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Xiabuxiabu Catering Management (China) Holdings Co., Ltd.  
呷哺呷哺餐飲管理(中國)控股有限公司

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

Stock Code: 520



## GLOBAL OFFERING



*Joint Sponsors  
(in alphabetical order)*

**BofA Merrill Lynch**

**CREDIT SUISSE**

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers  
(in alphabetical order)*

**BofA Merrill Lynch**

**CREDIT SUISSE**

## IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.



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#### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 227,100,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 22,710,000 Shares (subject to adjustment)
Number of International Offer Shares	: 204,390,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$5.00 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: US\$0.000025 per Share
Stock code	: 520

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(in alphabetical order)

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**CREDIT SUISSE**

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on or around Thursday, December 11, 2014 and, in any event, not later than Friday, December 12, 2014. The Offer Price will be not more than HK\$5.00 per Offer Share and is currently expected to be not less than HK\$4.40 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$5.00 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$5.00 per Offer Share.

If, for any reason, the Offer Price is not agreed by Friday, December 12, 2014 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Underwriters) may, where considered appropriate and with our consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$4.40 to HK\$5.00) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.xiabu.com](http://www.xiabu.com). Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

December 5, 2014

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Latest time for completing electronic applications  
under **White Form eIPO** service through the  
designated website [www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> . . . 11:30 a.m. on Wednesday, December 10, 2014

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Wednesday, December 10, 2014

Latest time for lodging **WHITE** and  
**YELLOW** Application Forms . . . . . 12:00 noon on Wednesday, December 10, 2014

Latest time for completing payment of  
**WHITE Form eIPO** applications by  
effecting internet banking transfer(s)  
or PPS payment transfer(s) . . . . . 12:00 noon on Wednesday, December 10, 2014

Latest time for giving **electronic application**  
**instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Wednesday, December 10, 2014

Application lists close<sup>(3)</sup> . . . . . 12:00 noon on Wednesday, December 10, 2014

Expected Price Determination Date<sup>(5)</sup> . . . . . Thursday, December 11, 2014

(1) Announcement of the Offer Price, the level of  
indications of interest in the International Offering,  
the level of applications in the Hong Kong Public  
Offering and the basis of allocation of the  
Hong Kong Offer Shares under the Hong Kong  
Public Offering to be published in the  
South China Morning Post (in English) and  
the Hong Kong Economic Times (in Chinese)  
on or before . . . . . Tuesday, December 16, 2014

(2) Results of allocations in the Hong Kong Public  
Offering (with successful applicants' identification  
document numbers, where appropriate) to be  
available through a variety of channels as described  
in the section headed "How to Apply for Hong Kong  
Offer Shares – Publication of Results" in  
this prospectus . . . . . Tuesday, December 16, 2014

(3) A full announcement of the Hong Kong Public  
Offering containing (1) and (2) above to be  
published on the website of the Stock Exchange  
at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website  
at [www.xiabu.com](http://www.xiabu.com)<sup>(6)</sup> from . . . . . Tuesday, December 16, 2014

Results of allocations in the Hong Kong Public Offering  
will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) with  
a "search by ID" function from . . . . . Tuesday, December 16, 2014

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Dispatch of Share certificates or deposit of  
the Share certificates into CCASS in respect of  
wholly or partially successful applications pursuant to  
the Hong Kong Public Offering on or before<sup>(7)(9)</sup> . . . . . Tuesday, December 16, 2014

Dispatch of refund cheques and White Form e-Refund payment  
instructions in respect of wholly or partially successful  
applications (if applicable) or wholly or partially unsuccessful  
applications pursuant to the Hong Kong Public Offering  
on or before<sup>(8)(9)</sup> . . . . . Tuesday, December 16, 2014

Dealings in the Shares on the Stock Exchange  
expected to commence on . . . . . Wednesday, December 17, 2014

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*Notes:*

- (1) *All times refer to Hong Kong local time, except as otherwise stated.*
- (2) *You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.*
- (3) *If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 10, 2014, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.*
- (4) *Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.*
- (5) *The Price Determination Date is expected to be on or around Thursday, December 11, 2014 and, in any event, not later than Friday, December 12, 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and us by Friday, December 12, 2014, the Global Offering will not proceed and will lapse.*
- (6) *None of the website or any of the information contained on the website forms part of this prospectus.*
- (7) *Share certificates will only become valid at 8:00 a.m. on Wednesday, December 17, 2014 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.*
- (8) *e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.*

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## EXPECTED TIMETABLE<sup>(1)</sup>

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- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 16, 2014 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies – Personal Collection – (iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus.

**The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.**

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by Xiabuxiabu Catering Management (China) Holdings Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors and the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full text of this prospectus. You should read the whole document before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” starting on page 28 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a leading fast casual restaurant operator in China as measured by system wide revenue and restaurant count in 2013 according to Frost & Sullivan. We ranked second among all the fast casual restaurant chains in China in terms of system wide revenue and restaurant count in 2013 according to Frost & Sullivan, with a market share of approximately 15.8% as measured by system wide revenue and approximately 7.6% as measured by system wide restaurant count. According to Frost & Sullivan, in 2013, China’s market for fast casual restaurants accounted for approximately 2.3% of the QSR market in China, which accounted for 21.4% of China’s catering service market. We pioneered the bar-style hotpot cuisine in China in 1998 offering customers a fast casual dining experience. Our Xiabuxiabu concept offers our customers consistently great tasting and healthy food at value-oriented price with hospitable yet efficient services. Our dining concept and value proposition, our brand recognition, our bar-style hotpot restaurant models, our scalable and standardized business model and our commitment to the safety and quality ingredients result in our past financial success and position us well to capitalize on the robust growth trend of both the fast casual dining market in China and the broad target market of hotpot dining.

### OUR DINING EXPERIENCE

We endeavor to offer an outstanding dining experience, including food, service and dining atmosphere, at our restaurants that conform to our fast casual dining concept.

### Our Menu

We currently offer eight different types of soup bases and more than a hundred menu items that can be cooked in the soup or served as side dishes. We also offer our signature soup bases and dipping sauces based on our proprietary recipes that forms the “Xiabu flavor”, which is the foundation of our hotpot cuisine. In addition, we combine appropriate portion of meat, vegetable and side dishes to create various set menus. The set menus facilitate us in creating a price-for-value perception to customers and increasing per customer spending and our profitability.



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## SUMMARY

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### Our Restaurant Design and Services

We design our restaurants to make our customers feel at home, with orange being the theme color. We believe that our restaurant design connotes the warmth of home, which is particularly attractive to the growing urban population that works away from home. In addition, the U-shaped bars we use in our restaurants are suitable to seat a single or a pair of diners and a small group of friends and family diners of three to four. Our restaurants typically have a GFA that ranges from 200 square meters to 300 square meters.

Hospitable, thorough, efficient and face-to-face services form an essential element of our core concept and dining experiences. We are committed to delivering superior service to every customer during every visit. Our restaurant staff are trained under a uniform standard to provide consistent services to our customers.

### RESTAURANT NETWORK

We operate one of the largest fast casual restaurant chains in China in terms of system wide revenue and restaurant count in 2013 according the Frost & Sullivan. We started our first restaurant in Beijing in 1998 and gradually expanded our restaurant network to Hebei, Tianjin, Shanghai, Liaoning, Jiangsu, Shandong, Shanxi and Henan. All the restaurants in our network are owned and operated by us under the Xiabuxiabu brand, and we leased all of the real properties on which our restaurants operate. We owned and operated 243, 330, 394, 421 and 420 restaurants as of December 31, 2011, 2012 and 2013, June 30, 2014 and the Latest Practicable Date, respectively. Set forth below is a breakdown of our restaurants by geographical location during the Track Record Period:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	#	%	#	%	#	%	#	%
Beijing . . . .	179	73.7	210	63.6	243	61.7	247	58.7
Shanghai . . .	37	15.2	56	17.0	55	14.0	54	12.8
Tianjin . . . .	19	7.8	28	8.5	34	8.6	35	8.3
Others . . . .	8	3.3	36	10.9	62	15.7	85	20.2
<b>Total . . . . .</b>	<b>243</b>	<b>100.0</b>	<b>330</b>	<b>100.0</b>	<b>394</b>	<b>100.0</b>	<b>421</b>	<b>100.0</b>

## SUMMARY

### KEY OPERATIONAL INFORMATION FOR OUR RESTAURANTS

Set forth below are certain key performance indicators of our restaurants:

	As of or for the Years Ended December 31,			As of or for the Six Months Ended June 30,	
	2011	2012	2013	2013	2014
<b>Revenue (in RMB thousands)</b>					
Beijing . . . . .	872,148	1,190,996	1,390,192	647,776	720,233
Shanghai . . . . .	81,035	161,837	197,291	92,886	99,131
Tianjin . . . . .	38,176	79,653	116,272	53,076	69,884
Other regions . . . . .	5,910	75,845	186,715	71,536	129,450
Total . . . . .	997,269	1,508,331	1,890,470	865,275	1,018,698
<b>Number of restaurants (#)</b>					
Beijing . . . . .	179	210	243	220	247
Shanghai . . . . .	37	56	55	58	54
Tianjin . . . . .	19	28	34	28	35
Other regions . . . . .	8	36	62	47	85
Total . . . . .	243	330	394	353	421
<b>Average customer per day per restaurant (#)<sup>(1)</sup></b>					
Beijing . . . . .	489	470	454	452	402
Shanghai . . . . .	309	270	241	227	228
Tianjin . . . . .	270	278	300	291	277
Other regions . . . . .	405	332	308	276	331
Nationwide . . . . .	453	414	388	380	350
<b>Seat turnover rate (X)<sup>(2)</sup></b>					
Beijing . . . . .	5.0	4.9	4.8	4.8	4.2
Shanghai . . . . .	3.4	3.0	2.7	2.5	2.5
Tianjin . . . . .	3.3	3.2	3.4	3.3	3.2
Other regions . . . . .	3.9	3.5	3.3	3.0	2.9
Nationwide . . . . .	4.7	4.4	4.2	4.1	3.7
<b>Average daily restaurant sales (RMB)<sup>(3)</sup></b>					
Beijing . . . . .	16,250	17,322	17,474	17,021	16,746
Shanghai . . . . .	10,709	10,410	9,754	9,090	10,062
Tianjin . . . . .	8,849	10,179	11,429	10,845	11,488
Other regions . . . . .	12,628	11,585	11,312	9,837	13,337
Nationwide . . . . .	15,105	15,286	14,949	14,333	14,567
<b>Average spending per customer (RMB)<sup>(4)</sup></b>					
Beijing . . . . .	35.1	39.0	40.8	39.8	43.9
Shanghai . . . . .	36.6	40.8	42.9	42.4	47.1
Tianjin . . . . .	34.7	38.8	40.3	39.5	43.2
Other regions . . . . .	33.0	37.0	39.0	37.8	42.7
Nationwide . . . . .	35.2	39.1	40.8	39.9	44.0

Notes:

- (1) Calculated by dividing total customer traffic for the year by total restaurant operation days during the period.
- (2) Calculated by dividing total customer traffic by the product of total restaurant operation days and average seat count during the period.
- (3) Calculated by dividing revenue for the year by total restaurant operation days during the period.
- (4) Calculated by dividing revenue before business tax for the year by total customer traffic for the period.

## SUMMARY

The table below sets forth our same-store sales during the Track Record Period. We define our same-store base to be those restaurants that were in operation throughout the periods under comparison.

	Year Ended December 31,		Year Ended December 31,		Six Months Ended June 30,	
	2011	2012	2012	2013	2013	2014
<b>Number of same-store (#)</b>						
Beijing . . . . .	158		198		215	
Shanghai . . . . .	30		39		49	
Tianjin . . . . .	14		24		27	
Other regions . . . . .	4		21		37	
Total . . . . .	206		282		328	
<b>Same-store sales (in RMB millions)</b>						
Beijing . . . . .	838.7	923.2	1,162.5	1,199.1	642.9	636.0
Shanghai . . . . .	76.7	82.7	133.5	125.9	83.4	85.5
Tianjin . . . . .	32.0	41.1	72.5	82.0	52.3	55.9
Other regions . . . . .	4.2	4.8	56.2	57.3	56.0	59.5
Total . . . . .	951.6	1,051.8	1,424.7	1,464.3	834.6	836.9
<b>Same-store sales growth (%)</b>						
Beijing . . . . .	10.1		3.1		(1.1)	
Shanghai . . . . .	7.9		(5.7)		2.6	
Tianjin . . . . .	28.2		13.1		6.8	
Other regions . . . . .	15.7		2.0		6.3	
Nationwide . . . . .	10.5		2.8		0.3	

The table below sets forth the revenue contribution of our top restaurant and top ten restaurants in terms of sales during the Track Record Period, both in absolute terms and as a percentage of our total revenue:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)										
Top restaurant . . . . .	11,010	1.1	11,700	0.8	12,566	0.7	5,945	0.7	6,346	0.6
Top ten restaurants . . . . .	96,850	9.7	107,651	7.1	116,870	6.2	55,718	6.4	58,680	5.8

## PROCUREMENT

Our ability to maintain consistently high quality of food and service throughout our restaurant network in part depends upon the ability to secure stable supply of high quality and safe food ingredients. We have a comprehensive set of procurement processes. We had approximately 130 suppliers for food ingredients and other supplies as of June 30, 2014. However, we generally work with a relatively small number of suppliers for key food ingredients at a particular time so as to ensure proper accountability. Furthermore, we prefer to work with larger suppliers with whom we have developed long-standing relationships. On

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## SUMMARY

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average, we have over three years of business dealings with our major suppliers. We manage our suppliers and procurement strategy based on the categories of food and supply, which primarily include the following:

- *Lamb.* During the Track Record Period, 90% of the lamb we used were imported by four domestic suppliers from New Zealand. In 2013, we also procured lamb from two domestic suppliers who source lamb in China and have passed our qualification process.
- *Beef.* We procured beef from a total of 19 suppliers who source beef either domestically or from overseas during the Track Record Period.
- *Fresh vegetables.* To ensure sufficient supply of fresh vegetables every day, we collaborate with numerous agricultural cooperative and contract farmers directly.

### COMPETITIVE STRENGTHS

We attribute our success to and distinguish ourselves by the following key competitive strengths:

- leading position in China's fast casual restaurant industry pioneering bar-style hotpot dining cuisine;
- great tasting and high quality cuisine offering value above prices;
- iconic brand with large loyal customer base;
- attractive shop economics;
- highly standardized and scalable business model;
- strong ability to control food ingredients supply and quality; and
- experienced and professional management team supported by a strong team of seasoned restaurant managers.

### STRATEGIES AND FUTURE PLANS

Our goal is to become the leading operator of fast casual restaurant industry and maintain our leading position as a hotpot restaurant chain operator in China. We intend to pursue the following growth strategies to achieve this goal:

- replicate our success by further penetrating existing markets and expanding into selected regions;
- drive same-store sales and profitability growth;
- continue to promote brand image and recognition; and
- further enhance human resources management through systematic training and professional development.

## SUMMARY

### SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information for the periods indicated. We have derived the summary from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. The below summary should be read together with the consolidated financial information in Appendix I to this prospectus, including the accompanying notes and the information set forth in "Financial Information" in this prospectus. Our consolidated financial information was prepared in accordance with IFRS.

#### Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Each item has also been expressed as a percentage of our revenue. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(in thousands, except for percentages)									
Revenue . . . . .	997,269	100.0	1,508,331	100.0	1,890,470	100.0	865,275	100.0	1,018,698	100.0
Restaurant level operating profit <sup>(1)</sup> . . . . .	194,481	19.5	282,645	18.7	365,823	19.4	163,251	18.9	220,048	21.6
Profit before tax . . . . .	98,771	9.9	139,556	9.3	184,708	9.8	76,232	8.8	108,214	10.6
Profit for the year/period . . . . .	75,662	7.6	107,523	7.1	140,710	7.4	58,127	6.7	82,365	8.1

Note:

(1) Restaurant level operating profit is calculated by deducting cost of raw materials and consumables used and restaurant level staff costs, restaurant level property rental and related expenses, restaurant level depreciation and amortization and other restaurant level expenses. Restaurant level operating profit is not a GAAP item. We have presented this non-GAAP item because we consider it important supplemental measures of our operating performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Our management uses such non-GAAP item as an additional measurement tool for purposes of business decision-making. Other companies in our industry may calculate this non-GAAP item differently than we do. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under IFRS. Our presentation of this non-GAAP item should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

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## SUMMARY

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### Summary Consolidated Statements of Financial Position

The table below sets forth a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
Non-current assets . . . . .	245,383	313,680	349,677	365,544
Current assets . . . . .	239,847	332,167	491,662	425,414
Current liabilities . . . . .	159,321	263,609	285,547	303,256
Net current assets . . . . .	80,526	68,558	206,115	122,158
Non-current liability . . . . .	17,745	16,835	18,375	17,920
Equity . . . . .	308,164	365,403	537,417	469,782

### Key Liquidity Ratios

The following table sets forth the major liquidity ratios as of the dates indicated:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(%)			
Current ratio <sup>(1)</sup> . . . . .	150.5	126.0	172.2	140.3
Quick ratio <sup>(2)</sup> . . . . .	127.7	110.1	130.1	79.3

*Notes:*

(1) Current ratio is calculated by dividing current assets by current liabilities.

(2) Quick ratio is calculated by dividing current assets less inventory by current liabilities.

## OUR SHAREHOLDING STRUCTURE

### The Controlling Shareholders

Immediately upon completion of the Global Offering, Mr. Ho Kuang-Chi (via Ying Qi Trust (with Ying Qi PTC acting as the trustee) and Ying Qi Investments) and GASF will, indirectly and beneficially, own in total 42.68% and 32.32% of the issued share capital of our Company, respectively, taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme. As a result, Mr. Ho, Ying Qi PTC, Ying Qi Investments and GASF will continue to be our Controlling Shareholders.

### Financial Investment

We have issued and allotted a total of 377,264,152 Preferred Shares to our two Financial Investors, GASF and MagiCapital Group, in 2012 and 2013, respectively. The Company received the contribution of US\$150,000,000 worth of Shares acquired by GASF from Actis in 2012 and a total of US\$5,000,000 proceeds in cash from MagiCapital Group in 2013 in

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## SUMMARY

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consideration of the issue and allotment of our Preferred Shares to the Financial Investors. The Preferred Shares held by the Financial Investors will be automatically converted into our Shares upon Listing. Upon Listing, GASF and Elite Century Capital will hold approximately 32.32% and 3.46% of our Company's outstanding Shares, respectively. Convertible preferred shares issued by the Company in which the Group has no contractual obligation to redeem and the conversion option of which will be settled by the exchange of fixed number of the Company's own equity instruments are classified as equity instruments and recognized at the proceeds received, net of direct issue costs. Pursuant to a shareholders' agreement entered into with the Financial Investors, the Financial Investors have a number of special rights in our Company, all of which will terminate upon Listing. For more details of the financial investment, see "Our History and Development – Financial Investment" and "Financial Information – Critical Accounting Policies and Estimates" of this prospectus.

### Share Incentive Schemes

We have adopted a Pre-IPO Share Incentive Plan and a RSU Scheme in order to incentivize our Directors, senior management and employees for their contribution to the Group and to attract and retain suitable personnel to enhance the development of our Group. As at the Latest Practicable Date, options in respect of 33,544,707 Shares were granted and outstanding pursuant to the Pre-IPO Share Incentive Plan, representing approximately 3.18% of the enlarged issued share capital of our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme). If all the options granted and outstanding under the Pre-IPO Share Incentive Plan are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 3.08% and the total options granted pursuant to the Pre-IPO Share Incentive Plan represented approximately 3.08% of the enlarged issued share capital of our Company on a fully diluted basis, which is the total issued share capital immediately after completion of the Global Offering and assuming that the options granted and outstanding under the Pre-IPO Share Incentive Plan are fully exercised. The principal terms of the Pre-IPO Share Incentive Plan and the RSU Scheme are summarized in the section headed "Statutory and General Information – Share Incentive Schemes" in Appendix IV to this prospectus.

### FROST & SULLIVAN REPORT

Certain information included in the sections headed "Business", "Financial Information" and "Industry Overview" is quoted from the Frost & Sullivan Report. The Frost & Sullivan Report was prepared based on the following assumptions:

- (i) China's economy is likely to maintain a steady growth in the next decade;
- (ii) China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the Chinese catering service industry; and
- (iii) there is no war or large scale disaster during the forecast period.

## SUMMARY

### GLOBAL OFFERING STATISTICS

Offer size:	Initially 21.54% of the enlarged issued share capital of the Company
Offering structure:	Approximately 10% for Hong Kong Public Offering (subject to adjustment) and approximately 90% for International Offering (subject to adjustment and the Over-allotment Option)
Over-allotment Option:	Up to 15% of the number of Offer Shares initially available under the Global Offering
Offer Price Per Share:	HK\$4.40 to HK\$5.00 per Offer Share

	<u>Based on an Offer Price of HK\$4.40 per Share</u>	<u>Based on an Offer Price of HK\$5.00 per Share</u>
Market capitalization of our Shares <sup>(1)</sup> . . . . .	HK\$4,639.2 million	HK\$5,271.8 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share <sup>(2)(3)(4)</sup> . . . . .	HK\$2.25	HK\$2.45

*Notes:*

- (1) *Based on 1,054,364,152 Shares in issue and outstanding upon completion of the Global Offering, which takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which have been or may be granted under the Pre-IPO Share Incentive Plan and the RSU Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors, but has been adjusted the effect of the shares to be issued upon conversion of 377,264,152 Preferred Shares on a one-for-one basis immediately prior to the closing of the Listing.*
- (2) *Arrived at after the adjustment on the estimated net proceeds from the Global Offering which are based on 227,100,000 Offer Shares at the indicative Offer Price after deduction of total estimated underwriting commissions and fees and other listing related expenses paid or payable by the Company referred to note 2 to the “Financial Information – Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group”, and on the assumption that 677,100,000 Shares were in issue upon completion of the Global Offering.*
- (3) *No adjustment has been made to reflect the effect of the shares to be issued upon conversion of 377,264,152 Preferred Shares on a one-for-one basis immediately prior to the closing of the Listing. Had the conversion been taken into account by adjusting the total number of shares in issue upon completion of the Global Offering to 1,054,364,152 Shares, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would be HK\$1.45 based on the Offer Price of HK\$4.40 per Offer Share and to HK\$1.57 based on the Offer Price of HK\$5.00 per Offer Share, referred to Note 3 to the “Financial Information – Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group”.*
- (4) *No adjustment has been made to reflect the effect of the dividend distribution amounting to RMB70 million in September 2014. Had the dividend been taken into account by making the adjustments referred to note 4 to the “Financial Information – Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group”, and based on 1,054,364,152 Shares as mentioned in Note 3 above, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would be HK\$1.36 based on the Offer Price of HK\$4.40 per Offer Share and HK\$1.49 based on the Offer Price of HK\$5.00 per Offer Share.*



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## SUMMARY

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### USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$4.70 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$1,001.5 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering for the following purposes:

<u>Amount (HK\$ in million)</u>	<u>Approximate % of total estimated net proceeds</u>	<u>Intended use</u>
744.7 . . . . .	74.4%	open 453 restaurants throughout China by the end of 2018
101.2 . . . . .	10.1%	establish an additional logistics and production center in Beijing
126.5 . . . . .	12.6%	establish an additional logistics and production center in Shanghai
29.1 . . . . .	2.9%	working capital and other general corporate purposes

Please see the section headed “Future Plans and Use of Proceeds” for further details.

Mr. Ho, as a Taiwanese individual, is subject to certain limitation on his investments in China. As a result, our ability to remit the proceeds from the Global Offering into China in the form of capital injection may be limited. See “Risk Factors – We may be restricted from making future investment in the PRC as a result of Mr. Ho’s shareholding in our Company.” and “Our History and Development” for further details.

### DIVIDEND POLICY

Our Board has an absolute discretion to declare any dividends for any year and if it decides to declare a dividend, the amount of the dividends will be subject to our Shareholders’ approval. Future dividend payments will depend on payments made from our PRC subsidiaries. Certain payments from our PRC subsidiaries are subject to PRC taxes, statutory reserve requirements and other legal restrictions.

We declared and paid dividends in an aggregate amount of RMB6.3 million, RMB50.3 million and RMB150.0 million for the years ended December 31, 2010, 2011 and 2013, respectively, to our then shareholders. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. We currently intend to adopt, after our Listing and subject to the limitations as further described in the section headed “Financial Information – Dividend Policy” of this prospectus, a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 30% of our distributable profit for any particular financial year. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate and other factors that our Board deems relevant and we cannot assure you that dividends of any amount will be declared or distributed in any given year.

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## SUMMARY

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### LISTING EXPENSES

The estimated total listing expenses (based on the mid-point of our indicative Offer Price range for the Global Offering and assuming that the Over-allotment Option is not exercised and all discretionary incentive fees in the Global Offering are paid in full) incurred or to be incurred in relation to the Global Offering are approximately RMB71.4 million, of which RMB32.6 million was or will be charged as other expenses to our consolidated statement of profit or loss and other comprehensive income and RMB38.8 million was or will be charged against equity, in accordance with International Accounting Standard 32, *Financial Instruments: Presentation* (“IAS 32”). Pursuant to such accounting standard, expenses that are incremental and directly attributable to the offering of new Shares are accounted for as a deduction from equity upon Listing and issuance of new Shares. The expenses which do not relate to the offering of new Shares are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the offering of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

For the year ended December 31, 2013 and the six months ended June 30, 2014, we recognized approximately RMB0.5 million and RMB18.8 million of listing expenses as our other expenses. Listing expenses of RMB0.2 million and RMB5.8 million were recognized as deferred expenses as of December 31, 2013 and June 30, 2014 which are expected to be charged against equity upon the Listing and issuance of new Shares.

We incurred approximately RMB8.4 million of listing expenses for the period from July 1, 2014 to the Latest Practicable Date, and expect to incur an additional RMB37.7 million of listing expenses (based on mid-point of our indicative Offer Price range for the Global Offering and assuming that the Over-allotment Option is not exercised and all discretionary incentive fees in the Global Offering are paid in full) after the Latest Practicable Date. We estimate that the listing expenses of approximately RMB13.3 million, incurred or to be incurred after June 30, 2014 will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ending December 31, 2014. The estimated listing expense of approximately RMB32.8 million, including the discretionary incentive fees in Global Offering of RMB4.2 million, incurred or to be incurred after June 30, 2014 is expected to be charged against equity upon Listing and issuance of new Shares.

The estimated total discretionary incentive fees in the Global Offering are approximately RMB4.2 million, of which will be charged against equity, in accordance with IAS 32, pursuant to which those expenses that are directly attributable to the issue of new Shares are accounted for as a deduction from equity and the expenses that relate jointly to the issue of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

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## SUMMARY

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### RECENT DEVELOPMENT

Set forth below are certain material developments on our business and results of operations after June 30, 2014, which is the end of the Track Record Period:

- As of the Latest Practicable Date, we have entered into leases for all the 31 new restaurants to be opened for the remainder of 2014.
- We opened 20 restaurants from June 30, 2014 to the Latest Practicable Date.
- We suspended the operation of 22 of our restaurants for which we were not able to complete the necessary fire safety verification or fire safety inspection as of October 26, 2014. We subsequently resumed the operation at one of these restaurants upon our receipt of the official fire safety certificate on November 3, 2014.
- We distributed dividend of RMB70.0 million in September 2014.
- For the ten months ended October 31, 2014, we recorded revenue of RMB1,816.6 million, and incurred cost for raw materials and consumables used, staff cost, property rentals and related expenses and utilities expenses of RMB713.3 million, RMB410.4 million, RMB231.8 million and RMB76.8 million, respectively.
- We had net current assets of RMB118.6 million as of October 31, 2014.

The financial information disclosed above is derived from the unaudited consolidated financial statements for the ten months ended October 31, 2014, which is subject to review by our reporting accountants in accordance with the International Standard on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity”.

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial and trading position or prospects since June 30, 2014, and there is no event since June 30, 2014 which would materially affect the information shown in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

### RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business, (ii) risks relating to our industry, (iii) risks relating to doing business in China and (iv) risks relating to the Global Offering and our Shares. We believe the most significant risks we face include:

- our future growth depends on our ability to open and profitably operate new restaurants. we may not be able to successfully enter into new markets;
- we may not be able to maintain and increase the sales and profitability of our existing restaurants;
- our rights to use our leased properties could be challenged by property owners or other third parties, which may result in a disruption of our operations;

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## SUMMARY

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- if we cannot obtain desirable restaurant locations or secure renewal of existing leases on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy will be adversely affected;
- our current restaurant locations may become unattractive;
- any failure to maintain effective quality control systems of our restaurants could have a material adverse effect on our business and operations;
- any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our reputation, business and operations;
- increases in the cost of ingredients used in our restaurants may lead to declines in our margins and operating results;
- our operations may be negatively affected by any industry wide food safety related concerns even if such concerns are through no fault of our own or related to our business;
- we face risks related to instances of food-borne illnesses, health epidemics and other outbreaks; and
- our expansion plan in China may be restricted as a result of Mr. Ho's shareholding in our Company.

A detailed discussion of all the risk factors involved are set forth in the section headed "Risk Factors" on page 28 in this prospectus and you should read the whole section carefully before you decide to invest in the Offer Shares.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.*

“Actis”	Actis Capital LLP (英聯投資), a private equity firm focused on investments in emerging markets including China, and previously the financial investor in our Company
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> applications form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of the Company adopted on November 28, 2014, which will become effective upon the Listing Date, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
“Company”, “our Company”, “we”, “us” or “Xiabuxiabu”	Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (呷哺呷哺餐飲管理(中國)控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on May 14, 2008
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Mr. Ho, Ying Qi PTC, Ying Qi Investments and GASF, and a “Controlling Shareholder” shall mean each or any one of them
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law

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## DEFINITIONS

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“Elite Century Capital”	Elite Century Capital Limited, a limited liability company incorporated under the laws of the BVI on June 12, 2012, and a part of the MagiCapital Group (東博資本集團), a growth capital investment fund group based in Taiwan and is one of the Financial Investors
“Financial Investors”	GASF and Elite Century Capital
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultants
“Frost & Sullivan Report”	the market research report on China’s catering service industry prepared by Frost & Sullivan and commissioned by us
“GASF”	General Atlantic Singapore Fund Pte. Ltd., a limited liability incorporated in Singapore on March 15, 2011, part of the General Atlantic private equity group and is one of the Financial Investors and one of our Controlling Shareholders
“General Atlantic”	General Atlantic private equity group
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ <b>GREEN</b> application form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider designated by the Company, Computershare Hong Kong Investor Services Limited
“Group” or “our Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

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## DEFINITIONS

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“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 22,710,000 Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 4, 2014 relating to the Hong Kong Public Offering and entered into among our Company, Mr. Ho, Ying Qi PTC, Ying Qi Investments, GASF, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters as further described in the section headed “Underwriting – Underwriting Arrangements and Expenses” in this prospectus
“IFRS”	International Financial Reporting Standards
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined under the Listing Rules



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## DEFINITIONS

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“International Offer Shares”	the 204,390,000 Shares initially offered by our Company for subscription at the Offer Price pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus)
“International Offering”	the offer of the International Offer Shares by the International Underwriters at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around December 11, 2014 by, among others, our Company, Mr. Ho, Ying Qi PTC, Ying Qi Investments GASF, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters in respect of the International Offering, as further described in the section headed “Underwriting – International Offering” in this prospectus
“Joint Bookrunners”, “Joint Global Coordinators”	Merrill Lynch International and Credit Suisse (Hong Kong) Limited
“Joint Lead Managers”	Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering), Merrill Lynch International (in relation to the International Offering) and Credit Suisse (Hong Kong) Limited
“Joint Sponsors”	Merrill Lynch Far East Limited and Credit Suisse (Hong Kong) Limited

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## DEFINITIONS

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“Latest Practicable Date”	November 27, 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or around December 17, 2014, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“M&A Rules”	the “Provisions on the Takeover of Domestic Enterprises by Foreign Investors” (《關於外國投資者併購境內企業的規定》) jointly issued by MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), SAT, CSRC, SAIC and SAFE on August 8, 2006 and effective as of September 8, 2006
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), adopted on November 28, 2014, a summary of which is set out in Appendix III to this prospectus
“MOFCOM”	Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部)
“Mr. Ho”	Mr. Ho Kuang-Chi (賀光啓), the Chairman of our Board, an Executive Director and our Controlling Shareholder
“Nomination Committee”	the nomination committee of the Board

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## DEFINITIONS

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“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$5.00 and expected to be not less than HK\$4.40, at which Hong Kong Offer Shares are to be subscribed and to be determined in the manner further described in the section headed “Structure of the Global Offering – Pricing of the Global Offering” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“our PRC legal advisor”	King & Wood Mallesons, the legal advisor to our Company as to the laws of the PRC
“our Taiwan legal advisor”	Lee and Li, Attorneys-at-Law, the legal advisor to our Company as to the laws of Taiwan
“Over-allotment Option”	the option expect to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 34,065,000 additional Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“Preferred Shares”	377,264,152 voting convertible preferred shares with par value of US\$0.000025 each in the capital of our Company

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## DEFINITIONS

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“Pre-IPO Share Incentive Plan”	the share incentive plan for the grant of options and share awards to eligible participants approved and adopted by our Company on August 28, 2009 and as amended from time to time, the principal terms of which are set out in the section “Statutory and General Information – Share Incentive Schemes – Pre-IPO Share Incentive Plan” in Appendix IV
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around December 11, 2014 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Global Coordinators (on behalf of the Underwriters) and our Company may agree, but in any event no later than December 12, 2014
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU”	a restricted share unit award granted to a participant under the RSU Scheme
“RSU Scheme”	the restricted share unit scheme of the Company conditionally approved and adopted by our then Shareholders on November 28, 2014, the principal terms of which are set out in the section headed “Statutory and General Information – Share Incentive Schemes – RSU Scheme” in Appendix IV to this prospectus
“Rule 144A”	Rule 144A under the U.S. Securities Act

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## DEFINITIONS

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“SAFE”	State Administration of Foreign Exchange of the People’s Republic of China (中華人民共和國國家外匯管理局)
“SAFE Circular No. 37”	《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》(匯發[2014]37號) issued by SAFE with effect from July 4, 2014
“SAIC”	State Administration of Industry and Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the People’s Republic of China (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of our Shares
“Shares”	ordinary share(s) in the capital of our Company with nominal value of US\$0.000025 each
“Stabilizing Manager”	Credit Suisse (Hong Kong) Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Taiwan Investment Commission”	the Investment Commission of the Ministry of Economic Affairs of Taiwan
“Taiwan/Mainland Investment Regulations”	the Act Governing Relations between People of the Taiwan Area and the Mainland China Area, the Regulations Governing Approval of Investment or Technical Cooperation in the Mainland China Area and the Principles Governing Review of Investments or Technical Cooperation in the Mainland China Area

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## DEFINITIONS

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“Track Record Period”	the period comprising the three financial years ended December 31, 2013 and the six months ended June 30, 2014
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>White Form eIPO</b> at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xiabu Beijing”	Xiabuxiabu Restaurant Management Co., Ltd. (呷哺呷哺餐飲管理有限公司), a company established under the laws of the PRC on September 16, 2008 and an indirect wholly-owned subsidiary of the Company
“Xiabu Fast Food”	Xiabuxiabu Fast Food Chain Management Co., Ltd. (北京呷哺呷哺連鎖快餐管理有限公司), a company established in the PRC in 1998 and beneficially and wholly owned by Mr. Ho, and it is not a member of our Group
“Xiabu Hong Kong”	Xiabuxiabu Catering Management (HK) Holdings Co., Limited (呷哺呷哺餐飲管理(香港)控股有限公司), a limited liability company incorporated in Hong Kong on May 16, 2008 and a direct wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Xiabu Shanghai”	Xiabuxiabu Restaurant Management (Shanghai) Co., Ltd. (呷哺呷哺餐飲管理(上海)有限公司), a company established under the laws of the PRC on June 10, 2010 and an indirect wholly-owned subsidiary of the Company
“Ying Qi Investments”	Ying Qi Investments Limited, a limited liability company incorporated under the laws of the BVI on May 8, 2008, a company wholly-owned by the Ying Qi PTC as trustee of the Ying Qi Trust
“Ying Qi PTC”	Ying Qi PTC Limited, a private trust company registered under the laws of Guernsey, Channel Islands on May 7, 2014, a company ultimately and wholly-owned by Mr. Ho
“Ying Qi Trust”	a discretionary trust named Ying Qi Trust established on May 8, 2014 by Mr. Ho (as the settlor) and Ying Qi PTC (as the trustee), for the benefit of Mr. Ho
“%”	per cent.

