HOP HING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 47)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

RESULTS

The Board of Directors (the "**Board**") of Hop Hing Group Holdings Limited (the "**Company**") herein present their unaudited condensed consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019, together with the comparative amounts.

These interim financial results have not been audited, but have been reviewed by the Company's audit committee and the Company's auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
			(Restated)
TURNOVER	*5*	**1,027,632**	970,818
Cost of sales		**(382,516)**	(350,330)
Other income and gains, net	*5*	**6,951**	4,264
Selling and distribution expenses		**(464,075)**	(450,700)
General and administrative expenses		**(83,574)**	(83,748)
Share of profits and losses of joint venture		**(527)**	–
PROFIT FROM OPERATING ACTIVITIES	*6*	**103,891**	90,304
Finance costs	*7*	**(21,021)**	(305)
PROFIT BEFORE TAX		**82,870**	89,999
Income tax expense	*8*	**(26,061)**	(28,431)
PROFIT FOR THE PERIOD		**56,809**	61,568
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**56,809**	61,568
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*10*		
Basic		**RMB0.58 cent**	RMB0.63 cent
Diluted		**RMB0.58 cent**	RMB0.63 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019** *RMB'000* **Unaudited**	31 December 2018 *RMB'000* Restated
NON-CURRENT ASSETS			
Property, plant and equipment		**198,379**	183,018
Right-of-use assets		**610,100**	–
Investment in joint venture		**9,293**	9,820
Deferred tax assets		**81,872**	43,788
Prepayment and rental deposits		**42,544**	45,968
Total non-current assets		**942,188**	282,594
CURRENT ASSETS			
Stocks		**102,303**	95,483
Accounts receivable	*11*	**24,694**	17,512
Prepayments, deposits and other receivables		**94,431**	122,226
Tax recoverable		**3,409**	1,173
Other financial assets		**238,528**	207,023
Cash and cash equivalents		**300,705**	352,660
Total current assets		**764,070**	796,077
CURRENT LIABILITIES			
Lease liabilities		**184,183**	–
Accounts payable	*12*	**131,154**	112,608
Other payables, accrued charges and contract liabilities		**303,476**	355,101
Tax payable		**11,388**	5,971
Total current liabilities		**630,201**	473,680
NET CURRENT ASSETS		**133,869**	322,397
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,076,057**	604,991
NON-CURRENT LIABILITIES			
Lease liabilities		**585,918**	–
Deferred tax liabilities		**23,301**	21,108
		609,219	21,108
NET ASSETS		**466,838**	583,883
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**820,284**	820,284
Reserves		**(353,446)**	(236,401)
Total equity		**466,838**	583,883

Notes

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Save for the change of presentation currency and adoption of new and revised HKFRSs during the period as set out in notes 2 and 3, respectively, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2018.

2. CHANGE OF PRESENTATION CURRENCY

The presentation currency of the consolidated financial statements in the prior financial period was Hong Kong dollars ("**HK$**").

Having considered that (i) most of the Group's transactions are denominated and settled in RMB; and (ii) the change of presentation currency will also reduce the impact of any fluctuations in the exchange rate of HK$ against RMB, which is not related directly to the Group's operational performance and is beyond its control, on the consolidated financial statements of the Group, the directors of the Company consider that it is more appropriate to use RMB as the presentation currency for the consolidated financial statements of the Group so that the shareholders of the Company will be presented with a clearer picture of the Group's actual financial performance. Accordingly, the Group has changed its presentation currency for the preparation of the consolidated financial statements from HK$ to RMB starting from 1 January 2019. The comparative figures have been restated to conform with the current period's presentation in RMB.

