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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 2021

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 2021, 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	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
TURNOVER	*4*	**884,478**	654,723
Cost of sales		**(349,255)**	(265,526)
Other income and gains, net	*4*	**11,260**	7,457
Selling and distribution expenses		**(399,070)**	(339,279)
General and administrative expenses		**(85,164)**	(73,579)
Impairment of non-financial assets, net		**(9,815)**	(45,683)
Share of profits and losses of joint ventures		**(1,280)**	(1,030)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*5*	**51,154**	(62,917)
Finance costs	*6*	**(24,502)**	(26,025)
PROFIT/(LOSS) BEFORE TAX		**26,652**	(88,942)
Income tax (expense)/credit	*7*	**(17,954)**	22,616
PROFIT/(LOSS) FOR THE PERIOD		**8,698**	(66,326)
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**8,698**	(66,326)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*9*		
Basic		**RMB0.09 cent**	RMB(0.68) cent
Diluted		**RMB0.09 cent**	RMB(0.68) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 30 June 2021 *RMB'000*	2020 *RMB'000*
PROFIT/(LOSS) FOR THE PERIOD	**8,698**	(66,326)
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to income statement in subsequent periods:		
Exchange differences:		
Exchange differences on translation of financial statements of operations outside Mainland China	**(301)**	3,962
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**(301)**	3,962
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**8,397**	(62,364)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**8,397**	(62,364)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited 30 June 2021** *RMB'000*	Audited 31 December 2020 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**160,330**	164,272
Right-of-use assets		**554,464**	525,271
Investments in joint ventures		**12,349**	5,979
Deferred tax assets		**125,851**	132,531
Prepayment and rental deposits		**43,380**	45,891
Total non-current assets		**896,374**	873,944
CURRENT ASSETS			
Stocks		**104,722**	127,090
Accounts receivable	*10*	**33,879**	27,032
Prepayments, deposits and other receivables		**108,352**	102,687
Tax recoverable		**137**	–
Restricted bank balances		**1,548**	–
Deposit certificates		**60,000**	60,000
Other financial assets		**20,970**	46,141
Cash and cash equivalents		**526,182**	402,621
Total current assets		**855,790**	765,571
CURRENT LIABILITIES			
Accounts payable	*11*	**132,623**	118,727
Other payables, accrued charges and contract liabilities		**378,992**	312,971
Lease liabilities		**174,000**	176,907
Interest-bearing bank loan		**8,320**	–
Tax payable		**25,417**	23,382
Total current liabilities		**719,352**	631,987
NET CURRENT ASSETS		**136,438**	133,584
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,032,812**	1,007,528

	Notes	Unaudited 30 June 2021 *RMB'000*	Audited 31 December 2020 *RMB'000*
NON-CURRENT LIABILITIES			
Lease liabilities		**592,460**	576,740
Deferred tax liabilities		**15,719**	17,379
Total non-current liabilities		**608,179**	594,119
NET ASSETS		**424,633**	413,409
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**820,284**	820,284
Reserves		**(395,651)**	(406,875)
TOTAL EQUITY		**424,633**	413,409

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 adoption of revised Hong Kong Financial Reporting Standards ("**HKFRSs**") during the period as set out in note 2 below, 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 2020.

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

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*

The nature and impact of the revised HKFRSs are described below:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

3. 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 People's Republic of China (the "**PRC**"). Therefore, no analysis by geographical regions is presented.

4. 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 2021 *RMB'000*	2020 *RMB'000*
Turnover — revenue from contracts with customers		
Sale of products, at a point in time	**884,478**	654,723
Revenue from contracts with customers		
Disaggregated revenue information		
Brands		
Yoshinoya	**741,217**	551,382
Dairy Queen	**120,154**	72,951
Others	**23,107**	30,390
	884,478	654,723
Geographical markets		
Beijing-Tianjin-Hebei Province Metropolitan Region	**658,203**	476,948
Other northern areas of China [1]	**226,275**	177,775
	884,478	654,723

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

Other income and gains, net		
Interest income	**5,126**	3,427
Fair value gain on other financial assets	**403**	3,089
Foreign exchange differences, net	**1,756**	(4,290)
Government grants*	**2,788**	4,594
Others	**1,187**	637
	11,260	7,457

* Government grants represent the subsidies received from the local government for the Group's business activities carried out locally and support under the COVID-19 pandemic. There were no unfulfilled conditions during the period in which they were recognised.

