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HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

2018 ANNUAL RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

In 2018, the Group recorded a 7% growth in sales, with total turnover exceeding HK$2.3 billion. However, due to additional promotional offers to maintain our competitiveness, the profit of the Group had been adversely affected and the profit of HK$122.6 million for 2018 represented a decrease of 26.7% when compared to that for 2017.

During the year 2018, the overall Chinese economy faced various challenges, including the Sino-US trade friction, the de-leveraging of the financial systems in the PRC and the expectation of a slowdown in economic activities in China. The gross domestic product of the PRC in 2018 recorded a slower growth rate than that of the previous year.

In the year under review, the catering industry faced fierce competition. A major factor was equity funds collaborated with internet platform players to enter the catering market. There were an influx of new style catering brands and the emergence of "New Retail" allowing the crossover of different market segments. Major established players countered with aggressive marketing strategies, including price-cutting tactics. For the period, the Group increased delivery sales of Yoshinoya and Dairy Queen products by 25% and 87% respectively. However, the profitability of the delivery business was adversely impacted by increased charges for orders routed through the few major web delivery platform players.

The Group is committed to deliver high quality food and ensuring food safety. Management is entrusted to enhance our brand and product image. Our incentive schemes for operational and managerial staff aligned our interest and assured stability. We understand that to know the needs of our customers is essential for enhancing customer loyalty in the current internet economy. To this end, the Group has kept on refining its Customer Relationship Management System; refining organizational structure, systems, workflow and working habits. With the emergence of the concept of "New Retail", the Group has started selling different products, like frozen and pre-packed foods, in the smart vending machines at its stores. This could improve the operating efficiency at its stores and at the same time enables the Group to test new concepts, including the "Take a Green Break" brand which offers healthy and natural foods.

During 2018, the Group further strengthened cooperation with one of its major franchisors by forming a joint venture with Yoshinoya group to expand its exclusive franchise regions to Henan, Shanxi and Shaanxi provinces. As a result, the customer base of the Group's franchise regions is increased from around 240 million to around 400 million.

Looking ahead to 2019, the Group expects the aggressive price cutting tactics amongst our key competitors and the continuing cost pressure brought about by the third party delivery platforms are likely to continue. Nonetheless, we are cautiously optimistic that our planned strategies will be able to minimize the negative impact to our bottom line.

China's economic policy is favorable for the domestic market in 2019. The PRC Government will continue implementing tax reduction measures, as well as policies promoting enterprises to transform and upgrade, stimulate the market vitality, expand consumption and motivate investments. In 2019, we shall continue to steadfastly uphold our operating principles of "Quality with Conscience" and "Value for Money" and continue to execute the major strategies of our Group. Therefore, we are optimistic that the Group could grasp suitable business opportunities in the catering market in the future and maintain its leadership in the QSR chain market within the PRC.

In closing, I would like to thank my fellow board members, the management team and our staff for their hard work and unswerving support during the past year. 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
28 March 2019

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 2018 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TURNOVER	4	**2,373,954**	2,218,323
Cost of sales		**(874,382)**	(809,505)
Other income and gains, net		**16,463**	24,559
Selling and distribution expenses		**(1,124,369)**	(1,002,908)
General and administrative expenses		**(210,324)**	(188,929)
Share of profits and losses of joint venture		**(432)**	–
PROFIT FROM OPERATING ACTIVITIES	5	**180,910**	241,540
Finance costs	6	**(736)**	(942)
PROFIT BEFORE TAX		**180,174**	240,598
Income tax expense	7	**(57,568)**	(73,246)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**122,606**	167,352
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic		**HK1.25 cents**	HK1.71 cents
Diluted		**HK1.24 cents**	HK1.69 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**122,606**	167,352
OTHER COMPREHENSIVE INCOME/(EXPENSES)		
Other comprehensive income/(expenses) that may be reclassified to income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(26,165)**	34,739
OTHER COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR	**(26,165)**	34,739
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**96,441**	202,091

