ASSETS* | | | |
| Property, plant and equipment and prepaid land lease payments | 198,635 | 234,422 | 433,057 |
| Trademarks | – | 124,310 | 124,310 |
| Other non-current assets | 32,629 | 476 | 33,105 |
| Total non-current assets | 231,264 | 359,208 | 590,472 |
| *CURRENT ASSETS* | | | |
| Stocks | 79,345 | 143,507 | 222,852 |
| Accounts receivable | 4,091 | 116,251 | 120,342 |
| Cash and cash equivalents and pledged bank deposits | 331,709 | 178,659 | 510,368 |
| Other current assets | 36,452 | 25,126 | 61,578 |
| Total current assets | 451,597 | 463,543 | 915,140 |
| *CURRENT LIABILITIES* | | | |
| Accounts payable | (122,079) | (51,876) | (173,955) |
| Interest-bearing bank loans | (37,037) | (191,729) | (228,766) |
| Other current liabilities | (369,556) | (78,304) | (447,860) |
| Total current liabilities | (528,672) | (321,909) | (850,581) |
| NET CURRENT ASSETS/(LIABILITIES) | (77,075) | 141,634 | 64,559 |
| *NON-CURRENT LIABILITIES* | | | |
| Deferred tax liabilities | (10,969) | (1,949) | (12,918) |
| **Net assets** | 143,220 | 498,893 | 642,113 |

**Year ended 31 December 2012**

| | QSR | Edible oils | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Other segment information** | | | |
| Impairment of accounts receivable | – | 57 | 57 |
| Depreciation and amortisation | 97,684 | 16,860 | 114,544 |
| Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net | 234 | 3,992 | 4,226 |
| Loss on disposal of subsidiaries | – | 711 | 711 |
| Gain on deregistration of a subsidiary | – | 230 | 230 |
| Capital expenditure* | 165,497 | 8,931 | 174,428 |

**For the year ended 31 December 2011 (Restated)**

| | QSR | Edible oils | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Other segment information** | | | |
| Impairment of accounts receivable | – | 76 | 76 |
| Depreciation and amortisation | 78,804 | 17,945 | 96,749 |
| Gain/(loss) on disposal of items of property, plant and equipment, and prepaid land lease payments, net | (2,068) | 19,634 | 17,566 |
| Capital expenditure* | 99,615 | 1,467 | 101,082 |

* Capital expenditure consists of additions to property, plant and equipment and trademarks.

**Geographical information**

**(a) Revenue from external customers**

| | For the year ended 31 December | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Hong Kong and Macau | **642,815** | 487,825 |
| Mainland China | **2,235,397** | 1,962,482 |
| | **2,878,212** | 2,450,307 |

The revenue information above is based on the locations of the customers.

**(b) Non-current assets**

| | **31 December 2012** *HK$'000* | 31 December 2011 *HK$'000* (Restated) |
|---|---|---|
| Hong Kong and Macau | **143,797** | 146,644 |
| Mainland China | **511,131** | 443,352 |
| | **654,928** | 589,996 |

The non-current assets information is based on the locations of the assets and excludes deferred tax assets.

## 4. TURNOVER AND OTHER INCOME AND GAINS, NET

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered, gross rental income received and royalties during the year.

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

| | **Group** | |
|---|---|---|
| | **2012** *HK$'000* | 2011 *HK$'000* (Restated) |
| **Turnover** | | |
| Sales of QSR products | **1,971,321** | 1,644,742 |
| Sales of edible oils products | **906,770** | 798,221 |
| Royalties | **–** | 6,655 |
| Rental and other income | **121** | 689 |
| | **2,878,212** | 2,450,307 |
| **Other income and gains, net** | | |
| Bank interest income | **3,742** | 4,083 |
| Foreign exchange differences, net | **(1,124)** | 10,229 |
| Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net | **4,226** | 17,566 |
| Gain on disposal of securities at fair value through profit or loss | **–** | 120 |
| Recovery of deposits written off in prior years | **1,500** | – |
| Compensation | **1,277** | 1,951 |
| Gain on deregistration of a subsidiary | **230** | – |
| Others | **1,527** | 1,206 |
| | **11,378** | 35,155 |

