
# Interim Report 2013

良心品質®

**HOP HING GROUP HOLDINGS LIMITED**

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

Stock Code: 47

# CONTENTS



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 2013, together with the comparative amounts.

This interim financial report has not been audited, but has been reviewed by the Company's audit committee and the Company's auditors.

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | *Notes* | **Unaudited For the six months ended 30 June 2013 HK$'000** | 2012 HK$'000 (Re-presented) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **TURNOVER** | *5* | **1,000,907** | 956,500 |
| Direct cost of stocks sold | | **(387,136)** | (384,363) |
| Other income and gains, net | *5* | **4,699** | 2,935 |
| Selling and distribution expenses | | **(479,632)** | (399,614) |
| General and administrative expenses | | **(71,589)** | (64,952) |
| **PROFIT FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS** | *6* | **67,249** | 110,506 |
| Finance costs | *7* | **(1,113)** | (1,484) |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **66,136** | 109,022 |
| Income tax expense | *8* | **(13,881)** | (35,500) |
| **Profit for the period from continuing operations** | | **52,255** | 73,522 |
| **DISCONTINUED OPERATION** | | | |
| Profit/(loss) for the period from a discontinued operation | *9* | **(51,696)** | 355 |
| **PROFIT FOR THE PERIOD** | | **559** | 73,877 |

## CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

| | Notes | Unaudited<br>For the six months<br>ended 30 June<br>**2013**<br>**HK$'000** | <br><br><br>2012<br>HK$'000<br>(Re-presented) |
|---|---|---|---|
| **PROFIT ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | | **559** | 59,516 |
| Non-controlling interests | | **–** | 14,361 |
| | | **559** | 73,877 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | *11* | | |
| Basic | | | |
| – For profit for the period | | **HK0.01 cent** | HK11.47 cents |
| – For profit for the period from continuing operations | | **HK0.53 cent** | HK11.41 cents |
| Diluted | | | |
| – For profit for the period | | **HK0.01 cent** | HK 0.60 cent |
| – For profit for the period from continuing operations | | **HK0.53 cent** | HK 0.59 cent |

Details of dividends paid in the period are disclosed in note 10 to the financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| **PROFIT FOR THE PERIOD** | **559** | 73,877 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | | |
| **Other comprehensive income/(expense) that have been reclassified or may be subsequently reclassified to income statement:** | | |
| Release of exchange fluctuation reserve upon disposal of subsidiaries | **(33,137)** | (2,039) |
| Release of exchange fluctuation reserve upon de-registration of a subsidiary | **–** | (133) |
| Exchange differences on translation of foreign operations | **5,812** | – |
| **OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD** | **(27,325)** | (2,172) |
| **TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD** | **(26,766)** | 71,705 |
| **TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO:** | | |
| Equity holders of the Company | **(26,766)** | 58,343 |
| Non-controlling interests | **–** | 13,362 |
| | **(26,766)** | 71,705 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | Unaudited 30 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *12* | **305,823** | 461,635 |
| Prepaid land lease payments | | **–** | 26,889 |
| Trademarks | | **–** | 125,299 |
| Deferred tax assets | | **9,029** | 1,340 |
| Prepayment and rental deposits | | **46,823** | 41,105 |
| **Total non-current assets** | | **361,675** | 656,268 |
| **CURRENT ASSETS** | | | |
| Stocks | | **141,372** | 240,795 |
| Accounts receivable | *13* | **7,017** | 147,808 |
| Prepayments, deposits and other receivables | | **94,879** | 90,234 |
| Tax recoverable | | **4,184** | 2,003 |
| Pledged bank deposits | | **44,304** | 47,964 |
| Cash and cash equivalents | | **193,333** | 192,091 |
| **Total current assets** | | **485,089** | 720,895 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| | Notes | Unaudited 30 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Accounts payable | *14* | **187,377** | 181,305 |
| Bills payable | | **–** | 14,046 |
| Other payables and accrued charges | | **213,264** | 305,572 |
| Interest-bearing bank loans | *15* | **26,582** | 149,239 |
| Tax payable | | **2,239** | 4,554 |
| Amount due to a related company | | **5,387** | – |
| **Total current liabilities** | | **434,849** | 654,716 |
| **NET CURRENT ASSETS** | | **50,240** | 66,179 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **411,915** | 722,447 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **11,181** | 7,400 |
| **NET ASSETS** | | **400,734** | 715,047 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued share capital | *16* | **1,000,629** | 991,687 |
| Reserves | | **(599,895)** | (276,834) |
| | | **400,734** | 714,853 |
| **Non-controlling interests** | | **–** | 194 |
| **Total equity** | | **400,734** | 715,047 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the six months ended 30 June 2013 (Unaudited)

| | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|
| | Issued share capital HK$'000 | Share premium account* HK$'000 | Merger reserve*# HK$'000 | Share option reserve* HK$'000 | Exchange fluctuation reserve* HK$'000 |
| At 1 January 2013 | 991,687 | 4,035,794 | (4,857,319) | 6,062 | 48,347 |
| Profit for the period | – | – | – | – | – |
| Other comprehensive income for the period: | | | | | |
| Release of exchange fluctuation reserve upon disposal of subsidiaries | – | – | – | – | (33,137) |
| Exchange differences on translation of foreign operations | – | – | – | – | 5,812 |
| Total comprehensive income/(expense) for the period | – | – | – | – | (27,325) |
| Issue of shares upon exercise of warrants (note 16) | 8,942 | 8,942 | – | – | – |
| Share issue expenses | – | (45) | – | – | – |
| Disposal of subsidiaries | – | – | – | – | – |
| Final dividend for 2012 (note 10) | – | – | – | – | – |
| Special dividend for 2013 (note 10) | – | – | – | – | – |
| At 30 June 2013 | 1,000,629 | 4,044,691 | (4,857,319) | 6,062 | 21,022 |

* These reserve accounts comprise the reserves in debit balance of HK$599,895,000 in the condensed consolidated statement of financial position as at 30 June 2013.

\# Merger reserve represents the excess of investment cost in Hop Hing Fast Food Group Holdings Limited ("Hop Hing Fast Food") of HK$4,919,843,000 (being the total consideration of HK$4,964,232,000 reduced by the loans of HK$44,389,000 owed by Hop Hing Fast Food to Queen Board Limited ("Queen Board") and its associates (the "Loan")) over the share capital and share premium of Hop Hing Fast Food of HK$363,000 and HK$62,161,000, respectively.