For the purpose of presenting the condensed consolidated financial statements of the Group in RMB, the assets and liabilities for the condensed consolidated statement of financial position are translated into RMB at the closing rate at the end of the reporting period. Income and expenses for the condensed consolidated income statement and condensed consolidated statement of comprehensive income are translated at the average exchange rates for the financial period. The share capital, the share premium and reserves are translated at the exchange rate at the date of transaction.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed consolidated interim financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Lease*
Amendments to HKFRS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKFRS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the adoption of new and revised standards has had no significant impact to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the lessee has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group has elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their stand-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g. property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of offices, warehouses and stores. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rates as at 1 January 2019.

The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rates where the Group applied the incremental borrowing rates at 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) *RMB'000* (Unaudited)
Assets	
Increase in right-of-use assets	628,662
Increase in deferred tax assets	37,773
Decrease in prepayment, deposits and other receivables	(40,862)
Increase in total assets	625,573
Liabilities	
Increase in lease liabilities	800,369
Decrease in other payables and accruals	(61,477)
Increase in total liabilities	738,892
Reserves	
Decrease in retained profits	(113,319)

4. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is quick service restaurants ("**QSR**") business. Since the QSR business is the only operating segment of the Group, no further analysis thereof is presented. All revenue from contracts with customers was recognised when the products were delivered at a point in time.

In addition, the QSR business' revenue and non-current assets, other than deferred tax assets, are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

5. TURNOVER AND OTHER INCOME AND GAINS, NET

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

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Turnover – revenue from contracts with customers		
Sale of products, at a point in time	**1,027,632**	970,818
Revenue from contracts with customers		
Disaggregated revenue information		
Brands		
Yoshinoya	**860,508**	822,377
Dairy Queen	**122,353**	107,756
Others	**44,771**	40,685
	1,027,632	970,818
Geographical markets		
Beijing-Tianjin-Hebei Province Metropolitan Region	**760,849**	722,085
Other northern areas of China*Note*	**266,783**	248,733
	1,027,632	970,818

Note: Including Liaoning, Inner Mongolia, Heilongjiang and Jilin provinces.

Other income and gains, net		
Bank interest income	**5,804**	5,751
Foreign exchange differences, net	**(3,231)**	(5,416)
Government grants*	**4,030**	3,176
Others	**348**	753
	6,951	4,264

* Government grants represent the subsidies received from the local government for the Group's business activities carried out locally. There were no unfulfilled conditions during the period in which they were recognised.

6. PROFIT FROM OPERATING ACTIVITIES

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

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Direct cost of stocks sold*	**350,009**	319,423
Depreciation of property, plant and equipment	**40,844**	40,650
Depreciation of right-of-use assets	**93,803**	–
Lease payments under operating leases in respect of lands and buildings		
– minimum lease payments	**899**	114,943
– contingent rents	**16,797**	16,774
Loss on write-off of items of property, plant and equipment, net	**5,478**	4,011
Impairment/(write-back of impairment) of items of property, plant and equipment	**(4,516)**	139

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Interest on bank loans	**–**	5
Bank financing charges and others	**280**	300
Interest on lease liabilities	**20,741**	–
	21,021	305

8. INCOME TAX EXPENSE

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Current – Hong Kong		
Charge for the period	**379**	577
Current – Elsewhere		
Charge for the period	**23,868**	27,428
Under/(over)-provision in prior years	**–**	(799)
Deferred tax	**1,814**	1,225
Total tax charge for the period	**26,061**	28,431

9. DIVIDEND

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Dividend paid during the period:		
Final dividend for 2018 – HK0.61 cent (2017: HK0.83 cent) per ordinary share	**51,356**	66,419

Note:

Final dividend paid during the periods ended 30 June 2019 and 2018 represented the dividends paid for issued ordinary shares, excluding treasury shares held by the trustee under the share award scheme.