## 5. PROFIT FROM OPERATING ACTIVITIES

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

| | Notes | 2012 HK\$'000 | 2011 HK\$'000 (Restated) |
|---|---|---|---|
| Net rental income | | **(121)** | (648) |
| Foreign exchange differences, net | *4* | **1,124** | (10,229) |
| Direct cost of stocks sold and services provided | | **1,475,043** | 1,244,735 |
| Gain on disposal of items of property, plant and equipment, and prepaid land lease payments, net | *4* | **(4,226)** | (17,566) |
| Employee benefit expenses (including directors' emoluments): | | | |
| Wages and salaries | | **280,789** | 238,138 |
| Equity-settled share option expense | | **74** | 339 |
| Pension scheme contributions | | **64,912** | 53,178 |
| Less: Forfeited contributions * | | **(89)** | – |
| | | **345,686** | 291,655 |
| Depreciation** | | **113,822** | 96,038 |
| Amortisation of prepaid land lease payments** | | **722** | 711 |
| Lease payments under operating lease in respect of land and buildings | | | |
| – Minimum lease payments | | **234,036** | 188,363 |
| – Contingent rents | | **39,526** | 28,544 |
| Auditors' remuneration | | **3,388** | 3,040 |
| Impairment of accounts receivable*** | | **57** | 76 |
| Legal and professional fees in relation to the Reorganisation | | **–** | 4,875 |
| Legal and professional fees incurred for the Acquisition**** | | **1,544** | 10,280 |
| Loss on disposal of subsidiaries | | **711** | – |
| Gain on deregistration of a subsidiary | *4* | **(230)** | – |

*Notes:*

* At 31 December 2012, the Group had no forfeited contributions available to reduce its future contributions to the scheme registered under the Occupational Retirement Schemes Ordinance which has been exempted under the Mandatory Provident Fund Schemes Ordinance (2011: Nil).

** Depreciation and amortisation of prepaid land lease payments of HK\$16,138,000 (2011: HK\$17,234,000) and HK\$722,000 (2011: HK\$711,000), respectively, are included in "Other production and service costs" in the consolidated income statement.

*** Impairment of accounts receivable is included in "General and administrative expenses" in the consolidated income statement.

**** Legal and professional fees incurred for the Acquisition are included in "Other expenses" in the consolidated income statement.

## 6. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Interest on bank and other loans wholly repayable within five years | **9,542** | 11,746 |
| Others | **377** | 222 |
| | **9,919** | 11,968 |

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

Pursuant to the Corporate Income Tax Law (the "New PRC Tax Law") of the PRC being effective on 1 January 2008, the PRC corporate income tax rate for the Group's subsidiaries operated in Mainland China during the year was 25% on their taxable profits.

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **5,213** | 5,184 |
| Underprovision in prior years | **320** | 54 |
| | **5,533** | 5,238 |
| Current – Elsewhere | | |
| Charge for the year | **55,550** | 54,083 |
| Underprovision in prior years | **1,702** | – |
| | **57,252** | 54,083 |
| Deferred | **(3,244)** | 3,433 |
| Total income tax charge for the year | **59,541** | 62,754 |

## 8. 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$129,834,000 (2011 (restated): HK$75,348,000), and the weighted average number of 2,957,694,053 (2011: 511,825,177) ordinary shares in issue during the year.

**(b) Diluted earnings per share**

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$129,834,000 (2011 (restated): HK$75,348,000) and the weighted average number of 9,997,720,920 (2011 (restated): 9,953,347,263) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 7,040,026,867 (2011 (restated): 9,441,522,086) for the year ended 31 December 2012 calculated as follows:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Consolidated profit attributable to equity holders of the Company | **129,834** | 75,348 |

| | **Number of shares** | |
|---|---|---|
| | **2012** | 2011 |
| | | (Restated) |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **2,957,694,053** | 511,825,177 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Warrants | **52,625,532** | 47,331,075 |
| Share options | **7,634,683** | 2,299,119 |
| PSCS | **6,979,766,652** | 9,391,891,892 |
| | **9,997,720,920** | 9,953,347,263 |

**9. ACCOUNTS RECEIVABLE**

The Group's products are sold either on a cash on delivery basis, or on an open account basis with credit terms ranging from 7 to 70 days.