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Properties revaluation reserve* HK$'000 | Statutory reserve*## HK$'000 | Capital and other reserves* HK$'000 | Retained profits* HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| | 2,080 | 15,157 | 374,569 | 98,476 | 714,853 | 194 | 715,047 |
| | – | – | – | 559 | 559 | – | 559 |
| | – | – | – | – | (33,137) | – | (33,137) |
| | – | – | – | – | 5,812 | – | 5,812 |
| | – | – | – | 559 | (26,766) | – | (26,766) |
| | – | – | – | – | 17,884 | – | 17,884 |
| | – | – | – | – | (45) | – | (45) |
| | (2,080) | – | – | 2,080 | – | (194) | (194) |
| | – | – | (25,016) | – | (25,016) | – | (25,016) |
| | – | – | (280,176) | – | (280,176) | – | (280,176) |
| | – | 15,157 | 69,377 | 101,115 | 400,734 | – | 400,734 |

## In accordance with the Company Law of the People's Republic of China (the "PRC"), the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital offer such usages.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

### For the six months ended 30 June 2012 (Unaudited)

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Issued share capital | Share premium account | Perpetual subordinated convertible securities ("PSCS") (note 18) | PSCS distribution reserve (note 18) | Merger reserve# | Share option reserve |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2012 | 51,566 | 11,513 | – | – | 3,479 | 6,645 |
| Profit for the period | – | – | – | – | – | – |
| Other comprehensive income for the period: | | | | | | |
| Release of exchange fluctuation reserve upon disposal of a subsidiary | – | – | – | – | – | – |
| Release of exchange fluctuation reserve upon de-registration of a subsidiary | – | – | – | – | – | – |
| Total comprehensive income/(expense) for the period | – | – | – | – | – | – |
| Issue of shares upon exercise of warrants (note 16) | 399 | 399 | – | – | – | – |
| Exercise of share options (note 16) | 43 | 108 | – | – | – | – |
| Equity-settled share option arrangements | – | – | – | – | – | 74 |
| Disposal of a subsidiary | – | – | – | – | – | – |
| Deregistration of a subsidiary | – | – | – | – | – | – |
| Issuance of the PSCS | – | – | 4,964,232 | – | – | – |
| PSCS issue expenses | – | – | (2,850) | – | – | – |
| Dividend declared by a subsidiary payable to the former owners | – | – | – | – | – | – |
| Transfer to PSCS distribution reserve (note 1) | – | – | – | 36,987 | – | – |
| Business combination under common control (note 1) | – | – | – | – | (4,860,798) | – |
| At 30 June 2012 | 52,008 | 12,020 | 4,961,382 | 36,987 | (4,857,319) | 6,719 |

# Merger reserve represents the excess of investment cost in Hop Hing Fast Food of HK$4,919,843,000 (being the total consideration of HK$4,964,232,000 reduced by the Loan) over the share capital and share premium of Hop Hing Fast Food of HK$363,000 and HK$62,161,000, respectively.

| Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|
| Exchange fluctuation reserve | Properties revaluation reserve | Statutory reserve## | Capital and other reserves | Retained profits/ (accumulated losses) | Total | Non-controlling interests | Total equity |
| HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 44,038 | 2,080 | 15,157 | 439,334 | (5,285) | 568,527 | 73,586 | 642,113 |
| – | – | – | – | 59,516 | 59,516 | 14,361 | 73,877 |
| (1,040) | – | – | – | – | (1,040) | (999) | (2,039) |
| (133) | – | – | – | – | (133) | – | (133) |
| (1,173) | – | – | – | 59,516 | 58,343 | 13,362 | 71,705 |
| – | – | – | – | – | 798 | – | 798 |
| – | – | – | – | – | 151 | – | 151 |
| – | – | – | – | – | 74 | – | 74 |
| – | – | – | 1,690 | – | 1,690 | (3,982) | (2,292) |
| – | – | – | (97) | – | (97) | – | (97) |
| – | – | – | – | – | 4,964,232 | – | 4,964,232 |
| – | – | – | – | – | (2,850) | – | (2,850) |
| – | – | – | – | (26,073) | (26,073) | (23,727) | (49,800) |
| – | – | – | (36,987) | – | – | – | – |
| – | – | – | – | – | (4,860,798) | (59,045) | (4,919,843) |
| 42,865 | 2,080 | 15,157 | 403,940 | 28,158 | 703,997 | 194 | 704,191 |

## In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital offer such usages.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Unaudited For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| NET CASH FLOWS FROM/(USED IN): | | |
| OPERATING ACTIVITIES | **97,805** | 36,537 |
| INVESTING ACTIVITIES | **263,064** | (18,424) |
| FINANCING ACTIVITIES | **(363,948)** | (185,282) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(3,079)** | (167,169) |
| Cash and cash equivalents at beginning of period | **182,091** | 397,560 |
| Effect of foreign exchange rates changes, net | **17** | – |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | **179,029** | 230,391 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | **193,333** | 240,268 |
| Less: Time deposits with original maturity of more than three months when acquired | **(14,304)** | (9,877) |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | **179,029** | 230,391 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BUSINESS COMBINATIONS UNDER COMMON CONTROL AND BASIS OF PREPARATION

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

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

The Acquisition was completed on 12 March 2012 with the total consideration being satisfied by an issue of the PSCS by the Company to companies as directed by Queen Board. Details of the PSCS are set out in note 18.

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

The condensed consolidated income statements, condensed consolidated statements of comprehensive income, condensed consolidated statements of changes in equity and condensed consolidated statements of cash flows of the Group for the six months ended 30 June 2013 and 2012 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the dates when the subsidiaries first came under the common control of the substantial shareholder, where this is a shorter period. The condensed consolidated statements of financial position of the Group as at 1 January 2012 have been prepared to present the assets and liabilities of the Group using the existing carrying values from the substantial shareholder perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Acquisition.

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

## 1. BUSINESS COMBINATIONS UNDER COMMON CONTROL AND BASIS OF PREPARATION (continued)

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by 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. Save for the adoption of new and revised 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 2012.

## 2. 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.

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

Other than as further explained below regarding the impact of amendments to HKAS 1, HKFRS 11 and HKFRS 13, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point of time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

## 2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 11 supersedes HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013.

Under HKFRS 11 investment in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Under HKFRS 11, the joint ventures are accounted for using the equity method while the proportionate consolidation allowed under HKAS 31 is not permitted.

However, having considered the discontinued operation presentation of the disposal of the Group's joint ventures as part of the Group's disposal of edible oils business during current period (notes 9 and 17), and the impact on the statement of financial position of the Group as at 1 January 2012, the directors considered the adoption of equity accounting of its joint ventures under HKFRS 11 has no material impact to the Group's financial statements. Accordingly, no equity accounting is applied to account for the Group's joint ventures before the disposal as set out in notes 9 and 17.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the condensed consolidated interim financial statements. HKFRS 13 has been applied prospectively.

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair value.

## 3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim financial statements.

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[2] |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities*[1] |

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

## 4. OPERATING SEGMENT INFORMATION

The Group's primary operating segment is QSR business after the disposal of the edible oils business (the "Disposal") during the current period. Further details of the Disposal are set out in notes 9 and 17 to the financial statements. Since the QSR business is the only continuing operating segment of the Group, no further analysis thereof is presented.

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

Turnover represents the net invoiced value of goods sold during the period.

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

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 (Re-presented) |
| **Turnover** | | |
| Sale of QSR products | **1,000,907** | 956,500 |
| **Other income and gains, net** | | |
| Bank interest income | **1,100** | 1,480 |
| Foreign exchange differences, net | **1,652** | (147) |
| Others | **1,947** | 1,602 |
| | **4,699** | 2,935 |

## 6. PROFIT FROM OPERATING ACTIVITIES FROM CONTINUING OPERATIONS

The Group's profit from operating activities from continuing operations is arrived at after charging:

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 (Re-presented) |
| Direct cost of stocks sold | **387,136** | 384,363 |
| Depreciation | **58,502** | 43,290 |
| Lease payments under operating leases in respect of lands and buildings | | |
| – minimum lease payments | **126,543** | 106,565 |
| – contingent rents | **17,894** | 18,317 |
| Loss on disposal of items of property, plant and equipment, net | **788** | 642 |

## 7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | Unaudited For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 (Re-presented) |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **914** | 1,332 |
| Others | **199** | 152 |
| | **1,113** | 1,484 |

## 8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Pursuant to the Corporate Income Tax Law of the PRC being effective on 1 January 2008, the PRC corporate income tax rate for the Group's subsidiaries operated in Mainland China during the period was 25% (2012: 25%) on their taxable profits.