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Direct cost of stocks sold*	**320,314**	239,751
Depreciation of property, plant and equipment	**41,646**	44,217
Depreciation of right-of-use assets	**67,533**	71,548
Lease payments not included in the measurement of lease liabilities	**13,114**	7,930
Loss on write-off of items of property, plant and equipment, net	**4,802**	5,962
Impairment of items of property, plant and equipment, net**	**1,862**	11,265
Impairment of right-of-use assets, net**	**7,953**	34,418
(Gain)/loss on termination of leases	**(2,794)**	1,164
Fair value gain, net		
— Other financial assets at fair value through profit or loss	**(403)**	(3,089)

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

** Impairment of items of property, plant and equipment, net and right-of-use assets, net are included in "Impairment of non-financial assets, net" in the condensed consolidated income statement.

During the period ended 30 June 2021, the net impairment loss of RMB9,815,000 (period ended 30 June 2020: RMB45,683,000) represented (i) the write-down of the carrying amount of right-of-use assets of RMB14,215,000 (period ended 30 June 2020: RMB34,418,000) and leasehold improvements of RMB4,546,000 (period ended 30 June 2020: RMB11,265,000) for certain underperforming stores to their recoverable amounts; and (ii) the reversal of impairment loss of right-of-use assets of RMB6,262,000 (period ended 30 June 2020: Nil) and leasehold improvements of RMB2,684,000 (period ended 30 June 2020: Nil) for certain stores with performance improved. The estimated recoverable amounts as at 30 June 2021 were determined based on their value in use amounts estimated by using a discount rate of 12.0% (period ended 30 June 2020: 11.5%).

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Bank financing charges and others	**125**	158
Interest on lease liabilities	**24,377**	25,867
	24,502	26,025

7. INCOME TAX

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Current — Hong Kong		
Charge for the period	**292**	260
Current — Elsewhere		
Charge for the period	**12,681**	7,997
Under-provision in prior years	**–**	305
Deferred tax	**4,981**	(31,178)
Total income tax charge/(credit) for the period	**17,954**	(22,616)

8. DIVIDEND

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Dividend paid during the period:		
Final dividend for 2020 — nil (2019: HK0.248 cent) per ordinary share	**–**	21,942

Final dividend for 2019 paid during the period ended 30 June 2020 represented the dividends paid for issued ordinary shares, excluding treasury shares held by the trustee under the share award scheme.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

a. Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the consolidated profit/(loss) for the period attributable to equity holders of the Company, and the weighted average number of 9,789,668,139 (period ended 30 June 2020: 9,743,033,484) ordinary shares in issue during the period, as adjusted to reflect the number of shares of 258,174,619 (period ended 30 June 2020: 304,474,930) held under the share award scheme of the Company.

b. Diluted earnings/(loss) per share

For the period ended 30 June 2020, no adjustment has been made to the basic loss per share amount presented in respect of a dilution as (i) the impact of the share options outstanding had no dilutive effect on the loss per share amounts presented and (ii) the impact of the share awards of the Company had an anti-dilutive effect on the basic loss per share amount presented.

For the period ended 30 June 2021, 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 9,821,321,850 ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 31,653,711 calculated as follows:

	Unaudited For the six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Consolidated profit/(loss) attributable to equity holders of the Company	**8,698**	(66,326)

	Unaudited Number of shares	
	30 June 2021	30 June 2020
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**9,789,668,139**	9,743,033,484
Effect of dilution — weighted average number of ordinary shares:		
Share options*	**–**	N/A
Share awards	**31,653,711**	N/A
	9,821,321,850	9,743,033,484

* The outstanding share options of the Company have not been included in the computation of diluted earnings per share for the period ended 30 June 2021 as these options had no dilutive effect on the Company's basic earnings per share.

10. 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 2021 ***RMB'000***	Audited 31 December 2020 *RMB'000*
Within 1 month	**33,401**	26,026
1–2 months	**478**	1,006
	33,879	27,032

11. 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 2021 ***RMB'000***	Audited 31 December 2020 *RMB'000*
Current and less than 60 days	**118,471**	111,753
Over 60 days	**14,152**	6,974
	132,623	118,727

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 period under review (the "**Period**"), the turnover of the Hop Hing Group's business amounted to RMB884.5 million, representing an increase of 35.1% over the turnover of RMB654.7 million for the first half of 2020. Profit attributable to equity holders of the Company for the Period was RMB8.7 million as compared with loss attributable to equity holders of the Company of RMB66.3 million for the corresponding period last year. The improvement in the Group's performance was primarily due to business recovery after the ease of COVID-19 restrictions in the Period.