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:

| | | **Group** | |
|---|---|---|---|
| | **31 December** | 31 December | 1 January |
| | **2012** | 2011 | 2011 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) |
| Current (neither past due nor impaired) | **126,463** | 91,801 | 79,371 |
| Within 60 days past due | **15,865** | 20,834 | 26,108 |
| Over 60 days past due | **5,480** | 7,707 | 7,778 |
| | **147,808** | 120,342 | 113,257 |

## 10. 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:

| | Group | | |
|---|---|---|---|
| | **31 December 2012** | 31 December 2011 | 1 January 2011 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| | | (Restated) | (Restated) |
| Current and less than 60 days | **175,816** | 168,128 | 140,570 |
| Over 60 days | **5,489** | 5,827 | 3,182 |
| | **181,305** | 173,955 | 143,752 |

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

## 11. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

On 1 December 2011, the Company entered into an acquisition agreement in respect of the Acquisition at a consideration of HK$3,475,000,000 to be satisfied by issuing PSCS carrying the rights to convert into 9,391,891,892 new ordinary shares of the Company at an initial conversion price of HK$0.37 per share. The transaction was completed and the Company issued the PSCS on 12 March 2012. These PSCS have no maturity date and the Company has no contractual obligation to redeem these PSCS. The fair value of these PSCS issued on the completion date of the Acquisition amounted to approximately HK$4,964,232,000, which is determined by reference to a valuation report on the PSCS prepared by an independent firm of valuers.

These PSCS constitute direct, unsecured and subordinated obligations of the Company and rank pari passu without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the holders of the PSCS shall (i) rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company; (ii) at all times rank pari passu with each other and with all its other present and future unsecured and subordinated obligations but shall be subordinated in rights of payment to the claims of all other present and future senior and unsubordinated creditors of the Company.

These PSCS confer a right to receive distribution from and including the date of the issue of the PSCS at 3.5% per annum on any outstanding principal amount of the PSCS payable quarterly in arrears on March 31, June 30, September 30 and December 31 each year, subject to the terms and conditions of the PSCS. However, the Company may at its sole discretion, elect to defer a distribution pursuant to the terms of the PSCS. If on any distribution payment date, payment of all distribution payments scheduled to be made on such date is not made in full, the Company shall not: (a) declare or pay any dividends on ordinary shares; (b) redeem, reduce, cancel, buy back any ordinary shares, unless and until the Company satisfied in full all outstanding arrears of distribution or it is permitted to do so by an extraordinary resolution of the holders of the PSCS.

During the year ended 31 December 2012, all PSCS holders exercised their conversion rights to convert all of their PSCS into an aggregate 9,391,891,892 ordinary shares of the Company. The PSCS distribution of HK$66,358,000 for the period up to the date of conversion of the PSCS was distributed and paid by the Company on 28 September 2012.

## CHAIRMAN'S STATEMENT

The past year has been one of change, with our business successfully transforming itself through the acquisition of quick service restaurant ("QSR") business in Northern China, namely the rice bowl brand "Yoshinoya" and ice cream brand "Dairy Queen". The perpetual subordinated convertible securities issued for the acquisition of the QSR businesses were fully converted into ordinary shares in September 2012, and institutional investors were introduced to our Company at the same time. Such transformation enabled us to diversify from solely specialising in edible oil business to become QSR–focused business, which significantly increased the scale of the Company in terms of turnover, net profit and market capitalisation.

The operating environment for the QSR industry in China was challenging in 2012. The sluggish economy particularly in the second half of the year and the rainy, cold and foggy weather in Northern China deterred people from dining outside of their homes. Adding to these challenges is the anti-Japan sentiment generated by the Diaoyu Islands situation in the second half of the year. In order to meet these challenges, the management has modified its development strategy to suit the needs of the changing customer demand, such as by offering delivery service and enhancing the product mix to attract customers during off-peak hours.

The QSR industry in Mainland China has experienced a number of challenges in relation to food safety in the year under review. The Company holds high regard to food safety and hygiene standards, and thus has comprehensive policies and measures in place. We will strengthen our internal control to ensure such policies and measures are reviewed in response to the changing operating environment and regulation changes and will be executed without compromise at all operational levels.