The major components of the income tax expense for the period from continuing operations are as follows:

| | Unaudited For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 (Re-presented) |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the period | **533** | 1,508 |
| Current – Elsewhere | | |
| Charge for the period | **12,696** | 30,793 |
| Deferred tax | **652** | 3,199 |
| Total tax charge for the period | **13,881** | 35,500 |

## 9. DISCONTINUED OPERATION

On 25 April 2013, the Company entered into an agreement with Harvest Trinity Limited, a company incorporated in the British Virgin Islands and wholly-owned by a substantial shareholder of the Company and its associates, pursuant to which the Company agreed to sell its entire equity interest in Hop Hing Oil Group Limited (formerly known as Oleo Chartering Inc.) and its subsidiaries (the "Edible Oils Group"), which are principally engaged in the purchasing, extracting, refining, blending, marketing and distribution of edible oils and fats for consumption by households and restaurants in Hong Kong, Macau, the PRC and overseas countries (the "Edible Oils Business") at a total consideration of HK$400 million (subject to adjustment). Details of the Disposal are set out in the Company's circular dated 20 May 2013. The Disposal was completed on 28 June 2013.

The results of the Edible Oils Group in the period are presented below:

| | Note | **Unaudited**<br>**For the period from 1 January to 28 June 2013**<br>**HK$'000** | For the six months ended 30 June 2012<br>HK$'000 |
|---|---|---|---|
| Turnover | | **438,283** | 432,525 |
| Direct cost of stocks sold and services provided | | **(320,520)** | (327,602) |
| Other income and gains/(loss), net | | **(136)** | 2,989 |
| Other production and services costs | | **(32,270)** | (27,332) |
| Selling and distribution expenses | | **(53,330)** | (53,577) |
| General and administrative expenses | | **(23,482)** | (18,645) |
| Profit from operating activities | | **8,545** | 8,358 |
| Finance costs | | **(2,068)** | (5,240) |
| Profit before tax from the discontinued operation | | **6,477** | 3,118 |
| Income tax expense | | **(11,864)** | (2,052) |
| Profit/(loss) for the period before loss on disposal of the discontinued operation | | **(5,387)** | 1,066 |
| Loss on disposal of subsidiaries | *17* | **(46,309)** | (711) |
| Profit/(loss) for the period from the discontinued operation | | **(51,696)** | 355 |

**9. DISCONTINUED OPERATION** (continued)

The net cash flows incurred by the Edible Oils Group are as follows:

| | Unaudited For the period from 1 January to 28 June 2013 HK$'000 | For the six months ended 30 June 2012 HK$'000 |
|---|---|---|
| Operating activities | **(8,751)** | 70 |
| Investing activities | **(800)** | (9,422) |
| Financing activities | **(19,419)** | (25,673) |
| Effect of foreign exchange rates changes, net | **571** | – |
| Net cash flows | **(28,399)** | (35,025) |
| Earnings/(losses) per share: | | |
| Basic, from the discontinued operation | **(HK0.52 cent)** | HK0.06 cent |
| Diluted, from the discontinued operation | **(HK0.52 cent)** | HK0.01 cent |

The calculations of basic and diluted earnings/(losses) per share from the discontinued operation are based on:

| | Unaudited For the period from 1 January to 28 June 2013 HK$'000 | For the six months ended 30 June 2012 HK$'000 |
|---|---|---|
| Profit/(loss) attributable to equity holders of the Company from the discontinued operation | **(51,696)** | 355 |

## 9. DISCONTINUED OPERATION (continued)

| | Unaudited Number of shares 30 June 2013 | 30 June 2012 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (note 11) | **9,935,700,728** | 518,718,724 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 11) | **9,968,104,150** | 9,977,053,275 |

## 10. DIVIDENDS

| | Unaudited For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Final dividend for 2012 – HK0.25 cent per ordinary share | **25,016** | – |
| Special dividend for 2013 – HK2.8 cents per ordinary share | **280,176** | – |
| | **305,192** | – |

## 11. 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 9,935,700,728 (2012: 518,718,724) ordinary shares in issue during the period.

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

### b. Diluted earnings per share

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 9,968,104,150 (2012: 9,977,053,275) ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares of 32,403,422 (2012: 9,458,334,551) for the period ended 30 June 2013 calculated as follows:

| | **Unaudited For the six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 (Re-presented) |
| Consolidated profit attributable to equity holders of the Company: | | |
| From continuing operations | **52,255** | 59,161 |
| From a discontinued operation | **(51,696)** | 355 |
| | **559** | 59,516 |

| | **Unaudited Number of shares** | |
|---|---|---|
| | **30 June 2013** | 30 June 2012 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **9,935,700,728** | 518,718,724 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Warrants | **31,864,037** | 56,561,886 |
| Share options | **539,385** | 9,880,773 |
| PSCS | **–** | 9,391,891,892 |
| | **9,968,104,150** | 9,977,053,275 |

## 12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment with a cost of HK$94,327,000 (2012: HK$75,076,000). Items of property, plant and equipment with a net book value of HK$188,936,000 (2012: HK$3,869,000) were disposed of during the six months ended 30 June 2013.

## 13. ACCOUNTS RECEIVABLE

| | **Unaudited 30 June 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Accounts receivable | **7,017** | 163,026 |
| Impairment | **–** | (15,218) |
| | **7,017** | 147,808 |

The Group's QSR business is mainly traded on a cash basis. Accounts receivable of the Group's QSR business were mainly due from shopping malls for whom there was no recent history of default.

The Group's edible oil products were sold either on a cash on delivery basis, or on an open account basis with credit terms ranging from 7 to 70 days. Each customer had a maximum credit limit and overdue balances were regularly reviewed by the senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balance. Accounts receivable are non-interest-bearing.

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

| | **Unaudited 30 June 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Current (neither past due nor impaired) | **6,350** | 126,463 |
| Within 60 days past due | **667** | 15,865 |
| Over 60 days past due | **–** | 5,480 |
| | **7,017** | 147,808 |

## 13. ACCOUNTS RECEIVABLE (continued)

As at 31 December 2012, included in the Group's accounts receivable were amounts totalling HK$24,609,000 due from the Group's joint ventures which were repayable on credit terms comparable to those offered to other unrelated customers of the Group.

Certain of the above accounts receivable as at 31 December 2012, which were factored to a bank in exchange for cash and the related bank loans, had been included as "Interest-bearing bank loans" on the face of the condensed consolidated statement of financial position (note 15).

At 31 December 2012, certain of the Group's accounts receivable with a carrying amount of HK$4,278,000 were pledged to secure general banking facilities granted to the Group (note 15).

## 14. 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 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Current and less than 60 days | **175,977** | 175,816 |
| Over 60 days | **11,400** | 5,489 |
| | **187,377** | 181,305 |

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

## 15. INTEREST-BEARING BANK LOANS

| | **Unaudited 30 June 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Current (repayable within one year or on demand) | | |
| Bank loans – unsecured | **–** | 85,952 |
| Bank loans on factored accounts receivable – unsecured (note 13) | **–** | 29,037 |
| Bank loans – secured (note a) | **26,582** | 34,250 |
| | **26,582** | 149,239 |

**15. INTEREST-BEARING BANK LOANS** (continued)

Notes:

a. Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to HK$44,304,000 (31 December 2012: HK$43,750,000);

(ii) legal charges over certain of the Group's leasehold land and buildings and plant and machinery, which had aggregate carrying values of approximately HK$12,617,000 as at 31 December 2012;

(iii) floating charges over certain of the Group's stock accounting to HK$97,483,000 as at 31 December 2012; and

(iv) floating charges over certain of the Group's accounts receivable amounting to HK$4,278,000 as at December 2012.

b. Fixed interest rate bank loans of HK$26,582,000 (31 December 2012: HK$26,250,000) are denominated in Renminbi. All other bank loans as at 31 December 2012 were denominated in Hong Kong dollars with floating interest rates.