*The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.*

*Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at RMB0.79080 to HK\$1.00 and RMB6.1320 to US\$1.00. See “Information about this Prospectus and the Global Offering – Exchange Rate Conversion”.*

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## GLOSSARY

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*This glossary of technical terms contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usages of these terms.*

“BOH system”	back-of-house system, an enterprise resource planning system that integrates the significant accounting and operating data into one interface
“CAGR”	compound annual growth rate
“cash investment payback point”	the amount of time it takes for the accumulated operating profit from a restaurant to cover the costs of operating
“monthly break-even”	the point at which the monthly revenue of a newly opened restaurant is at least equal to monthly expenses
“OA system”	office automation system
“POS system”	point of sale system that facilitates the management of sales at our restaurants
“QSR”	quick service restaurant, also known as fast food restaurant
“sales density”	for a restaurant, the total sales for the year divided by the total operating area for the year
“SKU”	stock keeping unit
“system wide sales”, “system wide revenue” or “system wide restaurants”	for restaurant chains, system wide sales or revenue and system wide restaurants capture the revenue from and number of self-operated and franchised restaurants under the same brand. System wide sales or revenue exclude the franchisee fees and royalties received by the franchisors



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## FORWARD-LOOKING STATEMENTS

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This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed “Risk Factors” in this prospectus and the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;

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## FORWARD-LOOKING STATEMENTS

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- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. We caution you not to place undue reliance on any forward-looking statements or information.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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## RISK FACTORS

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*In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected and the market price of the Offer Shares could fall significantly and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**Our future growth depends on our ability to open and profitably operate new restaurants. We may not be able to successfully enter into new markets.**

Our continued growth depends on our ability to open and profitably operate new restaurants. We currently plan to increase the number of our restaurants to approximately 450 by the end of 2014. We may not be able to open new restaurants as quickly as planned or as quickly as we have been able to in the past. Delays or failures in opening new restaurants could materially and adversely affect our growth strategy and our expected financial and operational results. In obtaining new properties for restaurant sites, we may be faced with intense competition from our competitors in the catering service industry as well as other retailers. We may also encounter delay due to the application process of relevant material licenses and approvals from the government authorities, the timing of which is beyond our control. Even if we are able to open additional restaurants as planned, these new restaurants may neither be profitable nor have results comparable to our existing restaurants for a period of time. The substantial efforts and expenditure associated with the development of each additional restaurant may cause our operating results to fluctuate.

We may also open new restaurants in markets where we have little or no operating experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns from our existing markets. As a result, we may not be able to open new restaurants in these markets on a timely basis, if at all, and if opened, may be less successful than restaurants in our existing markets. Consumers in a new market may not be familiar with our brand and we may need to build brand awareness in that market through greater investments in advertising and promotional activities than we originally planned. We may find it more difficult in new markets to hire, motivate and keep qualified employees who share our business philosophy and culture. Restaurants opened in new markets may also have lower average sales or higher construction, occupancy or operating costs than restaurants in existing markets. In addition, we may have difficulty in finding reliable suppliers or distributors with adequate supplies of ingredients meeting our quality standards in the new markets and we may take longer to set up similar logistics chain with suitable quality control in such new markets. Sales at restaurants opened in new markets may take longer than expected to ramp up and reach, or may never reach, expected sales and profit levels, thereby affecting our overall profitability. Historically, we experienced lower profitability and longer ramp-up period for new restaurants opened outside of our home market Beijing in general. There can be no assurance that we will be able to maintain our profitability as we continue to expand into new markets.

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## RISK FACTORS

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**We may not be able to maintain and increase the sales and profitability of our existing restaurants.**

The sales of existing restaurants will also affect our sales growth and will continue to be a critical factor affecting our revenue and profit. Our ability to increase existing restaurant sales depends in part on our ability to successfully implement our initiatives to increase customer traffic and seat turnover rate, such as extending operating hours, driving customer traffic in non-peak hours and offering value-added services. Our ability to penetrate further into the existing geographic markets where we already have a presence depends in part on our ability to maintain a strong brand image in the existing market and find new sites suitable for new store opening. There can be no assurance that we will be able to achieve our targeted sales growth and profitability for our existing restaurants or that existing restaurant sales would not decrease, or that we will achieve our targeted level of expansion within existing geographic markets. If any of these were to happen, sales and profits growth may be materially and adversely affected.

In addition, if we open new restaurants in our existing geographic markets, the sales performance and customer traffic of our existing restaurants near such new restaurants may decline as a result of increased competition. This may in turn adversely affect our ability to achieve the anticipated growth in revenue and profitability of our entire restaurant network.

**Our rights to use our leased properties could be challenged by property owners or other third parties, which may result in a disruption of our operations.**

As of the Latest Practicable Date, with respect to 167 out of 451 of our leased properties in China, the lessors of such properties had not been able to provide us with the relevant title ownership certificates for the properties we leased or proof of authorizations from the property owners to sublease the properties to us. 165 of these properties are used for restaurant operations, with an aggregate GFA of approximately 40,496.13 square meters, representing 33.9% of the total GFA of our leased properties. Based on the advice of our PRC legal advisor, if the lessors of the leased properties do not have the requisite rights to lease the relevant properties, the relevant lease agreements may be deemed invalid, and as a result, we may be required to vacate from the relevant properties and relocate our restaurants. In this event, our operation of restaurants on such properties may be impaired and we may not be adequately indemnified by the landlords for our related losses.

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## RISK FACTORS

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In addition, we leased from Xiabu Fast Food a property with a GFA of 7,066.75 square meters which is used as our food processing plant and warehouse to produce our soup bases and dipping sauces. Set forth below is a breakdown of the costs of soup bases and dipping sauces we used by source during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
	(%)			
<b>Soup bases:</b>				
In-house production . . . . .	54.8	54.4	55.1	54.0
Procurement from suppliers . . . . .	45.2	45.6	44.9	46.0
<b>Total . . . . .</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Dipping sauces:</b>				
In-house production <sup>(1)</sup> . . . . .	97.2	95.5	95.4	94.9
Contract manufacturing <sup>(2)</sup> . . . . .	–	0.2	0.9	1.1
Procurement from suppliers . . . . .	2.8	4.2	3.7	4.0
<b>Total . . . . .</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Notes:*

- (1) *Includes the costs of raw materials associated with dipping sauces produced under contract manufacturing arrangement.*
- (2) *Represents fees paid under contract manufacturing arrangement.*

If we are required to relocate this food processing plant, the supply of our soup bases and dipping sauces may be interrupted. In the past, our business operations have not been disrupted due to the lack of title certificates or proof of authorization from the lessors for the properties leased by us. However, if our right to use these properties were challenged by third parties, we will incur additional costs in relocating our restaurants to other suitable locations, thus affecting our business operations and financial conditions. See “Business – Properties – Leased Properties”.

**If we cannot obtain desirable restaurant locations or secure renewal of existing leases on commercially reasonable terms, our business, results of operations and ability to implement our growth strategy will be materially and adversely affected.**

We compete with other retailers and restaurants for suitable locations in the competitive markets for retail premises. Based on their size advantage and/or their greater financial resources, some of our competitors may have the ability to negotiate more favorable lease terms than we can and some landlords and developers may offer priority or grant exclusivity to some of our competitors for desirable locations. We cannot assure you that we will be able to enter into new lease agreements for prime locations or renew existing lease agreements on commercially reasonable terms, if at all.

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## RISK FACTORS

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As of June 30, 2014, our lease agreements for our restaurant sites have an average term of approximately six years. Some lease agreements contain an option for us to renew for an additional term at a mutually agreed price. As of June 30, 2014, the rents under the leases for 198 out of our 421 restaurants were subject to the sales at our restaurants. Certain of these leases also include a minimum rent payment clause, and we are required to pay the higher of the minimum rent and the contingent rent. The remainder of our leases were under fixed rent arrangement. In 2011, 2012, 2013 and the six months ended June 30, 2014, the minimum lease expense for our restaurants amounted to RMB104.6 million, RMB159.0 million, RMB197.3 million and RMB116.7 million, respectively, representing 81.3%, 83.9%, 84.7% and 86.8% of our total property rentals and related expenses for the respective periods. Meanwhile, total lease expense under variable rent arrangement leases we paid in 2011, 2012, 2013 and the six months ended June 30, 2014 amounted to RMB54.2 million, RMB65.6 million, RMB116.7 million and RMB63.2 million, respectively, representing approximately 42.1%, 34.6%, 50.1% and 47.0% of our total property rentals and related expenses for the respective periods.

Where we do not have an option to renew a lease agreement, we must negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement. If a lease agreement is renewed at a rate substantially higher than the existing rate, or if any existing favorable terms granted by the lessor, are not extended, we must evaluate whether renewal on such modified terms is in our business interest. If we are unable to renew leases for our restaurant sites, we will have to close or relocate the relevant restaurants, which would eliminate the sales that those restaurants would have contributed to our revenues during the period of closure, and could subject us to construction, renovation and other costs and risks. In addition, the revenue and any profit generated after relocation may be less than the revenue and profit previously generated before such relocation. As a result, any inability to obtain leases for desirable restaurant locations or renew existing leases on commercial terms could have a material adverse effect on our business and results of operations.

**Our current restaurant locations may become unattractive, which may have a material adverse effect on our results of operation.**

The success of any restaurant depends substantially on its location. Given the rate of urban construction in China, there can be no assurance that our current restaurant locations will continue to be attractive as economic or demographic patterns change. Economics and demographic conditions where restaurants are located could become unfavorable to us in the future, thus resulting in potentially reduced sales in these locations. As most of our lease agreements have fixed lease terms, these lease agreements expose us to the risk of having to make rental payments for fixed periods of time in spite of unprofitable business operations or other unforeseen events that may occur before each lease term expires. Therefore, we may not be able to terminate these leases early without incurring excessive costs.

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## RISK FACTORS

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**If we are unable to manage our growth effectively, our business and financial results may be materially and adversely affected.**

We have experienced rapid growth during the Track Record Period. We have increased the number of our restaurants in China from 243 as of December 31, 2011 to 421 as of June 30, 2014, and we plan to continue to expand our restaurant network in different geographic locations in China. This further expansion may place substantial demands on our management and our operational, technological and other resources. Our planned expansion will also place significant demands on us to maintain consistent food and service quality and preserve our corporate culture to ensure that our brand does not suffer as a result of any deterioration, whether actual or perceived, in the quality of our food or services.

Our continued success also depends on our ability to recruit, train and retain additional qualified management personnel as well as other administrative and sales and marketing personnel, particularly as we expand into new markets. We also need to continue to manage our relationships with our suppliers and customers. All of these endeavors will require substantial management attention and efforts and require significant additional expenditures. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and any failure to do so may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our business, results of operations and financial results conditions.

**Our business is affected by changes in consumer taste and discretionary spending, and we may not be able to develop new products in a timely manner that are responsive to such changes.**

The catering service industry is affected by consumer taste and preference. Although we have a dedicated product development team who constantly updates our menu and develops new products to adapt to changes in dining trends, shifts in consumer taste and nutritional trends, we cannot assure you that we could continue to develop new products and maintain an attractive menu to suit changing customer taste, nutritional trends and general customer demands in China. In addition, if prevailing health or dietary preferences and perceptions cause consumers to avoid our products in favor of alternative foods, our business could suffer.

Our success also depends, to a significant extent, on discretionary customer spending, which is influenced by general economic conditions. Accordingly, we may experience declines in sales during economic downturns or prolonged periods of high unemployment rates. Any material decline in the amount of discretionary spending in China may have a material adverse effect on our business, results of operations and financial conditions.

**We may be unable to detect, deter or prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties.**

As we operate in the catering service industry, we usually receive and handle large amounts of cash in our daily operations. In 2011, we experienced cash misappropriation by the same group of employees with an aggregate amount of approximately RMB126,000, and have

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## RISK FACTORS

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strengthened our cash management procedures in response. See “Our Business – Cash Management” for further details. Other than these incidents, we are not aware of any instances of fraud, theft and other misconduct involving employees, customers or other third parties that had any material adverse impact on our business and results of operations during the Track Record Period and up to the Latest Practicable Date. However, we cannot assure you that there will not be any such instances in the future. Furthermore, as we began to sell prepaid dining vouchers on internet, we are susceptible to forged vouchers and associated crimes. We may be unable to prevent, detect or deter all instances of misconduct. Any misconduct committed against our interests, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business, results of operations and financial condition.

**Our historical financial and operating results are not indicative of future performance, and we may not be able to achieve and sustain the historical level of growth for revenue and profitability.**

Our historical results and growth may not be indicative of our future performance. Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of our Shares to decline. Our revenues, expenses and operating results may vary from period to period in response to a variety of factors beyond our control, including general economic conditions, special events, government regulations or policies affecting restaurants based in China and our ability to control costs and operating expenses. Specifically, the prices of our raw materials, in particular fresh vegetables, have increased in recent months and may continue to rise. Our staff costs may fluctuate from month to month as we are required by law to pay our staff a higher rate for work on public holidays. In addition, we expect to recognize some of our expenses related to the Listing towards the end of the year, which will impact our net profit. You should not rely on our historical results to predict the future performance of our Shares.

**Our results of operations may fluctuate significantly due to various factors that are beyond our control.**

Our overall results of operations may fluctuate significantly from period to period because of several factors, including the timing of new restaurant openings and the amounts of associated pre-opening costs and expenses; operating costs for our newly opened restaurants, which are often substantially greater during the first few months of operations; revenue loss and renovation expenses associated with the temporary closure of existing restaurants for refurbishment; impairment of long-lived assets, including goodwill, and any losses incurred on restaurant closures; and fluctuations in food and commodity prices. As a result, our results of operations may fluctuate significantly from period to period and comparison of different periods may not be meaningful. Our results for a given fiscal period are not necessarily indicative of results to be expected for any other fiscal period.



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## RISK FACTORS

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**Our business depends significantly on the market recognition of our brand, and if we are not able to maintain or enhance our brand recognition, our business, financial condition and results of operations may be materially and adversely affected.**

Since 1998, we have successfully built up our Xiabuxiabu brand. We believe that maintaining and enhancing our brand is important to maintaining our competitive advantage. However, our ability to maintain our brand recognition depends on a number of factors, some of which are beyond our control. Our continued success in maintaining and enhancing our brand and image depends to a large extent on our ability to further develop and maintain our distinctive combination of delicious menu offerings, affordable prices, hospitable services and pleasant dining environments throughout our restaurant network, as well as on our ability to respond to any change in the competitive environment in China's fast casual restaurant industry. If we are unable to do so, the value of our brand or image will be diminished and our business and results of operations may be materially and adversely affected. As we continue to grow in size, expand our food offerings and services and extend our geographic reach, maintaining quality and consistency may be more difficult and we cannot assure you that customers' confidence in our brand name will not be diminished.

**We generate a majority of our revenues from Beijing municipality in China. Any event negatively affecting the catering service industry in these markets could have a material adverse effect on our overall business and results of operations.**

We generated 87.5%, 79.0%, 73.5% and 70.7% of our revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, from our restaurants in Beijing municipality. We expect this market to continue to account for a substantial portion of our revenues in the near future. If Beijing municipality experiences an event negatively affecting its catering service industry, such as a local economic downturn, a natural disaster, a contagious disease outbreak or a terrorist attack, or if the local authorities adopt regulations that place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected.

**Our restaurants are susceptible to risks in relation to rental increases and fluctuations and unexpected land acquisitions, building closures or demolitions.**

As we lease the property for all of our restaurants and logistic centers except for our logistic center at our headquarters, we have significant exposure to the retail rental market in China. In 2011, 2012, 2013 and the six months ended June 30, 2014, our property rentals and related expenses amounted to approximately RMB128.7 million, RMB189.5 million, RMB233.0 million and RMB134.5 million, respectively, representing 12.9%, 12.6%, 12.3% and 13.2% of our total revenue during the respective periods. Since rental expenses represent a significant portion of our total operating expenses, our profitability may be adversely affected by any substantial increase in the rental expenses of our restaurant premises.

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## RISK FACTORS

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In addition, the PRC government has the statutory power to acquire any land in the PRC. In the event of any compulsory acquisition, closure or demolition of any of the properties in which our restaurants or facilities are situated for redevelopment, the amount of compensation to be awarded to us may not be based on the fair market value of such property but may be assessed on the basis prescribed in the relevant legislation. In such event, we will be forced to relocate to other locations, thus affecting our business operations.

**Shortages or interruptions in the availability and delivery of our food and other supplies may have a material adverse effect on our business operations and financial conditions.**

If our suppliers do not deliver food and other supplies at competitive prices or in a timely manner, we may experience supply shortages or interruptions and increased food costs. The ability to source high-quality food ingredients at competitive prices in a timely manner is crucial to our business. Our ability to maintain consistent quality and maintain our menu offerings throughout our restaurants depends in part upon our ability to acquire fresh food ingredients and related supplies in sufficient quantities from reliable sources that meet our food safety and quality specifications. During the Track Record Period, none of our key suppliers ceased or indicated that it would cease supply of food ingredients to us, and we did not experience any material delays or interruptions in securing the supply of food ingredients from our key suppliers. However, there can be no assurance that we will be able to maintain business relationships with our key suppliers.

A disruption of our food supplies can occur for a variety of reasons, many of which are beyond our control, including unanticipated demand, adverse weather conditions, international trade dispute, import/export restriction, natural disasters, diseases, a supplier ceasing operations or unexpected production shortages. Moreover, there can be no assurance that our current suppliers may always be able to meet our stringent quality control requirements in the future. If any of our suppliers do not perform adequately or otherwise fail to distribute products or supplies to us in a timely manner, we cannot assure you that we will be able to find suitable replacement suppliers in a short period of time on acceptable terms, and our failure to do so could increase our food costs and cause shortages of food and other supplies available at our restaurants. Any significant food shortages or supply disruptions will result in some menu items not to be available, and any prolonged changes to our menus could result in a significant reduction in revenue as customers seek out alternative dining options.

**Any failure to maintain effective quality control systems for our restaurants could have a material adverse effect on our reputation, results of operations and financial condition.**

The quality and safety of the food we serve is critical to our success. Maintaining consistent food quality depends significantly on the effectiveness of our quality control systems, which in turn depends on a number of factors, including the design of our quality control systems and our ability to ensure that our employees adhere to and implement those

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## RISK FACTORS

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quality control policies and guidelines. Our quality control systems consist of (i) supplier quality control, (ii) logistics quality control, (iii) food processing plants quality control, and (iv) restaurant quality control. For more details on our quality control systems, see “Business – Food Safety and Quality Control”. There can be no assurance that our quality control systems will prove to be effective. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our reputation, results of operations and financial condition.

**Any failure or perceived failure to deal with customer complaints or adverse publicity involving our food or services could materially and adversely impact our business and results of operations.**

A multi-location restaurant business such as ours can be adversely affected by negative publicity or news reports or allegations in printed and online media, whether accurate or not, regarding our restaurant operations, particularly food quality and safety issues. Reports on public health concerns, negative media attention concerning our competitors or catering services providers across the food industry supply chain may potentially affect customer perception of our business. Any such negative publicity could materially harm our business, brands and results of operations.

We recorded 175, 217, 186 and 48 customer suggestions and complaints in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, based on our internal records. The suggestions and complaints generally related to the taste and style of particular dishes and customer service quality of our restaurant staff. We are not aware of any customer complaint seeking material compensation that could have material adverse effect on our business and results of operations during the Track Record Period and up to the Latest Practicable Date. We cannot assure you that we can successfully prevent all customer complaints in the future.

Significant numbers of complaints or claims against us, even if meritless or unsuccessful, could force us to divert management and other resources from other business concerns, which may adversely affect our business and operations. Adverse publicity resulting from such complaints or claims, even if meritless or unsuccessful, could cause customers to lose confidence in us and our brands, which may adversely affect the business of the restaurants subject to such complaints and our restaurants under the same or related brand. As a result, we may experience significant declines in our revenues and customer traffic from which we may not be able to recover.

**Any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our reputation, business and operations.**

Being in the catering service industry, we face an inherent risk of food contamination and liability claims. Our food quality depends partly on the quality of the food ingredients and raw materials provided by our suppliers and we may not be able to detect all defects in our supplies. Any food contamination occurring at our food processing plants or during the transportation from our food processing plants to our restaurants that we fail to detect or prevent could adversely affect the quality of the food served in our restaurants. Due to the scale of our

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## RISK FACTORS

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operations, we also face the risk that certain of our employees may not adhere to our mandated quality procedures and requirements. Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our operations could adversely affect the quality of the food we offer at our restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at our restaurants, the imposition of penalties against us by relevant authorities and compensation awards by courts. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material incidents of non-compliance relating to food and health-related matters. There can be no assurance that we will not receive any food contamination claims or defective products from our suppliers in the future. Any such incidents could materially harm our reputation, results of operations and financial condition.

**We may be unable to receive compensation from suppliers for contaminated ingredients used in our dishes and indemnity provisions in our supply contracts may be insufficient.**

In the event that we become subject to food safety claims caused by contaminated or otherwise defective ingredients or raw materials from our suppliers, we can attempt to seek compensation from the relevant suppliers. However, indemnities provided by suppliers may be limited and the claims against suppliers may be subject to certain conditions precedent which may not be satisfied. Further, our supply contracts usually do not have provisions to cover lost profits and indirect or consequential losses. If no claim can be asserted against a supplier, or amounts that we claim cannot be recovered from the supplier, to the extent that our insurance coverage is insufficient, we may be required to bear such losses and compensation at our own costs. This could have a material adverse effect on our business, financial condition and results of operations.

**Events that disrupt the operations of any of our restaurants or our food processing plants, such as fires, floods, earthquakes or other natural or man-made disasters, may materially and adversely affect our business operations.**

Our operations are vulnerable to interruption by fires, floods, typhoons, power failures and shortages, hardware and software failures, computer viruses, terrorist attacks and other events beyond our control. Our business is also dependent on prompt delivery and transportation of our food ingredients and raw materials. Certain events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays and labor strikes, could also lead to delayed or lost deliveries of food supplies to our processing plants, logistics facilities and our restaurants which may result in the loss of potential business and thus sales revenue. Perishable food ingredients, such as fresh, chilled or frozen food ingredients, may deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our suppliers or our logistics partners. In addition, fires, floods, earthquakes and terrorist attacks may lead to evacuations and other disruptions in our operations, which may also prevent us from providing quality food and services to customers, thereby affecting our business and damaging our reputation. Any such event could materially and adversely affect our business operations and results of operations.

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## RISK FACTORS

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**Rising labor costs and the long-term trend of higher wages may lead to declines in our margins and operating results.**

Historically, staff cost which comprises salaries and benefits payable to all our employees and staff, including our Directors, senior management, headquarters personnel and restaurant level staff, has been a major component of our costs. In 2011, 2012, 2013 and the six months ended June 30, 2014, staff costs accounted for approximately 18.3%, 20.8%, 21.1% and 22.8% of our revenue, respectively. Currently, all of our staff is employed in China, and thus we take advantage of the availability of relatively low-cost labor in China. The economy in China has grown significantly over the past 20 years, which has resulted in an increased average cost of labor. The overall economy and the average wage in China are expected to continue growing, thus continuing to diminish the competitive advantage of locating production facilities in China.

The Labor Contract Law that became effective on January 1, 2008 formalizes workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions and provides for specific standards and procedure for the termination of an employment contract. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed term employment contract. The implementation of the Labor Contract Law may significantly increase our operating expenses, in particular, our personnel expenses, as the continued success of our business depends significantly on our ability to attract and retain qualified personnel. In the event that we decide to terminate the employment of some of our employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable. Any shortages in the availability of labor or any material increases in the cost of labor will diminish our competitive advantage and have a material and adverse effect on our business, financial condition and results of operations.

**Increases in the cost of ingredients may lead to declines in our margins and operating results.**

Any rise in our costs, particularly a rise in the cost of the ingredients we use, may lead to declines in our margins and operating results. The cost of ingredients we use in our restaurants depends on a variety of factors, many of which are beyond our control. Raw materials and consumables used represented approximately 45.6%, 44.6%, 43.2% and 38.8% of our revenue in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Fluctuations in weather, supply and demand and economic conditions could adversely affect the cost, availability and quality of our critical food ingredients. If we are not able to obtain requisite quantities of quality ingredients at commercially reasonable prices, our ability to provide the menu items that are central to our business would be adversely affected. If the cost of ingredients that we use in our restaurants increases in the future and we cannot pass these cost increases onto our customers, our operating margins may decrease.

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## RISK FACTORS

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In addition, the Chinese government has promulgated price intervention regulations under which temporary measures may be taken to control price increases or decreases of certain material commodities which include a number of ingredients that are important to our business, such as lamb, beef and fresh vegetables. Such price control measures will have direct effects on our cost of relevant ingredients. The measures that prevent the prices of ingredients from falling will keep our cost of relevant ingredients at a higher level than it would be under free market conditions. Although generally we may benefit from the measures that control price increases, which keep our ingredients cost from rising, there is no guarantee for how long and to what extent such measures may be implemented, or whether such measures will effectively control price increases in the long run. For example, there is a possibility that price controlling measures may frustrate the relevant suppliers and discourage production, in which case the supply of the affected ingredients may decrease, thereby driving up price and our business may be materially and adversely affected.

**Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.**

We rely on our computer systems and network infrastructure across our operations to monitor the daily operations of our restaurants and to collect accurate up-to-date financial and operating data for business analysis and decision making such as the procurement of supplies. Any damage or failure of our computer systems or network infrastructure that causes an interruption or inaccuracies in our operations could have a material adverse effect on our business and results of operations.

We also receive certain personal information about our customers when accepting credit cards or smart cards for payment. If our network security is compromised and such information is stolen or obtained by unauthorized persons or used inappropriately, we may become subject to litigation or other proceedings brought by cardholders and financial institutions that issue cards. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our business and results of operations.

**Our insurance policies may not provide adequate coverage for all claims associated with our business operations.**

As of the date of this prospectus, we have obtained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in China. For more details on our insurance policies, see “Business – Insurance” in this prospectus. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

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## RISK FACTORS

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**We may not be able to adequately protect our intellectual property, which could harm the value of our brands and adversely affect our business and operation.**

We believe that our brand is essential to our success and our competitive position. Although we have registered trademarks in the PRC, these steps may not be adequate to protect our intellectual property. See “Statutory and General Information – B. Further information about our business – 2. Our intellectual property rights” in Appendix IV to this prospectus. In addition, third parties may infringe upon our intellectual property rights or misappropriate our proprietary knowledge, primarily our proprietary recipes for soup bases and dipping sauces, which could have a material adverse effect on our business, financial condition or operating results. While our proprietary recipes are protected by confidentiality agreements between us and our employees or certain suppliers, there can be no assurance that they will not breach such agreements or leak the recipe to our competitors. The laws of China may not offer the same protection for intellectual property rights as jurisdictions with more developed intellectual property laws. In addition, although we can rely on confidentiality and non-compete agreements with key personnel and other precautionary procedures to protect our proprietary recipes, such measures may not be sufficient.

In the past, we have found that certain third parties used or imitated our trademarks or trade name without our authorization to operate restaurants in the cities where we do not have presence, or to offer forged prepaid dining vouchers on the internet. While we have brought proceedings against these third parties, such unauthorized use of our trademarks, trade name and trade secrets by unrelated third parties may damage our reputation and brand. However, preventing trademark and trade name infringement and trade secret misappropriation, particularly in China, is difficult, costly and time-consuming. We may, from time to time, be required to institute litigation to protect and enforce our trademarks and other intellectual property rights, and to protect our trade secrets. Such litigation could result in substantial costs and diversion of resources, which could negatively affect our sales, profitability and prospects. Furthermore, the application of laws governing intellectual property rights in China is uncertain and evolving, and could involve substantial risks to us. Even if any such litigation is resolved in our favor, we may not be able to successfully enforce the judgment and remedies awarded by the court and such remedies may not be adequate to compensate us for our actual or anticipated losses, whether tangible or intangible.

On the other hand, we may face claims of infringement that could interfere with the use of our proprietary know-how, concepts, recipes or trade secrets. Defending against such claims may be costly and, if we are unsuccessful, we may be prohibited from continuing to use such proprietary information in the future or be forced to pay damages, royalties or other fees for using such proprietary information, any of which could negatively affect our sales, profitability and prospects.

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## RISK FACTORS

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**Our success depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.**

Our future success depends on the ability of our senior management team to work together and successfully implement our growth strategy while maintaining the strength of our brand. Our future success also depends heavily upon the continuing services and performance of our key management personnel, in particular, our executive Directors. We must continue to attract, retain and motivate a sufficient number of qualified management and operating personnel such as regional operational managers to maintain consistency in the quality and atmosphere of our restaurants and meet our planned expansion requirements.

If our senior management team fails to work together successfully, or if one or more of our senior managers are unable to effectively implement our business strategy, we may be unable to grow our business at the speed or in the manner in which we expect. Competition for experienced management and operating personnel in the restaurant industry is intense, and the pool of qualified candidates is limited. We may not be able to retain the services of our key management and operating personnel or attract and retain high-quality senior executives or key personnel in the future.

In addition, if one or more of our key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing business, we may lose business secrets and know-how as a result. Any failure to attract, retain and motivate these key personnel may harm our reputation and result in a loss of business.

**Our business could be adversely affected by difficulties in employee recruiting and retention.**

Our continued success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees for our chain restaurant operations, including restaurant managers and kitchen assistants. We cannot assure you that we would be able to recruit or retain a sufficient number of qualified employees for our business. Any material increase in employee turnover rates in our existing restaurants and any failure to recruit skilled personnel and to retain key staff due to factors such as failure to keep up with market average employee salary levels may make our growth strategy difficult to implement. Any increased labor costs due to factors like competition, increased minimum wage requirements and employee benefits would adversely impact our operating costs. Any of the above would materially and adversely affect our business and results of operations.



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## RISK FACTORS

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**We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.**

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and permits in order to operate our restaurant business in the PRC. Each of our restaurants in the PRC is required to obtain the relevant liquor retail license, catering service license and/or public assembly venue hygiene license. In addition, each of our restaurants in the PRC is required to obtain an environmental protection assessment and inspection approval, and to pass the necessary fire safety verification or fire safety inspection. These approvals, licenses and permits are achieved upon satisfactory compliance with, amongst other things, the applicable food hygiene and safety, environmental protection, fire safety and liquor licensing laws and regulations. Most of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

Complying with government regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expense and divert substantial management time to resolve any deficiencies. During the Track Record Period, we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to obtain or renew certain approvals and licenses to operate our restaurants in the total amount of RMB40,000. Immediately prior to the Latest Practicable Date, we were not able to complete the necessary fire safety verification, fire safety inspection or environmental completion verification for a number of our restaurants. Our maximum penalty in connection with these incidents is estimated to be RMB15.0 million. There can be no assurance that we will be able to cure these non-compliances and that the government authorities will not impose a fine on us.

In particular, we may have difficulties or even fail to cure these non-compliances where the application for the necessary approvals, licenses and permits is conditional upon the owners of the properties having completed the relevant inspections or verifications in advance. For example, we were not able to obtain the relevant fire safety certificates for a total of 18 restaurants located in shopping malls or buildings where the owners of the properties have not completed the fire safety inspections as of October 25, 2014, and we had suspended operations at these 18 restaurants. On November 3, 2014, we resumed the operation at one of these restaurants upon our receipt of the official fire safety certificate. We may need to terminate the leases of these 17 restaurants and incur contractual penalties and forfeit our deposit and certain portion of the rent paid up to approximately RMB4.4 million in aggregate. In addition, as of October 25, 2014, there were four restaurants for which we had submitted the applications for fire safety verifications or fire safety inspections but had not obtained the official fire safety certificates, and we had suspended operations at these four restaurants. During the suspension period, we will not be able to generate any income from these restaurants while we need to pay rent for these restaurants. See “Business – Licenses, Regulatory Approvals and Compliance Record” for further details.

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## RISK FACTORS

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Going forward, if we fail to obtain all the necessary licenses, permits and approvals, we may be subject to fines, confiscation of the gains derived from the related restaurants or the suspension of operations of the restaurants that do not have all the requisite licenses and permits, which could materially and adversely affect our business and results of operations. See “Regulation” for further details on the requisite licenses, permits and approvals for our restaurants. We may also experience adverse publicity arising from such non-compliance with government regulations that negatively impacts our brand.

We may experience difficulties or failures in obtaining the necessary approvals, licenses and permits for new restaurants. If we fail to obtain the material licenses, our store opening and expansion plan may be delayed. In addition, there can be no assurance that we will be able to obtain, renew and/or convert all of the approvals, licenses and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain and/or maintain all licenses required by us to operate our business, planned new business operations and/or expansion may be delayed and our ongoing business could be interrupted. We may also be subject to fines and penalties.

**We may be subject to fines as a result of unregistered leases.**

Under PRC law, all lease agreements are required to be registered with the relevant land and real estate administration bureaus. However, as of the Latest Practicable Date, the lease agreements with respect to 405 out of 451 of our leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to provide necessary documents for us to register the leases with the local government authorities. These properties have an aggregate GFA of approximately 107,934.06 square meters. 392 of these properties are used as restaurants. As advised by our PRC legal advisor, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000. See “Business – Properties – Leased Properties”.

**We may need additional capital, and our ability to obtain additional capital is subject to uncertainties.**

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the proceeds from this offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments we may decide to pursue. The amount and timing of such additional financing needs will vary depending on the timing of our new restaurant openings, investments in new restaurants and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek additional financing by selling additional equity or debt securities or obtaining a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that may, among other things, restrict our operations or our ability to pay dividends. Servicing such debt obligations could also be

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burdensome to our operations. If we fail to service the debt obligations or are unable to comply with such debt covenants, we could be in default under the relevant debt obligations and our liquidity and financial conditions may be materially and adversely affected.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of businesses in the catering service industry;
- conditions of the Hong Kong and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in the catering service industry in China;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell debt or additional equity securities, reduce our growth to a level that can be supported by our cash flow or defer planned expenditures.

### **RISKS RELATING TO OUR INDUSTRY**

**Our operations may be negatively affected by any industry wide food safety related concerns even if such concerns are not attributable to our fault or related to our business.**

The catering service industry in China as a whole is subject to concerns over food safety and quality related issues. In particular, there have been numerous reports and negative publicities related to food safety and quality incidents in China's catering service industry. While the reports and allegations are not targeted at us, the catering service industry as a whole can be negatively impacted by these incidents and associated reports. Our prospects, business, results of operations and financial condition can be negatively impact if the catering service industry experiences a slower growth.

**We face risks related to instances of food-borne illnesses, health epidemics and other outbreaks.**

Our business is susceptible to food-borne illnesses, health epidemics and other outbreaks. We cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents could be caused by third-party

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food suppliers and distributors outside of our control and the risk of multiple locations instead of a single restaurant being affected. Drug resistant illnesses may develop in the future, or diseases with long incubation periods could arise, such as mad-cow disease, that could give rise to claims or allegations on a retroactive basis. Reports in the media of instances of food-borne illnesses could, if highly publicized, negatively affect our industry overall and us, regardless of whether we were responsible for the spread of the illness. Furthermore, other illnesses, such as hand, foot and mouth disease or avian influenza, could adversely affect the supply of some of our ingredients and significantly increase our costs and thereby impacting our restaurant sales, forcing the closure of some of our restaurants and conceivably having significant adverse effect on our results of operations.

We also face risks related to health epidemics. Past occurrences of epidemics or pandemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in China. In April 2013, there were outbreaks of highly pathogenic avian flu, caused by the H7N9 virus, in certain parts of China. Since early 2013, there has been several reports of reoccurrences of H7N9 which caused several confirmed deaths. In June 2009, the World Health Organization declared the outbreak of H1N1 influenza to be a pandemic. An outbreak of any epidemics or pandemics in China, especially in the areas where we have restaurants, may result in quarantines, temporary closures of our restaurants, travel restrictions or the sickness or death of key personnel and our customers. Any of the above may cause material disruptions to our operations, which in turn may materially and adversely affect our financial condition and results of operations.

**Macro-economic factors have had and may continue to have a material adverse effect upon our business, financial condition and results of operations.**

The catering service industry is affected by macro-economic factors, including changes in international, national, regional and local economic conditions, employment levels and consumer spending patterns. In particular, all of our restaurants are located in China and accordingly, our results of operations are closely affected by the macro-economic conditions in China. Any deterioration of the Chinese economy, decrease in disposable consumer income, fear of a recession and decreases in consumer confidence may lead to a reduction of customer traffic and average spending per customer at our restaurants, which could materially and adversely affect our financial condition and results of operations.

Moreover, the occurrence of a sovereign debt crisis, banking crisis or other disruptions in the global financial markets that could impact the availability of credit generally may have a material and adverse impact on financings available to us. Renewed turmoil affecting the financial markets, banking systems or currency exchange rates may significantly restrict our ability to obtain financing from the capital markets or from financial institutions on commercially reasonable terms, or at all, which could materially and adversely affect our business, financial condition and results of operations.