The QSR industry also faced a series of operational challenges including rising costs in raw material, labour and rental. Our acquisition of an agricultural company in 2012 has enabled us to save costs on sourcing certain key ingredients such as vegetables and fruits. This acquisition also helps us to secure a stable and reliable supply of quality agricultural ingredients for our QSR business.

During the year under review, we added a net of 88 new stores to our store network, bringing the total number of stores to 405 as of 31 December 2012, representing a growth of 27.7%. While we are cautious in evaluating new store opening proposal, we intend to continue to expand our store network within our franchise region in Northern China to ensure our Company enjoys long term growth.

Our edible oil business also experienced changes in 2012. We took over the edible oil business operation in respect of our products from our jointly-controlled entity this year. Our commitment and the strong reputation of our flagship brand "Lion & Globe" for serving our customers with quality edible oil products allowed us to benefit from the recent "gutter oil" scandal in Hong Kong, after which we received an influx of orders. In the Mainland China market, our edible oil operation was able to maintain positive earnings before interest, taxation and depreciation and amortisation (the "EBITDA").

We believe that the challenges faced by our QSR business in 2012 will continue to linger into 2013. However, we remain cautiously optimistic about the medium to long term growth of the Chinese economy, particularly the QSR industry in China which is supported by ever-increasing disposable income and urbanisation. We will adhere to our long term strategy of achieving sustainable growth by expanding and optimising our store network, introducing innovative new products and broadening our product portfolio, enhancing our customers' dining experience, maintaining stringent internal cost control and efficient operation while upholding food safety. We will continue to explore opportunities for improving the contribution of the edible oil business while also considering alternative approaches to enhance our shareholder value.

I would like to take this opportunity to thank all of our customers, shareholders and business partners for their continued support.

**Hung Hak Hip, Peter**
*Chairman*

Hong Kong, 19 March 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, we completed our acquisition (the "Acquisition") of the quick service restaurant group of companies (the "QSR Group") business under the brand names of rice bowl fast food chain "Yoshinoya" and ice-cream retailer "Dairy Queen" in Northern China.

## SOLID PERFORMANCE

For the year ended 31 December 2012, the turnover of the Group increased by 17.5% to HK$2,878.2 million (2011 (restated): HK$2,450.3 million) which was mainly attributable to the increase of our store network by 88 stores (net) to 405 stores and the same store sales growth of 7% during the year. While the 27.7% increase in our store number enables the Group to invest in the future, the costs incurred for these new stores which did not operate for the full year have impacted the operating profit of the Group for the year under review. The earnings before interest, taxation and depreciation and amortisation (the "EBITDA") for the year was HK$328.2 million (2011 (restated): HK$327.8 million). The profit for the year was HK$144.2 million, comparing to HK$156.3 million (restated) for the last year.

After deducting the non-controlling interest of HK$14.4 million (2011 (restated): HK$81.0 million) which mainly related to equity interest in the QSR Group held by parties other than the substantial shareholder prior to the Acquisition, the profit attributable to the equity holders of the Company for the year under review was HK$129.8 million, representing an increase of 72.3% from HK$75.3 million (restated) in 2011.

Basic and diluted earnings per share for the year, which were calculated based on the profit attributable to the equity holders of the Company, were HK4.39 cents and HK1.30 cents respectively (2011 (restated): HK14.72 cents and HK0.76 cent respectively).

## DIVIDEND

Subsequent to the end of the reporting period, on 19 March 2013, the directors recommended the payment of a final dividend of HK0.25 cent per ordinary share totalling approximately HK$24.8 million in respect of the year. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM") to be held on 6 June 2013. 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

### QSR business

*Industry review*

During the year under review, the global economy continued to hinge on the European debt crisis and economic downturn in the United States. Although the GDP growth of 7.8% per annum recorded by China in 2012 was among the highest across the globe, it is one of the lowest growth rates in China for the past decade. The economic slowdown and the adverse weather in Northern China in the second half of the year adversely impacted consumption patterns and reduce consumer interest in dining out. Adding to this challenging environment is the cost escalation, including rising costs of raw materials, rental and labour, which affected all QSR companies in Mainland China. Towards the end of the year, there was an industry wide food safety issue with regards to chicken products, which has seriously affected customers' interest in dining out in Mainland China.