**16. SHARE CAPITAL**

a. During the six months ended 30 June 2013, 89,417,356 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants, for a total cash consideration, before expenses, of approximately HK$17,884,000.

b. During the six months ended 30 June 2012, 3,990,764 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.20 per share, pursuant to the exercise of the Company's warrants, for a total cash consideration, before expenses, of approximately HK$798,000.

During the six months ended 30 June 2012, 430,600 ordinary shares of HK$0.10 each were issued for cash at a subscription price of HK$0.35 per share, pursuant to the exercise of the Company's share options, for a total cash consideration, before expenses, of approximately HK$151,000.

## 17. DISPOSAL OF SUBSIDIARIES

| | Unaudited 28 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Net assets of the subsidiaries disposed of: | | |
| Property, plant and equipment | 188,148 | – |
| Prepaid land lease payments | 26,860 | – |
| Trademarks | 125,304 | – |
| Deferred tax assets | 893 | – |
| Stocks | 121,044 | – |
| Accounts receivable | 148,390 | 9 |
| Prepayments, deposits and other receivables | 21,657 | 721 |
| Tax recoverable | 1,408 | – |
| Cash and cash equivalents | 28,742 | 12,225 |
| Accounts payable | (42,226) | – |
| Other payables and accrued charges | (35,950) | (1,235) |
| Interest-bearing bank loans | (100,627) | – |
| Tax payable | (12,035) | – |
| Deferred tax liabilities | (1,526) | – |
| Non-controlling interests | (194) | (4,981) |
| Capital and other reserve | – | 1,690 |
| | 469,888 | 8,429 |
| Release of exchange fluctuation reserve | (33,137) | (1,040) |
| Transaction costs directly attributable to the disposal of the subsidiaries | 4,171 | – |
| Loss on disposal of the subsidiaries | (46,309) | (711) |
| | 394,613 | 6,678 |
| Satisfied by: | | |
| Cash | 394,613 | 6,678 |

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

| | Unaudited 28 June 2013 HK$'000 | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Cash consideration | 394,613 | 6,678 |
| Cash and cash equivalents disposal of | (28,742) | (12,225) |
| Less: Transaction costs directly attributable to the disposal of the subsidiaries | (4,171) | – |
| Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of the subsidiaries | 361,700 | (5,547) |

## 18. PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

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

These PSCS constituted direct, unsecured and subordinated obligations of the Company and ranked pari passu without any preference or priority among themselves.

These PSCS conferred a right to receive distribution from and including the date of the issue of the PSCS at 3.5% per annum on any outstanding principal amount of the PSCS payable quarterly in arrears on 31 March, 30 June, 30 September and 31 December each year, subject to the terms and conditions of the PSCS. However, the Company might at its sole discretion, elect to defer a distribution pursuant to the terms of the PSCS. As at 30 June 2012, the PSCS distribution of HK$36,987,000 for the period ended 30 June 2012 was deferred by the Company and was accounted for as a transfer from the capital and other reserves to the PSCS distribution reserve.

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

## 19. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following commitments for capital expenditure:

| | **Unaudited 30 June 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Property, plant and equipment: | | |
| Contracted, but not provided for | **2,340** | 5,746 |

## 20. OUTSTANDING COMMITMENT

Outstanding commitment as at the end of the reporting period was as follows:

| | **Unaudited 30 June 2013 HK$'000** | Audited 31 December 2012 HK$'000 |
|---|---|---|
| Irrecoverable letter of credit | – | 20,423 |

The Company had no significant outstanding commitments at the end of the reporting period (31 December 2012: Nil).

## 21. CONTINGENT LIABILITIES

During the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Hong Kong Inland Revenue Department (the "IRD") issued protective assessments for the years of assessment 2003/2004, 2004/2005, 2005/2006 and 2006/2007 to certain joint ventures and subsidiaries of the Edible Oils Group, in respect of which tax reserve certificates totalled to HK$24,100,000 and HK$1,500,000 were purchased by the joint ventures and the subsidiaries of the Edible Oils Group respectively. The joint ventures and the subsidiaries of the Edible Oils Group have lodged objections with the IRD against these assessments.

Taking into account of the development of the objections, the resources that will be required to pursue the case further and the advice of the tax consultant of the joint ventures and the Edible Oils Group, a total provision of HK$11.7 million has been made in the financial statements of the Edible Oils Group for the period from 1 January 2013 to 28 June 2013 for the probable settlement amount of this tax case pursuant to the latest settlement communication with the IRD.

Pursuant to the agreement entered into between the Company and Harvest Trinity Limited for the Disposal, the Company undertook to indemnify Harvest Trinity Limited from further tax liabilities, including the aforesaid protective assessments, relating to periods prior to the date of completion of the Disposal. In the opinion of the management, adequate tax provision has been made by the Edible Oils Group before the date of completion of the Disposal.

## 22. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following material transactions with related parties during the interim period:

| | Notes | Unaudited<br>For the six months ended 30 June<br>**2013**<br>**HK$'000** | <br><br>2012<br>HK$'000 |
|---|---|---|---|
| Transactions with then joint ventures*: | | | |
| Sales of goods | *(i)* | – | 8,795 |
| Purchase of goods | *(i)* | – | 91,527 |
| Production and oil refinement income | *(ii)* | – | 14,079 |
| Property rental income | *(iii)* | – | 86 |
| Management fee income | *(iv)* | – | 692 |
| Purchase of items of property, plant and equipment | *(v)* | – | 2,395 |
| Transactions with companies associated with the controlling shareholder of the Company and/or a non-executive director of the Company: | | | |
| Sales of goods | *(i)* | **987** | 1,711 |
| Rental expenses | *(vi)* | **4,345** | 2,388 |
| Interest expenses | *(vii)* | **263** | – |

* The Group has proportionately consolidated 50% of its transactions with its then joint ventures in the results of the Edible Oils Group which are set out in note 9 and included in "profit/(loss) for the period from a discontinued operation" on the face of the condensed consolidated income statement.

## 22. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) The sales and purchase of goods were based on mutually agreed terms.

(ii) The production and oil refinement income was based on agreements entered into with a then joint ventures after an arm's length negotiation and was at rates not less favourable than those offered to other unrelated customers of the Group.

(iii) The property rental income related to subletting of certain properties. The property rental income was charged by reference to open market rental and was subject to review on a regular basis.

(iv) The management fee income was based on the cost incurred for providing such services.

(v) The purchase of items of property, plant and equipment were purchased at the carrying amounts.

(vi) The rental expenses were paid by reference to open market rental and were subject to the terms of the relevant tenancies.

(vii) The interest expenses were paid by reference to open market interest rate.

(b) On 1 December 2011, the Company and Queen Board, a company controlled by a substantial shareholder of the Company, entered into an acquisition agreement pursuant to which Queen Board has agreed to sell the entire issued share capital of Hop Hing Fast Food and the Loan for a consideration satisfying by an issue of the PSCS by the Company (note 18). Details of the Acquisition have been set out in note 1 and the Company's announcements made on 1 December 2011 and 12 March 2012 and circular dated 30 December 2011.