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**208,449**	213,476
Investment in a joint venture		**11,185**	–
Deferred tax assets		**49,873**	44,528
Prepayments and rental deposits		**52,355**	51,618
Total non-current assets		**321,862**	309,622
CURRENT ASSETS			
Stocks		**108,750**	111,447
Accounts receivable	*10*	**19,945**	17,769
Prepayments, deposits and other receivables		**139,210**	97,960
Tax recoverable		**1,336**	196
Other financial assets		**235,789**	48,019
Cash and cash equivalents		**401,663**	641,693
Total current assets		**906,693**	917,084
CURRENT LIABILITIES			
Accounts payable	*11*	**128,255**	153,624
Other payables and accrued charges		**404,443**	374,664
Interest-bearing bank loan		**–**	10,000
Tax payable		**6,801**	9,857
Total current liabilities		**539,499**	548,145
NET CURRENT ASSETS		**367,194**	368,939
TOTAL ASSETS LESS CURRENT LIABILITIES		**689,056**	678,561
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**24,041**	24,751
NET ASSETS		**665,015**	653,810
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**1,007,043**	1,007,043
Reserves		**(342,028)**	(353,233)
TOTAL EQUITY		**665,015**	653,810

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 assets which have 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 new and revised HKFRSs for the first time for the current year's financial statements.

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

Except for the amendments to HKAS 40 and HKFRS 4, and *Annual Improvements 2014–2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs, are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

There is no transition adjustments related to equity applicable to the Group at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Note	HKAS 39 measurement Category	HKAS 39 measurement Amount	Re-classification	Expected credit loss ("ECL")	Other	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
Financial assets								
Available-for-sale investments	*(i)*	AFS[1]	48,019	(48,019)	–	–	–	N/A
Financial assets at fair value through profit or loss	*(i)*	N/A	–	48,019	–		48,019	FVPL[3]
Accounts receivable		L&R[2]	17,769	–	–	–	17,769	AC[4]
Financial assets included in prepayments, deposits and other receivables		L&R	76,331	–	–	–	76,331	AC
Cash and cash equivalents		L&R	641,693	–	–	–	641,693	AC
			783,812	–	–	–	783,812	
Financial liabilities								
Accounts payable		AC	153,624	–	–	–	153,624	AC
Financial liabilities included in other payables and accruals		AC	165,630	–	–	–	165,630	AC
Interest-bearing bank loan		AC	10,000	–	–	–	10,000	AC
			329,254	–	–	–	329,254	

1 AFS: Available-for-sale investments
2 L&R: Loans and receivables
3 FVPL: Financial assets at fair value through profit or loss
4 AC: Financial assets or financial liabilities at amortised cost

Note:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

Impairment

There was no significant impact for replacing the aggregate opening impairment allowance under HKAS 39 with ECL allowances under HKFRS 9 on the financial assets as at 1 January 2018.

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group is in the business of operation of quick service restaurants ("QSR"). Revenue from the operation of QSR business is recognised at the point in time when the products are delivered to the customers. The Group has concluded that the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

There is no effect on the initial application of HKFRS 15 to the opening balance of retained profits as at 1 January 2018. The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

(i) Loyalty point programme

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

Before the adoption of HKFRS 15, the Group recognised the deferred revenue as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accrued charges. Therefore, upon adoption of HKFRS 15, the Group reclassified HK$3,232,000 from other payables to contract liabilities at 1 January 2018 in relation to deferred revenue related to this loyalty point programme.

As at 31 December 2018, under HKFRS 15, HK$3,066,000 was reclassified from other payables to contract liabilities in relation to deferred revenue related to this loyalty point programme.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accrued charges.

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$4,267,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, HK$3,617,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of products.

(d) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 People's Republic of China. Therefore, no analysis by geographical region is presented.