10. 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 period attributable to equity holders of the Company, and the weighted average number of 9,765,327,262 (2018: 9,819,427,735) ordinary shares in issue during the period, as adjusted to reflect the number of shares of 337,477,994 (2018: 240,050,867) held under the share award scheme of the Company.

b. Diluted earnings per share

For the period ended 30 June 2019, the calculation of diluted earnings per share is based on the consolidated profit for the period attributable to equity holders of the Company and the weighted average number of 9,858,682,865 (2018: 9,889,141,923) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 93,355,603 (2018: 69,714,188) calculated as follows:

	Unaudited For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Restated)
Consolidated profit attributable to equity holders of the Company	**56,809**	61,568

	Unaudited Number of shares	
	30 June 2019	30 June 2018
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**9,765,327,262**	9,819,427,735
Effect of dilution– weighted average number of ordinary shares:		
Share options	**10,361,842**	12,420,835
Share award	**82,993,761**	57,293,353
	9,858,682,865	9,889,141,923

11. ACCOUNTS RECEIVABLE

The Group's QSR products are mainly sold on a cash basis. Accounts receivable of the Group's QSR business were mainly due from shopping malls and internet platform service providers with credit terms within 60 days. The overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the transaction date, is as follows:

	Unaudited 30 June 2019 *RMB'000*	Restated 31 December 2018 *RMB'000*
Within 1 month	**24,694**	17,257
1–2 months	**–**	255
	24,694	17,512

12. ACCOUNTS PAYABLE

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

	Unaudited 30 June 2019 *RMB'000*	Restated 31 December 2018 *RMB'000*
Current and less than 60 days	**112,919**	104,784
Over 60 days	**18,235**	7,824
	131,154	112,608

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

Having considered that most of the Group's transactions are denominated and settled in RMB and the change of presentation currency will also reduce the impact of any fluctuations in the exchange rate of the HKD against the RMB, the Board believes that it is more appropriate to use RMB as the presentation currency for the Group's financial statements starting from 2019, so that the shareholders of the Company will be presented with a clearer picture of the Group's actual financial performance. The comparative figures for the same period of 2018 have also been restated in RMB.

For the period under review, the turnover of the Group's business amounted to RMB1,027.6 million (for the first half of 2018: RMB970.8 million). Profit attributable to equity holders of the Company for the period under review was RMB56.8 million, representing a decrease of RMB4.8 million or 7.7% when compared with RMB61.6 million for the first half of last year. The decrease in profit was mainly due to price driven promotions in the QSR market in China in the period under review.

Basic and diluted earnings per share for the period were RMB0.58 cent and RMB0.58 cent respectively (six months ended 30 June 2018: RMB0.63 cent and RMB0.63 cent respectively).

DIVIDEND

On 28 June 2019, the Company made a final dividend payment of HK0.61 cent per share for the year ended 31 December 2018. The directors of the Company (the "**Directors**") do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

REVIEW OF OPERATION AND PROSPECTS

Industry review

In the first half of 2019, within a complicated and challenging domestic and global economic environment, the overall economy in China was under downward pressure and saw slow growth. In the first half of the year, the growth rate of revenue for the catering industry in China recorded a year-on-year decrease of 0.5 percentage point and the growth of revenue for catering units with turnover exceeding RMB2 million remained stable as compared with the corresponding period of the last year. In addition, affected by the outbreak of African swine fever, extreme weather and other factors, the costs of major food raw materials increased significantly. On the other hand, the service fee of major food delivery platforms increased and third-party electronic payment service providers started to charge service fees, coupled with the increase in rental and salaries and benefits of staff, the margin of catering service providers was under significant pressure. In the face of intensive competition in catering resulting from huge capital investment, catering providers were forced to compete for market share through lower prices and higher advertising and promotion expenses, which led to a further erosion in profits. Catering service providers faced tough challenges in innovation as their major customers, who are mostly post-90s and post-00s young people, had higher expectations for food. In addition to taste and safety, they are also concerned about the health, trendiness, ingenuity and getting value for money. In response to shifting market trends and difficulties in gaining profits, catering service providers must strike a balance between "Change" and "Steady" by improving their operational efficiency and adopting new business strategies at the same time, consistently providing high-quality products and services.