(c) On 25 April 2013, the Company and Harvest Trinity Limited, a company controlled by a substantial shareholder of the Company, entered into an agreement pursuant to which the Company has agreed to sell the entire issued share capital of Hop Hing Oil Group Limited (formerly known as Oleo Chartering Inc.) for a consideration of HK$400 million (subject to adjustment). Details of the Disposal were set out in the Company's announcement made on 25 April 2013 and circular dated 20 May 2013. Further details of which are given in notes 9 and 17 to the financial statements.

## 23. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved and authorised for issue by the Board on 30 August 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, our Board's proposal to dispose of Hop Hing Oil Group Limited (formerly known as Oleo Chartering Inc.) (the "Disposal"), a wholly-owned subsidiary of the Company holding a group of companies (the "Edible Oils Group") engaging in the manufacture, marketing, sales and distribution of edible oils and fats ("Edible Oils Business"), was approved by our independent shareholders at the extraordinary general meeting of the Company held on 6 June 2013 and completed on 28 June 2013 (the "Completion Date"). As a result, the financial results of the Edible Oils Group from the beginning of the year up to the Completion Date have been classified and presented in this interim report as a discontinued operation and the figures in the corresponding period have also been reclassified accordingly.

## OVERALL PERFORMANCE

For the six months ended 30 June 2013, the turnover of the Group's ongoing operations, i.e., the quick service restaurant ("QSR") business, was HK$1,000.9 million, an increase of 4.6% when compared to HK$956.5 million for the six months ended 30 June 2012. The profit for the period from these continuing operations was HK$52.3 million, a decrease of 28.9% from HK$73.5 million for the six months ended 30 June 2012.

The turnover of the discontinued operation, i.e., the Edible Oils Business, from 1 January 2013 to 28 June 2013 was HK$438.3 million, an increase of 1.3% when compared to HK$432.5 million for the six months ended 30 June 2012. The loss for the period from the discontinued operation was HK$51.7 million (six months ended 30 June 2012: profit of HK$0.4 million), including a loss on disposal of Edible Oils Group of HK$46.3 million (six months ended 30 June 2012: Nil) and a total provision of HK$11.7 million (six months ended 30 June 2012: Nil) for probable settlement amount in respect of a tax case.

The Group's profit attributable to the equity holders of the Company for the six months under review was HK$0.6 million, as compared to HK$59.5 million for the same period last year.

Basic and diluted earnings per share for the period from continuing operations were HK0.53 cent and HK0.53 cent respectively (six months ended 30 June 2012: HK11.41 cents and HK0.59 cent respectively).

## DIVIDEND

On 28 June 2013, the Company made payments of a final dividend of HK0.25 cent per share for the year ended 31 December 2012 and a special dividend of HK2.80 cents per share upon completion of the Disposal. The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## REVIEW OF OPERATION AND PROSPECTS

### QSR Business

*Industry review*

During the period under review, the catering industry was shadowed by the sluggish China economy, weakened consumer sentiment, the outbreak of H7N9 avian influenza and the adverse weather in Northern China. Food safety is also one of the most important concerns of our customers. Escalation of major costs, including raw material costs, rental costs and labour costs, continued to impact the QSR industry. In this tough environment, Chinese customers are changing their consumption pattern and frequency and caterers and service providers have to adjust to suit the preferences and eating habits of their patrons. On the positive side, these challenges provide an opportunity for the industry players to revisit and retool their operation model in order to prepare themselves to grow further in the future.

*Business review*

To address this challenging environment in the first half of this year, the Group has improved the varieties of our products, for example, introducing noodles in soups, offering pork rice bowls, selling curry rice bowls and serving dishes with rice in stone pots, with a longer term objective to position ourselves as an "Oriental Cuisine Specialist". The frequency of advertising and promotional programmes has been increased to stimulate sales. The opening hours of some stores have been extended to offer breakfast and late dinner menus and certain of our stores are even open around the clock to meet customers' needs. On the operations side, improving operating efficiency and automation are ongoing long-term projects. Redesigning our stores, including building a "Sunshine Kitchen" concept which allows customers to observe the operation of the kitchen, started in the first half of this year. The newly designed store enhances the dining experience of customers and at the same time gives them a sense of participation in the preparation of their food. The Group also has training programmes where management trainees can see their future and how they can climb the career ladder. It has taken this opportunity to further strengthen its market position and prepare for further growth in the future. With all these measures and policies in place, the turnover of the QSR business for the six months ended 30 June 2013 has smashed the HK$1 billion mark (six months ended 30 June 2012: HK$956.5 million) and the profit for the period was HK$52.3 million (six months ended 30 June 2012: HK$73.5 million).

## REVIEW OF OPERATION AND PROSPECTS (continued)

### QSR Business (continued)

*Business review* (continued)

Amidst the challenging business environment in the first six months of 2013, the Group has been cautious in the opening and the location selection of new stores. A net total of 37 new stores (six months ended 30 June 2012: 51 net new stores), including 29 Yoshinoya restaurants and eight Dairy Queen stores, were opened in existing markets and selected regions during the period under review. As at 30 June 2013, there were 442 stores in operation.

| | **As at** | | |
|---|---|---|---|
| | **30 June 2013** | 31 December 2012 | 30 June 2012 |
| Yoshinoya | | | |
| Beijing-Tianjin-Hebei metropolitan region | **222** | 199 | 184 |
| Liaoning | **59** | 55 | 46 |
| Inner Mongolia | **9** | 8 | 7 |
| Jilin | **2** | 2 | – |
| Heilongjiang | **7** | 6 | 2 |
| | **299** | 270 | 239 |
| Dairy Queen | | | |
| Beijing-Tianjin-Hebei metropolitan region | **117** | 109 | 108 |
| Liaoning | **19** | 20 | 17 |
| Inner Mongolia | **6** | 5 | 4 |
| Heilongjiang | **1** | 1 | – |
| | **143** | 135 | 129 |
| Total | **442** | 405 | 368 |

## REVIEW OF OPERATION AND PROSPECTS (continued)

### QSR Business (continued)

*Business review* (continued)

The sluggish Chinese economy, avian influenza and the adverse weather in Northern China have weakened the consumption sentiment of the market which in turn adversely affected the traffic of the QSR business resulted in a decrease of 10.3% (six months ended 30 June 2012: an increase of 11.8%) in same stores sales. Measures such as expanding product variety, improving our menu mix, expanding service hours, offering delivery services and increasing the frequency of advertising and promotional activities have been implemented to counter the effects of this tough business environment.

| | **Percentage increase in same stores sales For the six months ended 30 June** | |
|---|---|---|
| | **2013** | 2012 |
| Overall | **–10.3%** | 11.8% |
| By business | | |
| Yoshinoya | **–11.5%** | 13.1% |
| Dairy Queen | **–3.9%** | 1.8% |

In the period under review, the Beijing-Tianjin-Hebei Province metropolitan region continued to account for about three quarters of the QSR Group revenue and the Yoshinoya products contributed around 90% of the sales of the Group.

## REVIEW OF OPERATION AND PROSPECTS (continued)

### QSR Business (continued)

*Business review* (continued)

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **HK$'000** | **% of sales** | HK$'000 | % of sales |
| a. By region | | | | |
| Beijing-Tianjin-Hebei metropolitan region | **752,886** | **75.2%** | 733,853 | 76.7% |
| Northeast China [1] | **248,021** | **24.8%** | 222,647 | 23.3% |
| | **1,000,907** | **100.0%** | 956,500 | 100.0% |

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

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **HK$'000** | **% of sales** | HK$'000 | % of sales |
| b. By brand | | | | |
| Yoshinoya | **895,988** | **89.5%** | 855,303 | 89.4% |
| Dairy Queen | **104,919** | **10.5%** | 101,197 | 10.6% |
| | **1,000,907** | **100.0%** | 956,500 | 100.0% |

The management's continuous effort in maintaining gross profit margin at a stable level has now paid off. The implementation of strategic procurement of key food ingredients to alleviate the impact of cost increases without compromising on food quality and enforcing effective tendering and tight cost control measures enable the Group to report an improvement of 1.5% in our gross profit margin to 61.3% amidst the environment of escalating raw material costs.