4. TURNOVER

An analysis of turnover is as follows:

	2018	2017
	HK$'000	*HK$'000*
Turnover — revenue from contracts with customers		
Sale of products, at a point in time	**2,373,954**	2,218,323

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	HK$'000
Brands	
Yoshinoya	2,018,670
Dairy Queen	249,765
Others	105,519
	2,373,954
Geographical markets	
Beijing Tianjin Hebei Province Metropolitan Region	1,759,618
Northern China	614,336
	2,373,954

(ii) Performance obligations

The Group sells goods directly to customers via stores and online food order platform. The performance obligation is satisfied when the products are delivered to the customers. Payment of the transaction price is due immediately when the customers purchase the goods. The payment is usually settled in cash or using online payment platform.

5. PROFIT FROM OPERATING ACTIVITIES

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

	2018	2017
	HK$'000	*HK$'000*
Foreign exchange differences, net	**9,064**	(7,874)
Direct cost of stocks sold*	**796,664**	742,527
Loss on disposal/write-off of items of property, plant and equipment, net	**9,485**	8,271
Employee benefit expenses (including directors' emoluments):		
Wages and salaries	**431,374**	391,160
Pension scheme contributions**	**106,526**	97,875
Equity-settled share-based payments	**8,155**	10,460
	546,055	499,495
Depreciation	**99,151**	97,147
Impairment of items of property, plant and equipment	**5,906**	1,477
Write-back of impairment of accounts receivable***	**–**	(1,702)
Lease payments under operating leases:		
— Minimum lease payments	**277,494**	257,985
— Contingent rents	**40,013**	38,278
Auditor's remuneration	**2,650**	2,500
Fair value gain, net		
—investments at fair value through profit or loss	**(6,674)**	–

Notes:

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

** At 31 December 2018, the Group had no forfeited contributions available to reduce its future contributions to the pension schemes in future years (2017: Nil).

*** Write-back of impairment of accounts receivable was included in "General and administrative expenses" in the consolidated income statement.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**52**	134
Bank financing charges and others	**684**	808
	736	942

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the 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 2018 and 2017.

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

	2018	2017
	HK$'000	*HK$'000*
Current — Hong Kong		
Charge for the year	**515**	288
Underprovision in prior years	**181**	5
	696	293
Current — Elsewhere		
Charge for the year	**57,875**	67,874
Under/(over) provision in prior years	**(803)**	3,793
	57,072	71,667
Deferred	**(200)**	1,286
Total income tax charge for the year	**57,568**	73,246

8. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends paid during the year:		
Final dividend for 2017 — HK0.83 cent (2016: HK0.62 cent) per ordinary share*	**81,797**	60,257
Proposed final dividend:		
HK0.61 cent (2017: HK0.83 cent) per ordinary share	**61,430**	83,585

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 2017 paid during the year ended 31 December 2018 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$122,606,000 (2017: HK$167,352,000), and the weighted average number of 9,815,305,745 (2017: 9,812,206,150) ordinary shares in issue during the year, as adjusted to reflect the number of shares of 313,186,867 (2017: 259,487,400) held under the share award scheme of the Company.

(b) Diluted earnings per share

For the year ended 31 December 2018, 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$122,606,000 and the weighted average number of 9,925,254,290 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 109,948,545 calculated as follows:

	2018	2017
	HK$'000	*HK$'000*
Consolidated profit attributable to equity holders of the Company	**122,606**	167,352

	Number of shares	
Shares	**2018**	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**9,815,305,745**	9,812,206,150
Effect of dilution — weighted average number of ordinary shares:		
Share award	**93,283,580**	71,989,156
Share options	**16,664,965**	38,005,244
	9,925,254,290	9,922,200,550

10. ACCOUNTS RECEIVABLE

	2018	2017
	HK$'000	*HK$'000*
Accounts receivable	**19,945**	17,769
Less: impairment	**–**	–
	19,945	17,769

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 ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**19,655**	17,231
1 to 2 months	**290**	538
	19,945	17,769

11. ACCOUNTS PAYABLE

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

	2018	2017
	HK$'000	*HK$'000*
Current and less than 60 days	**119,344**	140,275
Over 60 days	**8,911**	13,349
	128,255	153,624