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**Intense competition in the catering service industry could prevent us from increasing or sustaining our revenue and profitability.**

The catering service industry is intensely competitive with respect to, among other things, food quality and consistency, taste, price-value relationships, ambiance, service, location, supply of quality food ingredients and employees. We face significant competition at each of our locations from a variety of restaurants in various market segments, including locally-owned restaurants and regional and international chains. Our competitors also offer dine-in, take-away and delivery services. There are a number of well-established competitors with substantially greater financial, marketing, personnel and other resources than ours, and many of our competitors are well established in the markets where we have restaurants, or in which we intend to open new restaurants. Additionally, other companies may develop new restaurants that operate with similar concepts and target our customers resulting in increased competition.

Any inability to successfully compete with the other restaurants in our markets may prevent us from increasing or sustaining our revenues and profitability and lose market share, which could have a material adverse effect on our business, financial condition, results of operations or cash flows. We may also need to modify or refine elements of our restaurant network to evolve our concepts in order to compete with popular new restaurant styles or concepts that develop from time to time. We cannot ensure that we will be successful in implementing these modifications or that these modifications will not reduce our profitability.

### **RISKS RELATING TO DOING BUSINESS IN CHINA**

**Our expansion plan in China may be restricted as a result of Mr. Ho's shareholding in our Company.**

As advised by our Taiwan legal advisor, according to the Taiwan/Mainland Investment Regulations, a direct or indirect investment by a Taiwanese person (including an individual or an enterprise) in the PRC is subject to the prior approval of the Taiwan Investment Commission ("**Prior Approval Requirement**"). However, if the total cumulative investment amount represented by all Taiwanese persons in a single PRC enterprise does not exceed US\$1,000,000, it is permitted to report to the Taiwan Investment Commission within six months of making the investment in such PRC enterprise. The Taiwan/Mainland Investment Regulations also set forth certain limitations on the amount of investments that each Taiwanese person may make in the PRC. Currently, a Taiwanese individual is prohibited by the Taiwan/Mainland Investment Regulations from investing more than US\$5,000,000 (approximately HK\$38.8 million) in the PRC per year.

Where the Prior Approval Requirement is applicable, if a Taiwanese person violates the Taiwan/Mainland Investment Regulations for investing in any PRC entity without obtaining prior approval from the Taiwan Investment Commission, among others, the Taiwan Investment Commission has authority to impose a fine ranging from NT\$50,000 to NT\$25,000,000, which may vary depending on the unapproved investment amount, on such violating Taiwanese person.

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In March 2014, Mr. Ho voluntarily reported to the Taiwan Investment Commission for not obtaining prior approval in connection with his indirect equity interests in Xiabu Beijing and Xiabu Shanghai through the Company (“**Voluntary Report**”). In response to this Voluntary Report, the Taiwan Investment Commission did not impose any fine on Mr. Ho but ordered Mr. Ho to submit a supplemental application within six months after receiving the Taiwan Investment Commission’s letter. On April 2, 2014, Mr. Ho submitted a supplemental application to the Taiwan Investment Commission to seek approval for rectifying these investments. On April 8, 2014, Mr. Ho obtained the approval from the Taiwan Investment Commission, which rectified the non-compliance of the Taiwan/Mainland Investment Regulations in connection with Mr. Ho’s equity interests in Xiabu Beijing and Xiabu Shanghai.

Immediately prior to the Global Offering, Mr. Ho held approximately 54.40% in aggregate of our equity interest. Based on our Taiwan legal advisor’s interpretation and its oral consultation with the Taiwan Investment Commission in other similar cases, we believe that the Taiwan Investment Commission would likely take the position that any future equity investment by us in the PRC will be considered as additional investment by Mr. Ho in proportion to his shareholding in our Company and such deemed additional investments are subject to the Prior Approval Requirement. Accordingly, Mr. Ho will be required to obtain an approval of the Taiwan Investment Commission prior to our equity investment in the PRC using the proceeds from the Global Offering, which approval may not be available to him for various reasons and as a result he may be required to dispose his shareholding in our Group to comply with the investment amount limitation. However, we cannot assure you that Mr. Ho will be able to dispose his shareholding in our Company in a timely and orderly manner, or at all. If Mr. Ho fails to dispose his shareholding in our Company in a timely and orderly manner, our ability to make future equity investments into China may be limited, which could in turn materially and adversely affect our future expansion plans in China. In particular, if TIC rejects Mr. Ho’s application for the approval of additional equity investment in China in 2015, and given that Mr. Ho will not be able to dispose of his shareholding in our Company due to the restriction imposed by Rule 10.07 of the Listing Rules, we will not be able to remit the US\$29.3 million in 2015 as outlined in “Future Plans and Use of Proceeds” of this prospectus. As a contingency plan, we will need to rely on our existing cash, operating cash flow and bank loans to fund our expansion plans. We can then work with Mr. Ho to apply for the approval again in 2016 or to dispose of his shareholding in our company. In addition, any reduction of the shareholding in our Company by Mr. Ho pursuant to the Taiwan/Mainland Investment Regulations may cause volatility in, or otherwise have a material adverse effect on the trading price of our Shares.

As advised by our Taiwan legal advisor, none of the Company, Xiabu Beijing and Xiabu Shanghai is subject to the Taiwan/Mainland Investment Regulations. Any penalties for violation of the Taiwan/Mainland Investment Regulations (including the investment amount limitation) shall be imposed on Mr. Ho himself, instead of the Company, Xiabu Beijing or Xiabu Shanghai. Although any penalties for violation of investment amount limitation would only be imposed on Mr. Ho himself, any violation of investment amount limitation by Mr. Ho may indirectly affect our expansion plan in the future.

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**Changes in PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.**

Substantially all of our business assets are located in the PRC and all of our sales are derived from the PRC. In particular, we generated a substantial portion of our turnover from Beijing during the Track Record Period. In addition, the bar style hotpot dining concept originates from Japan and Taiwan, and one of our controlling shareholders is Taiwanese. Accordingly, our results, financial position and prospects are subject, to a significant degree, to the economic, political and legal developments of the PRC. Political and economic policies of the PRC Government could affect our business and financial performance and may result in our being unable to sustain our growth.

In recent years, the PRC Government implemented a series of new laws, regulations and policies which imposed stricter standards with respect to, among other things, quality and safety control and supervision and inspection of enterprises engaged in catering service industry. See “Regulatory Overview – The Laws and Regulations Relating to the Industry”. If the PRC Government continues to impose stricter regulations on the catering service industry, we could face higher costs in order to comply with those regulations, which could impact our profitability.

The economy of the PRC differs from the economies of the most developed countries in a number of respects, including the extent of government involvement, level of development, growth rate, and control of foreign exchange. Before its adoption of reform and open door policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC Government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms, especially where these policies apply to businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC’s political, economic and social conditions, laws, regulations and policies will have any adverse effect on our future business, results or financial condition.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions and credit availability from banks or other lenders. Recently, the PRC Government has articulated a need to contain the build-up of a property bubble and may tighten its bank lending policies, including increasing interest rates on bank loans and deposits and tightening the money supply to control growth in lending. Stricter lending policies may, among other things, affect our and our customers’ ability to obtain financing which may in turn adversely affect our growth and financial condition. We cannot give any assurances that further measures to control growth in lending will not be implemented in a manner that may adversely affect our growth and profitability over time. In addition, the global economic recession and market volatility that persisted in the past two years may continue and therefore we may not be able to sustain the growth rate we have historically achieved.

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## RISK FACTORS

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**Uncertainties with respect to the PRC legal system could have a material adverse effect on us.**

Our business and operations are conducted in the PRC and are governed by the PRC laws and regulations, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but have limited weight as precedents. Since the late 1970s, the PRC Government has significantly enhanced the PRC legislation and regulations to provide protection to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

**Governmental control over currency conversion and fluctuations in exchange rates may affect the value of your investment and limit our ability to utilize our cash effectively.**

The RMB is not currently a freely convertible currency. We receive all of our payments from customers in RMB and will need to convert RMB into foreign currencies for the payment of dividends, if any, to holders of our Shares. Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE or its local branches by complying with certain procedural requirements. However, the PRC Government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our Shareholders if the PRC Government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the SAFE or its local branches. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The exchange rate of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the policies of the PRC Government and changes in the PRC's and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's interbank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of RMB to



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U.S. dollars was generally stable. On July 21, 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against the U.S. dollar. The PRC Government has since made, and in the future may make, further adjustments to the exchange rate system.

There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the U.S. dollar, the Hong Kong dollar or other foreign currencies. If the appreciation of RMB continues, and as we need to convert the proceeds from the Global Offering and future financing into RMB for our operations, appreciation of RMB against the relevant foreign currencies would reduce the RMB amount we would receive from the conversion. On the other hand, because the dividends on our Shares, if any, will be paid in Hong Kong dollars, any devaluation of RMB against the Hong Kong dollar could reduce the amount of any cash dividends on our Shares in Hong Kong dollar terms.

**We may be deemed to be a PRC tax resident under the EIT Law and our PRC-sourced income may be subject to PRC withholding tax under the EIT Law.**

We are incorporated under the laws of the Cayman Islands and directly hold interests in our PRC operating subsidiaries. Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which took effect on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed a PRC resident enterprise are subject to a 10% withholding tax, unless such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement.

The EIT Law provides that if an enterprise incorporated outside the PRC has its “de facto management bodies” within the PRC, such enterprise may be deemed a “PRC resident enterprise” for tax purposes and be subject to an enterprise income tax rate of 25% on its global incomes. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the certain criteria for the determination of the “de facto management bodies” for foreign enterprises controlled by PRC enterprises. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. However, there have been no official implementation rules regarding the determination of the “de facto management bodies” for

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## RISK FACTORS

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foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, due to the short history of the EIT Law, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by our PRC incorporated subsidiary to us will meet such qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

Furthermore, the EIT Law provides that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered a PRC resident enterprise for tax purposes, any dividends we pay to our overseas corporate Shareholders who are not deemed a PRC resident enterprise as well as gains realized by such Shareholders from the transfer of our Shares may be regarded as PRC-sourced income and as a result become subject to PRC withholding tax at a rate of up to 10%.

**We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.**

We are a holding company incorporated in the Cayman Islands and operate our businesses through our operating subsidiaries in the PRC. Therefore, the availability of funds to pay dividends to our Shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. The PRC laws and regulations require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including Hong Kong Financial Reporting Standards (“**HKFRS**”) and International Financial Reporting Standards. The PRC laws and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

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## RISK FACTORS

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In addition, under the EIT Law, if a foreign entity is deemed to be a “non-resident enterprise” as defined under the EIT, a withholding tax at the rate of 10% will be applicable to any dividends for earnings accumulated since January 1, 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between the PRC and Hong Kong, dividends paid by a PRC foreign-invested enterprise, such as Xiabu Beijing or Xiabu Shanghai, in the PRC to its shareholder(s) incorporated in Hong Kong, such as Xiabu Hong Kong, will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. The SAT issued the Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties (關於如何理解和認定稅收協定中「受益所有人」的通知) (the “**Circular 601**”) on October 27, 2009, which addresses which entities are treated as “beneficial owners” under the treaty articles on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a “beneficial owner” on a case-by-case basis based on the “substance over form” principle. It is possible, based on these principles, that the PRC tax authorities would not consider our Hong Kong subsidiary, Xiabu Hong Kong, as the “beneficial owner” of any dividends paid from our PRC subsidiaries and would deny the claim for the reduced rate of withholding tax. Under current PRC tax law, this would result in dividends from Xiabu Beijing and Xiabu Shanghai to Xiabu Hong Kong being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

**The 2006 M&A Rule establishes more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.**

The 2006 M&A Rule establishes additional procedures and requirements that could make some acquisitions of PRC companies by foreign entities, such as us, more time-consuming and complex, including requirements in some instances that the approval of the Ministry of Commerce shall be required for transactions involving the shares of an offshore listed company being used as the acquisition consideration by foreign entities. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the 2006 M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, and may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China or Hong Kong based on foreign laws against us and our directors and senior management.**

We are incorporated in the Cayman Islands. Substantially all of our assets, and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of

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## RISK FACTORS

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judgments made by courts of most other jurisdictions. On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

### **RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES**

**There has been no prior public market for our Shares, and an active trading market may not develop.**

Before the Global Offering, there was no public market for our Shares. The initial offer price range of our Shares, and the Offer Price, will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters) and us. In addition, while we have applied to have our Shares listed on the Stock Exchange, there can be no guarantee that (i) an active trading market for our Shares will develop or, (ii) if it does, that it will be sustained following the completion of the Global Offering, or (iii) that the market price of our Shares will not decline below the Offer Price. You may not be able to resell your shares at a price that is attractive to you, or at all.

**The price and trading volume of our Shares may be volatile which could result in substantial losses for investors purchasing our Shares in the Global Offering.**

The price and trading volume of our Shares may be volatile. The market price of our Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant customers;
- changes in securities analysts’ estimates of our financial performance;

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## RISK FACTORS

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- announcement by us of significant acquisitions, greenfield developments, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market price and volume;
- involvement in litigation; and
- general economic and stock market conditions.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may materially and adversely affect the market price of our Shares.

**Future sale or major divestment of Shares by one of our Controlling Shareholders or our financial investors could materially and adversely affect the prevailing market price of our Shares.**

The future sale of a significant number of our Shares in the public market after the Global Offering, or the possibility of such sales, by one of our Controlling Shareholders or strategic investors could materially and adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Although such Controlling Shareholder and financial investors have agreed to a lock-up on their Shares, any major disposal of our Shares by any of such Controlling Shareholder and financial investors upon expiry of the relevant lock-up periods (or the perception that these disposals may occur) may cause the prevailing market price of our Shares to fall which could negatively impact our ability to raise equity capital in the future.

**Our interests may conflict with those of one of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests.**

Immediately following the Global Offering, one of our Controlling Shareholders will, beneficially own 42.68% of our Company's outstanding shares immediately upon completion of the Global Offering, or approximately 41.34% if the Over-allotment Option is exercised in full. The interests of such Controlling Shareholder may differ from the interests of our other Shareholders. If the interests of such Controlling Shareholder conflict with the interests of our other Shareholders, or if such Controlling Shareholder cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholder choose to cause us to pursue.

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## RISK FACTORS

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One of our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Such Controlling Shareholder has no obligation to consider the interests of our Company or the interests of our other shareholders. As such, such Controlling Shareholder's interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which may have a material and adverse effect on our Company's business operations and the price at which our Shares are traded on the Stock Exchange.

**Dividends declared in the past may not be indicative of our dividend policy in the future.**

For each year of 2010, 2011 and 2013, we declared dividends of RMB6.3 million, RMB50.3 million and RMB150.0 million, respectively, to our then Shareholders. A declaration of dividends is proposed by our Board of Directors and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial condition, future prospects and other factors which our Board of Directors may determine are important. Accordingly, our historical dividend distributions are not indicative of our future dividend distribution policy and potential investors should be aware that the amount of dividends paid previously should not be used as a reference or basis upon which future dividends are determined.

**Certain statistics contained in this prospectus are derived from a third party report and publicly available official sources.**

This prospectus, particularly the section headed "Industry Overview" in this prospectus, contains information and statistics, including but not limited to information and statistics relating to the PRC and the fast casual dining industry and markets. Such information and statistics have been derived from various official government and other publications and from a third party report commissioned by us. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy, as the case may be, in other jurisdictions. Therefore, you should not unduly rely upon the industry facts and statistics contained in this prospectus.

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## RISK FACTORS

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**Forward-looking statements contained in this prospectus are subject to risks and uncertainties.**

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “going forward”, “intend”, “plan”, “project”, “seek”, “expect”, “may”, “ought to”, “should”, “would” or “will” and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

**Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.**

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our shares in the Global Offering will experience an immediate dilution in the pro forma net tangible asset value.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share.

**Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.**

There has been coverage in the media regarding the Global Offering and our operations. We do not accept any responsibility for the accuracy or completeness of such media coverage or forward looking statements and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

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## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

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In preparation for the Global Offering, our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules.

### WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong.

The headquarters of our Group is located in the PRC. All of our executive Directors and all members of the senior management of our Group currently reside in the PRC. We do not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules, subject to the condition that the following measures and arrangements are made for maintaining regular communication between the Stock Exchange and us:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorized representatives, namely Mr. Ho Kuang-chi, our Chairman and Executive Director and Ms. Ng Sau Mei, our Company Secretary. The authorized representatives will act as the principal channel of communication between the Stock Exchange and our Company. The authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of the authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange;
- (b) each of the authorized representatives has means to contact all Directors (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. We will implement a policy whereby:
  - (i) each Director will provide his or her mobile phone number, office phone number, email address and facsimile number to the authorized representatives;
  - (ii) each Director will provide his or her phone numbers or means of communication to the authorized representatives when he or she is traveling; and
  - (iii) each Director will provide his or her mobile phone number, office phone number, email address and facsimile number to the Stock Exchange;



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## WAIVER FROM COMPLIANCE WITH THE LISTING RULES

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- (c) in compliance with Rule 3A.19 of the Listing Rules, we have retained Anglo Chinese Corporate Finance Limited to act as our compliance advisor who will act as an additional channel of communication between the Stock Exchange and our Company for the period commencing on the Listing Date and ending on the date that our Company publishes our financial results for the first full financial year after the Listing Date pursuant to Rule 13.46 of the Listing Rules;
- (d) any meetings between the Stock Exchange and our Directors may be arranged through the authorized representatives within a reasonable time frame;
- (e) our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorized representatives;
- (f) all Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and, when required, meet with the Stock Exchange upon reasonable notice; and
- (g) we will retain a Hong Kong legal advisor to advise us on the application of the Listing Rules and other applicable Hong Kong laws and regulations relating to securities after our Listing.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our Directors confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

### **THE HONG KONG PUBLIC OFFERING, UNDERWRITING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around December 11, 2014, subject to the Offer Price being agreed. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedures for applying for Hong Kong Offer Shares is set out in the section entitled “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **OVER-ALLOTMENT OPTION AND STABILIZATION**

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering” in this prospectus.

### **RESTRICTIONS ON OFFER OF THE OFFER SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or Application Forms may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue, to be issued upon conversion of the Preferred Shares, and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme).

Save as disclosed in this prospectus, no part of our Company’s share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, December 17, 2014. The Shares will be traded in board lots of 500 Shares each. The stock code of the Shares will be 520.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

### **REGISTER OF MEMBERS AND STAMP DUTY**

Our Company's principal register of members will be maintained by our principal registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

RMB0.79080 to HK\$1.00 (being the prevailing exchange rate on the Latest Practicable Date set by the People's Bank of China)

RMB6.1320 to US\$1.00 (being the prevailing exchange rate on the Latest Practicable Date set by the People's Bank of China)

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

### **ROUNDING**

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Ho Kuang-Chi (賀光啓), <i>Chairman . . . . .</i>	Room 701, Building 5, Heng Song Yuan, No. 10 Xiao Tie Ying, Middle Road of South 3rd Ring Road, Beijing	Taiwanese
Ms. Yang Shuling (楊淑玲), <i>Chief Executive Officer . . . .</i>	Room 1004, Building 3, No. 3, Block 1, Fang Qun Yuan, Fengtai District, Beijing	Chinese
<i>Non-executive Directors</i>		
Ms. Chen Su-Yin (陳素英). . . .	Room 701, Building 5, Heng Song Yuan, No. 10 Xiao Tie Ying, Middle Road of South 3rd Ring Road, Beijing	Taiwanese
Mr. Wei Ke (魏可). . . . .	Unit 1602, Building No. 6, Ya Cheng San Li, Chaoyang District, Beijing, PRC	Chinese

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<u>Name</u>	<u>Residential Address</u>	<u>Nationality</u>
<i>Independent Non-executive Directors</i>		
Ms. Hsieh Lily Hui-yun (謝慧雲).....	Flat B, 4th Floor Linden Height 11 Boyce Road Jardine's Lookout Hong Kong	Hong Kong
Mr. Hon Ping Cho Terence (韓炳祖).....	Flat 38, 13th Floor Winfield Gardens 34-40 Shan Kwong Road Happy Valley Hong Kong	Hong Kong
Ms. Cheung Sze Man (張詩敏).....	Flat C, 14th Floor Crystal Court 6 Man Wan Road Ho Man Tin Kowloon Hong Kong	Hong Kong

Further information about our Directors and other senior management members are set out in the section headed "Directors and Senior Management" in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED

#### Joint Sponsors

#### **Merrill Lynch Far East Limited**

55/F Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### Joint Global Coordinators and Joint Bookrunners

#### **Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

#### Joint Lead Managers

*Hong Kong Public Offering*

#### **Merrill Lynch Far East Limited**

55/F Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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*International Offering*

**Merrill Lynch International**

2 King Edward Street  
London EC1A 1HQ  
United Kingdom

**Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

**Auditor and reporting accountants**

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**Legal advisors to the Company**

*As to Hong Kong and U.S. laws:*

**Simpson Thacher & Bartlett**

ICBC Tower, 35/F  
3 Garden Road  
Central  
Hong Kong

*As to PRC law:*

**King & Wood Mallesons**

20/F, East Tower, World Financial Center  
1 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing  
China

*As to Cayman Islands law:*

**Conyers Dill & Pearman (Cayman) Limited**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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	<p><i>As to Taiwan law:</i> <b>Lee and Li, Attorneys-at-Law</b> 7/F 201 Tun Hua North Road Taipei 105 Taiwan</p>
<b>Legal advisors to the Joint Sponsors and the Underwriters</b>	<p><i>As to Hong Kong and U.S. laws:</i> <b>Freshfields Bruckhaus Deringer</b> 11th Floor, Two Exchange Square Central Hong Kong</p> <p><i>As to PRC law:</i> <b>Jun He Law Office</b> 20/F, China Resources Building 8 Jianguomenbei Avenue Beijing China</p>
<b>Industry Consultant</b>	<p><b>Frost &amp; Sullivan (Beijing) Inc., Shanghai Branch Co.</b> Suite 2802-2803, Tower A Dawning Center 500 Hongbaoshi Road Shanghai, PRC</p>
<b>Compliance Advisor</b>	<p><b>Anglo Chinese Corporate Finance Limited</b> 40th Floor Two Exchange Square 8 Connaught Place Central Hong Kong</p>
<b>Internal Control Consultant</b>	<p><b>Protiviti Shanghai Co., Ltd.</b> 26/F, Central Plaza No. 381 Huai Hai Zhong Road Shanghai 200020, China</p>

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**DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Property Valuer****CBRE Limited**

11th Floor, Tower 2, Prosper Center  
No. 5 Guanghua Road, Chaoyang District  
Beijing  
China

**Receiving Bank****Standard Chartered Bank (Hong Kong) Limited**

15th Floor, Standard Chartered Tower  
388 Kwun Tong Road, Kwun Tong,  
Kowloon,  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	Suncun Industrial Development Zone Huangcun Town Daxing District Beijing PRC
<b>Principal place of business in Hong Kong</b>	Room 1201, 12/F. OfficePlus@Wan Chai No. 303 Hennessy Road Wanchai Hong Kong
<b>Company's website</b>	www.xiabu.com  <i>(The information on the website does not form part of this prospectus)</i>
<b>Company Secretary</b>	Ms. Ng Sau Mei (伍秀薇), ACIS, ACS 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong
<b>Authorized representatives</b>	Mr. Ho Kuang-Chi (賀光啓) Room 701, Building 5 Heng Song Yuan No. 10 Xiao Tie Ying Middle Road of South 3rd Ring Road Beijing, PRC  Ms. Ng Sau Mei (伍秀薇) 36/F, Tower Two Times Square 1 Matheson Street Causeway Bay Hong Kong

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## CORPORATE INFORMATION

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<b>Audit Committee</b>	Ms. Hsieh Lily Hui-yun (謝慧雲) ( <i>Chairman</i> )  Mr. Wei Ke (魏可)  Mr. Hon Ping Cho Terence (韓炳祖)
<b>Remuneration Committee</b>	Mr. Hon Ping Cho Terence (韓炳祖) ( <i>Chairman</i> )  Mr. Ho Kuang-chi (賀光啓)  Ms. Cheung Sze Man (張詩敏)
<b>Nomination Committee</b>	Mr. Ho Kuang-chi (賀光啓) ( <i>Chairman</i> )  Ms. Hsieh Lily Hui-yun (謝慧雲)  Ms. Cheung Sze Man (張詩敏)
<b>Cayman Islands Principal Share Registrar and Transfer Agent</b>	Codan Trust Company (Cayman) Limited 2901 One Exchange Square Connaught Place Central Hong Kong
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Principal Bank</b>	Shanghai Pudong Development Bank Building 19, District 2, Tianhuayuan Erli, Beijing Economic-Technological Development Area, Beijing, China

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## INDUSTRY OVERVIEW

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*The information and statistics set forth in this section and elsewhere in this prospectus have been derived from various official and government publications, publicly available market research sources and from the market research report prepared by Frost & Sullivan which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any other party involved in the Global Offering or any of our or their respective directors, officers, representatives, affiliates or advisers and no representation is given as to its correctness, accuracy and completeness. Certain information and statistics included herein, including those excerpted from official and government publications and sources in China, may not be consistent with other information and statistics compiled within or outside China by third parties. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.*

### SOURCE OF INFORMATION

In connection with the Global Offering, we have engaged Frost & Sullivan, an independent third party, to conduct a study of the catering service market in China. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990's. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the catering service industry and its industry consultants, on average, have more than five years of experience.

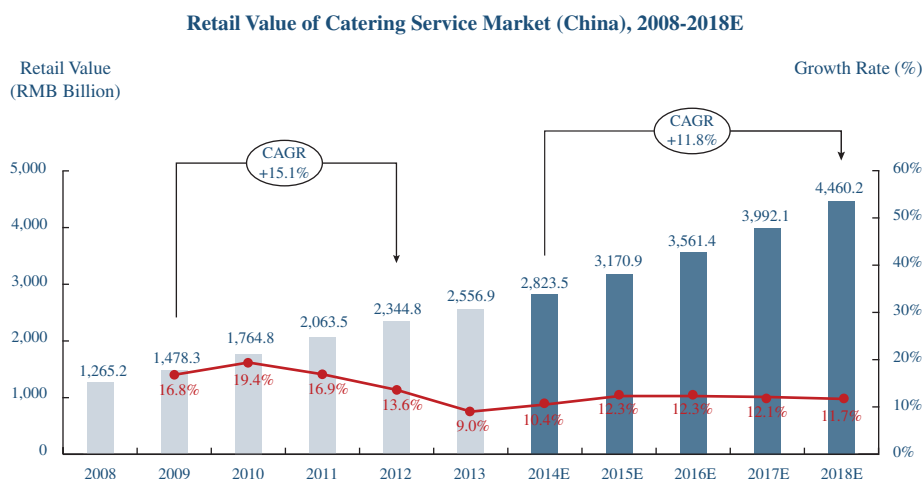
We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of China's QSR market for prospective investors. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from PRC government agencies, and market research on industry and enterprise player information issued by our chief competitors. Primary interviews were conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and

## INDUSTRY OVERVIEW

announcements from various PRC government agencies; and (ii) the information obtained from interviews is for reference only and the findings in this report are not directly based on the results of these interviews. Frost & Sullivan has proven track records in providing market research studies to government and private clients in the regions where the Frost & Sullivan Report covers. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the QSR market; and (iii) there is no war or large scale disaster during the forecast period. We agreed to pay Frost & Sullivan a fee of RMB980,000 for the preparation of the Frost & Sullivan Report, which had been paid as of the date of this prospectus.

### CATERING SERVICE MARKET IN CHINA

Catering service refers to the commercial activities of providing to consumers prepared foods and consumption sites and facilities. China's catering service market has experienced rapid growth in recent years along with its rapid economic development. The continuous development and urbanization in China drove the increasing disposable income, growing middle class and widespread dining-out trend throughout the country. All these factors contributed to a robust growth in China's catering service market. As measured by retail sales value, China's catering service market grew at a CAGR of 15.1% from RMB1,265.2 billion in 2008 to RMB2,556.9 billion in 2013. Going forward, with expanding middle class population, continuous increase in per capita annual disposable income and a growing preference to dining-out, the Chinese catering service market will maintain sustainable growth along with the steady economy growth in China. According to Frost & Sullivan, the retail sales value of China's catering service market is expected to grow at a CAGR of 11.8% to reach RMB4,460.2 billion in 2018.



*Source:* Historical data is from National Bureau of Statistics of China; Forecast data is from Frost & Sullivan analysis

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## INDUSTRY OVERVIEW

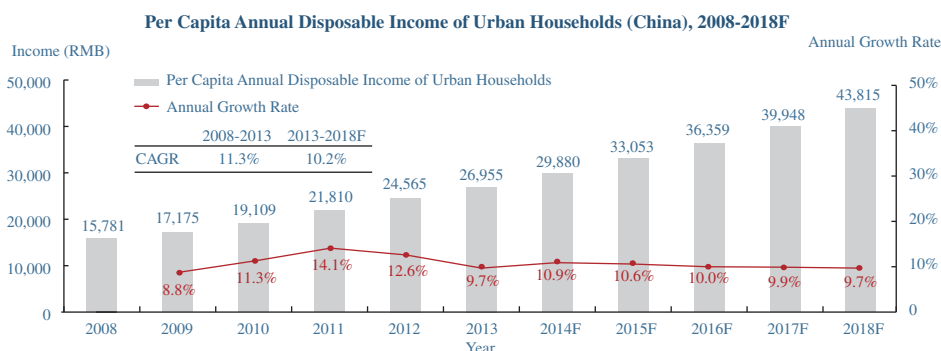
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### Factors Affecting the Catering Service Industry

#### *Economic Growth and Increasing Disposable Income*

In line with the growing Chinese economy, per capita nominal GDP in China has grown at a fast pace in the past several years and is expected to maintain solid growth in the future. The per capita nominal GDP in China grew at a CAGR of 12.0% from 2008 to reach RMB41,803 in 2013, and is forecasted by IMF to further grow at a CAGR of 9.2% to reach RMB65,012 in 2018.

Economic growth has demonstrated positive effect on Chinese residents' purchasing power. According to Frost & Sullivan, the per capita annual disposable income of urban households is expected to grow at a CAGR of 10.2% to reach RMB43,815 from 2013 to 2018.



*Source:* Historical data is from National Bureau of Statistics of China; Forecast data is from Frost & Sullivan analysis

#### *Population Growth and Rapid Urbanization*

Due to the rapid economic development in China and the influx of migrants from rural areas to urban areas, China's urban population has been steadily increasing. According to Frost & Sullivan, with the continuous development of urban facilities, China's urban population is expected to experience a CAGR of 2.7% from 2013 to 2018 to reach 833.4 million by 2018 with an urbanization rate of 59.7%.

The growing middle class population is also expected to drive the growth of the catering service industry in China. According to Frost & Sullivan, the total number of middle class in China is expected to further grow at a CAGR of 13.9% from 2013 to 2018 to reach 525.6 million. Meanwhile, the number of middle class is expected to represent 37.7% of China's total population in 2018.



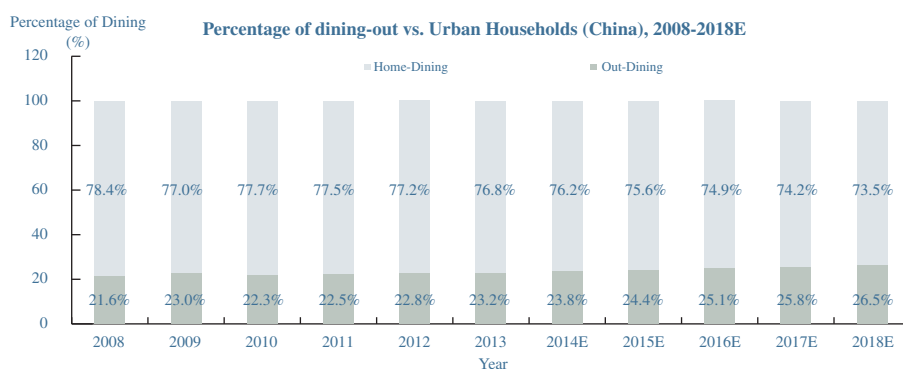
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## INDUSTRY OVERVIEW

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### *Changing Consumer Behavior*

With increasing disposable income and urbanization, consumers dine in restaurants more frequently. From 2008 to 2013, dining-out expenditure as a percentage of total dining expenditure of urban households increased from 21.6% to 23.2%. There are three key drivers of the dining-out trend: (i) together with the continuous growth in economy and urbanization, the average income level of Chinese households has also increased continuously in recent years, (ii) the PRC Government has released a series of stimulus policies to boost domestic consumption, and (iii) lifestyle is expected to continue to change in China. Chinese people are willing to choose out-dining instead of home-dining. According to Frost & Sullivan, in 2018, the percentage of out-dining expenditure is expected to reach 26.5%.



*Source:* Historical data is from National Bureau of Statistics of China; Forecast data is from Frost & Sullivan analysis

The increasing urbanization and the growing per capita income have contributed to the rapid growth in spending on consumer products in China. Total retail sales of consumer goods in China increased to RMB23,781 billion in 2013 from RMB11,483 billion in 2008, representing a CAGR of 15.7%. To relieve the impact of the financial crisis, the PRC Government has released a series of stimulus policies to boost domestic consumption. Going forward, the PRC Government is expected to continue to optimize the economic structure, aiming to transfer the economic model from an investment-driven one to a consumption-driven one. Under this trend, the retail sales of consumers goods are likely to experience further growth. According to Frost & Sullivan, the total retail sales of consumer goods in China is expected to grow at a CAGR of 13.7% to reach RMB45,227 billion in 2018.

Along with the increasing income, Chinese people's expenditure on food has also grown. From 2008 to 2013, per capita food expenditure of urban households grew at a CAGR of 9.3%, while that of rural households enjoys faster growth at a CAGR of 13.1%. Chinese people are also purchasing more and more higher-end food like imported foreign food. In addition, the frequency of consumers to dine out at restaurants instead of their own home also increased significantly. Both of these trends are likely to continue in the coming years. According to Frost & Sullivan, from 2013 to 2018, the per capita expenditure on food for urban households and rural households is expected to reach RMB9,819.6 and RMB3,642.5, respectively.

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## INDUSTRY OVERVIEW

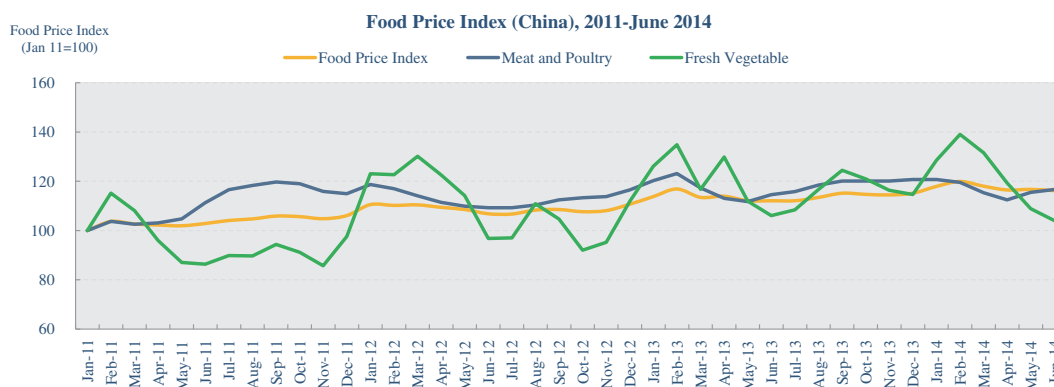
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### *Food Price*

The food price index in China grew relatively steadily in recent years. Taking January 2011 as the base month and assuming it as 100, it increased by 15.1% to reach 115.1 in December 2013. With further economic development, rising disposable income and inflation, the rising trend of food price index is expected to continue in the next few years.

In line with the food price index, the meat and poultry price index has experienced an upward trend from 2011 to 2013. Looking forward, such price index is more likely to keep stable or rise because of more market demand, increasing net income, inflation and other factors.

The price index of fresh vegetables has been fluctuating substantially from 2011 to 2013. The price of fresh vegetables is easily impacted by many factors, such as season, weather conditions, global trade, natural disasters, cost of fertilizers and domestic supply and demand. In the future, this price index is expected to continue to fluctuate according to Frost & Sullivan.



Source: National Bureau of Statistics of China; Frost & Sullivan

### **Market Segments and Breakdown**

Catering service market can be further divided into four categories:

*Fine Dining.* Fine dining refers to the catering segment that comprises traditional sit-down restaurants with full table service provided by waiters. Restaurants generally offer food at set lunch and dinner times rather than all day.