## REVIEW OF OPERATION AND PROSPECTS (continued)

### QSR Business (continued)

*Business review* (continued)

| | Six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| Gross profit margin | **61.3%** | 59.8% |

Escalating staff salaries and wages and rising rental cost brought about by China's rapid urbanisation have persistently affected the operating costs of the QSR sector. The Group's investment in time and resources in assisting staff to improve their efficiency and establishing long-term strategic relationships with key business associates has kept the impact of cost increases to a minimum. In the period under review, the rising operating costs of the Group were basically in line with the increase in the number of our stores operating in the period. The increase in the costs as percentages of sales was mainly attributable to the decrease in traffic count of stores caused by the sluggish growth in China's economy and weakened consumer sentiment. The management believes that these percentages would improve when the economy and our sales have recovered.

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **HK$'000** | **% of sales** | HK$'000 | % of sales |
| Labor costs | **115,116** | **11.5%** | 101,604 | 10.6% |
| Rental expense | **140,459** | **14.0%** | 119,103 | 12.5% |
| Depreciation and amortisation | **56,492** | **5.6%** | 41,322 | 4.3% |
| Other operation expenses | **167,565** | **16.8%** | 137,585 | 14.4% |
| Total selling and distribution costs | **479,632** | **47.9%** | 399,614 | 41.8% |

## REVIEW OF OPERATION AND PROSPECTS (continued)

### Edible Oils Business (Discontinued Operation)

In the first half of 2013, the Group continued its strategy of providing our customers with quality and healthy edible oil products. While the Hong Kong edible oils business segment was profitable, much effort remained to be put into the China edible oils business segment before it could turn its bottom line into black. During the period, a total provision of HK$11.7 million was made for a probable settlement amount in respect of protective assessments issued by the Hong Kong Inland Revenue Department to certain joint ventures and subsidiaries of the Edible Oils Group.

As approved by the independent shareholders in an extraordinary general meeting held on 6 June 2013, the Company disposed of the Edible Oils Group to the associate of the substantial shareholder of the Company at a consideration of HK$400 million (subject to adjustment) and the transaction was completed on 28 June 2013. After the Disposal, the Company could now focus its resources on the fast growing QSR business.

### Financial Review

*Equity*

The number of issued shares of HK$0.10 each of the Company as at 30 June 2013 was 10,006,288,386 (31 December 2012: 9,916,871,030). At 1 January 2013, the Company had outstanding 91,414,545 units of warrants carrying rights to subscribe for an aggregate of 91,414,545 new shares of HK$0.10 each at an initial subscription price of HK$0.20 per share. During the period under review, 89,417,356 units of the warrants of the Company were exercised for 89,417,356 shares of HK$0.10 each at a price of HK$0.20 per share.

As at 1 January 2013, the Company had 29,604,000 outstanding share options. During the period under review, 1,884,480 share options were lapsed.

*Liquidity and gearing*

As at 30 June 2013, the Group's total bank borrowings were bank loans of HK$26.6 million (31 December 2012: HK$149.2 million), which were PRC bank loans borrowed by a PRC subsidiary of the Group and secured by the pledge of certain time deposits and were either repayable or subject to renewal within one year.

The Group's gearing ratio (expressed as a percentage of interest-bearing bank loans over equity attributable to equity holders of the Company) as at 30 June 2013 was 6.6% (31 December 2012: 20.9%).

## REVIEW OF OPERATION AND PROSPECTS (continued)

### Cash flows analysis of the QSR business

| | Unaudited For the six months ended 30 June | |
|---|---|---|
| | **2013*** | 2012 |
| | **HK$'000** | HK$'000 |
| Net cash inflow from operation before adjusting for the other cash flows items below | **97,206** | 85,691 |
| Purchases of items of property, plant and equipment | **(93,532)** | (68,558) |
| Interest payments and repayment of bank and non-controlling shareholder loans | **(1,113)** | (12,793) |
| Other cash flow items | | |
| Fund movements with companies in the discontinued operation | **5,895** | (45,391) |
| Receipt from the exercise of warrants | **17,839** | – |
| Receipt from the disposal of subsidiaries | **394,613** | – |
| Dividends paid | **(305,192)** | – |
| Dividends paid to the former shareholders of a subsidiary | **(57,333)** | (147,963) |
| Net increase/(decrease) in cash and bank balances | **58,383** | (189,014) |

* Included the cashflow of Hop Hing Group Holdings Limited

The interest expense for the period was HK$1.1 million (six months ended 30 June 2012: HK$1.5 million).

## REVIEW OF OPERATION AND PROSPECTS (continued)

### Cash flows analysis of the QSR business (continued)

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

*Remuneration policies*

Staff remuneration packages of the staff of the Group are comprised of salary and discretionary bonuses and are determined with reference to the market conditions and the performance of the Group and the individuals concerned. The Group also provided other staff benefits including medical insurance, continuing education allowances, provident funds and share options to eligible staff of the Group. The total remuneration paid to the employees (including pension costs and the directors' remuneration) of the Group in the period under review was HK$186 million (six months ended 30 June 2012: HK$168 million), of which, HK$158 million (six months ended 30 June 2012: HK$139 million) was the total staff cost in QSR business. As at 30 June 2013, the Group had 8,733 full time and temporary employees (30 June 2012: 8,047).

*Operating segment information*

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

*Contingent liabilities*

Details of the contingent liabilities are set out in note 21 to the condensed consolidated interim financial statements.

*Pledge of assets*

Details of the pledge of assets are set out in note 15 to the condensed consolidated interim financial statements.

## REVIEW OF OPERATION AND PROSPECTS (continued)

### Outlook

It is expected that the relatively slow growth in China's economy and weakened consumer sentiment will continue to impact the Group's business for a while before observing any sign of recovery. Avian influenza cases should become less frequent during the summer season. However, since Chinese people have become more aware of inclement weather conditions, especially during winter when various cities in Northern China are often shrouded in haze, customers may be discouraged to go out to shop while both foreign and domestic tourists may also be deterred from visiting these cities. Despite these objective factors, the management is cautiously positive about the Group's prospects and has already prepared ourselves well for further growth in the future. The Group intends to continue efforts to offer new product varieties to customers in order to accommodate different preferences. Customers who love curry would find the curry rice bowls appetising. Customers who prefer rice might be excited by the newly launched rice burgers. The Group plans to add more and more new products to its menu as it positions itself as an "Oriental Cuisine Specialist." In a sluggish business environment, the Group realises it needs to be closely attentive and quickly adapt to the changing needs of customers. Call delivery services have been expanded to Liaoning province in the first half of this year and the Group is completing the final stage of preparation of offering internet ordering to our customers who work in offices or prefer to internet surf at home for most of their spare time. While the Group would be prudent in rolling out the store expansion plan in this sluggish environment, it would continue to open new stores as an investment in the future. The Group has also started putting our core value "Quality With Conscience" into action. The second generation of the "Sunshine Kitchen" design enables customers to observe the food preparation in kitchens which would build up customers' confidence in food safety and ultimately, customer loyalty. Apart from the side of the business facing customers, the Group is also upgrading its enterprises resources planning system to analyse data more efficiently and hence formulate appropriate business policies and strategies for the future business growth. The management believes that the current challenges should be short term and remains positive on the medium to long term prospects of the QSR business boosted by the fast pace of urbanisation in China. The Group believes that the implementation of the strategies and measures mentioned above should lead to steady and sustainable long term growth. Last but not least, the Group shall continue to look for and consider opportunities that bring steady long term growth and advance its strategy to become a multi-brand QSR operator.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