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

For the year ended 31 December 2018, turnover of the Group's business increased by 7% from HK$2,218.3 million in 2017 to HK$2,374.0 million. While the Group had expanded its store network by 43 new stores (net) and increased the delivery business volume of Yoshinoya products and Dairy Queen products by 25% and 87% respectively, the promotional offers necessary in the competitive environment together with the increases in charges of third party platforms and operating costs in the catering industry have put pressure on the profitability of the Group. Earnings before interest, taxation, depreciation and amortisation for the year was HK$280.1 million, representing a decrease of 17.3% when compared to the HK$338.7 million for the preceding year. Profit attributable to the equity holders of the Company for the year under review was HK$122.6 million, representing a decrease of 26.7% or HK$44.8 million when compared to HK$167.4 million for the year ended 31 December 2017.

Basic and diluted earnings per share for the year were HK1.25 cents and HK1.24 cents, respectively (2017: HK1.71 cents and HK1.69 cents, respectively).

DIVIDENDS

On 29 June 2018, the Company made a final dividend payment of HK0.83 cent per share for the year ended 31 December 2017. The Directors recommend payment of a final dividend of HK0.61 cent per share for the year ended 31 December 2018 (2017: HK0.83 cent per share). Subject to approval by shareholders at the forthcoming annual general meeting (the "AGM") of the Company, the final dividend will be distributed on or about 28 June 2019 to shareholders whose names appear on the register of members of the Company as at 20 June 2019.

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 2018, the Chinese economy maintained stable development. As for the catering industry, its total turnover exceeded RMB4 trillion for the first time, indicating that it has transformed from a not very well founded and lower end traditional industry into a key service and consumption industry in China. Demand for takeaway and delivery services continued to rise, and the market for delivery of drinks was expanding rapidly. However, with online delivery platforms sprouting, integration of the industry also hastened and major e-commerce platforms extending their reach into the market for delivery of drinks also made competition more intense. New Retail players with strong financial backing who can combine the competitive edges of different market segments emerged and have imposed new challenges to the traditional caterers. Catering operators have to keep abreast of the needs of their customers, reform their operations with innovation and come up with new products and services if they are to remain competitive in the market dominated by the young generations who are always keen to try new products. A business environment like nothing before has emerged for the catering industry.

In 2018, while the catering enterprises continued enjoying increase in revenue from their delivery business, they experienced huge pressure brought by the costs of the delivery platforms. At the same time, profitability of the catering industry was still subjected to the traditional limitation of "four highs, one low" (high raw material, labor, rental and utility costs and low margin). Together with the tightened regulations on environmental protection, food safety and also social security and tax expenses which all added to operating costs, the industry saw profits further squeezed.

Business review

In response to the challenges, Hop Hing implemented three major business strategies at the beginning of the year, including store upgrades, brand expansion and human resources reform. Store upgrades included enhancement of services, brand image, and products. Brand expansion entailed development — innovation and evolution — and promotion of new own brands. Human resources reform included: (1) reinforcement of the employee incentive scheme and its committee structure to encourage attainment of higher operational efficiency; (2) reform of organizational structure (network-structure sharing system) for efficiency improvement; (3) improvement of Supporting Office incentive measures by introducing new performance appraisal methods that can inspire pursuit of career development; (4) promotion of internal entrepreneurship by creating a mechanism for collaboration among all departments, the aim of which is to build a new business channel for new brands.

In the year under review, a new retail business model was adopted by the Group to improve its customer satisfaction. By analyzing customer data collected via the internet, the Group has developed and introduced a "Solution for eating" concept which is an all-rounded service mode to heighten customer satisfaction. The customer relationship management ("CRM") system was upgraded, with a cross-brand membership system added to facilitate direct contact and interaction between the Group and its customers, enable the Group to understand customers' needs and gauge their feedbacks to help development of strategies to improve customer satisfaction and strengthen customer loyalty. By the end of 2018, the Hop Hing membership had risen to more than five million.