Basic and diluted earnings per share for the Period were RMB0.09 cent and RMB0.09 cent respectively (six months ended 30 June 2020: Basic and diluted loss per share were RMB0.68 cent and RMB0.68 cent respectively).

DIVIDEND

The directors of the Company (the "**Directors**") do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

REVIEW OF OPERATION AND PROSPECTS

Industry Review

With the fallout from the COVID-19 pandemic continuing to affect economies and business operations across the globe, the road to recovery remains fraught with uncertainty for many industries worldwide. Things are looking brighter on the domestic front, however. China's economic activity has begun to normalize, with output levels returning to the previous long-term growth trend and the national economy experiencing growth once again. During the Period, China was the first country to begin monetary policy normalization and to complete macroeconomic stress tests. While China's economic growth did experience a marginal slowdown during the Period, it maintained a steady recovery trend overall.

In terms of the PRC's three economic sectors, the quarterly growth rate of the primary and secondary sectors reached and even exceeded the levels seen in 2019, respectively, during the Period. Indeed, it is only the tertiary sector that has not returned to the pre-pandemic growth rate of 2019. The growth rate of the accommodation and catering industries, leasing and business services industries and other industries still have a long way to go to close the gap between the current growth rate and that of 2019; but the quarterly growth rate of many other industries within the tertiary sector already reached or even exceeded 2019 levels, demonstrating that the overall economy has started returning to a normal growth track. Although the service sector is lagging behind, China's economic recovery has widened and now encompasses more industries, enabling macroeconomic policies to be more targeted.

This broadened economic recovery can be partly attributed to a rise in consumer sentiment, in addition, the rollout of the national vaccination programme has proved efficient, with more than 1.6 billion doses having been administered across China at the end of July, providing a further boost to consumption as consumers were encouraged to spend more time in public. Indeed, the containment of COVID-19 ran parallel with a recovery in spending in the services sector, with the catering and tourism industries both showing growth in consumption. However, this consumption recovery remained lackluster in the catering industry, and, with imported cases of COVID-19 from overseas rising and sporadic outbreaks still occurring in some regions, the consumer market continues to face uncertainty. As a handful of new local or imported coronavirus cases popped up in China sporadically from time to time, it is essential for the Group to learn living with the virus and maintaining its business stable. On the other hand, the Period also saw a rise in the prices of international bulk commodities, leading to a significant increase in Producer Price Index growth. Going forward, and amid rising costs of raw materials, it will be necessary to strengthen market regulation in order to alleviate the cost pressures on enterprises, protect the supply chain, and promote stable and healthy economic development.

Business Review

The first half of 2021 saw sporadic outbreaks of COVID-19 in several regions, including Hebei and Liaoning, which inevitably affected the recovery of the Group's business, with many consumers unwilling to dine out. While ensuring the health and safety of its customers and employees, Hop Hing pragmatically and proactively adjusted the approach of its operations, thereby facilitating the gradual recovery of its business.

While the pandemic has largely been contained across China, it has left its mark in the form of changes to consumption habits. As a result, the recovery of the Group's dine-in catering business has been lackluster during the Period, while the proportion of the delivery business in the Group's overall revenue has continued to increase. Amid the pandemic, the rental level of commercial properties was lower than that of the same period last year, returning to the level of 2019 in 2021. In the face of the challenges still posed by the fallout from the pandemic, we continued to adjust and redesign the profit model of our stores according to the changes in sales structure and external markets.

Adapting to the return of dining out

As a result of widespread vaccination, the public largely returned to normal life throughout the majority of the first quarter of 2021. With this in mind, Hop Hing took steps to encourage diners to visit its stores. It not only increased its promotional efforts and launched several new beef products featuring new styles of serving, but also opened stores based on the profitable store model, accelerated store openings and improved store efficiency and profitability.

The Group opened a technology-based restaurant to cater for the needs of the Z-generation during the Period. This new store features an increased level of informatization and automation through the addition of equipment such as automatic rice washers, automatic rice dispensers, and dishwashers, elevating the customer experience and reducing hourly employee costs. The Group also fully launched its hotpot business model during the Period, following two years of refining its strategy and increasing the variety of hotpot products on offer. This new initiative involves offering value hotpot dishes for one person, and was vigorously promoted through both online and offline channels through deals and promotions such as "buy one get one free". These promotions encourage consumers' acceptance of Yoshinoya's unique small hotpot, which differentiated it from its peers by creating a totally different consumption scenario, and increased the share of dine-in customers, ultimately resulting in a gradual increase of sales for the hotpot business.