Business review

To cope with the various challenges, Hop Hing has adhered to its business strategies in the first half of 2019. "Customer satisfaction" is one of the most important strategic objectives the Group set in 2019 and thus, various strategies have been implemented to achieve this goal. Through the integration of the customer relationship management ("**CRM**") system and technologies with external platforms and resources, the Company was able to collect feedbacks from customers regularly for analysis and review, and made appropriate responses and adopted effective measures for improvement of the customer experience. The Group embarked on marketing activities in the social media to attract customers. In addition, the Company has adopted a brand upgrade strategy from customers' perspective, including the application of interactive media platform and self-ordering machines supported by new technologies targeting young generation. Leveraging the new technology and customer data collected from the CRM system, the Group has proactively adjusted its marketing strategies and implemented both online and offline market expansion plans to achieve sales targets. Furthermore, the Company has continued to fine-tune its new retail strategy by selling different retail products in its restaurants to improve the dining experience of customers in different scenarios, and it has expanded its sales network by increasing the number of online and offline retail stores.

In the period under review, the Group continued to launch new popular value-for-money products to satisfy different customers' needs and to boost sales. In response to the low pricing strategies of competitors, the Group promoted its delivery services and boosted its dine-in consumption by providing special set lunch offers on working days and group purchase privileges. The Group has also effectively improved its operational efficiency by introducing afternoon tea time and snacks, extending the business hours of certain stores and modifying its delivery menu.

To cope with rising third-party service fees, Hop Hing implemented differentiation of delivery menu and pricing strategy between its self-owned brands and third party delivery ordering platforms. In view of rising food costs, the Group has adjusted its product mix and added new types of products, introduced a wider variety of noodles and beverage products with higher margins, coupled with the abovementioned value-for-money products and differentiation of delivery menu, to alleviate the impact brought by the surge in food costs. To cope with intense competition, the Group has strengthened its store profitability management by optimizing its store model, setting reasonable rate of return targets and working out the optimized space of various store functions. The Group also reduced rental expenses and improved productivity per unit area by establishing new stores with a smaller area. At the same time, the Group has liaised with landlords of some of the stores for reduction of the fixed portion of rentals and closed down some stores with performance below expectation in order to improve profitability. On the other hand, the Group introduced self-ordering machines and other new devices, incentive schemes, labour efficiency management as well as restructuring of working hours to motivate employees so as to offset to some extent the impacts from higher wages.

In the first half of 2019, the Group's sales revenue increased by 5.9% year-on-year to RMB1,027.6 million (first half of 2018: RMB970.8 million). Apart from additional sales brought by new stores and increased consumption from members under the CRM system, delivery sales during the period also increased.

During the period under review, the Group continued to open stores in accordance with its strategy, which also corresponded with upgrades of products, services and brands, as well as the establishment of facilities for enhancing the efficiency of delivery sales services. Due to acceleration of the expansion of the Yoshinoya and DQ store network during the period under review and extending to new provinces with Yoshinoya Group last year, as at 30 June 2019, the Group together with its joint venture had 576 stores in operation.

	As at	
	30 June	31 December
	2019	2018
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**241**	230
Other northern areas of China[(1)]	**126**	125
Henan province[(2)]	**2**	2
	369	357
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**130**	124
Other northern areas of China[(1)]	**45**	49
	175	173
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**30**	27
Other northern areas of China[(1)]	**2**	2
	32	29
Total	**576**	559

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

(2) Operated by the joint venture

In the first half of 2019, the QSR market was very competitive. Many of the QSR market players still continued to offer deep discounts to customers so as to boost their top line. To meet market demand, the Group increased the variety and combination of the products offered to customers and intensified promotional activities. The Group reported an increase in same-store sales of 0.7% (the first half of 2018: 1.7%) from the Yoshinoya network during the period under review. With the establishment of new channel for delivery sales of DQ, that brand experienced a surge in same-store sales of 9.7% in the first half year (first half of 2018: decrease of 6.7%). The Group's overall same-store sales increased by 1.5% (first half of 2018: 0.9%).