To improve sales, in addition to introducing new product lines, Hop Hing also enriched its existing product portfolio and optimized its sales strategies. Tapping the potential of its large membership base, Hop Hing adopted "fission" marketing to entice member referral. To meet the demand for "natural" and "healthy" food, Hop Hing developed and promoted salad products and stores under the "Take a Green Break" brand. In addition, to capture the booming beverage market, Hop Hing introduced beverage products that can satisfy the diverse tastes of customers using its own techniques. Intelligent vending machines were placed in existing stores operated by the Group to sell pre-packed food, frozen food and salad products, and the results were all positive with increased store turnover and increased productivity per unit area. In addition, the Group also introduced self-ordering machines and other new devices, resulting in higher operational efficiency and smaller increment of labor cost.

For the year ended 31 December 2018, the Group's sales revenue in Renminbi increased by 4.2% to RMB2,003.6 million (2017: RMB1,923.3 million), which was attributable to the additional sales brought by new stores, as well as growth of the food delivery business. The Group's delivery service has extended from delivery of only Yoshinoya products to including certain Dairy Queen products in the fourth quarter of 2017. With its own delivery team in Beijing, 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 32% in 2017 to 39% in 2018. Furthermore, the customer spending has increased after the launch of Group's loyalty programme which offers customers bonus points on purchases that can be used to redeem products later.

During the period under review, the Group's overall same-store sales (denominated in Renminbi) increased by 0.8% (2017: 4.5%) and Yoshinoya recorded a 1.0% same-store sales growth (2017: 4.6%). Sales of Dairy Queen products were affected by adjustments made to certain Dairy Queen stores to meet the new food preparation requirements imposed by local authorities during the year. As a result, Dairy Queen experienced a decline in same-store sales of 1.2% for the year (2017: growth of 4.2%).

	Percentage Increase in Same Stores Sales (in Renminbi)	
	2018	2017
Overall	**0.8%**	4.5%
By main brands		
Yoshinoya	**1.0%**	4.6%
Dairy Queen	**–1.2%**	4.2%

In 2018, in terms of revenue, the Beijing-Tianjin-Hebei Province Metropolitan Region remained the largest market of the Group and sales revenue from Yoshinoya products accounted for approximately 85.0% of the Group's total sales.

	2018		2017	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**1,485,118**	**74.1%**	1,445,938	75.2%
Northern China[(1)]	**518,499**	**25.9%**	477,348	24.8%
b. By Main Brand				
Yoshinoya	**1,703,757**	**85.0%**	1,650,462	85.8%
Dairy Queen	**210,802**	**10.5%**	194,108	10.1%

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

During this review year, the Group formed a joint venture (the "JV") with Yoshinoya Group, one of the major franchisors of the Group, to develop the markets in three provinces, namely Henan, Shanxi and Shaanxi. As a result, the geographical coverage of the Group's Yoshinoya shop operation has been expanded from "five provinces and two cities" to "eight provinces and two cities".

In 2018, a net total of 43 new stores (2017: 46 net new stores), including 28 Yoshinoya stores (net), two of which were opened by the JV in Henan, 12 Dairy Queen stores (net) were opened. As at 31 December 2018, the Group had 559 stores in operation.

	As at 31 December	
	2018	2017
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**230**	218
Liaoning	**88**	81
Inner Mongolia	**13**	12
Heilongjiang	**21**	16
Jilin	**3**	2
Henan*	**2**	–
	357	329
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**124**	117
Liaoning	**25**	24
Inner Mongolia	**8**	7
Heilongjiang	**12**	11
Jilin	**4**	2
	173	161
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**27**	25
Liaoning	**2**	1
	29	26
Total	**559**	516

* Operated by the Joint Venture

To deal with increasing food costs, the Group has adopted a procurement driven cost control strategy, commanding it to closely monitor market prices of raw materials and develop new value-for-money products and hence optimize its product mix. The approach has been effective in allowing the Group to control the increase in food cost and alleviate pressure on profitability. However, because of the price-driven promotion activities undertaken by the major market players, we increased our promotional offers during the year. As a result, the net gross profit margin was down by 0.3 percentage point from 63.5% in 2017 to 63.2% in 2018.