With pandemic measures severely limiting the options available to the public in terms of eating out at restaurants, the Group introduced timely initiatives to take advantage of opportunities arising from the "dine-at-home" new normal. This included the launch of the "Family Kitchen" product line in February 2020, which enabled customers to prepare high-quality meals at home in a matter of minutes. With a substantial achievement, the new line has facilitated further business diversification and accelerated the recovery of the Company's sales.

The Group introduced "Family Kitchen" in February 2020 when the pandemic was the most severe and "dine-at-home" became a new normal. However, with the public gradually resuming pre-pandemic habits such as shopping and dining out following the easing of the pandemic, demands of the "Family Kitchen" products declined during the Period. Yet, the Group still sees "Family Kitchen" an important income stream with huge potentials under the "New Retail" new norm in the country. In light of this, Hop Hing is currently developing the second-generation retail business model and pushing ahead with its plans for the compounded sales model -"catering income + New Retail income + online and offline integration". The Group will continue to introduce a variety of adjustments to the "Family Kitchen" business line with an aim to optimize its profitability.

Facilitating growth through technology and marketing

The Group's promotion of digitalization was in full swing during the Period. A comprehensive review of its Enterprise Resource Planning system and digital system tools was performed, with adjustments then made accordingly. The Group also enhanced its information technology ("**IT**") team and improved its digital strategy with the aim of attracting customers online and ensuring better price optimization and sales marketing. The front-end mini-program was also enhanced in order to provide customers with a better online ordering experience. Together, these steps formed a systematic digital approach to enable improved customer acquisition, retention and conversion.

Facing the ever-changing contact channels for different consumer groups, Hop Hing also set up a new media marketing department to drive both traditional marketing and new media marketing, with the aim of increasing brand awareness and attracting the attention of potential customers.

During the Period, the Group's revenue increased by 35.1% year-on-year to RMB884.5 million (six months ended 30 June 2020: RMB654.7 million). The COVID-19 has changed the consumption habits of many customers to buying online and hence the delivery sales of our Group continued to increase during the Period. With a gradual recovery of the economy, the dine-in sales of the Group also recorded an increase in the Period. The speed of opening of new stores was however to certain extent hindered by the scattered outbreaks of the pandemic in the northern part of China at the beginning of the year. The Group together with its joint venture had 590 stores in operation as at 30 June 2021.

	As at	
	30 June 2021	31 December 2020
Yoshinoya		
Beijing-Tianjin-Hebei Province Metropolitan Region	**257**	256
Other northern areas of China[1]	**132**	127
Henan province[2]	**7**	7
	396	390
Dairy Queen		
Beijing-Tianjin-Hebei Province Metropolitan Region	**145**	142
Other northern areas of China[1]	**48**	47
	193	189
Others		
Beijing-Tianjin-Hebei Province Metropolitan Region	**1**	1
	1	1
Total	**590**	580

(1) Including Liaoning, Heilongjiang and Jilin provinces and Inner Mongolia autonomous region
(2) Operated by Joint Venture

During the Period, after the steady implementation of vaccination in China, epidemic prevention and control measures were relaxed and the momentum to dine-out resumed. In response to the market recovery and the return of a relatively better business environment, the Group introduced more value-added meals and increased its sales promotion activities. As a result, the Group reported an increase in same-store sales of 32.2% (six months ended 30 June 2020: decrease of 35.4%) from the Yoshinoya network and an increase in same-store sales of 60.6% (six months ended 30 June 2020: decrease of 47.0%) from the DQ network during the Period. The Group's overall same-store sales increased by 34.5% (six months ended 30 June 2020: decrease of 37.0%).

	Percentage Increase in Same Stores Sales Six months ended 30 June	
	2021	2020
Overall	**34.5%**	–37.0%
By Main Brands		
Yoshinoya	**32.2%**	–35.4%
Dairy Queen	**60.6%**	–47.0%

During the Period, the Beijing-Tianjin-Hebei Province Metropolitan Region remained the largest market of the Group based on revenue. Sales revenue from Yoshinoya products accounted for approximately 84% of the Group's total revenue.