### Interests in ordinary shares of the Company

| | Number of shares held, capacity and nature of interest | | | | | |
|---|---|---|---|---|---|---|
| Name of director | Directly and beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Total | Percentage of the Company's issued share capital |
| Hung Hak Hip, Peter | – | 2,011,168 | 4,252,657,853 notes(i) to (iv) | – | 4,254,669,021 | 42.52% |
| Hung Ming Kei, Marvin | 104,163 | – | – | 219,228,648 notes(v) | 219,332,811 | 2.19% |
| Wong Yu Hong, Philip | 2,454,678 | – | – | – | 2,454,678 | 0.02% |
| Sze Tsai To, Robert | 2,454,678 | – | – | – | 2,454,678 | 0.02% |
| Cheung Wing Yui, Edward | 3,027,798 | – | – | – | 3,027,798 | 0.03% |
| Seto Gin Chung, John | 500,847 | – | – | – | 500,847 | 0.01% |
| Shek Lai Him, Abraham | – | – | – | – | – | – |
| Siu Wai Keung | 7,400,000 | – | – | – | 7,400,000 | 0.07% |
| Wong Kwok Ying | – | – | – | – | – | – |
| Lam Fung Ming, Tammy | – | – | – | – | – | – |

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### Interests in ordinary shares of the Company (continued)

Notes:

(i) 3,412,399,373 shares were beneficially owned by a discretionary trust whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter and his spouse. Both of them are beneficial owners of the trustee of the discretionary trust.

(ii) 327,034,536 shares were beneficially owned by two family discretionary trusts whose discretionary beneficiaries included Mr. Hung Hak Hip, Peter, Ms. Hung Wan Ling, Diana and other members of the Hung family. Mr. Hung is the sole beneficial owner of the trustee of the discretionary trust.

(iii) 438,457,296 shares were beneficially owned by two discretionary trusts whose discretionary beneficiaries included Mr Hung Hak Hip, Peter and Mr. Lee Pak Wing. Mr. Hung is the sole beneficial owner of the trustee of both of the discretionary trusts.

(iv) 74,766,648 shares held by Mr. Hung Hak Hip, Peter through a controlled corporation.

(v) 219,228,648 shares were beneficially owned by a discretionary trust whose discretionary beneficiaries included a company owned by Mr. Hung Ming Kei, Marvin.

Save as disclosed above and the share options granted to the directors as disclosed under the heading "Share Option Scheme" in this report, as at 30 June 2013, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

As at 30 June 2013, the following share options granted under the share option scheme of the Company which was adopted on 12 March 2008 and became effective on 25 April 2008 were outstanding:

| Name or category of participant | Number of share options | | | | | Date of grant (Note 2) | Exercise period | Price of Company's shares | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 1 January 2013 | Granted during the period | Lapsed during the period | Exercised during the period | At 30 June 2013 | | | Exercise price (Note 3) HK$ per share | At date of grant (Note 4) HK$ per share | Immediately before the exercise date (Note 5) HK$ per share | At date of exercise HK$ per share |
| **Directors** | | | | | | | | | | | |
| Hung Hak Hip, Peter | 4,928,000 | - | - | - | 4,928,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Wong Yu Hong, Philip | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Sze Tsai To, Robert | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Cheung Wing Yui, Edward | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Seto Gin Chung, John | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Shek Lai Him, Abraham | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| Lam Fung Ming, Tammy | 2,464,000 | - | (936,680) | - | 1,527,320 | 27 April 2009 | Commencement subject to Note 1 below and up to 26 April 2019 (Note 1a) | 0.35 | 0.35 | N/A | N/A |
| Wong Kwok Ying | 4,928,000 | - | - | - | 4,928,000 | 27 April 2009 | Commencement subject to Note 1 below and up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| | 24,640,000 | - | (936,680) | - | 23,703,320 | | | | | | |
| **Ex-Director (Note 6)** | 2,464,000 | - | - | - | 2,464,000 | 27 April 2009 | 27 April 2010 up to 26 April 2019 | 0.35 | 0.35 | N/A | N/A |
| **Ex-Employees** | 2,500,000 | - | (947,800) | - | 1,552,200 | 27 April 2009 | Commencement subject to Note 1 below and up to 27 June 2014 (Note 1b) | 0.35 | 0.35 | N/A | N/A |
| | 29,604,000 | - | (1,884,480) | - | 27,719,520 | | | | | | |

## SHARE OPTION SCHEME (continued)

Notes:

(1) Having considered the participants' achievement of performance targets, the Board had notified the participants the details of vesting of share options including the number of share options being vested and the date of commencement of the Exercise Period of the vested share options in accordance with the Share Option Scheme.

(1a) Upon re-designation of Lam Fung Ming, Tammy as non-executive director of the Company on 28 June 2013 and pursuant to the Share Option Scheme, the Board endorsed that the Exercise Period of her vested share option shall be up to 26 April 2019 and all unvested share options previously granted to her were lapsed on 28 June 2013.

(1b) Upon completion of disposal of edible oil business of the Group on 28 June 2013, employees who were previously employed for the edible oil business were no longer employees of the Group. Pursuant to the Share Option Scheme, the Board endorsed that the Exercise Period of the vested share options of these ex-employees of the Group shall be up to 27 June 2014 and all unvested share options previously granted to them were lapsed on 28 June 2013.

(2) Subject to note (1) above, the share options are subject to vesting periods which run from the date of grant to the commencement of the exercise period.

(3) The exercise price of the share options is subject to adjustments.

(4) The price of the Company's shares disclosed is the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the day specified.

(5) The price of the Company's shares disclosed is the weighted average of the Stock Exchange's daily quotation sheet closing prices immediately before the dates on which the options were exercised by the participants over all of the exercises of options within the disclosure line.

(6) Mr. Lee Pak Wing resigned as a non-executive director of the Company on 20 May 2013. In accordance with the Share Option Scheme, share options granted to Mr. Lee shall remain effective until the end of the Exercise Period.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Share Option Scheme" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective spouse or minor children to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2013, the interests of substantial shareholders/other persons in the shares and underlying shares of the Company, as notified to the Company and recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

### Interests in Ordinary Shares of the Company

| Name of holder | *Notes* | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| True Force Ventures Limited | *(i)* | 1,408,783,784 | 14.08% |
| Earn Field International Limited | *(ii)* | 1,408,783,784 | 14.08% |
| H H Hung (2008) Limited | *(iii)* | 3,412,399,373 | 34.10% |
| Ever Intellect Limited | *(iv)* | 765,491,832 | 7.65% |
| Hung Hak Hip, Peter | *(v)* | 4,254,669,021 | 42.52% |
| Hung Diana Wan Ling | *(vi)* | 4,254,669,021 | 42.52% |
| Winner Planet Limited | *(vii)* | 1,625,526,805 | 16.25% |
| Creative Mount Limited | *(viii)* | 1,587,229,730 | 15.86% |
| North China Fast Food (2008) Limited | *(ix)* | 3,412,399,373 | 34.10% |
| Hung Hak Yau | *(x)* | 3,414,502,470 | 34.12% |
| Arisaig Asia Consumer Fund Limited | *(xi)* | 981,288,000 | 9.81% |
| Arisaig Partners (Mauritius) Limited | *(xii)* | 981,288,000 | 9.81% |
| Cooper Lindsay William Ernest | *(xiii)* | 981,288,000 | 9.81% |

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### Interests in Ordinary Shares of the Company (continued)

Notes:

(i) The registered holder of the shares disclosed above.