	2018	2017
Gross profit margin	**63.2%**	63.5%

The incentive scheme implemented by the Group in recent years and the revision of the Group's store opening strategy to open stores with smaller size to cater for more and more delivery businesses have enabled the Group to maintain its labour and rental cost to sales percentage relatively stable in 2018. The increase in delivery sales together with the corresponding increase of delivery charges by the third party internet delivery platforms have put pressure on the selling and distribution cost of the Group during the year. In addition, to reduce the impact of the rising cost of using third-party internet delivery platforms, the Group has made exclusive special offers via its membership system and introduced exclusive product line with the aim to attract customer traffic of its own delivery platform. The Group has also optimized its delivery cost structure by balancing the use of self-owned delivery team and third parties' delivery teams.

	2018		2017	
	HK$'000	***% of sales***	*HK$'000*	*% of sales*
Labour costs	**344,259**	**14.5%**	315,511	14.2%
Rental expenses	**299,027**	**12.6%**	278,893	12.6%
Depreciation and amortization	**92,209**	**3.9%**	89,106	4.0%
Other operating expenses	**388,874**	**16.4%**	319,398	14.4%
Total selling and distribution costs	**1,124,369**	**47.4%**	1,002,908	45.2%

The price adjustments towards the end of 2017 and at the beginning of this year have allowed the Group to contain, to a certain extent, the continuous increase in costs of certain food materials and operating costs of the Group. The increase in the charges by third parties' internet delivery platform together with the promotional offers made by the Group in the fierce competitive environment had however adversely impacted the Group's performance in the year under review. As a result, the profit of the Group recorded a decrease of 26.7% from HK$167.4 million last year to HK$122.6 million in the year under review.

Two PRC subsidiaries of the Company received notices from the local tax authorities in January and August 2018 stating that the local tax authorities would carry out tax inspection on them 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 2018 was 10,070,431,786 (31 December 2017: 10,070,431,786).

As at 1 January 2018, the Company had 398,667,320 outstanding share options. During the year, 503,513,000 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 2018 was nil (31 December 2017: 1.5%).

As at 31 December 2018, the Group recorded a net cash position of HK$401.7 million (2017: HK$631.7 million) (being cash and cash equivalents less interest-bearing bank loan) and other financial assets of HK$235.8 million (2017: HK$48.0 million).

The Group's finance costs for the year was HK0.7 million (2017: HK$0.9 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$546.1 million (2017: HK$499.5 million). As at 31 December 2018, the Group had 8,459 full-time and temporary employees (2017: 8,248).

During the year ended 31 December 2018, the Board resolved to grant share awards in respect of 38,699,120 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 directors (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

The Group did not have any contingent liability as at 31 December 2018.

PLEDGE OF ASSETS

The Group did not have any pledge of assets as at 31 December 2018.

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 2019

In 2019, though overshadowed by uncertainties, the Chinese economy will remain relatively stable. Instead of aiming for fast growth, China has changed her economic development focus to striving for quality growth and, as a result, some new problems and challenges have emerged. The real economy has been struggling, activities of major sectors have remained weak and unemployment rate stands high. Transformation and upgrade are needed for some industries.

Generation Z, a new generation of consumers, has more diverse needs with regard to catering. To fulfil those needs, market players have to modify their business structure to enable them to provide various products under different brands. They also need to enhance supply chain operation and management. Increasing health consciousness among consumers is fueling demand for healthy food. The catering industry is transforming and alive to the need to upgrade.

New technologies, such as 5G, Blockchain, Internet-of-Things and Artificial Intelligence, will have great impacts, some disruptive, on the service pattern and business model of catering. Catering companies need to stay abreast of technological development and adjust their business models accordingly.

In addition, government policies on food safety, environmental protection and business standards will continue to affect the industry. Compliance with those standards while essential has cost implications for players in the catering industry. Digitalization and automation of operation, finance and the supply chain seem the way to go if catering companies want to reduce costs and improve operational efficiency.

Looking ahead, catering industry operations will be more regulated in favor of professional corporate players and branded catering chains. Players strong in management will have competitive edge over their peers. Chain store operators with a sophisticated management system and extensive experience in providing quality products and meticulous services will be able to more effectively control costs and earn customer loyalty.