	Six months ended 30 June			
	2021		2020	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
a. By Region				
Beijing-Tianjin-Hebei Province Metropolitan Region	**658,203**	**74.4%**	476,948	72.8%
Other northern areas of China [(1)]	**226,275**	**25.6%**	177,775	27.2%

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

	Six months ended 30 June			
	2021		2020	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
b. By Main Brands				
Yoshinoya	**741,217**	83.8%	551,382	84.2%
Dairy Queen	**120,154**	13.6%	72,951	11.1%

Being affected by import delays and the rebound in market consumption and domestic demand, the prices of major food raw materials continued to rise. The Group has adopted a variety of measures to counter the increase in food ingredient costs, including adjusting product mix. Nonetheless, the overall material cost of the Group remained high and a gross profit margin of 60.5% was recorded in the Period, a slight increase of 1.1 percentage points when compared with the corresponding period of 2020.

	Six months ended 30 June	
	2021	2020
Gross Profit Margin	**60.5%**	59.4%

While the overall operating costs increased in line with increase in sales during the Period, the Group exercised tight cost controls on this challenging environment brought about by the pandemic. The Group's effective manpower deployment to certain extent mitigated the impact of increase in minimum wage and social insurance in China. As a result, the total operating costs expressed as percentage of revenue decreased during the Period.

	Six months ended 30 June			
	2021		2020	
	RMB'000	***% of sales***	*RMB'000*	*% of sales*
Selling and distribution expenses				
Labour costs	**129,503**	**14.6%**	104,987	16.0%
Rental expenses, depreciation of right-of-use assets and finance costs*	**97,662**	**11.0%**	98,100	15.0%
Depreciation of property, plant and equipment*	**38,011**	**4.3%**	40,981	6.3%
Other operating expenses	**156,388**	**17.7%**	119,243	18.2%

* Leases relating to depreciation and finance costs have been grouped with rental expenses for better understanding of the Group's total rental related expenses

The tax inspection carried out by the PRC local tax authority on certain subsidiaries of the Company is still in progress and no conclusion has yet been reached. The management will continue to work, under the guidance of an external professional tax consultant, with the relevant local tax authority to conclude the case in due course.

Financial Review

Equity

The number of issued shares of HK$0.10 each of the Company as at 30 June 2021 was 10,070,431,786 (31 December 2020: 10,070,431,786).

Share Option

No share option was granted nor exercised during the Period (six months ended 30 June 2020: Nil). During the Period, 217,500,000 share options had lapsed (six months ended 30 June 2020: 130,914,000 share options had lapsed).

Liquidity and gearing

As at 30 June 2021, the Group's total bank borrowing of RMB8.3 million (31 December 2020: Nil) which was in the form of a bank loan, was unsecured, denominated in Hong Kong dollar and repayable within one year.

The Group's gearing ratio (expressed as a percentage of interest-bearing bank loans over equity attributable to equity holders of the Company) as at 30 June 2021 was 2.0% (31 December 2020: Nil).

The finance costs for the Period amounted to RMB24.5 million (six months ended 30 June 2020: RMB26.0 million), which consisted of interest of RMB24.4 million on lease liabilities (six months ended 30 June 2020: RMB25.9 million), and other finance costs totaling RMB0.1 million (six months ended 30 June 2020: RMB0.1 million).

The Group's funding policy is to finance its business operations with internally generated cash and bank facilities. The Group's bank facilities are available in both Hong Kong dollars and Renminbi. The Group continues to adhere to the policy of hedging foreign currency liabilities with foreign currency assets.

Remuneration policies

Staff remuneration packages consist of salary and discretionary bonuses which are determined with reference to market conditions and the performance of the Group and the individual concerned. The Group also provides other staff benefits including medical insurance, continuing education allowances, provident funds, share options and share awards to eligible staff. The total remuneration paid to employees (including pension costs and remuneration to the Directors) of the Group during the Period was RMB214 million (six months ended 30 June 2020: RMB176 million). As at 30 June 2021, the Group had approximately 7,600 full-time and temporary employees (30 June 2020: approximately 7,400).

During the period ended 30 June 2021, the Board resolved to grant share awards in respect of 2,367,417 shares to one of the selected participants 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 3.

Contingent liabilities

The Group had no material contingent liability outstanding as at 30 June 2021.

Pledge of assets

The Group had no pledge of assets as at 30 June 2021.

Events after the reporting period

No material events occurred after the end of the reporting period and up to the date of this announcement.