*Business review*

In addition to the impact of the less robust macro-economy and the adverse weather conditions in our franchised regions, the anti-Japan sentiment triggered by the Diaoyu Islands situation added extra pressure to our QSR business in the second half of the year.

In order to meet these challenges, we made great efforts to enhance our performance by strengthening our store network with new restaurants in locations with high growth potential, while exploring a delivery service via online ordering. The latter not only reduces our rental pressure but also meets the ever-rising online demand in Mainland China, backed by a huge population of internet users. We also devoted much effort on improving customers' dining experience through new product introduction and promotional activities. As a result, we have been able to report a turnover growth of 19.9% and same store sales growth of 7% in 2012.

| | **Same Store Sales Growth:** | |
|---|---|---|
| | **2012** | 2011 |
| Overall | **7.0%** | 16.5% |
| By business | | |
| Yoshinoya | **8.0%** | 18.2% |
| Dairy Queen | **0.6%** | 4.6% |

We have also invested in our operational system and improved productivity to offset part of the rising cost. During the year under review, our gross profit margin was maintained at a level of 60% and the profit before unallocated head office expense and after tax increased slightly to HK$153.3 million (2011: HK$152.0 million).

In 2012, we opened 88 net new stores (2011: 39 net new stores) including 61 Yoshinoya restaurants and 27 Dairy Queen stores, at a ratio of around 2:1. As at 31 December 2012, there were 405 stores in operation, including 270 Yoshinoya restaurants and 135 Dairy Queen stores.

| | **As at** | | |
|---|---|---|---|
| | **31 December 2012** | 30 June 2012 | 31 December 2011 |
| Yoshinoya | | | |
| Beijing | **161** | 153 | 141 |
| Tianjin | **18** | 17 | 12 |
| Hebei | **20** | 14 | 7 |
| Shenyang | **38** | 30 | 26 |
| Dalian | **17** | 16 | 16 |
| Jilin | **2** | – | – |
| HuHeHaoTe | **8** | 7 | 6 |
| Harbin | **6** | 2 | 1 |
| | **270** | 239 | 209 |
| Dairy Queen | | | |
| Beijing | **86** | 85 | 76 |
| Tianjin | **14** | 14 | 8 |
| Hebei | **9** | 9 | 4 |
| Shenyang | **10** | 7 | 6 |
| Dalian | **10** | 10 | 10 |
| HuHeHaoTe | **5** | 4 | 4 |
| Harbin | **1** | – | – |
| | **135** | 129 | 108 |
| Total | **405** | 368 | 317 |

In 2012, the Beijing-Tianjin-Hebei metropolitan region continued to be the QSR Group's largest market, and Yoshinoya was the key contributor of the QSR business, accounting for 89.8% of its total turnover, (a similar level as that of 2011).

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | ***HK$'000*** | ***% of sales*** | *HK$'000* | *% of sales* |
| a. By region | | | | |
| Beijing-Tianjin-Hebei metropolitan region [(1)] | **1,505,336** | **76.4%** | 1,258,715 | 76.5% |
| Northeast China and Inner Mongolia [(2)] | **465,985** | **23.6%** | 386,027 | 23.5% |
| | **1,971,321** | **100.0%** | 1,644,742 | 100.0% |

(1) Including Beijing, Tianjin, Shijiazhuang, Tangshan, Langfang and Handan.

(2) Including Shenyang, Dalian, Jilin, Tongliao, HuHeHaoTe and Harbin.

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | ***HK$'000*** | ***% of sales*** | *HK$'000* | *% of sales* |
| b. By business | | | | |
| Yoshinoya | **1,770,262** | **89.8%** | 1,462,979 | 88.9% |
| Dairy Queen | **201,059** | **10.2%** | 181,763 | 11.1% |
| | **1,971,321** | **100.0%** | 1,644,742 | 100.0% |

The rising raw material cost has always been a challenge to the QSR industry. While we implemented our strategic procurement of key food ingredients to reduce the impact of rising costs, we did not and will never compromise on food quality. Together with improvement in operational efficiency, tight cost control measures and adjusting our menu prices on a selective basis, we were able to maintain our gross profit margin at a stable level at approximately 60%.