(ii) The registered holder of the shares disclosed above.

(iii) H H Hung (2008) Limited directly controls more than one-third of the voting power at general meetings of Predominance Limited. Predominance Limited is deemed to be interested in the shares mentioned in notes (i)-(ii), 395,188,967 shares held by New Tree Limited and 199,642,838 shares held by Predominance Fortune Limited, the registered shareholders of the Company.

(iv) Ever Intellect Limited indirectly holds the entire issued share capital of certain registered shareholders and the company is deemed to be interested in the shares disclosed above.

(v) As disclosed in the section under "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares", by virtue of the SFO, Mr. Hung Hak Hip, Peter is deemed to be interested in:

  (a) 3,412,399,373 shares held through H H Hung (2008) Limited mentioned in note (iii);

  (b) 765,491,832 shares held through Ever Intellect Limited mentioned in note (iv);

  (c) 74,766,648 shares held through a controlled corporation; and

  (d) 2,011,168 shares held through Mr. Hung Hak Hip, Peter's spouse or minor children.

(vi) Mrs. Hung Diana Wan Ling is the wife of Mr. Hung Hak Hip, Peter and is deemed to be interested in the shares mentioned in note (v).

(vii) The registered holder of the shares disclosed above.

(viii) The registered holder of the shares disclosed above.

(ix) North China Fast Food (2008) Limited indirectly controls more than one-third of the voting power at general meetings of certain registered shareholders including Winner Planet Limited, Creative Mount Limited and Predominance Fortune Limited. The company is deemed to be interested in the shares mentioned in notes (vii) and (viii) and 199,642,838 shares held by Predominance Fortune Limited respectively.

(x) Mr. Hung Hak Yau holds the entire issued share capital of North China Fast Food (2008) Limited and he is deemed to be interested in the shares mentioned in note (ix). He is also interested in 1,763,097 shares held through a controlled corporation is deemed to be interested in 340,000 shares held by his spouse.

(xi) The registered holder of the shares disclosed above.

(xii) Arisaig Partners (Mauritius) Limited is the fund manager of Arisaig Asia Consumer Fund Limited and the company is deemed to be interested in the shares mentioned in note (xi).

(xiii) Mr. Cooper Lindsay William Ernest indirectly holds one-third of the voting power at general meetings of Arisaig Partners (Mauritius) Limited and he is deemed to be interested in the shares mentioned in note (xi).

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

### Interests in Ordinary Shares of the Company (continued)

Save as disclosed above, as at 30 June 2013, the Company had not been notified of any persons other than the directors of the Company whose interests are set out in the sections "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" and "Share Option Scheme" above, who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## CHANGE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors of the Company since the Company's last published annual report and up to the date of this interim report are set out below:

(a) Mr. Lee Pak Wing resigned as a non-executive director of the Company on 20 May 2013;

(b) Mr. Seto Gin Chung, John retired as a non-executive director of Sateri Holdings Limited, a listed company in Hong Kong, upon conclusion of its annual general meeting on 21 May 2013 as Mr. Seto did not offer himself for re-election;

(c) Mr. Sze Tsai To, Robert retired as an independent non-executive director of Asia Satellite Telecommunications Holdings Limited, a listed company in Hong Kong, upon conclusion of its annual general meeting on 19 June 2013 as Mr. Sze did not offer himself for re-election;

(d) Ms. Lam Fung Ming, Tammy was re-designated from an executive director of the Company to a non-executive director with effect from 28 June 2013 entitling an annual director's fee of HK$30,000 thereafter;

## CHANGE OF INFORMATION ON DIRECTORS (continued)

(e) Hon. Shek Lai Him, Abraham, *GBS, JP,* has been awarded the Gold Bauhinia Star (G.B.S.) from the Hong Kong Special Administrative Region Government which was announced in the 2013 Honours List in the gazette on 1 July 2013; and

(f) Mr. Siu Wai Keung was appointed as an independent non-executive director of Shunfeng Photovoltaic International Limited, a company listed on The Stock Exchange Hong Kong Limited, with effect from 12 July 2013.

The updated biographies of Directors of the Company are available on the Company's website.

## CORPORATE GOVERNANCE

### Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance practices and procedures. The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules for the period from 1 January 2013 to 30 June 2013. The principles as set out in the CG Code have been applied in our corporate governance practice.

The Board adopted a board diversity policy (the "Board Diversity Policy") on 30 August 2013.

### 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 have complied with the required standards in the Model Code adopted by the Company throughout the accounting period covered by this interim report.

## CORPORATE GOVERNANCE (continued)

### Audit Committee

The directors have engaged the Group's external auditors to review the interim report for the six months ended 30 June 2013. The Group's external auditors have carried out their review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Company established an audit committee with terms of reference aligned with the provisions of the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The terms of reference of the audit committee have been posted on the websites of Hong Kong Exchanges and Clearing Limited ("HKEX") and the Company.

As at 30 June 2013, the audit committee was comprised of Mr. Sze Tsai To, Robert (chairman of the committee), Mr. Cheung Wing Yui, Edward and Mr. Seto Gin Chung, John, all of them are independent non-executive directors of the Company, and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company. The chairman of the audit committee has the required appropriate professional financial qualifications and experience.

In the period under review, the audit committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim financial report for the six months ended 30 June 2013.

## CORPORATE GOVERNANCE (continued)

### Remuneration Committee

The remuneration committee of the Company was established with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. As at 30 June 2013, the remuneration committee comprised Mr. Cheung Wing Yui, Edward (chairman of the committee), Mr. Sze Tsai To, Robert, and Hon. Shek Lai Him, Abraham, *GBS, JP*, all of them are independent non-executive directors of the Company, and Mr. Hung Hak Hip, Peter, the non-executive Chairman of the Company.

The terms of reference of the remuneration committee align with the provisions of the CG Code and have been posted on the websites of HKEX and the Company.

### Nomination Committee

To comply with the CG Code, a nomination committee of the Company has been formed and its member comprises Mr. Hung Hak Hip, Peter (chairman of the committee), Mr. Hung Ming Kei, Marvin, an executive director and the chief executive officer of the Company, Dr. Hon. Wong Yu Hong, Philip *GBS*, Mr. Seto Gin Chung, John and Hon. Shek Lai Him, Abraham, *GBS, JP*, all of them are independent non-executive directors of the Company.

The terms of reference of the nomination committee was revised on 30 August 2013 for meeting with the Board Diversity Policy and it aligns with the provisions of the CG Code and have been posted on the websites of HKEX and the Company.

## PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

During the six months ended 30 June 2013, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities.

## BOARD OF DIRECTORS

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

## VOTE OF THANKS

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

By Order of the Board

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

Hong Kong, 30 August 2013

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

ERNST & YOUNG
安 永

**To the board of directors of Hop Hing Group Holdings Limited**

### Introduction

We have reviewed the interim financial statements set out on pages 1 to 27, which comprises the condensed consolidated statement of financial position as at 30 June 2013 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the fair preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION (continued)

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not present fairly, in all material respects, in accordance with HKAS 34.

**Ernst & Young**
*Certified Public Accountants*
22nd Floor
CITIC Tower
1 Tim Mei Avenue

30 August 2013