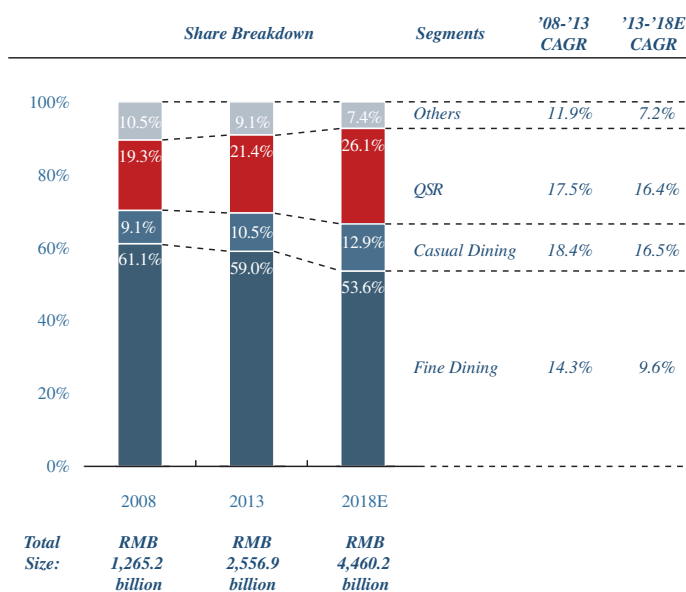
*Casual Dining.* Casual dining refers to catering establishments that serve moderately priced food in a casual environment. They typically provide some table service. Opening times are longer and meal times are more flexible as compared with fine dining. This segment comprises cha chaan teng restaurants, Western casual dining establishments, cafés, tea houses and bars serving soft drinks, alcoholic drinks along with snacks.

## INDUSTRY OVERVIEW

*QSR.* QSR is also known as fast food restaurant, which refers to restaurants that provide fast and consistent food and services, with no or little table service. QSR typically has order taking and cooking platforms designed specifically for ordering, preparing and serving menu items with speed and efficiency. The QSR segment can be further divided into normal QSR and fast casual restaurant.

*Others.* Other catering establishments include takeaway shops, hawker stalls, roadside vendors and those establishments not otherwise described in the organized segments above. This segment also includes event catering.

In China, casual dining and QSRs have developed rapidly in the past decade. Social gatherings, as well as an emerging preference for casual dining atmosphere, greatly drove the development of casual dining. Meanwhile, quicker pace of life cultivated the demand for QSRs. Rapidly expanding QSR networks in China's major cities also boosts the development of the QSR market. The chart below sets forth the breakdown of China's catering service market by the major segments:



Source: Frost & Sullivan analysis

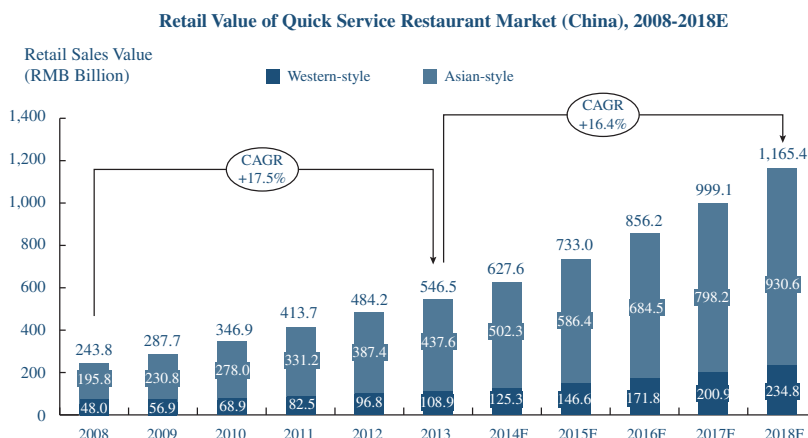
### CHINA'S QSR AND FAST CASUAL DINING MARKET

#### Market Overview

The QSR market in China grew at a CAGR of 17.5% from RMB243.8 billion in 2008 to RMB546.5 billion in 2013, which included sales at western style QSRs of RMB108.9 billion and sales at Asian style QSRs of RMB437.6 billion. Due to factors such as dietary habits and tradition, sales at Asian-style QSR account for the majority of China's QSR market as measured by retail sales value. Asian-style QSR market in China grew at a CAGR of 17.4% from RMB195.8 billion in 2008 to RMB437.6 billion in 2013. In the coming years, there are

## INDUSTRY OVERVIEW

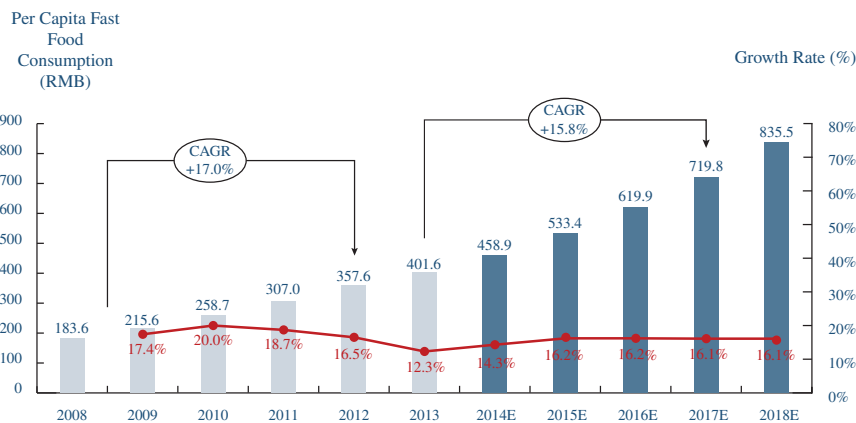
still great growth potentials in the QSR market in China given the increasing level of disposable income and higher frequency of dining-out. According to Frost & Sullivan, the total QSR market is expected to further grow at a CAGR of 16.4% to reach RMB1,165.4 billion in 2018. The retail sales value of western-style and Asian-style QSR markets is expected to reach RMB234.8 billion and RMB930.6 billion, respectively, in 2018.



Source: Frost & Sullivan analysis

### Fast Food Consumption in China

Similar to the total retail value of fast food market, per capita fast food consumption also experienced a steady growth in recent years. Increasing disposable income, rapid development of the catering service industry and expanding fast food restaurants networks all contributed to the growth in per capita fast food consumption in China, which increased at a CAGR of 17.0% from RMB183.6 in 2008 to RMB401.6 in 2013. The accelerating pace of life is likely to further encourage fast food consumption in the future. The dining-out population is also expected to continue to grow, while more and more people prefer fast food owing to its speed, taste and convenience. As a result, per capita fast food consumption in China is expected to grow further at a CAGR of 15.8% to reach RMB835.5 in 2018 according to Frost & Sullivan.



Source: Frost & Sullivan analysis

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## INDUSTRY OVERVIEW

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China's per capita fast food consumption of US\$63.7 in 2013 was low as compared with developed countries the United States, Canada or Australia's per capita fast food consumption of approximately US\$600. Despite the higher per capita fast food consumption in Western developed countries, the consumption growth was lower than that in China. Therefore, per capita fast food consumption in China is likely to experience strong growth in the future and present a significant market potential. According to Frost & Sullivan, the gap between China's per capita fast food consumption and that of developed countries will narrow gradually.

### Key Growth Drivers

The future growth of China's QSR industry is expected to be driven by the following factors:

*Growing per capita disposable income and urbanization rate.* With the growth of per capita disposable income, urban residents' expenditure on restaurants, especially on fast food, has presented a strong growth momentum in recent years. Besides, China is experiencing rapid urbanization, which will lead to dining-out habits and quicker pace of life of urban area being adopted at the new urbanized regions.

*Changing consumer lifestyle and quicker living tempo.* Rapid economic development in China has largely changed people's lifestyle, with an increase trend of dining-out instead of dining at home. With increasing urbanization and further penetration of urban habits, styles and culture to rural areas, the pace of life has gradually quickened, leading to increasing preference for fast food.

*Increasing trend toward chained QSR outlets.* Generally, chained QSR has a higher possibility to serve better quality food with safer and healthier food ingredients. Chained QSRs also typically have better back-end infrastructure, IT systems and stronger investment on food safety and control over their supply chains. Thus, these chained QSR have become more popular among consumers. In recent years, Chinese consumers are placing increasing importance on food safety and quality, health and wellness, cuisine flavor and tastes. Greater purchasing power has allowed Chinese consumers to be more conscious about food safety and health issues, and to be increasingly discerning the brand and reputation of the restaurant. Because of these, the QSR industry is likely to be more consolidated by chained QSR with greater quality and reputation. As a result, small and unchained restaurants are likely to be replaced.

*Government Supporting Measures.* The PRC Government has been issuing policies to support the catering industry in recent years such as Outline for National Catering Industry Development Programs (2009-2013) 《全國餐飲業發展規劃綱要2009-2013》. These regulations encouraged more chain operation, larger scale enterprises, and more group-operated brands, through which centralized procurement and standardized management can be realized. The policy aims to accelerate the industrialization, modernization and globalization process of China's catering industry to improve the reputation of Chinese food enterprises. On the other hand, due to the restrictions on the excessive spending by governmental officials on recreational and entertainment activities, including considerable amount of fine dining, the government encourages the development of the mass catering service industry including quick service restaurants market and casual dining market.

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## INDUSTRY OVERVIEW

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### Fast Casual Restaurant Market

A fast casual restaurant is typically defined as one that offers quick service, but promises higher quality food and more casual atmosphere than a normal QSR. In China, average consumer spending at fast casual restaurants ranges from RMB35 to RMB65. Unlike most normal QSR which has finished or semi-finished food in stock for consumer order, fast casual restaurants usually prepare fresh and made to order food. In the U.S., typical fast casual brands include Chipotle, Panda Express, Panera, Noodles & Company, Fiesta Restaurant Group. These restaurants normally provide fresher and healthier food with better dining environment as compared with normal QSRs. Recipes in the U.S. for fast casual restaurants include noodles, Mexican cuisine, salads and bakeries instead of chips and hamburgers. Typical fast casual brands in China include noodle shops such as Ajisen and Master Kong Chef's Table, salad fast food brands such as Wagas, and fast casual hotpot restaurants such as Xiabuxiabu.

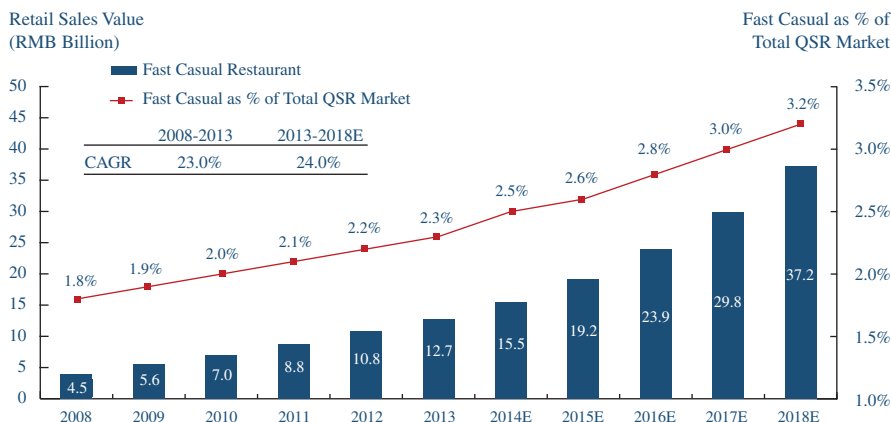
Fast casual restaurant is an emerging sub-segment under the QSR segment in China, with relatively smaller market size but faster market growth. In the U.S., the concept of fast casual restaurants did not become a mainstream until 2010. As people with faster pace of life began to develop higher expectation on fast food quality and dining environment, fast casual restaurants grew rapidly and was more favored by consumers. The table below summarizes certain key differentiating factors between fast casual restaurant and normal QSR:

	Fast Casual	Normal QSR
Average Check . . . . .	RMB35-RMB65	Lower than RMB35
Service Speed . . . . .	Fast	Fast
Restaurant Decor . . . . .	More casual and upscale atmosphere	Simple and concise
Food Quality . . . . .	Usually healthier with better quality	Not as good as fast casual
Food Preparation. . . . .	Prepared fresh, made to order	Final or semi-final food in stock for order

Fast casual restaurant concept in China is a relatively emerging but widely accepted concept. Fast casual restaurants are mostly found in first- and second-tier cities so far, catering to the need of working population who have higher expectation on and demand for fast food, particularly tasty, on-demand, fresh, and efficiently prepared food at relatively affordable prices. It represented 2.3% of the total QSR market in 2013 but is expected to experience strong growth in the future.

## INDUSTRY OVERVIEW

China's fast casual restaurant market grew at a CAGR of 23.0% from RMB4.5 billion in 2008 to RMB12.7 billion in 2013. According to Frost & Sullivan, the fast casual restaurant market in China is expected to further grow at a CAGR of 24.0% to reach RMB37.2 billion in 2018 with a 3.2% share of the total QSR market in China.



Source: Frost & Sullivan analysis

## CHINA'S FAST CASUAL HOTPOT DINING MARKET

### Market Overview

Hotpot is one of the most popular dine-out option throughout China. Traditionally, hotpot refers to a stew, consisting of a simmering metal pot of stock at the center of the dining table. While the hotpot is kept simmering, ingredients are placed into the pot and are cooked at the table. Typical hotpot dishes include sliced meat, leaf vegetables, mushrooms, wontons, egg dumplings and seafood. Vegetables, fish and meat should be fresh. Cooked food is usually eaten with a dipping sauce. Hotpot can be categorized into several types. For example, Sichuan and Chongqing areas are famous for its spicy hotpot; lamb hotpot was made famous in Northern China; and seafood hotpot was originated in Southern China. Although the growth of overall catering industry slowed down in 2013 due to the restraint in consumption on public expenses, traditional hotpot showed comparatively stable growth trend in recent years. The retail value of traditional hotpot market grew at a CAGR of 16.9% from 2008 to 2013 to reach RMB384.5 billion. Looking forward, due to the government's promotional measures for mass catering industry including fast food, hotpot and others, the growing trend of dining-out and increasing disposable income, the total retail value of traditional hotpot is expected to further grow at a CAGR of 16.5% from 2013 to 2018 to reach RMB826.5 billion.

By the end of 1990's, Xiabuxiabu successfully integrated the key characteristics of traditional hotpot and fast food, and initiated the fast casual hotpot market in China. As one of the pioneers in this market, Xiabuxiabu has spearheaded the development of fast casual hotpot dining and became a dominant player in this market. Currently, fast casual hotpot typically refers to bar-style hotpot restaurants which serve food quickly with efficient table service. Also, fast casual hotpot restaurants typically have higher table or seat turnover rate as compared with traditional hotpot restaurants.

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## INDUSTRY OVERVIEW

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The table below summarizes certain key differences between traditional hotpot dining and fast casual hotpot dining:

	<b>Traditional Hotpot</b>	<b>Fast Casual Hotpot</b>
<b>Service and Facilities</b>	Generally, traditional hotpot is set in the middle of the table and in large size. Several customers share one pot at the same time or each customer use one pot. Normally, there are full table services.	Most of the pots are in small size. Each customer uses an individual pot. To ensure quick service, normally the consumers sit surrounding a bar. There are little table services compared with traditional hotpot.
<b>Number of SKUs</b>	Diversified selection of food entailed large number of SKUs.	Simpler menu and therefore fewer SKUs.
<b>Target Customers</b>	Most of the customers dine in groups.	Most of the customers are in small groups or individual customers.
<b>Average Spending</b>	Mid-to-high average spending. Typically, average check is from RMB65 to RMB100.	Average spending of fast casual hotpot is lower than traditional hotpot. Typical average check is from RMB35 to RMB65.
<b>Location</b>	Traditional hotpot restaurants are generally located in larger premises. Typical area of a store ranges from 500 square meters to thousands of square meters.	Fast casual hotpot restaurants are mainly located in places with dense streams of people. Typical locations include shopping malls and transportation centers. With a higher seat density than traditional hotpot restaurants, general area of a fast casual hotpot store ranges from 100 to 300 square meters.
<b>Capital requirement</b>	Traditional hotpot restaurants generally have higher decoration standards and need more expensive equipment as compared with fast casual hotpot restaurants. Accordingly, traditional hotpot restaurants have a higher capital requirement.	Fast casual hotpot restaurants involve relatively lower capital requirement. Typical capital expenditure for a fast casual hotpot restaurant is lower than RMB1.5 million
<b>Competitive Landscape</b>	The market is highly fragmented, with major market players including Little Sheep, Little Lamb and Hai Di Lao.	Xiabuxiabu currently dominates the fast casual hotpot market.

Unlike traditional hotpot, fast casual hotpot restaurants are more convenient, much quicker in service speed, and lower average spending. Due to these benefits, fast casual hotpot has gradually won the acceptance and favor of consumers.

The fast casual hotpot market as measured by retail sales value increased from RMB1.3 billion in 2008 to RMB3.9 billion in 2013, with a CAGR of 23.4%. In 2013, fast casual hotpot market accounted for approximately 30.7% of China's fast casual restaurant market, 0.7% of China's QSR market and 0.2% of China's catering service industry. It developed at a faster speed than the total fast food restaurant market. It is expected to grow at a quicker space from 2013 to 2018, with a CAGR of 25.5% to reach RMB12.0 billion.



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## INDUSTRY OVERVIEW

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### Competition Landscape

In 2013, Xiabuxiabu was the third largest Asian-style QSR brand in terms of system wide sales revenue only after Kungfu and Ajisen (which is also a leading fast casual brand). Meanwhile, in China's fast casual restaurant market, being a sub-segment of the QSR market Xiabuxiabu ranked second with a market share of 15.8%, only next to Ajisen. The table below sets forth the top five fast casual brands and their respective system wide restaurant count in China and market shares as of and for the year ended December 31, 2013:

<b>Brand</b>	<b>System Wide Restaurant Count</b>	<b>Market Share</b>
Ajisen . . . . .	596	17.6%
Xiabuxiabu . . . . .	394	15.8%
Master Kong Chef's Table . . . . .	117	4.7%
Delicious Hotpot. . . . .	54	1.7%
Red Rudoer Port. . . . .	70	1.6%

*Source: Frost & Sullivan Report*

Currently, Xiabuxiabu dominates China's fast casual hotpot market with a market share of 51.9% as measured by sales revenue in 2013. Sales revenue of the second largest company was only one-tenth the revenue of Xiabuxiabu. In addition, Xiabuxiabu also had the highest sales per restaurant, daily customer traffic, sales density and the shortest payback period among the top five companies. Currently, Xiabuxiabu operates in Beijing, Tianjin, Liaoning, Hebei, Shanghai, Jiangsu, Shandong, Shanxi and Henan (which it entered recently). Xiabuxiabu has achieved leading market position among all fast casual hotpot restaurants in most of the provinces and centrally administered municipalities it operates.

### Key Success Factors and Entry Barriers

*Brand names and reputation.* Fast casual hotpot market is an emerging market with a rapid development trend. Strong brand names and reputation are key determining factors for consumers to try this new type of restaurants. Considering that there is a limited number of fast casual hotpot restaurants that operate in multiple provinces, companies with strong brand names are able to have prominent first mover advantage in this market.

*Supply chain management.* Fast casual hotpot restaurants provide wide selection of fresh ingredients including lamb, beef and vegetables. It is crucial for fast casual hotpot restaurants to secure sufficient and quality supplies of these ingredients. Generally, leading companies, including Xiabuxiabu, that have established an efficient and well-developed supply chain, are better positioned in secure supply of ingredients. In addition, by having a well-established supply chain, companies are able to better control the food quality and total cost of food ingredients.

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## INDUSTRY OVERVIEW

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*Experiences in location selection.* Accurate selection of locations is important for newly opened fast casual hotpot restaurants. Dense streams of people generally support the revenue of a new store. However, such good locations with a strong flow of customers usually entail high rents, which has a direct impact on the profitability of a restaurant. Companies need to take comprehensive considerations of all the key factors and strike a balance between the sales revenue and total cost. Successful companies have gained extensive experiences through running large-scale restaurants. These experiences are expected to improve the successful rates of new restaurants.

*Tasty flavor.* Tasty flavor is always one of the top priorities when people choose a restaurant. Given that the kinds of ingredients are similar for different brands of fast casual hotpot restaurants, the quality and selections of seasoning are crucial for the flavor. Unique and tasty seasoning is expected to improve the popularity and attractiveness of fast casual hotpot restaurants.

### CONSUMER BEHAVIOR AND BRAND AWARENESS

In February 2014, we commissioned Frost & Sullivan to conduct street interceptions and pen-and-paper interviews (collectively, the “**Interviews**”) with 1,920 respondents across 16 cities in the PRC on cuisine preferences and 960 respondents on fast casual hotpot market across eight cities in the PRC where Xiabuxiabu operates. In terms of cuisine preference, hotpot is considered the most popular and the most frequently visited dine-out option in all the 16 cities. In terms of brand awareness, Xiabuxiabu ranks first in terms of top-of-mind brand awareness. Furthermore, according to a survey conducted by Frost & Sullivan in 2014, 99.8% of our customers, who participated in the survey with 960 respondents expressed their willingness to visit Xiabuxiabu again. In addition, according to the survey, customers consider service speed, savory taste of the soup bases and dipping sauces, hygiene and healthiness of the food as the most important factors for choosing Xiabuxiabu.

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## REGULATORY OVERVIEW

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### REGULATIONS ON FOREIGN INVESTMENT IN FOOD SERVICES INDUSTRY

According to the Catalog for the Guidance of Foreign Investment Industries (外商投資產業指導目錄), as amended, consumer food and beverage services and general food production and sales are classified as industries where foreign investments are allowed.

### LAWS AND REGULATIONS ON FOOD SAFETY AND LICENSING REQUIREMENT FOR CONSUMER FOOD SERVICES

Before June 1, 2009, the provision of consumer food service in the PRC was subject to the Food Hygiene Law of the PRC (the “**Food Hygiene Law**”, 中華人民共和國食品衛生法), which was promulgated on October 30, 1995 by the Standing Committee of the National People’s Congress (the “**SCNPC**”) and came into force on the same date. Pursuant to the Food Hygiene Law, any entity or individual engaged in the provision of consumer food and beverage services shall obtain in advance a food hygiene license issued by the competent health administration authority. No consumer food services shall be provided without a duly-obtained food hygiene license.

The Administrative Measures for Food Hygiene Licenses (食品衛生許可證管理辦法) came into force on June 1, 2006. Under the measures, any entity or individual must be examined and approved by the health administration authority before engaging in providing consumer food services, and must be responsible for food hygiene in the provision of consumer food services. The valid period of hygiene license is four years, while the valid period of hygiene licenses for entities and individuals that engage in food production operations temporarily may not exceed six months. The Administrative Measures for Food Hygiene Licenses ceased to be effective and was replaced by the Administrative Measures on Food and Beverage Service Licensing which came into force on May 1, 2010. But if the consumer food services providers had already obtained a food hygiene license in accordance with the Administrative Measures for Food Hygiene Licenses, the food hygiene license is required to remain effective during its valid period. The food and beverage service providers are required to apply for the food service license to replace the food hygiene license when the valid period of the food hygiene license has expired.

In accordance with the Food Safety Law (食品安全法) and the Implementation Rules of the Food Safety Law (食品安全法實施條例), as effective on June 1 and July 20, 2009 respectively, with the purpose of guaranteeing food safety and safeguarding the health and life safety of the public, the state set up a system of the supervision, monitoring and appraisal on the food safety risk, compulsory adoption of food safety standards, operating standards for food production, food inspection, food export and import and food safety accident response. Providers for food circulation service and consumer food service shall comply with the aforementioned law and rules.

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## REGULATORY OVERVIEW

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According to the Food Safety Law, the State Council shall set up the Food Safety Commission, whose duties shall be stipulated by the State Council. The health administration department under the State Council shall assume the food safety integrated coordinating responsibility and shall be in charge of food safety risk evaluation, formulation of food safety standard regulations, publication of food safety information, formulation of the qualification conditions for food inspection institutions and the inspection standards, and organizing investigation and disposal of serious food safety accidents. The quality supervision department and the administration for industry and commerce under the State Council, as well as the food and drug supervision and administration department of the state shall, in accordance with the provisions of Food Safety Law and the duties stipulated by the State Council, implement the supervision and administration respectively on food production, food circulation, and catering service activities.

The Food Safety Law sets out, as penalties for violation, various legal liabilities in the form of warnings, orders to rectify, confiscations of illegal gains, confiscations of utensils, equipment, raw materials and other articles used for illegal production and operation, fines, recalls and destructions of food in violation of laws and regulations, orders to suspend production and/or operation, revocations of production and/or operation license, and even criminal punishment. Any restaurant which does not have the food service license may be subject to confiscation of gains and other restaurant assets, or fines ranging from RMB2,000 to ten times the value of food sold at the restaurant.

The Implementation Rules of the Food Safety Law, as effective on July 20, 2009, further specify the detailed measures to be taken and conformed to by food producers and business operators in order to ensure food safety as well as the penalties that shall be imposed should these required measures not be implemented.

On March 4, 2010, the Ministry of Health promulgated the Administrative Measures on Food and Beverage Service Licensing (餐飲服務許可管理規定) and Administrative Measures on Food Safety Supervision in Food and Beverage Services (餐飲服務食品安全監督管理辦法). Both measures came into force on May 1, 2010, and the Administrative Measures for Food Hygiene Licenses (食品衛生授權管理辦法) and the Administrative Measures for Food Hygiene in the Food and Beverage Industry (餐飲與食品衛生管理辦法) were repealed concurrently. Pursuant to the Administrative Measures on Food and Beverage Service Licensing, the local food and drug administrations at various levels are responsible for the administration of food and beverage service licensing. Providers of consumer food services are required to obtain a food service license and are responsible for safety in food and beverage services in accordance with the law. A service provider, providing food and beverage services at different locations or venues must obtain separate food and beverage service licenses for each venue. In the event of any change in the operation locations, a new application for food service license is required.

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## **REGULATORY OVERVIEW**

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The food service license is valid for a period of three years. For those temporarily providing consumer food services, an interim food service license valid for a period not exceeding six months must be obtained. Where renewal is required, the consumer food services providers are required to submit a renewal application in writing to the original issuing department at least 30 days before the expiry date of the valid period of the food and beverage service license. Overdue renewal application may follow the same procedure as new application for food service license. The original issuing department, after accepting the renewal application for the food service license, must focus on whether there has been any change to the formerly licensed operation venue, any change in the layout of flow processes, and any change to the hygiene facilities, as well as whether the applicant has satisfied the basic conditions required for the grant of a license, and a new food service license will be issued upon successful renewal. Any transfer, alteration, lending, sale or leasing of food service licenses by consumer food service provider is strictly prohibited. Consumer food services providers shall operate within the scope of their licenses in accordance with the law and the scope specified in their food service licenses. The food service license must be hung or displayed at a conspicuous position in the venue for dining. If the consumer food service providers had already obtained a food hygiene license before the implementation date of the Administrative Measures on Food and Beverage Service Licensing, the pre-existing food hygiene license will remain effective during its valid period. The consumer food service providers holding a food hygiene license shall apply to the appropriate local food and drug supervision and administration authorities in the administrative regions where they operate, for a food service license before the food hygiene license's expiry date.

### **REGULATIONS ON THE SANITATION OF THE PUBLIC ASSEMBLY VENUE**

The Regulation for the Administration of Sanitation of the Public Assembly Venue (公共場所衛生管理條例) effective on April 1, 1987, and the Implementation Rules for the Regulation for the Administration of Sanitation of the Public Assembly Venue (公共場所衛生管理條例實施細則) effective on May 1, 2011 were promulgated by the State Council and the Ministry of Health respectively. The said regulations were adopted for the purpose of creating favorable and sanitary conditions for the public assembly venues, preventing disease transmission and safeguarding people's health. Depending on the requirements of the local health authority, a restaurant may be required to obtain a public assembly venue hygiene license from the local health authority before it applies for a business license.

Under the aforementioned regulations, the local health authorities shall take the responsibility of supervising the sanitary conditions of the public assembly venues within their respective jurisdiction. Violation of the said regulation and rules may result in administrative penalties ranging from warning, fine, order of rectification, suspension of business, or even the revocation of the public assembly venue hygiene license, depending on the seriousness of the violation.

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## REGULATORY OVERVIEW

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### REGULATIONS ON LIQUOR CIRCULATION

In accordance with Measures for the Administration of Liquor Circulation (酒類流通管理辦法) effective on January 1, 2006, which was issued by the Ministry of Commerce, a system of archival filing of operators as well as a traceability system shall be established for liquor circulation. Any entity or individual engaged in the wholesale or retail of liquor (herein after referred to in general as “liquor operator”) shall, within 60 days of acquiring a business license, make the archival filing and registration formalities in the competent department of commerce at the same level as the administrative department for industry and commerce where the registration is handled according to the principle of territorial administration. The liquor operator shall, when purchasing any liquor, claim the duplicates of the business license, sanitation license, production license (limited to producers), registration form, power of attorney of liquor distribution (limited to producers) of a supplier that supplies goods for the first time. The liquor operator shall establish an account for purchase and sales in the liquor business operation which he or she shall keep for 3 years. The competent departments of commerce may impose a fine up to RMB5,000 on any violation of the aforementioned rules.

### REGULATIONS ON FIRE PREVENTION

The Fire Prevention Law of the PRC (the “**Fire Prevention Law**”, 中華人民共和國消防法) was adopted on April 29, 1998 and amended on October 28, 2008. According to the Fire Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Public Security and its local counterparts at or above county level shall monitor and administer the fire prevention affairs. The fire prevention units of such public security departments are responsible for implementation. The Fire Prevention Law provides that the fire prevention design or construction of a construction project must conform to the national fire prevention technical standards. For a construction project that needs a fire prevention design under the national fire protection technical standards for project construction, the construction entity must submit the fire prevention design documents to the fire prevention department of the public security authority for approval or filing purposes (as the case may be). No construction permit shall be given for the construction projects for which the fire prevention design has not been approved or are considered unqualified after the review, nor shall such construction entity commence their construction.

Upon completion of a construction project to which a fire prevention design has been applied, according to the requirements of the Fire Prevention Law, such project must go through an acceptance check on fire prevention by, or filed with, the relevant fire prevention departments of public security authorities. No construction may be put into use before it is accepted by the relevant fire prevention units of public security authorities. For each public assembly venue, such as Karaoke clubs, dancing halls, cinemas, hotels, restaurants, shopping malls, trade markets and etc., the construction entity or entity using such venue shall, prior to use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention or fails to conform to the safety requirements for fire prevention after such inspection.

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## REGULATORY OVERVIEW

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### LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

#### Environmental Protection Law

The Environmental Protection Law of the PRC (the “**Environmental Protection Law**”, 中華人民共和國環境保護法) was promulgated and effective on December 26, 1989. This Legislation has been formulated for the purpose of protecting and improving both the living environment and the ecological environment, preventing and controlling pollution, other public hazards and safeguarding people’s health.

According to the provisions of the Environmental Protection Law, in addition to other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts take charge of administering and supervising said environmental protection matters. According to the provisions of the Environmental Protection Law, the environmental impact statement on any such construction project must assess the pollution that the project is likely to produce and its impact on the environment, and stipulate preventive and curative measures; the statement shall be submitted to the competent administrative department of environmental protection for approval. Installations for the prevention and control of pollution in construction projects must be designed, built and commissioned together with the principal part of the project.

Permission to commence production at or utilize any construction project shall not be granted until its installations for the prevention and control of pollution have been examined and confirmed to meet applicable standards by the appropriate administrative department of environmental protection that examined and approved the environmental impact statement. Installations for the prevention and control of pollution shall not be dismantled or left idle without authorization. Where it is absolutely necessary to dismantle any such installation or leave it idle, prior approval shall be obtained from the competent local administrative department of environmental protection.

The Environmental Protection Law makes it clear that the legal liabilities of any violation of said law include warning, fine, rectification within a time limit, compulsory cease operation, compulsory reinstallation of dismantled installations of the prevention and control of pollution or compulsory reinstallation of those left idle, compulsory shutout or closedown, or even criminal punishment.

#### Law on Prevention and Control of Water Pollution

The Law on Prevention and Control of Water Pollution of the PRC (the “**Water Pollution Prevention and Control Law**”, 中華人民共和國水污染防治法) first came into effect as of November 1, 1984 and was subsequently amended on May 15, 1996 and February 28, 2008, respectively. The law applies to the prevention and control of pollution of rivers, lakes, canals, irrigation channels, reservoirs and other surface water bodies and groundwater within the PRC. According to the provisions of the Water Pollution Prevention Law and other relevant laws and regulations of the PRC, the Ministry of Environmental Protection and its local counterparts at or above county level shall take charge of the administration and supervision on the matters of prevention and control of water pollution.

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The Water Pollution Prevention Law provides that environmental impact assessment should be conducted in accordance with the relevant laws and regulations for new construction projects and expansion or reconstruction projects and other facilities on water that directly or indirectly discharge pollutants to water bodies. Facilities for the prevention and control of water pollution at a construction project shall be designed, built and put into use along with the main structure of the construction project. The construction project shall only be used after facilities for the prevention and control of water pollution pass the inspection and acceptance by the Ministry of Environmental Protection and its appropriate local counterparts. Dismantling or putting off operation of such installations shall be subject to prior approval of the local counterpart of the Ministry of Environmental Protection at or above the county level.

Under the Provisions on the Inspection and Acceptance of Environmental Protection of Construction Projects, promulgated on December 27, 2001, each construction project is subject to the inspection and acceptance of the Ministry of Environmental Protection or its local counterparts upon the completion of construction, and only after the construction project has passed the inspection and acceptance and acquired the approval thereon can it be put into production or use.

In addition, pursuant to the Water Pollution Prevention, Control Law and the Notice on Issues Concerning Strengthening the Levying of Pollutant Discharge Fees on Village and Township Enterprises and Food and Beverage and Entertainment Service Industries issued by the State Administration for Environmental Protection (國家環境保護局關於加強鄉鎮企業和餐飲娛樂服務業排污收費有關問題的通知) and Regulation on Administration of the Levying and the Use of Pollutant Discharging Fees (排污費徵收使用管理條例), food and beverage service enterprises that directly discharge pollutants into a water body shall pay pollutant discharge fees according to the type and quantity of the water pollutants discharged and the standard scale of collecting pollutant discharge fees.

### LAWS AND REGULATIONS ON LABOR AND PRODUCTION SAFETY

#### Labor Contract Law

As of January 1, 2008, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers under the Labor Contract Law of the PRC (the “**Labor Contract Law**”, 中華人民共和國勞動合同法). Enterprises and institutions are forbidden to force the laborers to work beyond the time limit and the employers shall pay laborers overtime working compensation in accordance with national regulations. In addition, the labor wages shall not be lower than local standards on minimum wages and shall be paid to the laborers timely. According to the Labor Law of the PRC (中華人民共和國勞動法) effective as of January 1, 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by state rules and standards on work place safety and sanitation, educate laborers of work place safety and sanitation. Work place safety and sanitation facilities shall comply with state-fixed standards. The enterprises and institutions shall provide laborers with work place safety and sanitation conditions which are in compliance with state stipulations and relevant articles of labor protection.



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### **Production Safety Law**

According to the PRC Production Safety Law (the “**Production Safety Law**”, 中華人民共和國安全生產法) effective as of November 1, 2002 and as amended on August 27, 2009, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to the employees thereof regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipments that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipments according to the prescribed rules.

### **Regulations on Social Insurance and Housing Fund**

According to the Social Insurance Law (社會保險法) effective as of July 1, 2011, the Regulations on Occupational Injury Insurance (工傷管理條例) effective as of January 1, 2004, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法) effective as of January 1, 1995, the Interim Regulations concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) effective as of January 22, 1999, the Interim Measures concerning the Administration of the Registration of Social Insurance (社會保險登記管理暫行辦法) effective as of March 19, 1999 and the Regulations concerning the Administration of Housing Fund (住房公積金管理條例) effective as of April 3, 1999 and amended on March 24, 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans.

## **LAW ON INTELLECTUAL PROPERTY RIGHTS**

### **Trademarks**

Trademarks are protected by the PRC Trademark Law which was adopted in 1982 and subsequently amended in 1993, 2001 and 2013 as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council in 2002. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. Trademark license agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a “first-to-file” principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a

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trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

### **Domain Names**

In September 2002, the CNNIC issued the Implementing Rules for Domain Name Registration setting forth detailed rules for registration of domain names. On November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn”. In February 2006, the CNNIC issued the Measures on Domain Name Dispute Resolution and relevant implementing rules, pursuant to which the CNNIC can authorize a domain name dispute resolution institution to decide disputes.

### **REGULATIONS ON FOREIGN CURRENCY EXCHANGE**

Pursuant to the Foreign Exchange Administration Regulations, as amended in August 2008, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless SAFE’s prior approval is obtained and prior registration with SAFE is made. In May, 2013 SAFE promulgated SAFE Circular No. 21 which provides for and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange.

In August 2008, SAFE promulgated SAFE Circular No. 142 regulating the conversion, by a foreign-invested enterprise, of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The SAFE Circular No. 142 requires that the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used according to the approved business scope. Violations of the SAFE Circular No. 142 will result in severe penalties, such as heavy fines. Furthermore, SAFE promulgated in November 2010 SAFE Circular No. 59, which tightens the regulation over settlement of net proceeds from overseas offerings like this offering and requires that the settlement of net proceeds must be consistent with the description in this prospectus for the offering. SAFE also promulgated SAFE Circular No. 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay loans between nonfinancial enterprises.