There is always a shortage of QSR staff in Mainland China, which keeps driving up the cost of labour. The salaries and wages of general staff have been increasing at a rate of approximately over 10% last year. During the year under review, we raised the salary level to ensure its competitiveness and enable our staff to share the benefit of our business growth. We were able to keep the increase in the staff cost as a percentage of turnover to a minimal level of increase at around 0.1 percentage point.

Having established long-term strategic relationships with key landlords, we were able to secure long term store leases running from 5 to 10 years, to minimise the impact of the rising rental cost brought about by urbanisation. The rental cost as a percentage of turnover for the year was 12.9%, which is 0.8 percentage points higher than that of last year. The increase in rental and other related costs, such as utility costs, were mainly due to expenses incurred for the 88 net new stores.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | *HK$'000* | *% of sales* | *HK$'000* | *% of sales* |
| Labour costs | **207,440** | **10.5%** | 171,122 | 10.4% |
| Rental expense | **253,563** | **12.9%** | 198,910 | 12.1% |
| Other operation expenses | **391,761** | **19.9%** | 303,497 | 18.5% |
| Total selling and distribution costs | **852,764** | **43.3%** | 673,529 | 41.0% |

**Edible oils**

The edible oil operating environment in 2012 remained challenging. Raw material oil costs have been one of the major cost components of our products. Fluctuation in raw material costs impacted our profit margin significantly. During the year under review, we were able to increase our turnover by 12.6% to compensate for a decrease in gross margin and deliver a slight increase gross profit of HK$216 million. We continued to introduce quality and healthy edible oil products for our customers, such as DHA corn oil products. According to the data reported by Nielsen, one of the most reputable international research companies in Hong Kong, through its MarketTrack Service for the Edible Oil Category, for the period between January 2012 and December 2012, for Total Supermarket and Convenience Stores, our flagship brand "Lion & Globe" was ranked first in sales value and sales volume (Tonnage) for the given period.

Despite the tough edible oil market environment in Mainland China this year, the new management of our People's Republic of China ("PRC") edible oil operation was able to streamline the cost of the operation and deliver a positive EBITDA (earnings before interest, taxation and depreciation and amortisation), showing an improvement from last year.

## FINANCIAL REVIEW

**Equity**

The number of issued shares of HK$0.10 each of the Company as at 31 December 2012 was 9,916,871,030 (31 December 2011: 515,661,188). As at 1 January 2012, the Company had outstanding 97,402,895 warrants carrying rights to subscribe for an aggregate of 97,402,895 new shares of HK$0.10 each at a subscription price of HK$0.20 per share. During the year under review, 5,988,350 warrants of the Company were exercised for 5,988,350 shares of HK$0.10 each at a price of HK$0.20 per share.

As at 1 January 2012, the Company had 33,568,000 outstanding share options. During the year, 3,329,600 share options were exercised for 3,329,600 shares of HK$0.10 each at a price of HK$0.35 per share and 634,400 share options were lapsed.

**Liquidity and gearing**

As at 31 December 2012, the Group's Hong Kong bank borrowing was bank loans of HK$123.0 million, in which HK$8.0 million has secured by certain property, plant and equipment of the Group. The Group's PRC bank borrowing as at the year end was bank loans of HK$26.3 million borrowed by a PRC subsidiary of the Group, which was secured by pledge of certain of the Group's time deposits.

As at 31 December 2012, the Group's total bank loans amounting to HK$149 million (31 December 2011 (restated): HK$229 million) were either repayable or subject to renewal 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 31 December 2012 was 21% (31 December 2011 (restated): 40%). The decrease in gearing ratio was mainly attributable to repayment of certain interest bearing bank loans.