	Percentage Increase in Same Stores Sales (denominated in Renminbi) Six months ended 30 June	
	2019	2018
Overall	**1.5%**	0.9%
By Main Brands		
Yoshinoya	**0.7%**	1.7%
Dairy Queen	**9.7%**	-6.7%

During the period under review, the Beijing-Tianjin-Hebei Province Metropolitan Region remained the largest market of the Group based on revenue, with sales revenue from Yoshinoya products accounting for approximately 84% of the Group's total revenue.

	Six months ended 30 June			
	2019		2018	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**760,849**	**74.0%**	722,085	74.4%
Other northern areas of China[1]	**266,783**	**26.0%**	248,733	25.6%

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

	Six months ended 30 June			
	2019		2018	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
b. By Main Brands				
Yoshinoya	**860,508**	**83.7%**	822,377	84.7%
Dairy Queen	**122,353**	**11.1%**	107,756	11.1%

The substantial increase in price of certain major food materials in the second half of 2018 continued during the period under review. Various actions were taken by the management, including offering different food combinations, promoting products with more stable cost prices and revising selling prices of certain products, which reduced the impact of such price increases. However, as the Group intensified promotional activities and discounts in response to market needs, a gross profit margin of 62.8% has been recorded for the period under review, a slight decline of 1.1 percentage point when compared with the corresponding period of 2018.

	Six months ended 30 June	
	2019	2018
Gross Profit Margin	**62.8%**	63.9%

The number of loyalty members of the Group's CRM system increased notably since the launch in the second half of 2017. The total members of Yoshinoya, DQ and Uncle Fong have exceeded 7 million. The CRM system has enabled the Group to analyse the data captured and better understand the consumption habits of its members. Together with the Group's streamlined management reporting system for improving the efficiency of its decision making process, the Group has been able to launch new products and develop "precision marketing" capabilities and promotional activities within a short period of time in response to market condition. The rental related costs expressed as a percentage of the revenue has been stable. As third-party online ordering platforms started to raise their service fees to increase income in the second half of last year, even though the Group committed to implementing various measures to reduce its impact, service fees paid to third-party online ordering platforms were still going up and electronic payment platforms have also started to charge fees this year, placing pressure on the other operating expenses under the selling and distribution expenses category during the period under review.

	Six months ended 30 June			
	2019		2018	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
Labour Costs	**153,143**	**14.9%**	140,493	14.5%
Rental Expenses*	**124,679**	**12.1%**	124,109	12.8%
Depreciation*	**40,039**	**3.9%**	38,112	3.9%
Other Operating Expenses	**165,924**	**16.1%**	147,986	15.2%

* For comparison purposes, the rental expenses in 2019 included rental related depreciation and finance costs and the depreciation amount in 2019 shown above is after deducting rental related deprecation charge.

Financial Review

Equity

The number of issued shares of HK$0.10 each of the Company as at 30 June 2019 was 10,070,431,786 (31 December 2018: 10,070,431,786).

By using the modified retrospective method of adoption of HKFRS 16, the reserves as at 30 June 2019 included a decrease of RMB113 million in retained profits by adjusting the opening balance of retained profits at 1 January 2019, details are set out in note 3.

Liquidity and gearing

As at 30 June 2019, the Group did not have any bank borrowing (31 December 2018: nil).

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 30 June 2019 was nil (31 December 2018: nil).

The finance costs for the period were RMB21.0 million (six months ended 30 June 2018: RMB0.3 million), of which RMB20.7 million related to finance costs of lease liabilities.

The Group's funding policy is to finance the business operations with internally generated cash and bank facilities. The Group's bank facilities were available in both 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 consist 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, share options and share awards to eligible staff. The total remuneration paid to the employees (including pension costs and the Directors' remuneration) of the Group in the period under review was RMB209 million (six months ended 30 June 2018: RMB190 million). As at 30 June 2019, the Group had approximately 8,700 full-time and temporary employees (30 June 2018: approximately 8,100).