Future Development Strategy

The Hop Hing Group will make good use of its own brand advantages and capitalize on its stores network and strong management to grow its business. With a responsive management team, the Group will be able to seize the opportunities arising from China's growing embrace of high-quality consumption.

The Group will pay close attention to the development of the mainland catering market and demand of customers. It will adjust its development strategies as necessary heeding market changes to ensure it has the ability to innovate and execute its business development plans and compete effectively at all times. Technological advancement aside, the purpose of the catering industry will never change, which is to provide wide variety of choices of healthy, safe and delicious food to consumers. The Group will diligently observe this basic requirement of the catering industry and continue to offer "Quality With Conscience", adopting safety, hygiene management and supervision measures to ensure the food and products it provides are of high relevant standard and promise great value-for-money.

The Company will keep improving and make good use of its CRM system and relevant technologies to establish a customer-oriented business model and organization structure to help it promptly communicate with customers and understand and satisfy their needs. The ultimate goal it wishes to accomplish is for existing customers to recommend to others the products and services of Hop Hing. The Group will work hard in interacting with customers to gather more customer information to help it with promoting different products of different prices and in different periods to appeal to different customer groups, in other words, managing customers' consumption patterns to increase their return rates and ensure they have the most satisfying consumption experience.

Through simple and effective rules and incentive system, Hop Hing will integrate technology into the internet to create innovative products, services and operating model with iterative update. Through incentive mechanisms, Hop Hing will continue to promote the enterprise values of positive energy, creativity and execution to empower the organization and its personnel in achieving the most organized and efficient operation. Focusing on opening "dine-in" stores and "delivery mode" stores will be conducive to improving cost efficiency and accurate differentiation of online and offline products will enable better use of the delivery platforms and in turn enhance profitability of the related businesses.

The Group will, taking reference of customers' perspective, improve product brand designs and images and upgrade products, services and employ relevant technology to rejuvenate product brands. Through research, acquisition of brand and technology and equity, the Group will continue to add new brands to its portfolio and diversify product offerings, so as to suit the different tastes of customers, and ultimately build a food and product ecological chain that can help its businesses thrive. The Group will continue to introduce new retail projects and adopt efficient and reasonable cost control measures to the end of increasing profitability. It will also efficiently open more stores to expand store networks and improve returns on investment.

Looking ahead, the catering market in mainland China will keep growing. Retailers proactive in innovation, armed with an outstanding management team and efficient operation will enjoy competitive advantage in the market. The Group will give full play to its advantage in innovation, management and operation and continue to explore various opportunities, including consolidating cooperation and exploring new cooperative modes with franchisors and existing and potential business partners to help develop the Group into a leading multi-brand QSR operator in China.

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 2018.

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 2018 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 2018.

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 auditor of the Company, Messrs. Ernst & Young, and reviewed the Group's results for the year ended 31 December 2018.

The figures in respect of the Group's results for the year ended 31 December 2018 as set out in this preliminary results announcement have been agreed by the Group's independent auditor, 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 2018, the trustee of the Company's share award scheme (the "Share Award Scheme") adopted on 20 March 2015, paid for purchase of a total of 73,136,000 shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at a total consideration of approximately HK$11,594,000. 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 2018.

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 13 June 2019. 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 10 June 2019 to 13 June 2019 (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 2018, the register of members of the Company will be closed from 19 June 2019 to 20 June 2019 (both days inclusive), during which period no share transfers will be registered. The final dividend will be distributed on or about 28 June 2019 to shareholders whose names appear on the register of members of the Company as at 20 June 2019.

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 6 June 2019 and 18 June 2019 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, 28 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Hung Ming Kei, Marvin and Mr. Wong Kwok Ying. The independent non-executive directors of the Company are Mr. Seto Gin Chung, John (Chairman), Mr. Sze Tsai To, Robert, Hon. Shek Lai Him, Abraham, GBS, JP and Mr. Wan Sai Cheong, Joseph. The non-executive director of the Company is Ms. Lam Fung Ming, Tammy.