As at 31 December 2012, the Group recorded a net cash position of HK$90.8 million (2011 (restated): HK$281.6 million) (being cash and cash equivalents and pledged bank deposits less interest-bearing bank loans). The decrease in net cash position of the Group was mainly due to settlement of outstanding dividends due to the previous shareholders of the QSR business. The cash flow movements of the QSR business in the year under review are analysed below:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* |
| Net cash inflow from operation before adjusting for the other cash flows items below | **225,296** | 219,115 |
| Purchases of items of property, plant and equipment | **(163,476)** | (99,615) |
| Interest payments, net drawing and repayment of bank and non-controlling shareholder loans | **(13,435)** | 8,072 |
| Other cash flow items | | |
| Fund movements with group companies and related companies | **(53,277)** | 84,912 |
| Dividends paid | **(147,963)** | (74,609) |
| Net increase/(decrease) in cash and bank balances | **(152,855)** | 137,875 |
| Cash and bank balances at beginning of year | **331,709** | 193,696 |
| Effect of foreign exchange rates changes, net | **(446)** | 138 |
| Cash and bank balances at the end of year | **178,408** | 331,709 |

The Group's finance costs for the year was HK$9.9 million (2011 (restated): HK$12.0 million). The decrease in finance costs was mainly attributable to the repayment of certain interest bearing bank loans during the year.

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group's bank borrowings are denominated in 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 are comprised 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 and share options 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 year under review was HK$345.7 million (2011 (restated): HK$291.7 million), of which, HK$290.2 million (2011: HK$236.2 million) was the total staff cost in QSR business. As at 31 December 2012, the Group had 8,444 full time and temporary employees (2011: 8,078).

Subsequent to 31 December 2012, the annual remuneration of Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy, executive directors of the Company, were revised to HK$2,375,700 and, HK$1,267,200 respectively, with discretionary bonuses which will be payable according to the terms of the relevant bonus entitlement scheme of the Company.

Save for the remuneration packages for the above executive directors of the Company which were determined by the remuneration committee of the Company after taking into account their respective qualifications and experiences, all other directors' remuneration 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

### Group

During the year ended 31 December 2010, the Hong Kong Inland Revenue Department (the "IRD") issued protective assessment for the year of assessment 2003/2004 to a jointly-controlled entity of the Group, in respect of which tax reserve certificate amounted to HK$2,800,000 was purchased. During the year ended 31 December 2011, the IRD issued protective assessments for the year of assessment 2004/2005 to the jointly-controlled entity and a subsidiary of the Group, in respect of which tax reserve certificates amounted to HK$4,000,000 and HK$1,500,000 were purchased respectively. During the year ended 31 December 2012, the IRD further issued protective assessments for the year of assessment 2005/2006 to certain jointly-controlled entities and certain subsidiaries of the Group, in respect of which tax reserve certificates amounted to HK$6,800,000 were purchased by the jointly-controlled entities. Subsequent to 31 December 2012, the IRD further issued protective assessments for the year of assessment 2006/2007 to certain jointly-controlled entities and certain subsidiaries of the Group, in respect of which tax reserve certificates amounted to HK$10.5 million were purchased by the jointly-controlled entities. The Group has lodged objections with the IRD against these assessments.

In the opinion of the directors, the Group has grounds to contest the protective tax assessments, thus provision for Hong Kong profits tax in respect of these assessments at this stage is not considered necessary.

### Company

At the end of the reporting period, the contingent liabilities of the Company in respect of guarantees given to a bank to secure banking facilities utilised by subsidiaries amounted to HK$123,334,000 (2011: HK$22,704,000).

## PLEDGE OF ASSETS

As at 31 December 2012, certain of the Group's leasehold land and buildings and plant and machinery, which had aggregate carrying values of approximately HK$12,617,000 (31 December 2011: HK$91,620,000), certain accounts receivable and stocks of the Group of approximately HK$101,761,000 (31 December 2011: Nil), bank deposits of the Group of approximately HK$47,964,000 (31 December 2011: HK$44,907,000) and nil of the Group's land use rights, classified as prepaid land lease payments (31 December 2011: HK$27,999,000) were pledged to banks to secure banking facilities granted to the Group.

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

In 2011, the Company acquired the entire issued share capital of Hop Hing Fast Food Group Holdings Limited (formerly known as Summerfield Profits Limited) and the acquisition was completed on 12 March 2012. Save as disclosed above, the Group did not make any other material acquisition or disposal of subsidiaries or affiliated companies during the year under review.