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## **REGULATORY OVERVIEW**

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### **REGULATIONS ON STOCK INCENTIVE PLANS**

In February 2012, SAFE promulgated the Notice on Foreign Exchange Administration of PRC Residents Participating in Share Incentive Plans of Offshore Listed Companies, or SAFE Circular No. 7, replacing the previous rules issued by SAFE in March 2007. Under SAFE Circular No. 7 and other relevant rules and regulations, PRC residents who participate in stock incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants.

The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in the PRC opened by the PRC agents before distribution to such PRC residents.

### **PRC ENTERPRISE INCOME TAX LAW**

On March 16, 2007, the National People's Congress enacted the Enterprise Income Tax Law and its implementing rules, both of which became effective on January 1, 2008. Under the EIT Law, enterprises are classified as resident enterprises and non-resident enterprises. PRC resident enterprises typically pay an enterprise income tax at the rate of 25%. An enterprise established outside of the PRC with its "de facto management bodies" located within the PRC is considered a "resident enterprise," meaning that it can be treated in a manner similar to a PRC domestic enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define de facto management body as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise.

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## REGULATORY OVERVIEW

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The SAT issued Circular No. 82 on April 22, 2009. Circular No. 82 provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled offshore incorporated enterprise is located in China, which include all of the following conditions: (a) the location where senior management members responsible for an enterprise’s daily operations discharge their duties; (b) the location where financial and human resource decisions are made or approved by organizations or persons; (c) the location where the major assets and corporate documents are kept; and (d) the location where more than half (inclusive) of all directors with voting rights or senior management have their habitual residence.

In addition, the SAT issued a bulletin on July 27, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular No. 82. This bulletin clarifies matters including resident status determination, post-determination administration and competent tax authorities. Although both Circular No. 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign individuals, the determining criteria set forth in Circular No. 82 and the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or PRC enterprise groups or by PRC or foreign individuals. We are not aware of any offshore holding companies with a similar corporate structure as ours ever having been deemed a PRC “resident enterprise” by the PRC tax authorities.

Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority.

However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties issued on February 20, 2009 by the SAT, or Circular No. 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties, or Circular No. 601, issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties issued on June 29, 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

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## **REGULATORY OVERVIEW**

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In January 2009, the SAT promulgated the Provisional Measures for the Administration of Withholding of Enterprise Income Tax for Non-resident Enterprises, or the Non-resident Enterprises Measures, pursuant to which, the entities which have the direct obligation to make certain payments to a non-resident enterprise shall be the relevant tax withholders for such non-resident enterprise. Further, the Non-resident Enterprises Measures provides that in case of an equity transfer between two non-resident enterprises which occurs outside China, the non-resident enterprise which receives the equity transfer payment shall, by itself or engage an agent to, file tax declaration with the PRC tax authority located at the place of the PRC company whose equity has been transferred, and the PRC company whose equity has been transferred shall assist the tax authorities to collect taxes from the relevant non-resident enterprise.

On April 30, 2009, the MOF and the SAT jointly issued the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business, or Circular No. 59. On December 10, 2009, the SAT issued SAT Circular No. 698. Both Circular No. 59 and SAT Circular 698 became effective retroactively as of January 1, 2008. By promulgating and implementing these two circulars, the PRC tax authorities have enhanced their scrutiny over the direct or indirect transfer of equity interests in a PRC resident enterprise by a non-resident enterprise. Under SAT Circular No. 698, where a non-resident enterprise transfers the equity interests of a PRC “resident enterprise” indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in certain low tax jurisdictions, the non-resident enterprise, being the transferor, shall report to the competent tax authority of the PRC “resident enterprise” this Indirect Transfer.

The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC tax at a rate of up to 10%. Although it appears that SAT Circular No. 698 was not intended to apply to purchase and sale of shares of publicly traded companies in the open market, the PRC tax authorities may determine that SAT Circular No. 698 is applicable to our non-resident shareholders who acquired our shares outside of the open market and subsequently sell our shares in our private financing transactions or in the open market if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose, and we and our non-resident shareholders may be at risk of being required to file a return and being taxed under SAT Circular No. 698 and we may be required to expend valuable resources to comply with SAT Circular No. 698 or to establish that we should not be taxed under SAT Circular No. 698.

### **REGULATIONS ON PRC BUSINESS TAX**

Pursuant to the Provisional Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例), which became effective on January 1, 1994 and were subsequently amended on November 10, 2008 and became effective on January 1, 2009, and its implementation rules, any entity or individual providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The scope of services which constitutes taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

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## REGULATORY OVERVIEW

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Since January 1, 2012, the MOF and the SAT have been implementing the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (營業稅改徵增值稅試點方案) (the “**Pilot Plan**”). As approved by the State Council on July 25, 2012, this Pilot Plan was first launched in Shanghai, and such Pilot Plan has been expanded to other regions since August 1, 2012 and nationwide as of August 1, 2013. Such Pilot Plan has been currently implemented in industries including transportation, postal, and certain modern service industries but not catering service industry, thus any entity or individual rendering catering services in the territory of PRC is generally subject to a business tax at the rate of 5% on the revenues generated from provision of such services.

### TAIWAN/MAINLAND INVESTMENT REGULATIONS

According to the Taiwan/Mainland Investment Regulations, indirect investments made by a Taiwanese person (including individuals and enterprises) in the PRC through companies under its control are subject to the Prior Approval Requirement. However, if the total cumulative investment amount represented by all Taiwanese persons in a single PRC enterprise does not exceed US\$1,000,000, it is permitted to report to the Taiwan Investment Commission within six months after the investment was made in such PRC enterprise. The Taiwan/Mainland Investment Regulations also set forth certain limitations on the amount of investments that each Taiwanese person may make in the PRC. Currently, a Taiwanese individual is restricted by the Taiwan/Mainland Investment Regulations from investing more than US\$5,000,000 in the PRC per year.

Where the Prior Approval Requirement is applicable, if a Taiwanese person violates the Taiwan/Mainland Investment Regulations when investing in any PRC entity without obtaining prior approval from the Taiwan Investment Commission, among others, the Taiwan Investment Commission has authority to impose a fine ranging from NT\$50,000 to NT\$25,000,000, which may vary depending on the unapproved investment amount, on such violating Taiwanese person.

The Taiwan/Mainland Investment Regulations also provides that a Taiwanese person who has violated the Prior Approval Requirement may file a voluntary report to the Taiwan Investment Commission specifying the investments that it has made and its willingness to accept the penalties to be imposed under Standards Governing Penalty on Illegal Investments or Technical Cooperation in the Mainland China Area, last amended on July 24, 2012, so as to rectify such person’s violation of the Taiwan/Mainland Investment Regulations with respect to the PRC investments that it has made. Subsequently, after paying the fine imposed by the Taiwan Investment Commission, such Taiwanese person should submit a supplemental application to the Investment Commission seeking approval of its investment in the PRC.

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## OUR HISTORY AND DEVELOPMENT

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### OUR HISTORY AND DEVELOPMENT

#### Overview

We are a leading fast casual restaurant operator in China as measured by system wide revenue and restaurant count in 2013 according to Frost & Sullivan. We began our business in 1998 through Xiabu Fast Food which was established by Mr. Ho, whose interest was held through three nominee shareholders, utilizing funds from Mr. Ho's own financial resources. We pioneered the fast casual bar-style hotpot cuisine in China in 1998. Our operational headquarters is located in Beijing, the PRC. The nominee arrangement was terminated in 2002.

A direct or indirect investment by a Taiwanese person (including an individual or an enterprise) in the PRC is subject to the prior approval of the Taiwan Investment Commission. In March 2014, Mr. Ho voluntarily reported to the Taiwan Investment Commission for his failure to obtain prior approval in connection with his indirect equity interests in Xiabu Beijing and Xiabu Shanghai through the Company. On April 2, 2014, Mr. Ho submitted a supplemental application to the Taiwan Investment Commission seeking approval for rectifying these investments and obtained such approval on April 8, 2014. See "Risk Factors – Risks Relating to Doing Business in China – We may be restricted from making future investment in the PRC as a result of Mr. Ho's Interest in us." for details of the historical non-compliance and "Future Plans and Use of Proceeds – Methods of Remitting Net Proceeds into China" for details of our plan to remit the net proceeds of the Global Offering into China.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 14, 2008. On May 16, 2008, Xiabu Hong Kong was incorporated and became our direct wholly-owned subsidiary. Xiabu Hong Kong established Xiabu Beijing as its direct wholly-owned subsidiary on September 16, 2008. Upon its establishment, Xiabu Beijing acquired substantially all assets and all business operations from Xiabu Fast Food and became the principal PRC operating subsidiary of our Group. In November 2008, a financial investor, Actis, invested approximately RMB144 million in our Group. On June 10, 2010, Xiabu Hong Kong further established Xiabu Shanghai as its other direct wholly-owned subsidiary, which principally operates our business in Eastern China.

In December 2012, GASF acquired all of the Shares then held by Actis in our Company, and GASF then became a controlling shareholder of our Company. Immediately upon the closing of the transactions, GASF held approximately 44.79% interest in our Company. Since 2012, General Atlantic has continuously provided our Group with the benefits of their strategic advice and extensive experience with respect to growth acceleration, human capital, performance improvement and global access to their network, as well as guidance in preparation for our Listing.

In March 2013, the MagiCapital Group, through its special purpose vehicle, Elite Century Capital acquired from GASF and directly subscribed from our Company a minority stake in our Company, further diversifying our Shareholders' base. Immediately upon the completion of the acquisition and subscription, Elite Century Capital held approximately 4.41% interest in our Company.

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## OUR HISTORY AND DEVELOPMENT

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As at the Latest Practicable Date, each of Mr. Ho (through Ying Qi Investments), GASF and Elite Century Capital held approximately 54.40%, 41.19% and 4.41% of the total issued share capital of our Company, respectively. Immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme), each of Mr. Ho (through Ying Qi Investments), GASF and Elite Century Capital shall hold approximately 42.68%, 32.32% and 3.46% of the issued share capital of our Company, respectively.

### Our Milestones

The following is a summary of our Group's key development milestones:

Year	Events
1998 . . . . .	We commenced our fast casual bar-style hotpot operations
1999 . . . . .	Our first restaurant was established in Beijing
June 2001 . . . . .	We expanded our restaurant network to Tianjin
May 2008 . . . . .	Our Company and Xiabu Hong Kong were established
September 2008 . .	Our principal operating subsidiary, Xiabu Beijing was established
November 2008 . .	Actis invested RMB144 million in our Company
August 2009 . . . .	Our Pre-IPO Share Incentive Plan was adopted
December 2009 . .	We opened our 100th restaurant outlet
June 2010 . . . . .	Our other operating subsidiary, Xiabu Shanghai, was established
September 2010 . .	We expanded our restaurant network to Shanghai upon the establishment of Xiabu Shanghai
September 2011 . .	We further expanded our restaurant network to Hebei and Shenyang and in the same month, we opened our 200th restaurant outlet
September 2012 . .	Total number of restaurant outlet opened since commencement of our business reached 300
December 2012 . .	GASF acquired all the shares held by Actis in our Company
March 2013 . . . . .	MagiCapital Group invested in our Company through its acquisition of shares from GASF and direct subscription from our Company
October 2013 . . . .	We began to expand into Shandong Province
October 2014 . . . .	We began to expand into Shanxi Province
November 2014 . .	We began to expand into Henan Province. Our restaurant network covered 25 cities over nine provinces and centrally administered municipalities in China

### EVOLUTION OF OUR GROUP

#### Establishment of our Company

Mr. Ho, our founder, the Chairman of our Board, an executive Director and our Controlling Shareholder, established our business in 1998 through Xiabu Fast Food and by utilizing his own financial resources. Mr. Ho recognized the growth potential of the fast casual bar-style hotpot cuisine business in China and embarked upon establishing our business and



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## OUR HISTORY AND DEVELOPMENT

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operations while at the same time, seeking funding from potential investors. Mr. Ho established our Company on May 14, 2008. The initial shareholder of our Company was Ying Qi Investments, a company established in the BVI and wholly-owned by Mr. Ho, with 450,000,000 Shares being issued and allotted to Ying Qi Investments.

### **Establishment of Xiabu Hong Kong**

Xiabu Hong Kong was incorporated in Hong Kong as a limited company on May 16, 2008 and became a direct wholly-owned subsidiary of our Company. Xiabu Hong Kong then became the immediate holding company of Xiabu Beijing and Xiabu Shanghai upon their respective establishments in September 2008 and June 2010 and oversees their respective operations.

### **Establishment of Xiabu Beijing**

Xiabu Hong Kong established Xiabu Beijing in the PRC as its direct wholly-owned subsidiary on September 16, 2008, with a registered capital of RMB55,000,000. Prior to the establishment of Xiabu Beijing, our Group's business was operated by Xiabu Fast Food. In July 2008, Xiabu Beijing entered into an agreement with such PRC company, pursuant to which Xiabu Beijing agreed to purchase substantially all assets and all businesses of Xiabu Fast Food for consideration of RMB30 million in order for Xiabu Beijing to assume the role of such PRC company. Such consideration was determined with reference to the then book value and financial performance of our Group.

In addition, in July 2008, Xiabu Hong Kong and Xiabu Fast Food entered into an intellectual properties transfer agreement, pursuant to which all intellectual properties then held by Xiabu Fast Food was transferred to Xiabu Hong Kong for consideration of RMB795,900, which was determined based on arm's length negotiation between the parties. Moreover, on November 3, 2008, Xiabu Beijing and Xiabu Fast Food further entered into an asset purchase agreement pursuant to which Xiabu Beijing agreed to purchase certain remaining assets, mainly motor vehicles, machinery and inventories, then held by such PRC company, for a total consideration of approximately RMB7.3 million. Such consideration was determined based on the valuation as at August 31, 2008 prepared by an independent third party valuer. Xiabu Fast Food is not a member of our Group and became and remains a dormant company since the sale of all of its business and operating assets to our Group.

Since the establishment of Xiabu Beijing and the acquisition of the assets and business from Xiabu Fast Food, Xiabu Beijing became the principal operating subsidiary of our Group that is responsible for overseeing and managing our fast casual food operations and business in Northern China. Xiabu Hong Kong has granted Xiabu Beijing licences to use the trademarks owned and registered by Xiabu Hong Kong in furtherance of our business in China. Xiabu Beijing has remained our wholly-owned subsidiary since its establishment.

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## OUR HISTORY AND DEVELOPMENT

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### **Investment by Actis into our Company**

In June 2008, Actis, our Company and Mr. Ho entered into the share purchase and share subscription agreement dated June 12, 2008, pursuant to which Actis, through its special purpose vehicles, subscribed for an aggregate of 59,772 of the then class A shares of par value of US\$0.0001 each, including 17,199 new class A shares issued and allotted to the special purpose vehicles of Actis for consideration of RMB144 million paid to our Company and 42,573 existing class A shares sold and transferred by Mr. Ho to the special purpose vehicles of Actis for consideration of RMB207 million, representing approximately 53.13% of the then issued share capital of our Company. Such consideration was determined with reference to the then financial performance of our Group and was based on arm's length negotiations between our Group and Actis. The share subscription by Actis was completed and the consideration was fully paid by Actis on November 3, 2008. In August, 2009, we effected a reorganization of our share capital pursuant to which 112,512 of the then existing issued class A shares of par value of US\$0.0001 each were replaced with 960,000,000 Shares of par value of US\$0.000025 each, of which 450,000,000 Shares were allotted to Ying Qi Investments and a total of 510,000,000 Shares to the special purpose vehicles of Actis.

During its investment in our Group, Actis brought strategic benefits to our Group in terms of business development and attraction of talented staff which have been instrumental to the growth of our Group.

### **Establishment of Xiabu Shanghai**

To further expand the geographic coverage of our restaurants to Eastern China, Xiabu Hong Kong further established Xiabu Shanghai in the PRC as its other direct wholly-owned subsidiary on June 10, 2010, with a registered capital of US\$1,000,000. Xiabu Shanghai is principally engaged in managing our fast casual food operations and business in Eastern China. Xiabu Shanghai has remained our wholly-owned subsidiary since its establishment.

## **FINANCIAL INVESTMENT**

We have issued and allotted Preferred Shares to our two Financial Investors, GASF and MagiCapital Group in 2012 and 2013, respectively.

### **Acquisition of the Actis Shares from by GASF and Exit of Actis**

In November 2012, GASF entered into a series of agreements with Actis and our Company pursuant to which GASF acquired all Shares then held by Actis in our Company, and contributed such Shares to our Company in consideration for the issue and allotment of 365,094,340 Preferred Shares by our Company.

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## OUR HISTORY AND DEVELOPMENT

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GASF entered into a sale and purchase agreement dated November 23, 2012 (the “**Sale and Purchase Agreement**”) pursuant to which GASF acquired an aggregate of 510,000,000 Shares (the “**Actis Shares**”), representing approximately 53.13% of the then issued share capital of our Company, from the special purpose vehicle of Actis (being the registered shareholder of such sale Shares) for consideration of US\$150,000,000. Such consideration was determined with reference to the net profit after tax, earnings and growth prospects of our Group at the time of the investment and was based on arm’s length negotiations between Actis and General Atlantic. The share acquisition was completed and the consideration was fully paid by GASF to Actis on December 12, 2012.

In addition, on November 23, 2012, our Company, Mr. Ho, Ying Qi Investments and GASF entered into a share subscription deed (the “**Share Subscription Deed**”) pursuant to which the parties agreed that upon the completion of the acquisition of the Actis Shares by GASF pursuant to the Sale and Purchase Agreement, our Company shall allot and issue to GASF 365,094,340 Preferred Shares, representing approximately 44.79% of the then issued share capital of our Company, in consideration of the contribution of the Actis Shares acquired by GASF under the Sale and Purchase Agreement to our Company. The said basis was set with reference to the net profit after tax, earnings and growth prospects of our Group and was agreed by GASF after arm’s length negotiations between our Group and General Atlantic. The 365,094,340 Preferred Shares were issued and allotted to GASF on December 12, 2012. Pursuant to the terms of the Share Subscription Deed, the Actis Shares contributed by GASF on December 12, 2012 were canceled on the same date. Upon completion of the transaction contemplated under the Share Subscription Deed, GASF held approximately 44.79% of the then issued share capital of our Company and Mr. Ho, through Ying Qi Investments, held the remaining 55.21%.

General Atlantic has continuously provided our Group with the benefits of their strategic advice and extensive experience with respect to growth acceleration, human capital, performance improvement and global access to their network, as well as guidance in preparation for our Listing.

### **Investment by the MagiCapital Group**

In February 2013, the MagiCapital Group, one of our Financial Investors, through its special purpose vehicle, Elite Century Capital, entered into a series of agreements with GASF and our Company, pursuant to which Elite Century Capital acquired an aggregate of 36,509,434 Preferred Shares in our Company, of which 12,169,812 Preferred Shares were issued and allotted by our Company at a total consideration of US\$5,000,000 and 24,339,622 Preferred Shares were acquired from GASF for total consideration of US\$10,000,000. Such consideration was determined with reference to the net profit after tax, earnings and growth prospect of our Group and was based on arm’s length negotiations among the parties. The Preferred Shares were transferred and allotted to Elite Century Capital on March 4, 2013 and the consideration was fully settled by Elite Century Capital on the same date. Immediately following the investment by the MagiCapital Group and as at the Latest Practicable Date, each of Mr. Ho (through Ying Qi Investments), GASF and Elite Century Capital held approximately 54.40%, 41.19% and 4.41% of the then issued share capital of our Company, respectively.

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## OUR HISTORY AND DEVELOPMENT

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The investment by the MagiCapital Group enabled us to further diversify our Shareholders' base.

Details of the investment by each Financial Investor are set forth below:

	GASF	Elite Century Capital
<b>Date of investment/agreement</b>	November 23, 2012	February 8, 2013
<b>Total consideration paid</b>	US\$150,000,000 was paid to Actis by GASF in cash and in consideration of the issuance and allotment of Preferred Shares by the Company to GASF, GASF contributed the Actis Shares to the Company	US\$15,000,000, among which US\$10,000,000 was paid to GASF in cash and US\$5,000,000 was paid to the Company in cash
<b>Basis of determination of the consideration</b>	With reference to the net profit after tax, earnings and growth prospects of our Group at the time of the investment and based on arm's length negotiations among the parties	With reference to the net profit after tax, earnings and growth prospects of our Group and based on arm's length negotiations among the parties
<b>Completion of the transaction and payment date of the consideration</b>	December 12, 2012	March 4, 2013
<b>Number of Preferred Shares subscribed for/acquired</b>	365,094,340 (24,339,622 Preferred Shares were subsequently transferred to Elite Century Capital on March 4, 2013)	36,509,434 (of which, 24,339,622 Preferred shares were acquired from GASF and 12,169,812 Preferred Shares were issued and allotted by the Company)
<b>Number of Preferred Shares held after the two rounds of investment by GASF and Elite Century Capital</b>	340,754,718	36,509,434
<b>Cost per Preferred Share paid</b>	Equivalent to approximately US\$0.410852 (equivalent to approximately HK\$3.19), which is calculated with reference to the consideration paid by GASF to Actis and the number of Preferred Shares issued and allotted to GASF by the Company	US\$0.410852 (equivalent to approximately HK\$3.19)
<b>Discount to mid-point of the Offer Price range</b>	32.22%	32.22%
<b>Approximate percentage of shareholding held in our Company immediately after completion of the Global Offering<sup>(Note 1)</sup></b>	32.32%	3.46%

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## OUR HISTORY AND DEVELOPMENT

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	<u>GASF</u>	<u>Elite Century Capital</u>
<b>Use of proceeds from the financial investment</b>	Our Company did not receive any proceeds from the sale of the Actis Shares from Actis to GASF	The proceeds of US\$5,000,000 received by the Company from Elite Century Capital had been fully utilized by the Company for business expansion and general corporate purposes
<b>Strategic benefits the Financial Investors brought to our Company</b>	Leverage on the extensive experience that General Atlantic gained from advising companies in their investment portfolios and benefit from the strategic advice General Atlantic provided to our Group in relation to our Group's business and in preparation for our Listing	Diversification of our Shareholders' base

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*Note:*

- (1) *On the basis that the Preferred Shares are convertible into Shares of our Company on an one-for-one basis and assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme*

### **Key Terms of the Preferred Shares**

Set forth below are the key terms of the Preferred Shares:

<b>Number Issued:</b>	A total number of 377,264,152 Preferred Shares, of which (i) 340,754,718 are held by GASF and (ii) 36,509,434 are held by Elite Century Capital.
<b>Voting Rights:</b>	Each holder of Preferred Shares is entitled to vote on an as-converted basis.
<b>Dividends:</b>	Each holder of Preferred Shares has the same entitlement to dividends in respect of the Preferred Shares as that for the Shares on a pro rata basis as if all of the Preferred Shares have been converted into Shares immediately prior to the record date for determining the Shareholders eligibility to receive such dividends.

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## OUR HISTORY AND DEVELOPMENT

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### Conversion Rights:

1. The holders of Preferred Shares shall have the right to convert their Preferred Shares into Shares. The number of Shares to which a holder shall be entitled upon conversion shall be the quotient of the relevant issue or subscription price of the Preferred Shares divided by the then-effective conversion price, initially being US\$0.410852 for the Preferred Shares held by each of GASF and Elite Century Capital. The initial conversion ratio shall be 1:1.
2. Any Preferred Share may, at the option of the holder thereof, be converted at any time based on the applicable conversion price.
3. Each Preferred Share shall automatically be converted, based on the applicable conversion price, into ordinary shares upon the earlier of:
  - the completion of a Qualified IPO or an initial public offering of the Shares that is approved by the Board, or
  - the closing of a transfer of shares by the investor to a person that is (a) primarily engaged in a business competing with our core hotpot chain restaurant business and other food related chain restaurant business (the “**Core Business**”) in the PRC, Hong Kong, Taiwan and Macau, or (b) a strategic investor, who, directly or indirectly, holds at least 30% shares in a business competing with our Core Business in the PRC, Hong Kong, Taiwan and Macau between the period from the fifth and eighth anniversary of December 12, 2012 in the event that a Qualified IPO has not been consummated by the fifth anniversary of December 12, 2012.

“**Qualified IPO**” means an initial public offering and listing of our Shares on the Main Board of the Stock Exchange or on the main board of the Taiwan Stock Exchange or in the PRC, pursuant to which our Company’s total market capitalization as a result of the Qualified IPO shall be no less than an amount to be agreed by GASF and Ying Qi Investments. The Global Offering is a Qualified IPO.

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## OUR HISTORY AND DEVELOPMENT

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**Adjustments to Conversion Price:** The conversion price shall be adjusted in the event of share splits and combinations, share dividends and distributions, other dividends, reorganizations, mergers, consolidations, reclassifications, exchanges and substitutions, as well as issuance of ordinary shares below the applicable conversion price.

### Principal Terms of the Shareholders' Agreements

On March 4, 2013, our Company, Mr. Ho, Ying Qi Investments, GASF and Elite Century Capital entered into an amended and restated shareholders' agreement (the "**Shareholders' Agreements**"), pursuant to which the Financial Investors were granted a number of special rights in relation to our Company, including without limitation, right of first offer, tag-along right, pre-emptive rights, appointment of director, information rights and exit rights. Set forth below is a summary of the principal special rights granted to the Financial Investors:

**Right of First Offer:** If Elite Century Capital proposes to transfer any of its shares of our Company, GASF shall have a right of first offer to purchase those shares that Elite Century Capital acquired from GASF, in the case that GASF does not exercise such right of first offer (or does not exercise such right to all Shares that it entitles to purchase), Ying Qi Investments shall have a further right of first offer. For the shares that Elite Century Capital subscribed from the Company, GASF and Ying Qi Investments shall have equal right of first offer.

If any one of GASF or Ying Qi Investments proposes to transfer any of its shares in the Company, the other party shall have a right of first refusal to acquire such shares.

**Tag-Along Right:** If any Shareholder proposes to transfer its Shares of our Company which will result in Ying Qi Investments or its affiliates no longer having control of our Group, then each Financial Investor shall have the right to participate in the transfer or sale of all or a portion of its shares to the transferee at the same price and terms and conditions as offered by the proposed transferee. In the case that the proposed transferee is not willing to take up the additional shares offered by the Financial Investors, the number of shares to be transferred to the transferee will be allocated among Ying Qi Investments, GASF and Elite Century Capital on a pro rata basis based on their respective shareholding percentages. In the event that the proposed transferee is not willing to acquire all of the shares offered for sale to the transferee by the Financial Investors, the shares held by GASF shall take priority over those held by Elite Century Capital in terms of the transfer or sale of shares to the transferee.

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- Pre-emptive Right:** If our Company proposes to issue any new shares, except for (a) Shares issued pursuant to a Qualified IPO, (b) any issuance of Shares pursuant to the conversion of Preferred Shares, (c) Shares in consideration of an acquisition of another business by any member of our Group that is approved by the Board and (d) Shares issued upon the exercise of options pursuant to a broad-based employee incentive scheme approved by the Board, each Shareholder shall have the first right to purchase, on a pro rata basis, new shares issued by our Company from time to time.
- Board of Directors and its committees:** The Board shall have five Directors. GASF shall be entitled to nominate for appointment, remove or replace (i) two Directors as long as GASF holds 30% or more of the fully diluted shares and (ii) one Director as long as GASF holds less than 30% but more than 10% of the fully diluted shares (the “**Investor Directors**”). GASF shall also have the right to nominate for appointment no more than one member of each of the executive committee, the audit committee, nomination committee and remuneration committee of the Board and participate in the decision-making process of such committees. Elite Century Capital does not have the right to nominate, remove or replace any Director.
- Veto/Protective Rights:** Certain matters would require the approval by simple majority of the Board including the approval by at least one Investor Director (in case of a Board resolution) or by GASF (in case of a Shareholders’ resolution), provided that GASF holds 10% or more of the fully diluted shares of our Company. Such matters include, among others, changes of authorized share capital or registered capital of any member of our Group, issue of new securities by our Company, declaration of dividends, creation or amendment of any employee share incentive scheme, acquisition or disposal of any share capital or interest exceeding certain amount, voluntary bankruptcy or equivalent, amend the constitutional documents of our Group, approval of business plan and financial budget, approval of any borrowings or capital expenditures (not covered in annual report or budget) exceeding certain amount, appointment of auditor, major management and compensation system of the Group and change of our principal business activities.
- Information and Inspection Rights:** The Financial Investors have the right to receive periodic financial information. The Financial Investors also have the right to reasonably request for information about, or answer its enquiries relating to, the operations, business affairs and financial condition of our Group.

All the special rights set out above will be terminated upon Listing when the Preferred Shares are automatically converted into Shares.



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### Information regarding the Financial Investors

#### *GASF*

GASF, a company incorporated in Singapore, is a private investment fund that is part of the General Atlantic private equity group, a leading global growth equity firm providing capital and strategic support for growth companies. Based in Singapore, GASF makes and holds investments in growth companies in Asia, including the PRC, Hong Kong, India, Singapore and other regions of Asia. The directors of GASF are Hsien Yang Lee and Nicholas A. Nash. General Atlantic Singapore Fund Management Pte. Ltd., a company incorporated in Singapore, is the investment manager of GASF. The sole shareholder of GASF is General Atlantic Singapore Fund Interholdco Ltd. (“**GA Interholdco**”). The shareholders of GA Interholdco are General Atlantic investment funds (the “**GA Funds**”) that are ultimately managed by the managing directors of General Atlantic LLC (the “**GA Managing Directors**”). There are 23 GA Managing Directors: Steven A. Denning (Chairman), William E. Ford (Chief Executive Officer), John Bernstein, J. Frank Brown, Gabriel Caillaux, Mark Dzialga, Cory Eaves, Martin Escobari, Patricia Hedley, David C. Hodgson, Rene Kern, Jonathan Korngold, Christopher Lanning, Jeff Leng, Anton Levy, Adrianna Ma, Thomas Murphy, Sandeep Naik, Andrew Pearson, Brett Rochkind, David Rosenstein, Philip Trahanas and Robbert Vorhoff. The GA Managing Directors may be deemed to share voting and dispositive power with respect to interests held by the GA Funds. The GA Funds control GASF by virtue of their ownership of all of the shares of Interholdco, which owns all of the shares of GASF.

As GASF will be a controlling shareholder and therefore a connected person of our Company upon our Listing, the Shares held by GASF will not be counted towards the public float after the Listing. Other than its shareholding in our Company, GASF and its ultimate beneficial shareholders are independent third parties.

#### *Elite Century Capital*

Elite Century Capital is a limited liability company incorporated under the laws of the BVI on June 12, 2012, and a wholly-owned special purpose vehicle of the MagiCapital Group. The MagiCapital Group consist of a group of growth capital investment funds based in Taiwan and wholly controlled by Magicapital GP Ltd., which acts as the general partner for the non-Taiwan part of MagiCapital Group, and its Taiwan affiliate Magicapital Financial Advisory Co., Ltd. (東博財務顧問股份有限公司), which acts as the investment manager for the Taiwan part of the MagiCapital Group. Mr. Lee Ming-Shan, is the ultimate controlling shareholder and director of Magcapital GP Ltd. and its Taiwan affiliate Magicapital Financial Advisory Co., Ltd. (東博財務顧問股份有限公司). Mr. Lee Ming-Shan (李明山) may be deemed to share voting and dispositive power with respect to interests held by Elite Century Capital Limited.

As Elite Century Capital and Mr. Lee Ming-Shan will not be a substantial shareholder nor a connected person of our Company upon our Listing, the Shares held by Elite Century Capital will be counted towards the public float after the Listing. Other than its shareholding in our Company, Elite Century Capital and its ultimate beneficial shareholders are independent third parties.

## OUR HISTORY AND DEVELOPMENT

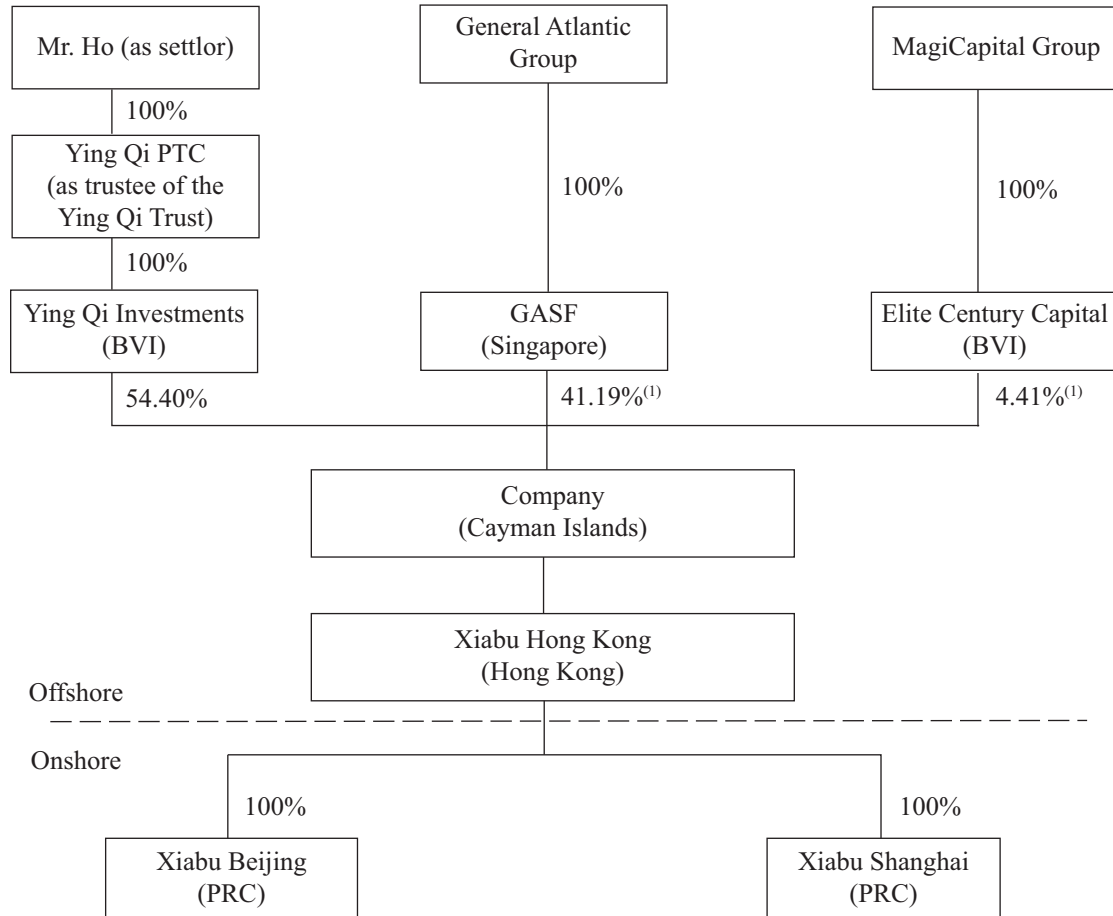
### *Confirmation by the Joint Sponsors*

The Joint Sponsors have confirmed that the financial investments by GASF and Elite Century Capital are in compliance with (i) the “Interim Guidance on Pre-IPO Investments” issued by the Listing Committee as the consideration for the Pre-IPO investments was all settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing; (ii) the Stock Exchange guidance letter HKEx-GL43-12 as the special rights under the Shareholders’ Agreements will terminate upon the conversion of the preferred shares held by each of GASF and Elite Century Capital prior to Listing; and (iii) the requirements under the Stock Exchange guidance letter HKEx-GL44-12 in respect of the Preferred Shares issued to GASF and Elite Century Capital.