Future Development of the Group's Business

Development trends in the catering industry

While there is hope that the pandemic will finally subside following the rollout of vaccinations worldwide, the majority of industries still face challenges caused by its impact, and the catering industry is no exception. There are a number of factors that will continue to shape the economic environment going forward, and therefore affect the catering industry. Current global economic trends remain complex and severe, and the rise in global inflationary pressure has led to a sharp increase in bulk commodity prices which has affected business in mainland China. Rising material costs have also led to varied paces of recovery across different industries, with small, medium and micro companies, in particular, facing difficulties in operations.

Innovation and the use of new technologies has become an important trend shaping the catering industry. Many companies are applying an "Internet + new technologies" approach in order to support their development and are promoting the integration of online and offline development through linked online and offline services. The use of mobile terminals to link enterprises is also becoming more widespread in a bid to attract new consumer groups. Catering companies are also increasingly focusing on using data to guide their strategy and development. In this new era of digitalization, networking and co-sharing, it is vital for companies to make efficient use of data, with high-quality and comprehensive data reports serving as a valuable reference for their growth strategy.

An increasing number of catering companies have also become aware of the effectiveness and importance of running food and beverage businesses as retail stores, with their brands as intellectual property. Now not only an outlet for food and drink, these enterprises are taking an approach based around specific sales scenarios, from offices and gas stations to convenience stores and supermarkets, as well as food trucks, amusement parks and online services, with careful attention paid to their customer base in order to create more targeted promotions and marketing content.

While catering companies have previously focused largely on front-end consumers, the expansion of the scale of their operations caused many to view their core competitiveness as their back-end supply chain capabilities. In order to stay ahead of their peers, catering brands need to have the ability to manage, integrate and form the supply chain more effectively, and in doing so they will not only increase the barriers to entry for competitors, but also have the chance to create their own platforms and share their surplus production capacity and the strong capabilities of various departments in order to bring greater economic returns.

There are, of course, less favorable development trends that will shape the strategies of catering companies in the near term. Operating costs are increasing year by year, requiring companies to ensure that their cost control measures remain stringent and effective, and consumer demand is continuing to change at a rapid pace, forcing enterprises of all sizes to remain attentive to both the needs and preferences of their core customer bases and to ensure they adopt an integrated online and offline approach where possible.

Innovation and adaptability to remain competitive

In view of the latest market trend, Hop Hing will continue to focus on employee and customer satisfaction. The Group believes that customer satisfaction is the most important performance indicator, and has therefore launched the reform of an incentive mechanism, which effectively stimulates the incentives of the restaurant-end and the enthusiasm of employees, in a bid to continuously strengthen customer satisfaction and ultimately encourage repeated consumption and improve restaurant performance.

The Group recognizes the importance to remaining pragmatic amid the volatile and challenging business environment. As well as continuing to promote Yoshinoya's newly launched hotpot business model, it will adjust the profit model of its restaurants in response to market changes in order to guide the development and opening of new restaurants. The Group also plans to remain competitive by subverting the traditional store image, accelerating the refurbishment cycle and opening of new stores, and introducing more engaging and trendy designs. The Group will also continue to refine its stores opening model according to the changes in sales structure and customers' consumption pattern and create new scenarios by opening a diverse range of stores, such as technology-based store, smaller-size stores, delivery stores, and hotpot specialty stores etc.

With technology and innovation remaining a vital part of the Group's development strategy going forward, it will continue to upgrade the technological equipment at its restaurants, accelerate the digitalization of its operations and take steps to strengthen its IT team. In the face of changing consumption scenarios, it will remain committed to utilizing multimedia marketing to enhance its brand image and reputation and attract new consumer groups.

Looking ahead, apart from maintaining good relationship with our existing franchisors, the Group has been exploring with Yoshinoya tentatively various possibilities of increasing the width and depth of our cooperation in China beyond the existing franchise regions in the northern part of China, such as Shandong province. The Group will also actively seek new opportunities, particularly those that may facilitate its technological transformation into an internet-proficient catering enterprise, further strengthening its ties with franchisors and current business partners. The Group will further explore potential mergers and acquisitions opportunities with the aim of developing into a leading multi-brand QSR chain in China.

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

Hong Kong, 31 August 2021

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 2021 to 30 June 2021. 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 2021, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities.

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.

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

Hong Kong, 31 August 2021

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 and Mr. Wan Sai Cheong, Joseph. The non-executive director of the Company is Ms. Lam Fung Ming, Tammy.