## OUTLOOK

The less robust economic outlook in Mainland China and the challenges that we experienced in 2012 may continue to impact us in the near future. However, we are cautiously optimistic about the medium to long term economic growth of Mainland China. Hence, we shall continue with our strategy of achieving steady long term sustainable growth. In rolling out our strategic store expansion plan, more weight will be put on street level stores, which are being less affected by the uncertain economy, and stores in second to third tier cities which have benefited from urbanisation over the last few years. We will continue to focus in the coming year on increasing the variety of our products and offering more choices for breakfast and tea time, for example, we have just introduced ramen to our product. Investment in enhancing our in-store dining environment will not only strengthen our brand but also attract more customers who will spend more time in our stores. We shall continue to strengthen our stringent up-stream supply chain management and increase the frequency of our voluntary quality testing. In addition, we shall improve our operating efficiency by implementing various measures, such as standardising and automation of our production processes. With efficient operations and effective cost control measures in place, the impact of the rise in food and labour costs could be managed and minimised. We believe that the above strategies and measures will bring us sustainable long term growth.

Our edible oil operation in Hong Kong will continue to upkeep its quality and healthy image, and we shall continue to introduce new quality and healthy products that meet market demand and customer preference. The new PRC edible oil operation team will make greater efforts in marketing and introducing "Lion & Globe", our group's flagship brand, to the higher income group of cities in Southern China. We will continue to review the prospects for this operation and explore alternatives for maximising shareholder value.

After the completion of the acquisition of the QSR business in the year, the profitability and financial position of the Group have been substantially improved. We shall continue to look for opportunities that may bring us long term growth of the business, as well as returns to shareholders.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company has complied with the code provisions ("CP") of the former Code on Corporate Governance Practices (the "Old Code") and of the new Corporate Governance Code (the "CG Code") effective from 1 April 2012 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"), except for the following:

– In respect of CP A.6.7 of the CG Code, Dr. Hon. Wong Yu Hong, Philip, *GBS*, and Mr. Sze Tsai To, Robert, independent non-executive directors, and Ms. Hung Chiu Yee, a non-executive director (resigned on 1 January 2013), were unable to attend the Company's annual general meeting held on 4 June 2012 ("2012 AGM") due to overseas or other business engagement.

– In respect of CP E.1.2 of the CG Code, Mr. Sze Tsai To, Robert, the chairman of the audit committee of the Company, was unable to attend the 2012 AGM due to overseas engagement. All other members of the audit committee attended the 2012 AGM.

The principles as set out in the CG Code have been applied in our corporate governance practice. To ensure strict compliance with the latest CG Code, the Board will review and update regularly the corporate governance policies and practices of the Company.

## 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 2012.

## 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 internal controls. For details of the role and function of the committee, please refer to its terms of reference which aligns with the CP of the CG Code and have also been posted on the websites of Hong Kong Exchanges and Clearing Limited (the "Exchange") and the Company.

The audit committee of the Company has met the external auditors of the Company, Messrs. Ernst & Young, to review the Group's results for the year ended 31 December 2012.

## PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

There were no purchases, sales or redemptions by the Company or any of its subsidiaries of the listed securities of the Company during the year.

## AGM AND PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This result announcement is published on the Company's website at *www.hophing.com* and the website of the Exchange at *www.hkexnews.hk*. The AGM of the Company will be held on 6 June 2013. A notice convening the AGM and the annual report will be published on the Company's website and the Exchange's website 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 3 June 2013 to 6 June 2013 (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 2012, the register of members of the Company will be closed from 12 June 2013 to 17 June 2013 (both days inclusive), during which period no share transfers will be registered.

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 31 May 2013 and 11 June 2013 respectively.

## VOTE OF THANKS

We would like to thank all of our customers, suppliers, business associates and bankers for their continued support and members of our management team and staff for their hard work during the year.

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

Hong Kong, 19 March 2013

*As at the date hereof, the executive directors of the Company are Mr. Hung Ming Kei, Marvin, Mr. Wong Kwok Ying and Ms. Lam Fung Ming, Tammy. The non-executive directors of the Company are Mr. Hung Hak Hip, Peter and Mr. Lee Pak Wing. The independent non-executive directors of the Company are Dr. Hon. Wong Yu Hong, Philip, GBS, Mr. Sze Tsai To, Robert, Mr. Cheung Wing Yui, Edward, Mr. Seto Gin Chung, John, Hon. Shek Lai Him, Abraham, SBS, JP and Mr. Siu Wai Keung.*