### CORPORATE STRUCTURE

#### Corporate Structure as at the Latest Practicable Date

The following chart sets forth our corporate structure as of the Latest Practicable Date:



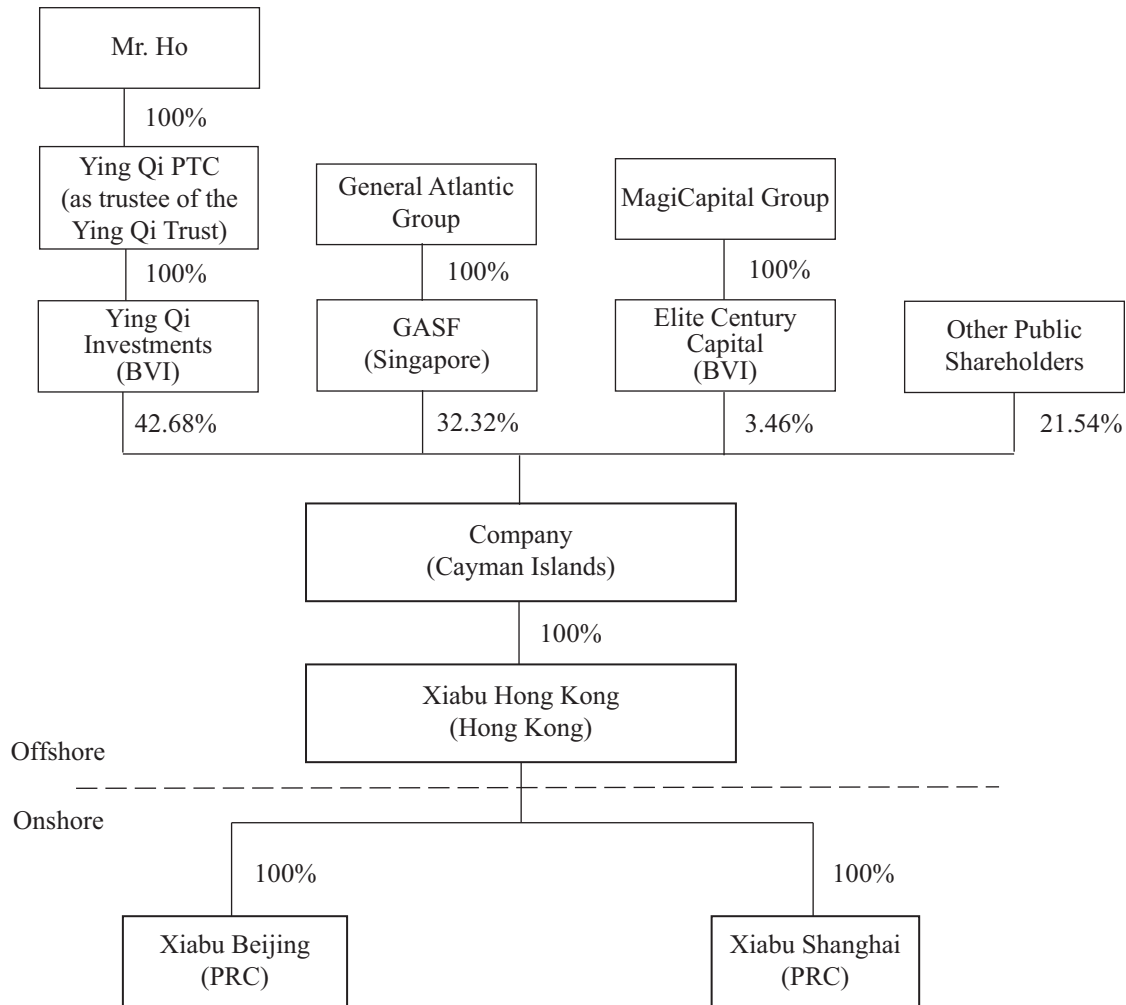
Notes:

- (1) Assuming the Preferred Shares are convertible into Shares on a one-for-one basis.
- (2) The sole shareholder of Ying Qi Investments is Ying Qi PTC in its capacity as trustee of the Ying Qi Trust, and which holds all issued shares in Ying Qi Investments. The Ying Qi Trust is a discretionary trust established by Mr. Ho (as the settlor) on May 8, 2014 for the benefit of Mr. Ho. The Ying Qi Trust (with Ying Qi PTC acting as the trustee) has control over Ying Qi Investments.

## OUR HISTORY AND DEVELOPMENT

### Corporate Structure Immediately Following the Global Offering

The following chart sets forth our shareholding structure immediately after the completion of the Global Offering, assuming the Over-allotment Option or the options granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme are not exercised:



### PRC REGULATORY REQUIREMENTS

According to the M&A Rules, mergers and acquisitions of equity interests or assets of any domestic enterprises by foreign investors shall be reviewed and approved by the MOFCOM or provincial commercial authority. Where any offshore enterprise established or controlled by PRC domestic companies or individuals intends to acquire domestic enterprises affiliated with such PRC domestic companies or individuals, the acquisition (“**Related Acquisition**”) shall be subject to the examination and approval of the MOFCOM.

The M&A Rules further provide that any listing on an overseas stock exchange of any offshore special purpose vehicle, which is directly or indirectly controlled by PRC domestic companies or individuals and has been formed for overseas listing purposes, shall be subject to approval by the CSRC.

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## OUR HISTORY AND DEVELOPMENT

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As advised by our PRC legal advisor, the issuance of Shares and the Listing on the Stock Exchange do not require the approval from CSRC. With respect to the subscription of the registered capital in each of Xiabu Beijing and Xiabu Shanghai by Xiabu Hong Kong, such transaction is not acquisition by an offshore enterprise of the domestic enterprises affiliated with such PRC domestic companies or individuals as regulated in the M&A Rules and thus not subject to the MOFCOM approval.

Our PRC legal advisor also advised that, as our Company is not an offshore special purpose vehicle directly or indirectly controlled by any PRC domestic companies or individuals and the investments in the PRC companies in our Group were not paid in the form of equity securities, and thus it is not necessary for us to obtain approval from the CSRC for the Listing and trading of our Shares on the Stock Exchange.

In addition, pursuant to the SAFE Circular No. 37 and the relevant PRC foreign exchange administration regulations, a domestic resident individual must make a foreign exchange registration for establishing or controlling an offshore special purpose vehicle, before making any financing or equity change of, or any round-trip investment through such special purpose vehicle.

Mr. Ho, our ultimate individual Controlling Shareholder, holds a foreign passport, and were holding such foreign passport when he established the Company and Xiabu Hong Kong. As advised by our PRC legal advisor, the SAFE Circular No. 37 is not applicable to Mr. Ho, as he is not a PRC domestic resident individual.

### OVERVIEW

We are a leading fast casual restaurant operator in China as measured by system wide revenue and restaurant count in 2013 according to Frost & Sullivan. We pioneered the bar-style hotpot cuisine in China in 1998 offering customers a fast casual dining experience. We started our first restaurant in Beijing in 1998 and gradually expanded our restaurant network to Hebei, Tianjin, Shanghai, Liaoning, Jiangsu, Shandong, Shanxi and Henan. During the Track Record Period, we opened an aggregate of 309 restaurants, and our total restaurants amounted to 243, 330, 394, 421 and 420 as of December 31, 2011, 2012 and 2013, June 30, 2014 and the Latest Practicable Date, respectively.

Our Xiabuxiabu concept offers our customers consistently great tasting and healthy food at value-oriented price with hospitable yet efficient services. Our fast casual hotpot dining concept positions us well in capitalizing on both the robust growth trend of fast casual dining market in China and the broad target market of hotpot dining. We believe the value we offer, the quality of our food and the warm ambience and service of our restaurants create a one-of-a-kind overall customer experience. Our price-for-value proposition allows us to tap into the broader traditional QSR segment. On the other hand, we believe the speed of our service and the quality of our food contributes to our value proposition that enables us to take market share from casual dining hotpot restaurants.

Our long-term commitment has forged our Xiabuxiabu brand into a brand synonymous with fast casual hotpot dining. Our iconic brand not only helps differentiate our cuisine and services from other fast casual and quick service dining options, but also attracts a large and loyal customer base.

Our highly standardized business model is a key element of our strong historical growth and a basis to support our future expansion across China, and ensures our ability to replicate this business model to achieve high scalability. Hotpot restaurants are easily replicable as most of their operations can be standardized. We further enhance the scalability of our hotpot dining concept by implementing a comprehensive set of standardized procedures. In addition, we own and operate all restaurants in our network, and therefore we are able to directly supervise them to ensure a high degree of standardization.

We believe the safety and quality of food is fundamental to a restaurant chain. Fresh and quality ingredients not only ensure the taste of the food but also form the cornerstone of a trusted restaurant brand. We safeguard this core value through our strategic procurement system, which comprises large-scale direct procurement from principal producing sources and stringent quality control measures. Our unique strategic procurement system ensures visibility and traceability of food ingredients throughout the catering service industry value chain. We also rely on our strategic procurement system to secure ample supply of ingredients to support our expansion.

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Our dining concept and value proposition, our brand recognition, our bar-style hotpot restaurant models, our scalable and standardized business model and our commitment to the safety and quality of ingredients result in our past financial success. On individual restaurant level, we were able to achieve industry-leading sales density of RMB21,800 per square meter in 2013. It took approximately three months for the substantial majority of the restaurants opened during the Track Record Period to achieve the first monthly break-even. Meanwhile, it took approximately 14 months for the majority of the restaurants opened during the Track Record Period to achieve cash investment payback point. On the other hand, our consolidated revenue grew at a CAGR of 37.7% from RMB997.3 million in 2011 to RMB1,890.5 million in 2013, while our net profit grew at a CAGR of 36.4% from RMB75.7 million in 2011 to RMB140.7 million in 2013. In the six months ended June 30 of 2013 and 2014, we generated revenue of RMB865.3 million and RMB1,018.7 million, respectively, and net profit of RMB58.1 million and RMB82.4 million, respectively.

### OUR COMPETITIVE STRENGTHS

We attribute our success to and distinguish ourselves by the following key competitive strengths:

#### **Leading position in China's fast casual restaurant industry pioneering a bar-style hotpot dining cuisine**

We are a leading fast casual restaurant operator in China as measured by system wide restaurant sales and restaurant count in 2013 according to Frost & Sullivan. We pioneered the bar-style hotpot cuisine in China in 1998 offering customers a fast casual hotpot dining experience. Our Xiabuxiabu concept offers our customers consistently great tasting and healthy food at value-oriented price with hospitable yet efficient services. Our fast casual hotpot dining concept positions us well in capitalizing on both the robust growth trend of fast casual dining market in China and the broad target market of hotpot dining.

Currently, fast casual dining concept is increasingly popular in modern urban areas of China due to growing health concerns over choice and preparation of food ingredients, higher expectation on dining experiences and preference over faster quality services, and is expected to enjoy strong growth in the future. According to Frost & Sullivan, China's market for fast casual restaurants as measured by retail sales value grew at a CAGR of 23.0% from RMB4.5 billion in 2008 to RMB12.7 billion in 2013, and is expected to further grow at a CAGR of 24.0% to reach RMB37.2 billion in 2018.

Hotpot cuisine is the most popular and frequently visited dine-out option in China according to Frost & Sullivan, and therefore enjoys a broad target market. Hotpot's nationwide popularity is attributable to the flexibility and fun of mixing and matching over a wide variety of fresh ingredients to create palatable dishes according to every diner's taste. Meanwhile, hotpot cuisine is distinctively attractive as compared with other dining options due to its do-it-yourself, or DIY, and cooked-at-the-table nature. Hotpot diners enjoy a hot, fresh and fully customized dish by cooking fresh ingredients in their individual hotpots at the table. In

addition, hotpot dining is considered as a relatively healthy dine-out option, which further enhances its popularity in modern days. The retail value of traditional hotpot market was RMB384.5 billion in 2013, and is expected to further grow at a CAGR of 16.5% from 2013 to 2018 to reach RMB826.5 billion according to Frost & Sullivan. As compared with other hotpot dining options, our fast casual hotpot cuisine presents additional competitive advantages such as pleasant and casual dining environment, faster services and ability to accommodate smaller dining groups.

Fast casual hotpot, given its clear advantages such as more convenient, quicker service and lower average spending as compared with traditional hotpot, is increasingly popular among consumers. Xiabuxiabu, which pioneered the fast casual hotpot concept in China, dominates the fast casual hotpot market with a market share of 51.9% in 2013 according to Frost & Sullivan.

### **Great tasting and high quality cuisine offering value above prices**

Our founding philosophy is to offer a great tasting and price-for-value meal made of fresh and high quality ingredients to each customer during every visit. We believe the value we offer, the quality of our food and the warm ambience and service of our restaurants create a one-of-a-kind overall customer experience. Our average customer spending of approximately RMB40 is competitive within the fast casual dining segment according to Frost & Sullivan. In particular, our price-for-value dining experience comprised the following essential elements:

- *Great tasting cuisine.* Our core competency as a restaurant chain operator is our ability to offer great tasting cuisine. The foundation of our hotpot cuisine is the “Xiabu flavor” stemming from our signature soup bases and dipping sauces based on our proprietary recipes. In 2012, our fiery hot soup base was awarded “Distinguishing Beijing Cuisine” by Beijing Cuisine Association. We were also selected as one of the “Top 50 Catering Enterprise” and “Top 10 Catering Brand” for 2013 by Beijing Cuisine Association.
- *Quality ingredients.* Our commitment to the freshness and quality of ingredients is realized through our direct procurement approach. Apart from the taste and quality, our hotpot cuisine also presents a healthy dining option. We believe that boiling can preserve the nutrients of the ingredients to a larger extent as compared with other common cooking techniques such as deep-frying, pan-frying and stir-frying. Also, hotpot cuisine avoids the excessive use of oil as seen in the other cooking processes of Chinese cuisines, and is therefore considered a relatively healthy dining option.
- *Hospitable dining environment and services.* Our restaurants offer customers a hospitable dining environment in a warm, pleasant and modern setting. The U-shaped bars we use in our restaurants ensure efficient and attentive services that suit the up-tempo urban lifestyle. We believe that our restaurant design connotes the warmth of home, which is particularly attractive to the growing urban population that works away from home.

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- *Attractive menu.* We offer a wide variety of ingredients including lamb, beef, seafood and fresh vegetables that provide balanced nutrition and menu options. The ability to mix and match such items gives customers the flexibility to cater to their preferences and dietary requirements. In addition, we continuously evolve and tailor our menu based on prevailing market trends and geographical preferences. For example, we added curry, tomato and Thai-style tom yum goong soup bases to our menu in response to changing consumer preferences.

The speed and convenience of our price-for-value dining experience allows us to compete directly in the large QSR and hotpot markets in China. Combined with our great tasting food, we believe we can continue to grow by increasing our market share of the QSR and hotpot markets in China.

### **Iconic brand with large loyal customer base**

We believe that our Xiabuxiabu brand has become synonymous with fast casual hotpot dining. Our iconic brand not only helps differentiate our cuisine and services from other fast casual and quick service dining options, but also attracts a large and loyal customer base. Our strong brand recognition is evidenced by our annual customer traffic of approximately 56 million in 2013. According to a survey conducted by Frost & Sullivan in 2014, 99.8% of our customers, who participated in the survey with 960 respondents, expressed their willingness to visit our restaurants again, which further corroborate our brand recognition. In addition, our brand is recognized as the “Top 100 Restaurant Brands in China” by China Cuisine Association for four consecutive years, the “Top 10 Hotpot Restaurant Brands in China” by China Hotel Association in 2012 and one of the “Top 10 Business Brands in Beijing” by Beijing Daily and Beijing Municipal Commission of Commerce.

As a result of our brand recognition and 15 years of commitment to fast casual hotpot cuisine, we have developed a number of competitive advantages, including higher entry barrier for our competitors in geographic regions where we have established strong presence, comprehensive local knowledge to identify desirable restaurant locations, strong leverage to negotiate and secure favorable lease terms with landlords of desirable restaurant locations, as well as the abilities to establish long-term relationships with quality suppliers such as Coca-Cola and Nestlé and attract and retain experienced management staff and other employees.

### **Attractive shop economics**

We operate a bar-style fast casual hotpot restaurant model, which has the following inherent economic advantages:

- *Ideal restaurant setup.* Leveraging our extensive experiences, we are able to select ideal location with heavy customer traffic. We also strictly limit the size of the premises for new restaurants. Our restaurants typically have a GFA that ranges from 200 square meters to 300 square meters. Our U-shape bar setup improves the staff



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to customer ratio in our restaurants by optimizing the seat density and minimizing idle seats. Such seat arrangement also easily accommodates solo diners, thereby expanding our target market and further differentiating us from other hotpot dining options. In 2011, 2012, 2013 and in the six months ended June 30, 2014, the seat turnover rate at our restaurants was 4.7, 4.4, 4.2 and 3.7, respectively.

- *Low operating costs.* Our restaurants require minimal food preparation space and staff. Chefs are also not necessary due to the DIY nature of hotpot cuisine. In 2011, 2012, 2013 and in the six months ended June 30, 2014, our restaurant level operating profit amounted to 19.5%, 18.7%, 19.4% and 21.6%, respectively.
- *Low capital expenditure.* Our restaurants do not require any expensive kitchen or cooking equipment, and therefore entail minimal capital expenditure for each restaurant. During the Track Record Period, the average capital expenditure for our restaurants was approximately RMB1.2 million.

As a result of these inherent advantages, we were able to achieve strong restaurant level economics, including:

- *Industry leading payback period.* During the Track Record Period, it took approximately 14 months for the majority of our restaurants opened during the Track Record Period to achieve cash investment pay back.
- *Rapid restaurant ramp-up.* It took approximately three months for the substantial majority of the restaurants opened during the Track Record Period to achieve the first monthly break-even.
- *High sales density.* Industry leading sales density of approximately RMB21,800 per square meter in 2013.

### **Highly standardized and scalable business model**

Hotpot restaurants are easily replicable as most of their operations can be standardized. In particular, hotpot restaurants involve minimal food processing and preparation at restaurant level and do not require any chef. As compared with traditional hotpot restaurants, fast casual hotpot restaurants further benefit from simpler menu and fewer SKUs, smaller operating area and fewer employees per restaurant. We further enhance the scalability of our business model by implementing a comprehensive set of standardized procedures. In addition, we own and operate all restaurants in our network, and therefore we are able to directly supervise them to ensure a high degree of standardization.

Our standardized operations enhance scalability by allowing us to efficiently transfer knowledge and adopt best practices when opening new restaurants. Standardized operations also allow us to maintain high and consistent quality of operations among all of our restaurants, as well as facilitate the implementation of strategic decisions throughout our restaurant network. We believe that our restaurant network comprising 100% self-operated restaurants enables us to easily implement our comprehensive set of standards and specifications.

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- *Supply chain.* We procure the ingredients we use through a centralized platform and produce a substantial portion of our signature soup bases and dipping sauces based on our proprietary recipes at our food processing plants. The centralized procurement and production of ingredients facilitates our implementation of a consistent quality standard throughout our restaurant network. We also implement a uniform quality control standard at both the procurement department level and the restaurant level.
- *Restaurant operations.* We implement a comprehensive set of guidelines to cover every aspect of our restaurant operations, including restaurant design, staff uniforms, menu items, pricing, promotional activities, advertisements, food preparation, facility maintenance, cleanliness of the premises and employee conduct as well as our staff training regimes.

In addition to standardized operations, the low capital requirement for a new restaurant further facilitates the scalability of our business model. Meanwhile, we attribute the scalability of our business model to our flexible site selection and restaurant opening criteria and our hub-and-spoke expansion strategy. As a result of the high popularity of our fast casual hotpot cuisine, our large customer base and the fact that our restaurant model does not require extensive kitchen space or certain infrastructure support such as gas lines for cooking and parking spaces, we enjoy flexibility in selecting sites for new restaurants. In particular, we consider premises in either commercial, residential or office district to be viable options for opening new restaurants.

On the other hand, our proven ability to implement the hub-and-spoke expansion strategy also facilitates the replication of our success in different regions. We typically penetrate a market by concentrating our resources in certain major commercial districts, and gradually penetrate into the adjacent areas. For example, we started in Beijing and further expanded our restaurant network to Tianjin and other adjacent cities in Hebei province. As a result of the high scalability of our business model and strong execution capability, we were able to grow our total restaurant number from 243 as of December 31, 2011 to 421 as of June 30, 2014. In particular, we opened one new restaurant in approximately every four days during the Track Record Period.

### **Strong ability to control food ingredients supply and quality**

We believe the safety and quality of food is fundamental to a restaurant chain. Fresh and quality food ingredients not only ensure the taste of food but also form the cornerstone of a trusted restaurant brand. We safeguard this core value through our strategic procurement system, which ensures visibility and traceability of food ingredients throughout the catering service industry value chain. We also rely on our strategic procurement system to secure ample supply of ingredients to support our expansion. Our highly-effective strategic procurement system includes three essential elements:

- *Large-scale direct procurement from principal production sources.* Our centralized procurement system not only promotes standardization but also creates economies

of scale that enable us to establish long-term and direct cooperation with reputable lamb and beef suppliers. Such cooperation in turn enables us to secure sufficient and reliable supply of lamb and beef at favorable prices. Currently, the substantial majority of beef and lamb used in our restaurants were procured through our centralized procurement system.

- *Farm to table.* To ensure sufficient supply of fresh vegetables on a daily basis, we collaborate with numerous agricultural cooperatives and farmers directly. Under this collaboration arrangement, we provide our contract agricultural cooperatives and farmers with an annual plantation plan and undertake to purchase all the vegetables they grow in accordance with the plan and meet our specifications. Such plantation plans are made in accordance with our consumption forecast. We are also able to minimize the risk of interruption from extreme weather conditions through our plantation plans that require the contract agricultural cooperatives and farmers to maintain plantation sites at multiple locations. Currently, the substantial majority of vegetables used in our restaurants were procured under this arrangement.
- *Stringent quality control measures.* Our stringent quality control measures start with careful selection of suppliers. Our large procurement scale enables us to work exclusively with reputable suppliers that satisfy our specific quality requirements. Our direct procurement approach also enables us to require our lamb and beef suppliers and contract agricultural cooperative and farmers to implement our stringent quality standards. For example, we require a complete set of inspection and compliance record from our lamb and beef suppliers for the lamb or beef we procure. We also conduct examinations on the farmland, fertilizers, seeds and agricultural chemicals used by our contract agricultural cooperatives and farmers under our farm to table arrangement. Lastly, we conduct a stringent acceptance inspection for each batch of ingredients that enters our restaurant network.

### **Experienced and professional management team supported by a strong team of seasoned restaurant managers**

We are led by an experienced, professional and passionate management team. Our Chairman and founder, Mr. Ho Kuang-Chi, has over 16 years of experience as an entrepreneur in the QSR industry. Mr. Ho is one of the pioneers of the bar-style fast casual hotpot restaurant model in China in 1998 and has grown our Xiabuxiabu brand into a brand synonymous with bar-style hotpot restaurants. Our chief executive officer, Ms. Yang Shuling, has been managing our operation since our inception, and has been instrumental in our rapid development. Ms. Yang has over 16 years of experience in the catering service industry. Meanwhile, our management team comprises a balanced mix of entrepreneurial and pioneer industry experts with substantial experience working for multinational corporations before joining us as well as long-term employees that have been with us since our inception. The majority of our senior management has been working as a team for over a decade. Most of our senior management personnel have over 15 years of experience in the restaurant or catering service industries possess diverse experiences and complementary expertise. Our management team has spearheaded our development into the largest fast casual hotpot restaurant chain in China in terms of system wide sales and restaurant numbers in December 31, 2013 according to Frost & Sullivan.

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We believe that human resources play a critical role in the catering service industry, and we devote substantial efforts in nurturing a group of talent within our system. In particular, we have established a comprehensive employee recruitment, training, development and retention program that offers a clear career and internal promotion path as well as incentive scheme for our managerial staff. We believe that we have built up a strong team of seasoned restaurant managers to support our future expansion throughout China.

### **GROWTH STRATEGIES**

Our goal is to become the leading operator of fast casual restaurant industry and maintain our leading position as a hotpot restaurant chain operator in China. We intend to pursue the following growth strategies to achieve this goal:

#### **Replicate our success by further penetrating existing markets and expanding into selected regions**

We plan to continue our expansion and replicate our success throughout China by implementing the following strategies:

- *Hub-and-spoke strategy.* We plan to further leverage on our existing infrastructure, local market expertise and brand recognition to maximize our profit levels and increase the return on investment. In particular, we plan to increase market shares in existing geographic markets by further penetrating in the cities where we have established presence and market recognition and expanding into selected new locations within these markets. We also plan to prioritize our expansion in markets where we can leverage our existing infrastructure and expertise.
- *Comprehensive restaurant location database.* In preparation of our future expansion, our dedicated site selection team has cooperated with leading property developers in China to build up a pipeline of new restaurant locations including a number of premises under letters of intent. We typically seek to maintain a rolling visibility of six to 12 months.
- *Expand customer base to supplement our current operations.* We plan to expand our customer base by selectively opening restaurants with slightly modified layout that can accommodate larger dining groups. We also consider to pursue prudent acquisitions to complement our current operation and broaden our brand concept. As of the Latest Practicable Date, we had not identified any target for acquisition.

Going forward, we plan to open approximately 85 new restaurants in 2014 (including 54 restaurants that have been opened as of the Latest Practicable Date). We estimate the total capital expenditure for the opening of the remaining 31 restaurants to be RMB40.3 million, and a substantial portion of which has been spent on various expenses, primarily furnishing and decoration, prior to the official restaurant opening. As of the Latest Practicable Date, we had completed the furnishing and decoration of 22 out of these 31 restaurants and we will open

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these restaurants immediately upon our receipt of the official material licenses. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures”. The application process of these licenses is subject to a number of uncertainties beyond our control. See “Risk Factors – Risks Relating to our Business – Our future growth depends on our ability to open and profitably operate new restaurants. We may not be able to successfully enter into new markets” and “Risk Factors – Risks Relating to our Business – We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.” In particular, we intend to implement the following plans:

- In Beijing and the surrounding areas, we plan to solidify our leading position in our home market and further penetrate the surrounding areas and adjacent provinces.
- In our other existing markets, we plan to leverage the presence we established and the local knowledge and intelligence we accumulated to further our expansion in this region. For example, we plan to optimize our site-selection and restaurant opening procedure in these markets based on the knowledge and experience we gained. We also plan to further enhance our brand recognition with new store openings in high traffic locations.
- We also plan to selectively expand into other regions of China with strong market potential.

### **Drive same-store sales and profitability growth**

We are committed to further enhancing our financial performance by achieving higher same-store sales growth and improving our operating efficiency and profitability. In particular, we recorded lower restaurant level operating profit in certain geographical markets. Going forward, we plan to increase same-store sales growth throughout China by implementing the following key initiatives:

- Increase average customer spending by offering premium or innovative menu items and combinations. In particular, we aim to further customize our menu options for different geographical markets.
- Enhance dining experience to attract repeat customers, increase “word of mouth” marketing and enhance customer loyalty. In particular, we plan to further improve employee training and service standards.
- Attract more customers during non-peak hours to better utilize our restaurant infrastructure. In particular, we plan to extend our menu or implement other marketing initiatives such as discount vouchers to increase dining demand outside of regular lunch and dinner hours.
- Extend our operating hours and offer value added services to drive restaurant customer traffic and expand our targeted customer base.

### **Continue to promote brand image and recognition**

We target to continue to forge our iconic brand as projecting the “Xiabu life style”, that is, casual and pleasant dining environment, healthy and great tasting meals made with a wide selection of fresh and high-quality ingredients. We plan to continue to promote our brand image through marketing and promotional initiatives to increase the profile and value of our brand, particularly to our target customers, and differentiate ourselves from our competitors. We plan to further leverage and enhance our brand recognition through the following initiatives:

- Open new restaurants at highly visible locations to raise our recognition and profiles among our target customers.
- Selectively renovate our restaurants with contemporary elements to reinforce our urban yet home-like dining experience.
- Open hotpot restaurants under different value concept that is complementary to our Xiabuxiabu brand to attract customer groups of different consumption demand.
- Strengthen corporate visual identity by ensuring clear and consistent signage and advertising.
- Engage interactive themed marketing promotion campaigns that appeal to our target customers. For example, we plan to hold soup base or dipping sauce tasting events to attract additional customers. We also plan to offer innovative souvenirs to our customers.
- Engage educational campaigns to promote our farm to table business model and our commitment to food safety and quality.
- Utilize online and social media outlets such as Weibo and WeChat to launch a variety of initiatives when we expand into new markets or open new restaurants in existing markets where we have lower presence and recognition. We also expect to increase interaction with our customers through these social media.
- Participate in public interest and philanthropic events to promote our brand and corporate image.

### **Strengthen our production capability to support our future growth**

In-house production of our soup bases and dipping sauces protects our proprietary recipes that define our “Xiabu flavor.” To support our future growth throughout the country while maintaining the consistency of our food, we plan to establish an additional logistics and production center in Beijing and establish an additional logistics and production center in Shanghai.

- *Beijing logistics and production center.* We expect the total capital expenditure for the logistics and production center in Beijing to be approximately RMB80 million, including approximately RMB20 million for the acquisition of land and RMB60

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million for the procurement of equipment. We plan to fund the logistics and production center in Beijing entirely by the net proceeds of the Global Offering. We expect to complete the logistics and production center and commence trial production by 2017. Based on our current plan, this food processing plant will increase our annual production capacity of soup bases by approximately 7,000 tonnes and our annual production capacity of dipping sauces by approximately 10,000 tonnes, and can support an additional 500 restaurants.

- *Shanghai logistics and production center.* We expect the total capital expenditure for the logistics and production center in Shanghai to be approximately RMB100 million, including approximately RMB40 million for the acquisition of land and RMB60 million for the procurement of equipment. We plan to fund the logistics and production center in Shanghai entirely by the net proceeds of the Global Offering. We expect to complete the logistics and production center and commence trial production by 2019. Based on our current plan, this food processing plant will increase our annual production capacity of soup bases by approximately 4,000 tonnes and increase our annual production capacity of dipping sauces by approximately 6,000 tonnes, and can support an additional 300 restaurants.

### **Further enhance human resources management through systematic training and professional development**

We believe our commitment to employee excellence will lead to the continued strong growth of our business, as well as better customer service and higher customer satisfaction. Accordingly, we will continue to seek to retain and attract qualified employees, particularly restaurant staff and operational personnel, by increasing efforts in recruitment and human resources management.

We plan to implement the following recruitment initiatives:

- Utilize diversified recruitment channels according to regional preferences, including local job fairs, newspaper, advertisements and existing employee referrals;
- Continue to offer competitive compensation packages as well as forging collegial working environment and culture;
- Continue our campus recruitment program for restaurant management; and
- Strengthen our management trainee program for both our restaurant operations and headquarters to support our future growth.

We also plan to implement the following retention initiatives:

- Continue our career advancement program and establish a clearly identifiable long-term career path to motivate our employees. We also plan to implement a rigorous evaluation program to identify suitable candidates for promotion;

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- Offer long-term equity incentive plans and tailored compensation package to further incentivize and retain talent in our system; and
- Provide training programs tailored to various specific needs for career development for our employees.

### OUR CORE CONCEPT

We are a leading fast casual restaurant operator in China as measured by system wide restaurant sales and restaurant count in 2013 according to Frost & Sullivan. We offer customers with simple and tasty hotpot dishes, which is highly popular throughout the country and considered one of the most popular dine-out options among Chinese people, both according to Frost & Sullivan. Hotpot consists of a simmering metal pot of stock. While the pot is kept simmering, ingredients are placed into the hot soup and cooked at the table. Typical hotpot dishes included thinly sliced meat, leaf vegetables, dumplings, seafood, noodles and other ingredients.

We began our business in 1998, and we pioneered the fast casual bar-style hotpot restaurants in China, presenting a fast casual hotpot dining experience for modern urban customers. The U-shaped bars we use in our restaurants ensure efficient and attentive services that suit the up-tempo urban lifestyle. Furthermore, in modern days, the do it yourself, or DIY, and cooked-at-the-table nature of hotpot dining guarantees our customers a hot, fresh and fully customized dish by cooking fresh ingredients in their individual hotpots at the table nature of hotpot guarantees our customers a hot, fresh and fully customized meal. The flexibility and fun of mixing and matching over a hundred types of fresh ingredients also enhance the dining experience. In addition, hotpot dining is considered a healthy dine-out option and further enhances its popularity. We believe that boiling can preserve the nutrients of the ingredients to a larger extent as compared with other common cooking techniques such as deep-frying, pan-frying and stir-frying. Also, hotpot cuisine avoids the excessive use of oil as seen in the other cooking processes of Chinese cuisines, and is therefore considered a relatively healthy dining option. Apart from being a tasty and healthy dining option, the simmering and aromatic soup also connotes the warmth of home, which further attracts the growing urban population that works away from home. We have developed the core elements of our products and services into our fast casual dining concept comprising the following:

- fresh ingredients from trusted sources;
- healthy and tasty food without excessive cooking process;
- proprietary recipes for soup bases and dipping sauces suitable for different palates;
- casual and modern restaurant design;
- pleasant dining environment;
- face-to-face, hospitable and efficient services;



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- consistent quality; and
- price-for-value menu.

In addition, we believe the safety and quality of food is fundamental to a restaurant chain. Fresh and quality ingredients not only ensure the taste of the food but also form the cornerstone of a trusted restaurant brand. In particular, freshness of vegetables is particularly important for enhancing dining experiences at hotpot restaurants. We safeguard such core value through our direct procurement approach that ensures visibility and traceability throughout the catering service industry value chain, which consists of three elements:

- long-term cooperation with reputable beef and lamb suppliers to ensure safe and high-quality supply of ingredients;
- win-win collaboration with carefully selected local agricultural cooperatives and farmers for fresh vegetables that are harvested and delivered on a daily basis for most of our restaurants; and
- effective supervisory framework to ensure strict adherence to our safety and quality standards throughout our restaurant network.

### OUR DINING EXPERIENCE

We endeavor to offer an outstanding dining experience, including food, service and dining atmosphere, at our restaurants that conform to our fast casual dining concept. In addition to our signature soup bases and dipping sauces based on our proprietary recipes, we also modify our menu items and ingredients selection in accordance with prevailing market trends and customer preferences.

#### Menu

We currently offer eight different types of soup bases, including the signature soup bases based on our proprietary recipes such as fiery hot, curry and tom yum goong, as well as other popular soup bases. We also offer more than a hundred menu items that can be cooked in the soup or served as side dishes. In addition, we offer a variety of hot and cold beverages items such as sodas, juices and other traditional Chinese beverages such as milk tea and fruit tea. The staples of our menu include thinly sliced meat such as premium beef, lamb and pork, luncheon meat, seafood, leafy vegetables, various types of meatballs and fishballs, tofu and noodles. We also offer a number of dipping sauces including our signature “Xiabu” dipping sauce and spicy miso, both based on our proprietary recipes.

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The majority of items we offer are fresh ingredients to be cooked at the table by our customers, and the meats are sliced at the restaurants in order to maintain their freshness and enhance food presentation. We also allow slight variation in menu items according to specific food preference of a geographical area. In addition, we offer seasonal vegetables in different seasons and regions to ensure freshness. The offering of seasonal vegetables also facilitates us in controlling our costs, as the supply of seasonal vegetables are typically abundant. Furthermore, we combine appropriate portion of meat, vegetable and side dishes to create various set menus. The set menus create a price-for-value perception to customers and increase per customer spending and our profitability. Set forth below are pictures of our major menu items:

**“Original Flavor” Soup Base**



**Fiery Hot Soup Base**



**Curry Soup Base**



**Fungi Soup Base**



**Tomato Soup Base**



**Beef**



**Lamb**



**Pork**



**Cabbage**



**Spinach**



**Sesame Paste**



**Spicy Miso**



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### Premium Beef Set Menu



### Lamb Set Menu



Going forward, we aim to further expand our set menu and to offer special value menu outside of typical dining time (including late afternoon and late night) to drive restaurant performance such as sales density and same-store sales growth.

### Restaurant Design and Dining Atmosphere

We design our restaurants to make our customers feel at home, with orange being the theme color. On average, our restaurants have a gross floor area of approximately 200 to 300 square meters and can accommodate approximately 100 customers at the same time. We believe that our restaurant design connotes the warmth of home, which is particularly attractive to the growing urban population that works away from home. In addition, the U-shaped bars we use in our restaurants are suitable to seat a single or a pair of diners and small group of friends and family diners of three to four. To ensure safety, we avoid traditional stoves and use induction cookers to heat the pots instead. We typically renovate our restaurants every five years, and the expenses we incurred in connection with restaurant renovation amounted to approximately RMB0.7 million per restaurant during the Track Record Period. Set forth below are pictures of our restaurants:



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### Service

Hospitable, thorough, efficient and face-to-face services form an essential element of our core concept and dining experiences. We are committed to delivering superior service to every customer during every visit. Our restaurant staff are trained under a uniform standard to provide consistent services to our customers. Each of our restaurant staff services an average of ten to 12 customers at the same time during peak hours, and provides services including greeting of customers, setting up of dining station, promoting meal items, taking orders, adding and re-filling hot water into the hotpot, adjusting the temperature of the induction cookers, delivering food to the customer, settling bills, maintaining the hygiene of the bar table and responding to any other customer needs on a real time basis. Our restaurant staff are stationed in the middle of the U-shaped bars where customers sit around. Other dining supplies and utensils such as cooking pans, pots, cutlery, bowls are stored in the U-shaped bars in order to ensure efficient and attentive services. We also include limited amount of table seating to accommodate casual friends and family gathering in small group of three to four diners. In addition, due to the minimal restaurant level food preparation process, most of the staff in the restaurants can focus on delivering high quality services to the customers. Each of our serving staff carries a handheld ordering terminal linked to the central IT system to process orders, which are automatically transmitted to both restaurant kitchen and the cashier, so as to reduce error and ensure the speed of service. Restaurant kitchen will prepare the dishes at once for a short delivery time, while the cashier prepares bill for customers to pay upfront. We believe that the quality of our restaurant staff helps differentiate us from our competitors.