During the period ended 30 June 2019, the Board resolved to grant share awards in respect of 62,914,000 shares to a selected participant who was not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them.

Operating segment information

Details of the operating segment information are set out in Note 4 to the condensed consolidated financial statements.

Contingent liabilities

The Group had no material contingent liability outstanding as at 30 June 2019.

Pledge of assets

The Group had no pledge of assets as at 30 June 2019.

Future Development of the Group's Business

Catering development trends

In the second half of 2019, the slower global economic growth, the escalating trade conflict and anti-globalisation will result in a challenging external environment and higher pressure of an economic downturn. The economy of China will rely on internal demands to maintain a high growth rate. While the consumption market will be driven by higher disposable income per capita and will continue to be a driver of China's economic growth, the consumption pattern is evolving, resulting in the advancement of technology. Fast food is increasingly popular in a fast changing society and a fast tempo lifestyle, and it is suitable for mass production by using technology to maintain quality standards. With supporting government policy, the business of fast food chains would have a greater room for growth. Yet, the viability and development of the catering industry are still under great pressure due to the increasing food and labor costs and rentals as well as increasingly stringent regulations of food safety and environmental protection. Catering operators must improve and upgrade in line with the changing environment, and adjust business development strategies according to shifts in market condition in order to survive and compete effectively.

Future development strategy

In view of the macro-economic environment, Hop Hing Group will evolve to cope with the changing environment through innovation. The Group will adhere to the basic principle of "良心品質", together with the principles of "Value for Money" and "Superior Products" as the main concepts of development. To meet the needs of our customers at different timeslots, we shall optimize and enrich our product lines, launch healthy food, expand online sales channels, add trending elements into the design and decoration of our new stores so as to enhance the dining experience of our customers. In addition, through the strengthened CRM system, the Group understands and adapts to market changes, explore market opportunities, and formulate and adjust development strategies. The Group will also fully utilise the advantages of technology, including the Internet and interaction with customers and the new retail sales model to improve customer satisfaction. In the second half of 2019, apart from actively seeking suitable locations in the original operating areas to open stores, Hop Hing Group will actively search those suitable locations to expand its store network according to the Group's new stores opening model and make necessary adjustments promptly corresponding to market changes. It will also continue the development in the new areas which are operated by the joint venture. On the cost control side, our procurement team will lead new product development with cost-competitive ingredients available in the market, together with the improvement of logistics efficiency in order to control food costs. On the other hand, our CRM system will divert our customers to our own delivery platform and reduce the impact of the increase in third party ordering platform charges. Implementing various staff incentive schemes, streamlining the organizational structure, and opening smaller stores will enable the Group to enhance its efficiency and ultimately boosting the profitability of the Group.

As a mature catering operator, Hop Hing Group will keep strengthening its corporate culture and stabilise its workforce, adopt prudent management and control of risk as usual, in order to provide healthy and safe food for consumers.

Looking ahead, the Group will continue to explore various opportunities, including advancing cooperation with its franchisors and existing business partners, and exploring possible merger and acquisition opportunities that would enable it to develop into a leading multi-brand QSR operator in China.

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

Hong Kong, 29 August 2019

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules for the period from 1 January 2019 to 30 June 2019. The principles as set out in the CG Code have been adopted into our corporate governance practice.

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 accounting period covered by the interim report.

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

During the six months ended 30 June 2019, the trustee of the Company's share award scheme (the "**Share Award Scheme**") adopted on 20 March 2015, purchased a total of 67,376,600 shares of the Company on The Stock Exchange of Hong Kong Limited at a total consideration of approximately RMB8,918,000 (HK$10,310,000). 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 six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.hophing.com and the website of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report will be despatched to shareholders of the Company and made available at the aforesaid websites in due course.

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 period under review.

On Behalf of the Board
Hop Hing Group Holdings Limited
Seto Gin Chung, John
Chairman

Hong Kong, 29 August 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.