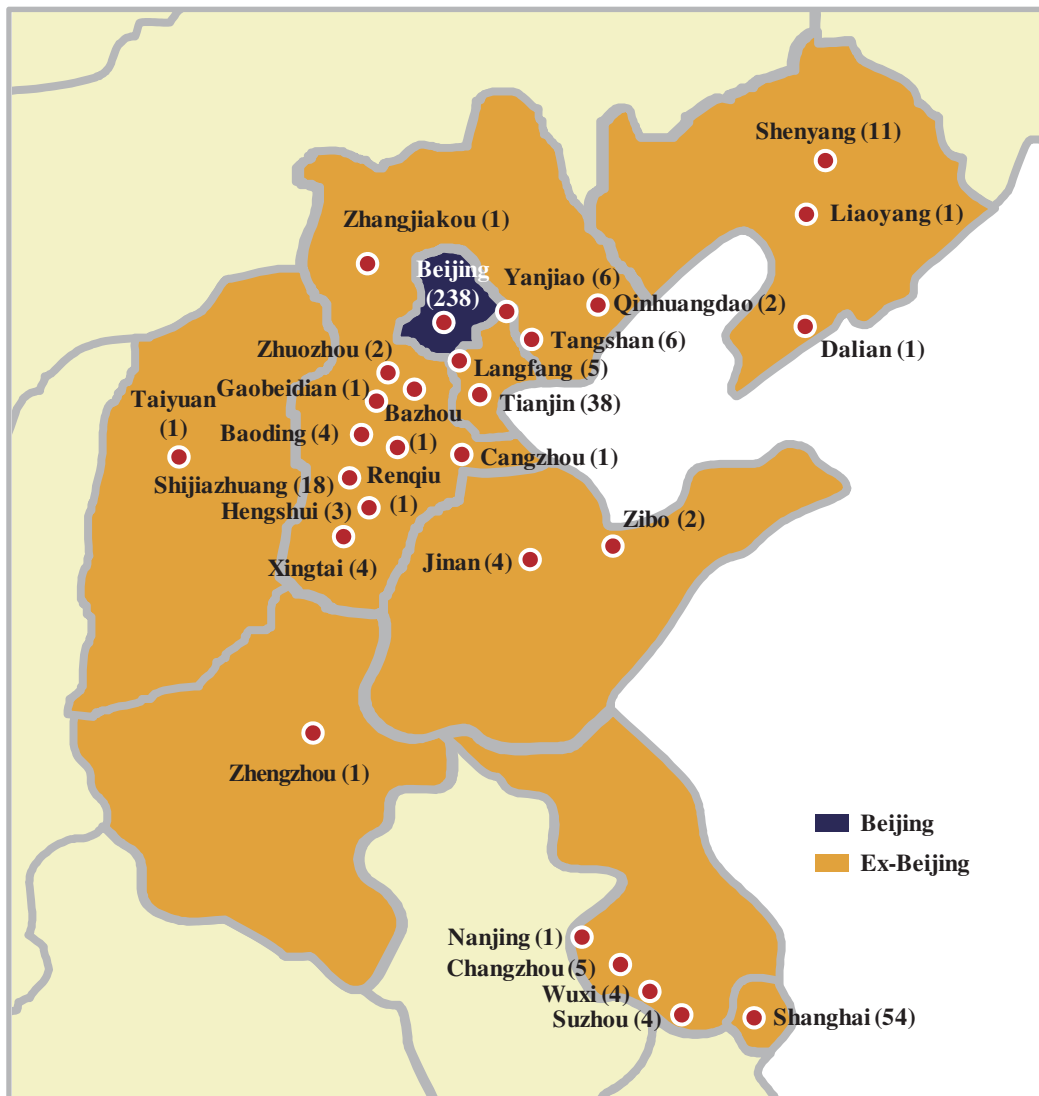
### Our Customers

Our fast casual dining concept attracts a broad base of customers from different income segments and age groups. Our hotpot cuisine attracts both lunch and dinner crowds. Our core customer base is urban residents age 18 to 35, and is gradually expanding to a wider spectrum of age group. Our broad customer base is evidenced by our annual customer traffic of approximately 56 million in 2013. Our dining experience is also popular among different types of dining occasions including a fast casual lunch or dinner during work or school days, casual gatherings of small group of friends and family, or quick meals for shoppers due to convenient locations and comfortable dining environment within prime retail locations. According to a survey conducted by Frost & Sullivan, we rank first in terms of top-of-mind awareness. In addition, according to the survey, customers consider service speed, savory taste of the soup bases and dipping sauces, hygiene and healthiness of the food as the most important factors for choosing us. Furthermore, according to a survey conducted by Frost & Sullivan, 99.8% of our customers, who participated in the survey with 960 respondents, expressed their willingness to visit our restaurants again.

As a restaurant chain, we have a large and diverse customer base. Our revenue derived from our five largest customers accounted for less than 1.0% of our total revenue for each of 2011, 2012, 2013 and the six months ended June 30, 2014. All of our five largest customers are independent third parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest customers that are required to be disclosed under the Listing Rules.

RESTAURANT NETWORK

We operate one of the largest fast casual restaurant chains in China in terms of system wide restaurant sales and restaurant count in 2013, according to Frost & Sullivan. We started our first restaurant in Beijing in 1998 and gradually expanded our network to Hebei, Tianjin, Shanghai, Jiangsu, Liaoning, Shandong, Shanxi and Henan. All the restaurants in our network are owned and operated by us under the Xiabuxiabu brand, and we leased all of the real properties on which our restaurants operate. We owned and operated 243, 330, 394, 421 and 420 restaurants as of December 31, 2011, 2012, 2013 and June 30, 2014 and the Latest Practicable Date, respectively. Our restaurant network covers 25 cities over nine provinces and centrally administered municipalities in China as of the Latest Practicable Date. The map below illustrates our restaurant network in China:



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### Restaurant Locations

Currently, we operate our restaurants in Beijing, Shanghai, Tianjin, Hebei, Liaoning, Jiangsu, Shandong, Shanxi and Henan. The table below sets forth the breakdown of our system wide restaurants by city as of the Latest Practicable Date:

Location	Number of restaurants
Beijing . . . . .	238
Shanghai . . . . .	54
Tianjin . . . . .	38
Shijiazhuang, Hebei Province . . . . .	18
Shenyang, Liaoning Province . . . . .	11
Other cities <sup>(1)</sup> . . . . .	61
<b>Total</b> . . . . .	<b>420</b>

*Note:*

(1) Including 23 cities in Hebei, Liaoning, Jiangsu, Shandong, Shanxi and Henan Provinces

Set forth below is a breakdown of our system-wide restaurants by geographical location during the Track Record Period:

	As of December 31,						As of June 30,	
	2011		2012		2013		2014	
	#	%	#	%	#	%	#	%
Beijing . . . . .	179	73.7	210	63.6	243	61.7	247	58.7
Shanghai . . . . .	37	15.2	56	17.0	55	14.0	54	12.8
Tianjin . . . . .	19	7.8	28	8.5	34	8.6	35	8.3
Others . . . . .	8	3.3	36	10.9	62	15.7	85	20.2
<b>Total</b> . . . . .	<b>243</b>	<b>100.0</b>	<b>330</b>	<b>100.0</b>	<b>394</b>	<b>100.0</b>	<b>421</b>	<b>100.0</b>

Within a given geographical area, our restaurants are typically located at sites including:

- busy commercial districts with high pedestrian flow;
- major shopping centers and office buildings;
- chained hypermarkets;
- department stores;
- large scale residential districts; and
- transportation hubs.

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Set forth below are certain key performance indicators of our restaurant operations:

	As of or for the Years Ended December 31,			As of or for the Six Months Ended June 30,	
	2011	2012	2013	2013	2014
<b>Revenue (in RMB thousands)</b>					
Beijing . . . . .	872,148	1,190,996	1,390,192	647,776	720,233
Shanghai . . . . .	81,035	161,837	197,291	92,886	99,131
Tianjin . . . . .	38,176	79,653	116,272	53,076	69,884
Other regions . . . . .	5,910	75,845	186,715	71,536	129,450
Total. . . . .	997,269	1,508,331	1,890,470	865,275	1,018,698
<b>Number of restaurants (#)</b>					
Beijing . . . . .	179	210	243	220	247
Shanghai . . . . .	37	56	55	58	54
Tianjin . . . . .	19	28	34	28	35
Other regions . . . . .	8	36	62	47	85
Total. . . . .	243	330	394	353	421
<b>Average customer per day per restaurant (#)<sup>(1)</sup></b>					
Beijing . . . . .	489	470	454	452	402
Shanghai . . . . .	309	270	241	227	228
Tianjin . . . . .	270	278	300	291	277
Other regions . . . . .	405	332	308	276	331
Nationwide. . . . .	453	414	388	380	350
<b>Seat turnover rate (X)<sup>(2)</sup></b>					
Beijing . . . . .	5.0	4.9	4.8	4.8	4.2
Shanghai . . . . .	3.4	3.0	2.7	2.5	2.5
Tianjin . . . . .	3.3	3.2	3.4	3.3	3.2
Other regions . . . . .	3.9	3.5	3.3	3.0	2.9
Nationwide. . . . .	4.7	4.4	4.2	4.1	3.7
<b>Average daily restaurant sales (RMB)<sup>(3)</sup></b>					
Beijing . . . . .	16,250	17,322	17,474	17,021	16,746
Shanghai . . . . .	10,709	10,410	9,754	9,090	10,062
Tianjin . . . . .	8,849	10,179	11,429	10,845	11,488
Other regions . . . . .	12,628	11,585	11,312	9,837	13,337
Nationwide . . . . .	15,105	15,286	14,949	14,333	14,567
<b>Average spending per customer (RMB)<sup>(4)</sup></b>					
Beijing . . . . .	35.1	39.0	40.8	39.8	43.9
Shanghai . . . . .	36.6	40.8	42.9	42.4	47.1
Tianjin . . . . .	34.7	38.8	40.3	39.5	43.2
Other regions . . . . .	33.0	37.0	39.0	37.8	42.7
Nationwide . . . . .	35.2	39.1	40.8	39.9	44.0

Notes:

- (1) Calculated by dividing total customer traffic for the year by total restaurant operation days during the period.
- (2) Calculated by dividing total customer traffic by the product of total restaurant operation days and average seat count during the period.
- (3) Calculated by dividing revenue for the year by total restaurant operation days during the period.
- (4) Calculated by dividing revenue before business tax for the year by total customer traffic for the period.

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Throughout the Track Record Period, our average customer traffic per restaurant per day continued to decrease as we continued to expand our restaurant network and entered into new markets. In general, average customer traffic is higher in our home market Beijing where we have established a strong presence and brand recognition, and new restaurants in Beijing typically have a shorter ramp-up period. On the other hand, restaurants in the newer markets typically experience a longer ramp-up period. Meanwhile, average customer spending continued to increase, primarily due to (i) a general increase in food prices in China; and (ii) an increase in sales of premium menu items as a result of our effort to optimize our menu and combinations.

During the Track Record Period, the performance of our restaurants in Beijing were stronger than our restaurants in other regions, primarily due to the fact that (i) Beijing is our home market, where we have established strong brand recognition and a broad and loyal customer base; and (ii) newly opened restaurants that were in their ramp-up period in Beijing constituted a smaller proportion of our total restaurants.

The table below sets forth the revenue contribution of our top restaurant and top ten restaurants in terms of sales during the Track Record Period, both in absolute terms and as percentage of our total revenue:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Top restaurant . . . . .	11,010	1.1	11,700	0.8	12,566	0.7	5,945	0.7	6,346	0.6
Top ten restaurants . . . . .	96,850	9.7	107,651	7.1	116,870	6.2	55,718	6.4	58,680	5.8

## EXPANSION PLANS, SITE SELECTION AND DEVELOPMENT

### Recent and Planned Expansion

We experienced rapid expansion in recent years. In 2011, 2012, 2013 and the six months ended June 30, 2014, we opened 93, 96, 86 and 34 new restaurants, respectively. Set forth below summarized the movement of the number of our restaurants:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Opening Balance . . . . .	153	243	330	394
Addition . . . . .	93	96	86	34
Non-renewal or early termination of lease . . . . .	3	9	22	7
Net Increase . . . . .	90	87	64	27
Closing Balance . . . . .	243	330	394	421



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See “– Operation Management – Evaluation” for details on how we evaluate and determine to close our restaurants.

We plan to open approximately 85 restaurants in 2014 and approximately 120 restaurants in 2015 following a hub-and-spoke strategy. In addition, as part of our ongoing nationwide expansion plan, some of the planned new restaurants are expected to be opened in regions where we do not have existing restaurants. From the beginning of 2014 to the Latest Practicable Date, we have already opened 54 restaurants. In addition, we have entered into binding leases for the sites of all the 31 restaurants planned for the remainder of 2014 as of the Latest Practicable Date. We had completed the furnishing and decoration of 22 out of these 31 restaurants as of the Latest Practicable Date and we will open these restaurants immediately upon our receipt of the official material licenses. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures”. The application process of these licenses is subject to a number of uncertainties beyond our control. See “Risk Factors – Risks Relating to our Business – Our future growth depends on our ability to open and profitably operate new restaurants. We may not be able to successfully enter into new markets” and “Risk Factors – Risks Relating to our Business – We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.”

The table below sets forth our restaurant expansion plan up to the end of 2018 and the associated capital expenditure for each geographical region:

	2014			2015			2016			2017			2018		
	New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure	
	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$
	(in millions)			(in millions)			(in millions)			(in millions)			(in millions)		
Beijing . . .	11	14.3	18.1	25	32.5	41.1	20	26.0	32.9	15	19.5	24.7	10	13.0	16.4
Shanghai . . .	4	5.2	6.6	15	19.5	24.7	15	19.5	24.7	15	19.5	24.7	15	19.5	24.7
Tianjin . . .	4	5.2	6.6	13	16.9	21.4	13	16.9	21.4	10	13.0	16.4	10	13.0	16.4
Other regions <sup>(1)</sup> . . .	12	15.6	19.7	67	87.0	110.1	92	119.6	151.2	125	162.5	205.5	150	195.0	246.6
Total . . .	31 <sup>(2)</sup>	40.3 <sup>(3)</sup>	51.0	120 <sup>(4)</sup>	156.0	197.3	140 <sup>(4)</sup>	182.0	230.1	165 <sup>(4)</sup>	214.5	271.2	185 <sup>(5)</sup>	240.5	304.1

*Notes:*

- (1) Including Hebei, Liaoning, Jiangsu, Shandong, Henan, Shanxi, Zhejiang, Shaanxi, Jilin and Guangdong.
- (2) Including 18 restaurants to be funded by the net proceeds of the Global Offering. We estimate the total capital expenditure for the opening of these restaurants to be approximately RMB23.4 million. The remaining 13 restaurants will be primarily funded through cash flows generated from our operating activities.
- (3) A substantial portion of the amount has been spent on various expenses, primarily furnishing and decoration, prior to the official restaurant opening.
- (4) We plan to fund all these restaurants by the net proceeds of the Global Offering.
- (5) Including ten restaurants to be funded by the net proceeds of the Global Offering. We expect to incur capital expenditures of approximately RMB13.0 million for these ten restaurants. The remaining 175 restaurants will be primarily funded by cash flows generated from our operating activities.

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- We expect the average capital expenditure per restaurant to be approximately RMB1.3 million;
- Historically and up to the Latest Practicable Date, we funded restaurant network expansion with a mix of cash flow generated from operating activities and investment from private equity investors;
- We expect to fund 453 restaurants by the net proceeds from the Global Offering and the remaining 188 restaurants primarily by cash flow generated from operating activities;
- It took approximately three months for the substantial majority of the restaurants opened during the Track Record Period to achieve the first monthly break-even. In particular, the substantial majority of our restaurants opened in Beijing during the Track Record Period achieve the first monthly break-even within approximately two and a half months, while it took approximately three months for the substantial majority of our restaurants opened outside of Beijing during the Track Record Period achieve the first monthly break-even. Meanwhile, it took approximately 14 months for the majority of the restaurants opened during the Track Record Period to achieve cash investment payback point;
- We expect the time for our future restaurants to achieve first monthly break-even and cash investment payback point to be in line with our restaurants opened in similar regions during the Track Record Period;
- Our Controlling Shareholder, Mr. Ho, is a Taiwanese citizen, and any equity investment by our Company in our subsidiaries in China will be deemed an indirect investment by Mr. Ho and therefore subject to a prior approval requirement by the Taiwanese government. Arrangements have been made to ensure the compliance of the prior approval requirement when remitting the net proceeds from the Global Offering into China. See “Future Plans and Use of Proceeds” for details. As a contingency plan in case Mr. Ho’s application for the prior approval in 2015 is rejected, we plan to rely on our existing cash, our operating cash flow and bank loans to fund our expansion plan. We do not believe our expansion plan will be materially and adversely affected by the prior approval requirement from the Taiwanese government.

The actual number, location and timing of new restaurant openings in any period will be affected by a number of factors and subject to a number of uncertainties. We may make necessary adjustment to the number, location, timing of planned new restaurant openings depending on the existing market conditions and status of pre-opening development and preparation for existing restaurants. See “Risk Factors – Risks Relating to Our Business – Our future growth depends on our ability to open and probably operate new restaurants. We may not be able to successfully enter into new markets” and “– We may not be able to maintain and increase the sales and profitability of our existing restaurants”.

### Expansion Management

We operate on a highly standardized and scalable business model, and we believe that we will be able to replicate our established operational and managerial procedures as we continue to expand our restaurant network. Our standardized operations enhance scalability by allowing us to efficiently transfer knowledge and adopt best practices when opening new restaurants. Furthermore, we believe that since all of our restaurants are self-operated, we could easily implement our comprehensive set of standards and specifications to maintain standardization. To manage our expansion, we intend to take various initiatives and continue our current practices, including the following:

- *Customers and marketing.* We target to continue to forge our iconic brand as projecting the “Xiabu life style” to attract more customers. We plan to continue to promote our brand image through marketing and promotional initiatives to improve the profile and value of our brand, particularly to our target customers, and differentiate ourselves from our competitors. We plan to undertake initiatives such as opening new restaurants at highly visible locations to raise our brand recognition and profiles among our target customers, selectively renovate our restaurants, strengthen corporate visual identity, engage interactive themed marketing promotion campaigns that appeal to our target customers and utilize online and social media outlets to launch a variety of initiatives when we expand into new markets or open new restaurants in existing markets where we have lower presence and recognition.
- *Ingredients.* We plan to further leverage on our strategic procurement system, which ensures visibility and traceability of food ingredients throughout the catering service industry value chain, as well as secures sufficient supply of ingredients to support our expansion. For the beef and lamb used in our restaurants, we plan to further implement the large-scale direct procurement from principal production sources, which enables us to establish long-term and direct cooperation with a large number of reputable lamb and beef suppliers. Such cooperation in turn enables us to secure sufficient and reliable supply of lamb and beef at favorable prices. For fresh vegetables, we plan to further expand our long-term collaboration with numerous agricultural cooperatives and farmers. With a large number of long-term direct suppliers of major ingredients, we believe we are able to secure sufficient supply of quality ingredients to support our future expansion.
- *Production and logistics.* To support our future growth throughout the country while maintaining the consistency of our food quality, we plan to establish an additional logistics and production center in Beijing and establish a logistics and production center in Shanghai. Based on our current plan, these logistics and production centers can support an additional 800 restaurants in our network. We expect to incur capital expenditure of approximately RMB80 million for our logistics and production center in Beijing and approximately RMB100 million for our logistics and production center in Shanghai. We plan to fund such capital expenditures primarily using the net proceeds of the Global Offering. Currently, we have not incurred any capital expenditure for the aforementioned plan in respect of these logistics and production centers.

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- *Quality control.* We will continue to implement stringent food safety and quality control standards and measures throughout different aspects of our operations, including (i) supply chain, (ii) logistics, (iii) food processing plants, and (iv) restaurants. Our large procurement scale enables us to secure reputable suppliers that satisfy our specific quality requirements. Our direct procurement approach also enables us to require our lamb and beef suppliers and contract agricultural cooperatives and farmers to strictly adhere to our stringent quality standards. We will also continue to engage reputable third party transportation companies which have established long-term working relationships with us to deliver the ingredients and supplies to the restaurants in our network. Meanwhile, the infrastructure and facilities at our food processing plants are designed, constructed, maintained and inspected in accordance with applicable PRC food safety standards, laws and regulations. Lastly, we adopt stringent food safety and quality control standards for all the restaurants in our network with respect to (i) inspection of food ingredients and supplies delivered directly from the suppliers or the distribution centers to our restaurants; and (ii) food preparation at our restaurants.
- *Staff recruitment and retention.* We will continue to seek to retain and attract qualified employees, particularly restaurant staff and operational personnel, by increasing efforts in recruitment and human resources management. In terms of recruitment, we plan to utilize diversified recruitment channels according to regional preferences, continue to offer competitive compensation package as well as forge collegial working environment and culture. We will also continue to promote our college campus recruitment program for restaurant management and our management trainee program for both our restaurant operations and headquarters. To retain qualified staff, we plan to further our career advancement program and establish a clearly identifiable long-term career path to motivate our employees, implement a rigorous evaluation program to identify suitable candidates for promotion, offer long-term equity incentive plans and tailored compensation packages and offer training programs tailored to specific needs of our employees' career development.
- *Management resources.* We are led by an experienced, professional and passionate management team, the majority of whom has been working as a team for over a decade. We expect our leadership will continue to spearhead our future growth and replicate our past success in various aspects of our operations. We also plan to utilize our career advancement program to promote management staff throughout restaurant, district, regional and headquarters levels within our system to maintain a cohesive corporate culture and further our corporate best practices as we continue to grow and expand.
- *Legal compliance.* We have strengthened our internal control systems to ensure compliance with the various legal requirements applicable to our restaurants. We have created a compliance checklist, which includes a list of laws and regulations applicable to the catering service industry and a list of necessary permits and

licenses for our restaurants. We have also established a regulatory compliance committee that reports to our Board of Directors on a quarterly basis, while our internal control and compliance department supervises and reviews the compliance status of our restaurants on a quarterly basis with the help of our in-house legal department. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures”.

Based on the estimated growth in the QSR, fast casual restaurant and fast casual hotpot markets in China, our Directors are of the view that there is sufficient demand to support our expansion plan. According to Frost & Sullivan, the market size for both fast casual restaurants and fast casual hotpot restaurants are expected to more than double from 2013 to 2018. The fast casual restaurant market is expected to grow at a CAGR of 24.0% from RMB12.7 billion in 2013 to RMB37.2 billion in 2018, while the fast casual hotpot restaurant market is expected to grow at a CAGR of 25.5% from RMB3.9 billion in 2013 to RMB12.0 billion in 2018. Considering the key success factors and entry barriers for the fast casual hotpot markets as detailed in “Industry Overview” and our competitive strengths listed in “– Our Competitive Strengths”, our Directors are of the view that we are well-positioned to maintain our strong market position in the fast casual hotpot market and capitalize on the expected strong growth of China’s fast casual restaurant market.

Furthermore, the majority of the new restaurants will be opened in new markets outside of Beijing, Shanghai and Tianjin, where we believe present strong market potential in the future. Our selection of geographical markets also minimizes the risks of competition among our own restaurants. Within the same geographical market, we leverage our disciplined site selection approach from our extensive experience in the fast casual hotpot market to minimize the risks of competition among our own restaurants. Lastly, the size of our restaurants and flexibility in site-selection for fast casual hotpot restaurants also reduce competition among our restaurants.

### **New Restaurants Development**

We have established a dedicated project development department to oversee and execute our nationwide expansion plan. Primary responsibilities of our project development department include overall network planning, identification, assessment and approval of new restaurant projects, negotiating the lease with the landlords, obtaining business license and regulatory compliance, engaging restaurant design and renovation and monitoring lease term and renewal of leases. We also closely monitor the execution timeline of the new restaurant opening process by making a day-to-day schedule and keeping track of the actual restaurant opening time. Once the construction work of a new restaurant is completed, our operational team will take over matters such as staffing and inventory in preparation of opening the new restaurant.

#### ***Site Selection Process***

We follow a disciplined approach in selecting sites for our new restaurants. We conduct thorough surveys when identifying locations for our new restaurants, including site visit, pedestrian count and extensive review of public data or data compiled by third-party consultants in order to collect the necessary information for our decision-making. Due to our

broad customer base and the nature of fast casual hotpot restaurants, we enjoy more flexibility in terms of site selection. We also do not require certain infrastructure support such as gas and parking lot at our restaurant sites. We typically consider the following criteria:

- population density in the 1.5 kilometers radius;
- average disposable household income in the district;
- rent for commercial real estate; and
- quality of property management.

Based on the commercial districts, commercial activities level and pedestrian traffic, we also determine a reasonable distance from our existing restaurants to avoid competition among our own restaurants. For markets such as Beijing, Shanghai and Tianjin, we have built an extensive database of potential new restaurant locations based on our comprehensive local knowledge.

### ***Restaurant Opening Procedure***

It usually takes approximately four to six months between the commencement of the site selection process and the opening of a restaurant. Meanwhile, it takes approximately 90 days from identifying location for a new restaurant to executing lease for a new restaurant, for which we follow a 90-day daily schedule made by our project development department, setting forth a detailed action plan under such timeframe. The key steps in the development process of a new restaurant include the following:

- *New restaurant location planning and identification.* Our senior management assesses and plans annual new stores opening targets in each region based on factors such as industry trends, competitive landscape and our internal resources. Meanwhile, our project development department continuously explores new restaurant location in both existing and new residential, commercial, retail locations; or by invitation of our strategic landlord partners in order to meet the annual new restaurant opening targets in each region.
- *Site assessment and approval.* Once the location for a new restaurant is identified, we conduct a feasibility study to forecast the expected restaurant traffic, revenue, cost structure, profitability and investment return period, and consider, in particular, the information on the license status of the prospective property. The articulated project proposal will then be presented to the site selection committee which is headed by Ms. Yang Shuling, our chief executive officer, and comprises five members, for approval of the site. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures” for details.

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- *Lease negotiation and execution.* Upon approval by the site selection committee of a target site, we commence lease negotiations with the landlord. We then proceed to approach the landlord directly with indicative lease terms. Leveraging our strong brand recognition, we are able to bypass intermediate property agencies to minimize searching cost for premises of new restaurants.
- *Design and renovation.* Upon signing a lease and taking possession of the premises, we commence to design the new restaurant. We design our restaurants based on our standard themes. The design and renovation generally take two months to complete. Our staff with engineering knowledge are involved to ensure that the premises are designed and renovated in a manner suitable for our restaurant operations.
- *Licenses and permits and approval for opening.* Concurrently with the renovation, we apply for various licenses necessary for the operation of the restaurant, including business license, food hygiene license, environmental protection assessment and inspection approval, fire safety design approval and fire prevention inspection approval. Typically, the regulatory compliance committee is responsible for approval of new store opening. The regulatory compliance committee is headed by Mr. Fang Liang, our vice president of development and engineering. The regulatory compliance committee will not approve the opening of a new restaurant until all the relevant material official licenses and permits have been obtained. Our chief executive officer's office is responsible for applying for, maintaining and renewing these licenses and permits, and our internal control and compliance department is responsible for monitoring the application and maintenance of the licenses and permits. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures” for details.
- *Staffing.* Upon completion of renovations and successful application of all required licenses and permits, our operational team relocates managerial staff from our existing restaurants and trains new staff in preparation of the launch of the new restaurant.
- *Promotional activities.* We undertake various promotional and marketing initiatives in preparation of the opening of a new restaurant.

### *Lease Arrangement*

We typically seek to enter into long-term lease arrangement of eight years with an option of renewal. Our restaurants typically have a GFA that ranges from 200 square meters to 300 square meters. As of June 30, 2014, our existing leases have an average term of approximately six years. The following table sets forth a maturity profile of our operating leases as of June 30, 2014.

	Restaurants		GFA	
	(#)	(%)	(m <sup>2</sup> )	(%)
Due within one year or at will . . . . .	39	9.3	8,732	8.6
Due after one year. . . . .	382	90.7	93,392	91.4
<b>Total . . . . .</b>	<b>421</b>	<b>100.0</b>	<b>102,124</b>	<b>100.0</b>

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Our leases typically include a rent-free period of one and a half month to facilitate the decoration or renovation of the premises. As of June 30, 2014, the lease agreements for 198 out of our 421 restaurants were under variable rent arrangement and our rent payable was tied to the sales at a particular restaurant. Certain of these leases also include a minimum rent payment clause, and we are required to pay the higher of the minimum rent and the contingent rent. The remainder of our leases were under fixed rent arrangement. In 2011, 2012, 2013 and the six months ended June 30, 2014, the minimum lease payments for our restaurants (which include the rent we paid under fixed rent arrangement leases as well as the minimum rent we paid under variable rent arrangement leases) amounted to RMB104.6 million, RMB159.0 million, RMB197.3 million and RMB116.7 million, respectively, representing 81.3%, 83.9%, 84.7% and 86.8% of our total property rentals and related expenses for the respective periods.

Meanwhile, total lease payments under variable rent arrangement leases we paid in 2011, 2012, 2013 and the six months ended June 30, 2014 amounted to RMB54.2 million, RMB65.6 million, RMB116.7 million and RMB63.2 million, respectively, representing approximately 42.1%, 34.6%, 50.1% and 47.0%, respectively, of our total property rentals and related expenses for the respective periods. In addition, the termination clauses entitle either party to the lease to terminate the lease upon the other party's material breach of the lease, including the tenant's change of the use or structure of the premises without the landlord's prior consent, either party's liquidation or bankruptcy, among other things.

We typically require an early-termination option from the landlord to minimize losses when closing under-performing restaurants. During the Track Record Period, certain landlords sought early termination of our lease agreements as a result of change of control or change of business model of such landlords. The customary renewal terms generally require us to provide a written notice of renewal to our landlord, generally not less than three to six months prior to the expiry of the lease agreement, and the lease agreement may be renewed upon our agreement to the renewal terms and conditions with the lessor. We did not experience any significant difficulties in renewing our leases in a timely manner during the Track Record Period.

Based on our strong brand recognition, we have formed strategic alliance with a number of landlords such as Wanda Group and Evergrande Group by entering into strategic cooperation agreements. Under these agreements, the landlords agreed to provide us with the information with respect to their commercial properties from time to time and offer favorable terms, such as preferential rent and location. We agreed to inform the landlords of our plan for opening new restaurants from time to time.

## OPERATION MANAGEMENT

### Management Platform

To ensure standardization of quality and services among restaurants in our network, and to promote operation efficiency and profitability of our restaurants, we have established a management platform with a managerial structure summarized as follows:

- *Headquarter management.* Our headquarters is responsible for corporate and administrative, financing planning and analysis, accounting and internal control, legal and compliance, information technology systems development, new restaurant opening strategies, human resources management, management level recruitment, central procurement, central logistics and sales and marketing.



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- *Regional management.* We have established a four-level managerial structure. We have established regional management centers in Beijing, Shanghai, Tianjin and Shenyang to manage our restaurants throughout China. Under the support of these regional management centers, we set up (i) operating regions that cover 80 to 100 restaurants, or three to four sub-regions each; (ii) sub-regions that cover 25 to 30 restaurants, or three to four operating districts each; and (iii) operating districts that cover six to eight restaurants each. Our district supervisors support and supervise the individual restaurants to ensure their strict adherence to our uniform operational standards.
- *Restaurant level management.* We typically staff one restaurant manager and two deputy managers at each restaurant to oversee the daily restaurant operation, including food ingredients inspection, assurance of food safety and quality standard, inventory level, restaurant level staff recruitment, on-the-job training, customer service, cash management and store maintenance.

We believe our managerial structure enables us to implement and monitor the uniform standards we have developed with respect to food safety, quality of service, inventory management and supply chain management as described in the following subsections.

In addition to our managerial structure, we have also made significant investment to establish an efficient technological infrastructure that serves as the foundation of our restaurant network management platform, which provides us with visibility over our operations and ensures standardized restaurant operation. For example, the advanced POS terminals and handheld ordering terminals we use in each restaurant ensure that a thorough, accurate and instantaneous recording of transactions in the restaurant and crucial operating data is channeled to the IT system at our headquarters. Such daily data collection enables our management to analyze the data and respond to any changes in market environment or customer preferences in each individual region to optimize operational efficiency in a timely manner.

### **Standardization**

We endeavor to drive best-in-class restaurant operations and overall customer satisfaction to achieve long-term growth through standardization. Standardized operation ensures consistency among the restaurants in our network, including the dining experience and the quality of food and service, which we believe is one of the key value propositions of fast casual restaurant chains. The standardized restaurant design, menu, pricing and image we promote throughout our restaurant network also allows for easy transfer of knowledge when opening new restaurants, providing scalability and driving our expansion. All of the restaurants in our network are owned and operated by us, and under our direct supervision to ensure standardization. We believe that such model allows us to easily implement our comprehensive set of standards and specifications.

- *Ingredients.* We procure the ingredients we use through a centralized platform and produce certain types of our soup bases and dipping sauces based on our proprietary recipes at our food processing plant in Beijing. We also contract a third-party food

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processing plant in Shanghai for the blending and packing of dipping sauces. The centralized procurement and production of ingredients facilitates us in ensuring a consistent quality standard throughout our restaurant network. We also implement a uniform quality control standard at our procurement department and each of our restaurants.

- *Restaurant operations.* We implement a comprehensive set of uniform standards with respect to each aspect of our restaurant operations, including restaurant design, uniforms, menu items, pricing, promotional activities, advertisements, food preparation, facility maintenance, cleanliness of the premises and employee conduct as well as our staff training regimes.

Through our operating history of over a decade, we have accumulated a pool of experienced staff who can be readily mobilized for new store openings to ensure consistency of services and food safety and quality in the new restaurants. In addition, we perform periodic and unscheduled inspections and examinations of our restaurants ourselves or engage third parties that we commissioned to perform such inspections and examinations to ensure strict adherence to these standards and specifications. Our IT infrastructure that coordinates all the information and work flows also promotes the standardization of our operations.

### **Pricing**

We have implemented a uniform pricing system at our restaurants. In general, we typically apply the same prices across all our restaurants, while allowing slight differences in pricing for certain menu items among different locations and regions. Going forward, as we expand our restaurant network throughout China, we may adjust our pricing system to factor in differences in tastes and preferences among regions and locations.

In general, we aim to price our menu items to create a price-for-value perception by our customers. Pricing of a particular menu item is primarily determined by the cost of the menu item, cost structure of restaurants and target margins, prices set by competitors and spending patterns of target customers. We closely monitor the pricing of our competitors and peer restaurants as well as our costs of inventory to evaluate our pricing. We also improve our menu by introducing new items or combinations to increase customer satisfaction, driving more customer traffic, increase average customer spending and increase our profitability.

### **Settlement and Cash Management**

To ensure the accuracy of record keeping of customers' invoices, we employ handheld ordering terminals that are linked to our restaurant level POS system and the BOH system at our headquarters. We have implemented guidelines for our POS system through our settlement and cash management manual, which details our POS system and the logistics with respect to collection of payment by way of cash. We conduct reconciliation between the cash receipts as recorded in our systems against the cash kept at the cash register on a daily basis at each of our restaurants. We also conduct such reconciliation at the headquarters level.

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Our customers pay us primarily through cash or credit card. For certain of our restaurants located in shopping malls, we also accept prepaid cards issued by the shopping malls, who are typically also our landlords. The shopping malls are responsible for settling the amount represented by the prepaid cards we received within a prescribed credit period. During the Track Record Period, the majority of the shopping malls received credit terms of no more than 90 days. We do not participate in the sales and distribution of the prepaid cards issued by the shopping malls.

In addition, we also sell prepaid dining vouchers directly to customers. These dining vouchers have face value of RMB25. Our RMB25 dining vouchers expire three years after the date of sales. When sold, the sale price of the dining voucher is recognized as our other payables, and will be recognized as our revenue when the voucher is used at our restaurants. Upon expiration, the sales price of unused dining voucher is recognized as our other income. We do not allow refund in connection with these dining vouchers. In 2011, 2012, 2013 and the six months ended June 30, 2014, revenue generated from dining voucher amounted to RMB4.8 million, RMB2.0 million, RMB3.9 million and RMB2.9 million, respectively.

To avoid misappropriation and embezzlement of cash, we have adopted a cash management and delivery system in each of our restaurants. Restaurant managers are responsible for ensuring cash received during the day could match the sales record and be timely delivered to the banks. The cashier machine is accessible only by a limited number of designated staff. Cash received at a restaurant are delivered to our banks on a daily and 365/366 days per year basis. Arrangements have been made with our banks to ensure that cash can be deposited on weekends as well as public holidays. We require at least two staff to deliver the cash together, including at least one managerial staff. We also require such delivery to be done at variable time and routes. In addition, we keep the key and passcode of the safe at our restaurants separately. Furthermore, we have installed surveillance cameras in our restaurants to deter staff misconduct. We also reconcile the orders taken and the cash received at the restaurant and our restaurant level inventories consumption on a daily basis. Such reconciliation would allow us to discover any fraudulent cancellation of customer orders, which is a commonly seen cash embezzlement technique in our industry that we have previously experienced.

In addition, for cancellation of certain items on an order, the original order will be reversed and printed out. It will be submitted together with the revised order for the servicing staff, the cashier and the restaurant manager to confirm. For the cancellation of an entire order, the review and approval by the district manager is required. Furthermore, all the order and cancellation records are stored in our BOH system, which is accessible by only the restaurant managers and their deputies at the restaurant level. We have also set up strict authorization process to alter the data that were routed to the headquarters level. Our finance department randomly checks the daily cancellations to ensure the practice is consistent with our policy and procedures and identify any abnormal case. We believe that all these facilitate us in reducing the risk of cash embezzlement through fraudulent cancellation of customer orders. We maintain insurance in respect of cash kept at our restaurants as well as cash in transit to the banks delivered by our staff.

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From March 2011 to July 2011, two of our district managers coerced six restaurant managers and staff under their supervision to misappropriate cash from their respective restaurants by fraudulently canceling certain customer orders. In aggregate, the misappropriated cash amounted to approximately RMB126,000. Upon discovery, we immediately discharged all the staff involved in the conspiracy. In addition, we have strengthened our internal control and cash management procedures as reflected in our current cash management practice described in the preceding paragraph. During the Track Record Period, we did not experience any misappropriation of cash by our employees that had a material adverse impact on our business and results of operations except the incident disclosed above.

As part of our cash management and investment policy, we invested in certain standard financial products in the form of short-term guaranteed income contracts. These short-term investments are allowed only when our internal cash flow and liquidity forecast indicates that we have sufficient capital resources for our operating activities and our capital expenditure. Our internal policy and guidance requires that any investment of this nature, regardless of the amount, shall be approved by our Chairman Mr. Ho, our chief executive officer Ms. Yang Shuling and our chief financial officer Ms. Zhao Yi. See “Financial Information – Liquidity and Capital Resources – Investing Activities” for further details.

### **Evaluation**

We actively manage our restaurant network. We conduct periodic evaluation of the performance of each restaurant in our network as well as their adherence to our uniform standards or polices. Considering the nature of our business operations, our evaluation process combines the traditional examination and inspection on the operation procedure, such as food preparation and cleanliness of the premises. On the other hand, we also analyze the comprehensive data compiled by our information technology system. Our established technological infrastructure also facilitates us in benchmarking among the restaurants in our network, optimizing resource allocation and the application of best-practices. For underperforming restaurants that operate at a loss for more than 12 consecutive months or are located in a commercial district that we consider to have lower growth potential, we would consider to close the restaurant. In 2011, 2012 and 2013, we closed three, nine and 22 restaurants, respectively.

### **Customer Feedbacks Management**

During the Track Record Period, we recorded approximately 175, 217, 186 and 48 customer suggestions and complaints with respect to our restaurant operations in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. These complaints were direct feedback we received from our customers in our restaurants as well as through our customer service hotline. We did not receive any other complaints referred to us by other sources.

The complaints we received from customers directly during the Track Record Period generally related to the taste and style of a particular dish and the service quality of restaurant staff. We view these complaints as a means to consistently improve our service level and food

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quality. Our restaurant managers are responsible for promptly resolving any complaints to food and service quality at restaurant level. For example, our restaurant managers are authorized to take remedial actions including replacing the dishes which are subject to the customer's complaints, waiving charges on dishes, offering complimentary drinks or offering coupons for future visits. Our restaurant managers also keep logs on these complaints and remedies and report to the headquarters on the day of occurrence. In addition, our customers can call our national 24/7 customer service hotline, and our staff at the headquarters will attend to any customer relationship complaints promptly. We also closely monitor online media such as chat groups, blogs and Weibo in order to manage any customer complaints that appears in the media.

During the Track Record Period, we rarely received complaints relating to our food and services. Of the few complaints we received, the majority were resolved within 24 hours. In addition, we did not experience any complaints from customers that had any material adverse impact on our brand, our business or results of operations.

### MARKETING AND PROMOTION

We design our branding, marketing and promotional efforts to strengthen our brand image and awareness, attract new customers and promote customer loyalty. We believe we have achieved strong brand awareness in the fast casual dining market. According to a survey conducted by Frost & Sullivan in 2014, we rank first in terms of top of mind awareness among all the fast casual hotpot restaurants in China in the regions we operate. See "Industry Overview – Consumer Behavior and Brand Awareness". To achieve our target, we employed various marketing initiatives, including:

- *Traditional promotional campaign.* We place advertisement on traditional media such as billboard, newspaper, radio and television to introduce our brand, cuisine and services. We also display printed advertisement in our restaurants.
- *Promotional campaign through new media.* We place advertisement on popular websites. We have also established official weibo and wechat accounts to interact with our customers and the public.
- *Slogans.* We change our advertising slogans from time to time to enhance our brand recognition.
- *Coupons.* We offer coupons, which can be downloaded from our website, from time to time on specific items or menu to attract customers to dine in our restaurants.
- *Innovative souvenirs.* We offer pop-culture merchandise and specially designed desk calendars to attract customers and increase our brand awareness.
- *Seasonal and promotional menu items.* We offer special menu items for various holidays and events, such as valentine's day and Christmas special menu set.
- *New store opening promotion.* New store opening discounts are offered in order to speed up the awareness of the new store and ramp-up on new store traffic.

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- *Non-peak hours promotion.* Online sale of prepaid discounted food coupons that can be used during non-peak hours in order to drive store traffic.
- *External marketing consultants.* We have engaged external marketing consultants to conduct market research and design and execute promotional campaigns.
- *Selective restaurant renovation program.* We selectively renovate our restaurants with chic and stylish elements to reinforce our urban yet homely dining experience.

### PROCUREMENT

Our ability to maintain consistent quality throughout our restaurant network in part depends upon the ability to secure stable supply of high quality and safe food ingredients. We have a comprehensive set of procurement processes designed to maintain uniform standards and effective management practices covering:

- overall supplier management;
- supplier selection;
- contract review;
- demand planning;
- invoicing and payment;
- price adjustments;
- system for centralized, regional and ad hoc procurement; and
- inspection procedures for all restaurants.

We have established a dedicated procurement team at our headquarters to implement centralized purchase system for all purchase orders. Our procurement team is required to make purchases only from those suppliers which are included in our suppliers' list, and to implement bidding process to secure food ingredients of high quality and safety at a reasonable cost. Our employee handbook sets forth strict guidelines against engaging in bribery and creating circumstances which may create a conflict of interest between us and our employees. In addition, we provide anti-bribery clauses in our form purchase agreement to be entered into with our suppliers. The utilization of our centralized procurement system increases our bargaining power during price negotiations as a result of our economies of scale. The centralized procurement system also enables us to limit the number of employees with purchasing authority and thus to increase effectiveness of our internal control measures.

### Supplier Selection

We place great emphasis on sourcing food ingredients from reliable suppliers to ensure the quality and safety of the ingredients. We have formulated a comprehensive set of criteria for selecting suppliers including their financial conditions, qualifications, production

capacities and manufacturing process control, quality control, pricing, quality of product during trial period and product recall and tracking system. We also require our suppliers to comply with all applicable PRC food production regulations and inspect their licenses, certifications and other accreditation.

Moreover, we have established procedures for selecting new suppliers. When screening new suppliers, our procurement team conducts thorough market research, requests recommendations from the relevant industry associations, and invites the competent candidates, in particular, those suppliers with well-established distribution networks and operation track record, to our selection process. We also conduct assessments such as ingredients sampling and site visit to production facilities of new suppliers before we engage a new supplier. Specifically for our contract agricultural cooperatives and farmers supplying fresh vegetables, we have set up specific requirements in connection with the size of the farmland, ability to maintain multiple plantation sites, soil condition, and proximity to any factories. Furthermore, to facilitate the decision to renew supply contracts with existing suppliers, we conduct annual review of the quality and amount of purchases from each supplier, and issue three levels of supplier accreditation accordingly. A supplier's accreditation will also be affected by the timeliness, completeness, reliability and responsiveness to any issue on its delivery of the food ingredients ordered by us. The suppliers with higher accreditation will be preferred over those with lower accreditation in our procurement.

### **Supplier Management**

We procure key food ingredients through a centralized procurement system. During the Track Record Period and up to the Latest Practicable Date, we primarily sourced our ingredients from domestic suppliers. In 2011, 2012, 2013 and the six months ended June 30, 2014, we purchased approximately 60%, 80%, 90% and 90% of the food ingredients through central procurement, respectively, in terms of purchase value. We had approximately 130 suppliers for food ingredients and other supplies as of June 30, 2014. However, we generally work with a relatively small number of suppliers for key food ingredients at a particular time so as to ensure proper accountability. Furthermore, we prefer to work with larger suppliers with whom we have developed long-standing relationships. On average, we have over three years of business dealings with our major suppliers. As a contingency plan, we also procure from other suppliers that can meet our quality standards to avoid supply shortages.

We typically do not concentrate our procurement from any single supplier for our key ingredients, except (i) in 2013, we procured approximately 75% of the lamb we used in our restaurants from a single supplier; and (ii) we procure the sodas sold in our restaurants exclusively from a leading soda producer. Despite the large procurement volume of lamb from a single supplier in 2013, we maintained a pool of accredited suppliers to avoid reliance risk, and we will continue to make our procurement decisions based on critical factors such as price, quality, availability, delivery schedule and service. As to the procurement of soda, we believe the market practice is for major soda producers to only cooperate with restaurants on an exclusive basis.

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We manage our suppliers and procurement strategy based on the categories of food and supply, which primarily include the following:

- *Lamb.* During the Track Record Period, 90% of the lamb we used were imported by four domestic suppliers from New Zealand. Beginning in 2013, we also procured lamb from two domestic suppliers who source lamb in China and have passed our qualification process. The frozen lamb we use has a shelf life of approximately 12 to 18 months. We typically enter into annual framework agreements with these suppliers with an indicative price range. Definitive price and volume will be indicated in individual purchase orders we issue subsequent to the signing of the framework agreements.
- *Beef.* We procured beef from a total of 19 suppliers who source beef either domestically or from overseas during the Track Record Period. The frozen beef usually has a shelf life of 12 to 18 months. We typically enter into annual framework agreements with these suppliers with an indicative price range. Definitive price and volume will be indicated in individual purchase orders we issue subsequent to the signing of the framework agreements.
- *Fresh vegetables.* To ensure sufficient supply of fresh vegetables every day, we collaborate with numerous contract agricultural cooperatives and farmers directly. Under this collaboration arrangement, we provide the contract agricultural cooperatives and farmers an annual plantation plan and undertake, with legally binding obligation, to purchase all the vegetables they grow in accordance with the plan and meet the specification we require. We have established long-term strategic cooperative relationships with eight farms in Beijing and two farms in Shanghai and Shenyang, respectively. We typically renew these agreements on an annual basis. In particular, we are selected by the Beijing municipal government as one of the first participants of its “Farm-to-Table” program, under which a number of farmers are certified by the municipal government, and companies are encouraged to procure ingredients directly from these certified suppliers.

In 2011, 2012, 2013 and the six months ended June 30, 2014, purchases from our largest supplier accounted for 10.3%, 10.6%, 26.6% and 24.6% of our total purchases, respectively, and purchases from our five largest suppliers accounted for 31.5%, 29.1%, 47.4% and 44.2% of our total purchases of the relevant periods, respectively. All of our five largest suppliers are independent third parties. None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of our share capital) has any interest in any of our five largest suppliers that is required to be disclosed under the Listing Rules.

### **Purchase Cost Control**

We enter into framework agreements with our major suppliers for key food ingredients such as lamb and beef on an annual basis to secure sufficient food ingredients for our existing restaurant network and planned restaurant expansion. We also seek to achieve purchase cost control by bulk purchases. Our procurement team regularly analyzes the cost of production of suppliers in detail. Our contracts with suppliers typically provide for fixed price on an agreed-upon cost-plus formula basis for each purchase order. In addition, our procurement team closely monitors the price fluctuation of food ingredients to guide our price adjustment negotiations with suppliers.



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We seek to control our purchase cost through maintaining multiple suppliers for each major food ingredient to ensure stable supply at reasonable costs. To the extent possible, we seek to source supplies from their original source to control cost and quality. Our large-scale procurement also facilitates us in controlling our procurement costs. Furthermore, our farm to table strategic cooperation with our contract agricultural cooperatives and farmers also enables us to reduce margin losses to food trading companies.

From 2011 to 2013, market prices of lamb, beef and fresh vegetables increased by 57.9%, 70.3% and 28.2%, respectively, according to National Bureau of Statics the PRC. On the other hand, our per unit procurement costs of lamb, beef and fresh vegetables increased by 7.3%, 13.0% and 4.2%, respectively, which were lower than the market trend. Set forth below are sensitivity analyses of the impact to our results of operations for during the Track Record Period from the fluctuation of the raw materials and consumables used.

<b>Hypothetical changes in raw materials and consumables used in the six months ended June 30, 2014</b>	<b>+20%</b>	<b>+15%</b>	<b>+10%</b>	<b>+5%</b>	<b>-5%</b>	<b>-10%</b>	<b>-15%</b>	<b>-20%</b>
	(in RMB millions)							
Raw materials and consumables used . . . .	475	455	435	415	376	356	336	317
Change in raw materials and consumables used in the six months ended June 30, 2014 . . . .	79	59	40	20	(20)	(40)	(59)	(79)
Change in profit for the year . . . . .	(61)	(45)	(30)	(15)	15	30	45	61
<b>Hypothetical changes in raw materials and consumables used in 2013</b>	<b>+20%</b>	<b>+15%</b>	<b>+10%</b>	<b>+5%</b>	<b>-5%</b>	<b>-10%</b>	<b>-15%</b>	<b>-20%</b>
	(in RMB millions)							
Raw materials and consumables used . . . .	981	940	899	858	777	736	695	654
Change in raw materials and consumables used in 2013 . . . . .	164	123	82	41	(41)	(82)	(123)	(164)
Change in profit for the year . . . . .	(125)	(93)	(62)	(31)	31	62	93	125
<b>Hypothetical changes in raw materials and consumables used in 2012</b>	<b>+20%</b>	<b>+15%</b>	<b>+10%</b>	<b>+5%</b>	<b>-5%</b>	<b>-10%</b>	<b>-15%</b>	<b>-20%</b>
	(in RMB millions)							
Raw materials and consumables used . . . .	808	774	740	707	639	606	572	538
Change in raw materials and consumables used in 2012 . . . . .	135	101	67	34	(34)	(67)	(101)	(135)
Change in profit for the year . . . . .	(104)	(78)	(52)	(26)	26	52	78	104

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Hypothetical changes in raw materials and consumables used in 2011	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(in RMB millions)							
Raw materials and consumables used . . . . .	546	523	500	477	432	409	386	364
Change in raw materials and consumables used in 2011 . . . . .	91	68	45	23	(23)	(45)	(68)	(91)
Change in profit for the year . . . . .	(70)	(52)	(35)	(17)	17	35	52	70

As customary in the fast casual restaurant industry, we typically are not able to pass short-term price increases of our major ingredients to our customers. As a result, we rely on our procurement control system to maintain our profitability.

A significant portion of our food ingredients are procured from suppliers with minimal processing, which comprises quality inspection, storage, washing and cutting before serving to the customers at our restaurants. This saves our food preparation cost at each of our food processing plants, distribution centers and restaurant kitchen level, such as the cost of additional kitchens and equipment for in-restaurant processing as well as the cost of staff training at each restaurant.

### Purchasing Procedures and Inventory Management

We have established centralized purchase procedures for all purchase orders except for fresh vegetables, which are handled by our regional procurement platform on a daily basis. We also have established internal review, approval and monitoring procedures for all purchase orders, including the centralized purchases made through our procurement department.

*Company level procurement plan.* Our procurement department devises annual procurement plan based on the consumption forecast for each of our existing and planned new restaurants. The consumption forecast is based on our market outlook and our past experiences. We collect and analyze our historic annual procurement data and make such data available in our computerized stocking system. We also conduct monthly review to ensure that our procurement plan align with the latest demand trend.

*Restaurant level ordering plan.* We utilize our BOH system to forecast the inventory of each restaurant and devise individual ordering and delivery plan for the individual restaurant. The restaurant management team can then place delivery orders with our procurement department through our system, which limits the ordering authority of restaurant management. Currently, the individual restaurant management team is authorized to increase the daily delivery volume suggested by our BOH system by not more than 20%. We plan to further improve our system in order to reduce the size of such increased delivery and to maintain minimal inventory level. In addition, we allow our restaurants to keep an inventory of one to two days for ingredients such as frozen meat and bean vermicelli that have longer shelf lives.

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We actively seek to ensure ample supply of quality ingredients while maintain stringent control on inventory levels. To reduce the risks of supply disruptions, we request our suppliers to maintain extra stock at a reasonable level for us and identify backup suppliers for key food ingredients. We also procure from other suppliers that can meet our quality standards as a contingency plan to avoid supply shortages. During the Track Record Period, we did not experience any interruption in the supply of food ingredients, early termination of supply agreements or failure to secure sufficient quantities of irreplaceable food ingredients that had any material adverse impact on our business and results of operations.

### PRODUCTION AND LOGISTICS

#### Food Processing Plants

While we directly procure a significant portion of our food ingredients and other supplies from suppliers, we produce soup bases and dipping sauces at our central food processing plant in Beijing based on our proprietary recipes which we have developed over the years and protected through strict confidentiality procedures.

We currently operate one central food processing plant at our headquarters in Beijing. Key benefits of in-house production of our soup bases and dipping sauces based on our proprietary recipes include better protection for our proprietary recipes, which contribute significantly to the popularity of our signature hotpot cuisine, consistency of food quality among different restaurants and economies of scale. In-house production of our soup bases and dipping sauces based on our proprietary recipes also facilitates us in standardizing the food throughout our restaurant network. We also contract two third-party food processing plants in Beijing and Shanghai to blend and pack dipping sauces under contract manufacturing arrangement. Lastly, we procured certain types of soup bases and dipping sauces directly from external suppliers. Set forth below is a breakdown of the costs of the soup bases and dipping sauces we used by source during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
	(%)			
<b>Soup bases:</b>				
In-house production . . . . .	54.8	54.4	55.1	54.0
Procurement from suppliers . . . . .	45.2	45.6	44.9	46.0
<b>Total . . . . .</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Dipping sauces:</b>				
In-house production <sup>(1)</sup> . . . . .	97.2	95.5	95.4	94.9
Contract manufacturing <sup>(2)</sup> . . . . .	–	0.2	0.9	1.1
Procurement from suppliers . . . . .	2.8	4.2	3.7	4.0
<b>Total . . . . .</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Notes:*

(1) *Includes the costs of raw materials associated with dipping sauces produced under contract manufacturing arrangement.*

(2) *Represents fees paid under contract manufacturing arrangement.*

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In 2011, our utilization rate was relatively low, primarily due to the lower total demand from our restaurants in 2011, as we had relatively fewer restaurants in the year. In 2012, we ramped up the utilization rate in response to the higher demand. In May 2013, we began production with a number of new equipment. As we continued to expand our restaurant network, demand for soup bases and dipping sauces continued to increase and we were able to maintain a high utilization rate at our production facilities.

Based on our current plan, we plan to open approximately 650 new restaurants by 2018. To support our future growth throughout the country while maintaining the consistency of the quality of our food, we plan to establish an additional logistics and production center in Beijing and an additional logistics and production center in Shanghai.

- *Beijing logistics and production center.* We expect the total capital expenditure for the logistics and production center in Beijing to be approximately RMB80 million, including approximately RMB20 million for the acquisition of land and RMB60 million for the procurement of equipment. We plan to fund the logistics and production center in Beijing entirely by the proceeds of the Global Offering. We expect to complete the logistics and production center and commence operation and trial production by 2017. Based on our current plan, this logistics and production center will increase our annual production capacity of soup bases by approximately 7,000 tonnes and our annual production capacity of dipping sauces by approximately 10,000 tonnes, and can support a total of 500 new restaurants.
- *Shanghai logistics and production center.* We expect the total capital expenditure for the logistics and production center in Shanghai to be approximately RMB100 million, including approximately RMB40 million for the acquisition of land and RMB60 million for the procurement of equipment. We plan to fund the logistics and production center in Shanghai entirely by the proceeds of the Global Offering. We expect to complete the logistics and production center and commence operation and trial production by 2019. Based on our current plan, this logistics and production center will increase our an annual production capacity of soup bases by approximately 4,000 tonnes and our annual production capacity of dipping sauces by approximately 6,000 tonnes, and can support a total of 300 new restaurants.

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### Logistics

Our logistics operations coordinate the purchasing, storage and delivery of supplies throughout our restaurant network in China. We have established a three-tier logistics system comprising one central distribution center at the headquarters in Beijing, one regional distribution center in Shanghai and three transit warehouses in the cities where we operate. Each of these logistics facilities has a service radius of approximately 400 kilometers. Except for our central distribution center, we currently lease substantially all of our logistics facilities from national or regional logistics suppliers with a term of lease between one and two years. Set forth below summarized details of our logistics and distribution network in China as of June 30, 2014.

Location	Number of Owned Warehouse	Number of Leased Warehouse	Term of Lease	Total Gross Floor Area	Number of Room- temperature Warehouse	Number of Cold Warehouse	Number of Frozen Storage Warehouse
Beijing . . . . .	1	1	1 year	14,000m <sup>2</sup>	2	1	2
Shanghai . . . . .	nil	1	1 year	1,600m <sup>2</sup>	1	1	1
Tianjin . . . . .	nil	1	2 years	390m <sup>2</sup>	1	1	1
Hebei Province . . . . .	nil	1	2 years	410m <sup>2</sup>	1	1	1
Liaoning Province . . . . .	nil	1	3 years	370m <sup>2</sup>	1	1	1

We request suppliers to deliver most of the food ingredients and other supplies directly to our logistics facilities where we coordinate the receipt, inspection, storage and delivery of supplies to our restaurants. Frozen beef, lamb and pork are generally delivered from our logistics facilities to our restaurants on a daily basis and then thinly sliced at the restaurants to ensure freshness and attractive presentation. Fresh vegetables are generally delivered to individual restaurants on a daily basis. The soup bases and dipping sauces produced at our central food processing plant are generally delivered to central or regional distribution centers for further distribution on a daily basis. We also perform weekly delivery of soup bases and dipping sauces to supplement our primary daily delivery schedule. Sodas and beer are delivered directly to our restaurants by our suppliers.

Key benefits of centralized warehouses include centralized quality monitoring and control, economies of scale and reduced inventory management and logistics expenses.

We engage third party transportation companies to transport food ingredients and other supplies from our logistic facilities to our restaurants on a daily basis. Risks associated with the shipment are assumed by the third party transportation companies and covered by insurance policies.

**FOOD SAFETY AND QUALITY CONTROL**

Food safety and quality control are of paramount importance to our business. We implement stringent food safety and quality control standards and measures throughout different aspects of our operations, including (i) supply chain, (ii) logistics, (iii) food processing plants and (iv) restaurants. We established various quality control departments at different levels of our restaurant network. The quality control department at our headquarters level was established in February 2009. Mr. Chang Xiaohong is the head of our quality control department at the headquarters, and has more than 16 years of experience in quality control. Our quality control department at the headquarters, which reports directly to our chief executive officer, is independent from all other departments and has a veto power over all quality control related issues and decisions. The responsibility of our quality control department at the headquarters includes:

- optimizing the food quality and safety assurance system at group level;
- cooperating with senior management in establishing and optimizing the organization structure in relation to food quality and safety management system;
- analyzing, evaluating and managing potential food safety risks;
- adjusting the operation procedures in response to the new laws and regulations applicable to the catering service industry or our business;
- supporting our senior management in monitoring, preventing and dealing with food safety crisis;
- assisting other departments at the group level to improve food quality and safety system; and
- establishing and enforcing quality standards and building teams responsible for quality assurance.

As of June 30, 2014, we had 34 employees dedicated to food safety and quality control in our food processing plants and restaurant network. The staff at each of the restaurants in our network and our regional supervisors also conduct daily quality monitoring at the operating level.

**Supplier Quality Control**

All of our suppliers are required to comply with quality standards imposed by regulatory authorities with respect to their food ingredients and other supplies. We evaluate samples provided by potential suppliers in accordance with our comprehensive set of technical criteria. Moreover, we actively conduct quality inspection and review on our suppliers, including spot checks on the facilities of our suppliers. For example, we station quality inspectors at the facilities of our lamb suppliers to monitor the slaughtering, freezing and packing process. We also conduct spot checks on the facilities of our major suppliers. In addition, we have set up specific standards in connection with our suppliers' production facilities, including the temperature at their facilities, the condition of their equipment and the cleanliness of their premises. Our on-site inspectors or our suppliers keep a comprehensive record or production history of the ingredients or processed food to be used in our restaurants, as well as the compliance to our stringent standards. We evaluate and record the performance with respect to quality control of each supplier in our procurement IT system to decide its accreditation level. We also actively communicate and work with our suppliers to resolve any safety or quality issues.

**Logistics Quality Control**

Our suppliers are responsible for shipping a significant portion of food ingredients and other supplies to our logistics facilities, where our trained quality control staff conduct quality inspection procedures such as visual inspection on different aspects of the ingredients including color, shape, size, packaging and any indication of spoilage upon delivery. Suppliers of major ingredients are also required to provide third-party certificates on food quality. We may reject the delivery immediately if our quality control inspectors decide that the ingredients or supplies fail to meet the specifications and standards provided in the supply contracts. We also engage third party inspection institution such as Pony to conduct sampling tests for physicochemical and microbial indices of food ingredients at our logistics facilities. As a result, we currently conduct sampling tests on every batch of delivery for more than a hundred food ingredients to be used in our products.

We engage reputable third party transportation companies which have established long-term working relationships with us to deliver the ingredients and supplies to the restaurants in our network. We implement stringent safety policies and requirements during the transportation of these ingredients and supplies. For example, we require the delivery trucks to be capable of maintaining optimal storage conditions to ensure the quality and safety of certain ingredients and supplies during transit. Furthermore, we require that such trucks be thoroughly cleaned, sanitized and inspected by our specialized personnel after each round of delivery, following our quality control standards. We also require the transportation companies to bear the risks of loss or spoilage of the ingredients or supplies during transit.

**Inventory Quality Control**

We utilize our IT system to track inventories and improve our inventory quality control. In addition to the quality control personnel at the central distribution center, we station quality control employees on a full time basis at each distribution center or transit warehouse operated by third parties to regularly inspect the conditions, such as temperature and cleanliness, at these storage facilities to ensure the quality and freshness of our inventories.

**Food Processing Plants Quality Control**

We adopt stringent safety and quality standards at each stage of our production process. The infrastructure and facilities at our food processing plants are designed, constructed, maintained and inspected in accordance with applicable food safety standards, laws and regulations. We require our personnel involved in production activities to follow strict hygiene standards. Furthermore, we require that all the raw materials and ingredients used in the production process to be strictly in compliance with applicable laws and regulations with regard to safety and quality. We also conduct sampling test on semi-finished products to ensure compliance with our stringent quality standards before proceeding to the next stage of production. Major tests include sampling tests to ensure the appearance, color, odor, taste and nutrients comply with our safety and quality standard. Material factors to the food quality at each production step are listed out and monitored closely according to requirements of the Hazard Analysis and Critical Control Point, or HACCP in order to prevent and rectify any potential occurrence of production errors. We also engage third party inspection institution such as Pony to conduct sampling tests at our food processing plants.

As advised by our PRC legal advisor, we have obtained all the necessary approvals in connection with the operation of our food processing plants. We also confirm that all our food products complied with the quality standards in China during the Track Record Period, and we have never been subject to any sanctions, fines or other punitive actions imposed by the PRC Government for failure to comply with these requirements.

**Restaurant Quality Control**

We adopt stringent food safety and quality control standards for all the restaurants in our network with respect to (i) inspection of food ingredients and supplies delivered directly from the suppliers or the distribution centers to our restaurants and (ii) food preparation at our restaurants. In terms of inspection of food ingredients and supplies, our restaurant staff report to the quality control department and logistics department on any deviation or irregularity in the quality of food ingredients and reject any food ingredients and supplies which do not meet our standards after visual inspection upon delivery at the restaurants. Individual restaurants are required to document any quality issue and report them to the quality control department for further handling. Our quality control department also issues a report with regard to quality issues at restaurant level on a monthly basis to our headquarters.



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In terms of food preparation, we have developed separate manuals laying out operating procedures and quality standards to regulate different aspects of food preparation done at all the restaurants in our network. We require the restaurant staff to strictly adhere to the procedures and standards stipulated in the manuals to ensure the flavor, presentation, quality and hygiene standards of our dishes meet our standards. As a result, our customers can enjoy the same dishes with consistent quality and taste at any of the restaurants in our network. We believe this consistency helps us to retain existing customers and attract new customers by generating customer confidence in our quality control system. In particular, our food safety and quality control policies include the following:

- *Continuous training programs.* We continuously provide training programs to our restaurant staff on operating procedures and quality standards. Post-training tests are conducted to ensure the effectiveness of the training.
- *Strict adherence to inventory level.* Our restaurants order most of the perishable ingredients on a daily basis, which we believe helps to ensure the quality and freshness of the dishes and maintain minimal inventory level.
- *Food safety and hygiene.* We have implemented a hygiene manual for the overall cleanliness of our restaurants. We appoint trained personnel to monitor strict compliance of the manual by our restaurant staff.
- *Presentation.* Our ingredients are checked by our restaurant-level kitchen staff on a daily basis to assure the appearance, taste, color and portion of the ingredients adhere to our uniform standard.
- *Spot-check by regional management.* Our regional management staff and specialized inspection team actively visit the restaurants in their respective regions to perform inspection and examination to ensure strict adherence to our food safety and quality standards.
- *Spot-check by anonymous secret customers.* We have engaged an outside consulting company to set up a team to conduct spot-checks of our restaurants to identify and rectify potential issues with respect to service quality and areas for improvement for our restaurant-level employees.
- *Collection of customer feedback.* We collect customer feedback on the quality of dishes and service level and convey customer opinions to the restaurant. We also conduct customer survey and record our customer feedback for further improvement.

### **Certification and Safety Record**

We have received various certifications from government authorities or recognized organizations. In December 2012, our food processing plants received the ISO9001 quality management system certification. As of the Latest Practicable Date, we had not experienced any material food safety incidents.

### **PRODUCT AND MENU DEVELOPMENT**

We seek to develop proprietary recipes for soup bases and dipping sauces, as well as other innovative and distinctive menu items to offer our customers a wide variety of choices. We are committed to optimize our menu items to cater to our customers' palates. We continue to modify our menus based on the prevailing health and nutrition trends and the changing tastes of customers to enhance customer loyalty or attract new customers. In addition, we actively seek to create different combination of meat, vegetable and side dishes to create various set menus that create a price-for-value perception and increase the ordering efficiency. We also actively seek to offer seasonal menu items to reinforce the freshness perception.

We have established a dedicated product development center that continuously develop proprietary recipes for soup bases and dipping sauces, as well as new dishes. Our product development center comprises several teams specializing in different areas, including recipes for soup bases and dipping sauces, as well as other ingredients and menu combination. Our product development center actively conducts research and survey to explore the prevailing market trend and cooperate with our suppliers to develop new food ingredients in order to differentiate our dishes and maintain our competitive edge. Our product development center also focuses on tailoring the taste of our dishes to customers in different geographical areas. We have built a highly popular menu through our ongoing product optimization and development efforts over the years. Expenditure for our research and development activities are expensed as incurred. Each of our product development projects primarily consists of the following key steps:

- *Prototype.* We develop new dishes based on evolving market trends, prevailing consumer tastes, the nature and characteristics of the food ingredients. The product development center will then collaborate with our suppliers to develop feasible prototype dishes. For soup bases and dipping sauces, we also develop the standard recipe and production process.
- *Tasting Committee.* The prototype dishes will be presented to a tasting committee at our headquarters. The tasting committee comprises of members of our senior management and other staff. Our tasting committee will evaluate the color, smell, taste, shape, price, profitability and preparation process of the prototype dishes.
- *Feasibility.* Once approved by the tasting committee, our product development center will access the feasibility of the new dish, including the costs, availability of quality ingredients and logistics. We also work with our suppliers to conduct another round of tasting.

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- *Customer Feedback.* New dishes determined to be “feasible” will be sent to individual restaurant for tasting by randomly selected customers. Based on the feedback, we then make necessary adjustments to the new dishes and determine whether to proceed with the trial launch.
- *Trial Launch.* Upon receipt of positive feedback from customers in all these regions in China, we will launch the new dishes in selected restaurants throughout the country.
- *National or Regional Launch.* New dishes that achieve national success will be launched in all the restaurants in our network throughout China. On the other hand, new dishes that are popular in only certain particular regions will be launched in those regions only.

As a result of the dedication and expertise of our product development center, we have successfully developed our proprietary recipes for soup bases and dipping sauces and launched a number of popular dishes, some of which have become our signature combinations:

- Innovative soup bases such as curry, tomato and tom yum goong, as well as innovative dipping sauces such as spicy miso, “sa teh” and our signature “Xiabu” dipping sauce which, in particular, are popular among young customers;
- We amended the menu for our restaurants in Shanghai by adding rice cake and additional seafood dishes to accommodate local taste in 2012; and
- In February 2014, we began to offer mashed prawn and mashed fish for our customers to produce their own shrimp balls and fish balls in our restaurants.

Going forward, we aim to continue to develop innovative and distinctive dishes based on the prevailing market trend and customer taste, so as to maintain our leadership in China’s fast casual restaurant industry.

## COMPETITION

The fast casual restaurant industry in China is intensely competitive with respect to food quality and consistency, price-value relationships, ambiance, service, location, supply of quality food ingredients and availability of trained employees. Many restaurants of our competitors compete with us near our locations. Key competitive factors in the industry include type of cuisine, food choice, food quality and consistency, quality of service, price, dining experience, restaurant location and ambiance of the facilities. We are a leading fast casual restaurant operator in China as measured by system wide restaurant sales and restaurant count in 2013 according to Frost & Sullivan.

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As we focus on fast casual hotpot dining, we currently have no direct competitor that operates on a similar scale, and we dominate the fast casual hotpot market with a market share of 51.9% in 2013 according to Frost & Sullivan. In 2013, the fast casual hotpot market accounted for approximately 30.7% of China's fast casual restaurant market, 0.7% of China's QSR market and 0.2% of China's catering service industry. However, as one of the fast casual dining options, we compete with other fast casual restaurants and QSRs. We also compete with casual hotpot restaurants. Our major competitors include fast casual brands such as Ajisen, as well as domestic hotpot restaurant brands, such as Little Sheep and Hai Di Lao Hotpot. See the section headed "Industry Overview" for further details.

### EMPLOYEES

As of June 30, 2014, we employed a total of 11,150 employees that are classified as follows:

<b>Function</b>	<b>Number of Employees</b>	<b>Percentage of Total Number of Employees</b>
Headquarters . . . . .	401	3.6
Food processing facilities . . . . .	140	1.3
Restaurant management. . . . .	992	8.9
Restaurant staff . . . . .	9,617	86.2
<b>Total . . . . .</b>	<b>11,150</b>	<b>100.0</b>

Restaurant operations are highly service-oriented. Therefore our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and staff. Employee attrition levels tend to be higher in the catering service industry than in other industries. We offer competitive wages and other benefits to our restaurant employees to manage employee attrition. We also offer discretionary performance bonus as further incentive to our restaurant staff if a specific restaurant target is achieved. Our staff costs include all salaries and benefits payable to all our employees and staff, including our executive Directors, headquarters staff and food processing facilities staff.

### Training

We have established two separate training and continuous education systems for staff with different functions. Our human resources department is responsible for overseeing our employee training and training of managerial staff. On the other hand, our operation training department is responsible for the training of operational and restaurant level staff. We develop and conduct comprehensive training programs for both of these tracks. We offer a series of uniform formulated and staged training modules to promote standardized operations of our Company and our restaurants, including service, operation and customer relationship management.

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To ensure the competency and quality of our employees at all levels and to secure a stable supply of future generations of management personnel, we have launched a comprehensive training program for our employees performed at our regional training centers. For example, we developed a nine- to 12-month training program for college graduates that we recruit as trainee restaurant managers. The goal of the training program is to train our employees in terms of operation and management and to identify talent, with the aim of providing upward mobility within our Company, fostering employee loyalty and incorporating customized mentoring, coaching and training. Such internal upward mobility not only increases employee retention rates, but also produces the type and quality of management personnel needed for our rapidly expanding restaurant network. For example, some of our restaurant waiting staff have risen through the ranks to become restaurant managers through personal diligence and improved performance which we believed have been fostered by our training programs. Our comprehensive training programs also promote standardization of our operations.

Another fundamental objective of our training programs is to provide a sufficient number of well-trained employees for newly opened restaurants. We have identified a number of mature restaurants as our “training bases”, where the restaurant manager utilizes his or her skills and know-how to train new restaurant staff. Meanwhile, our operations department personnel introduces our standards and culture to the new team members.

### **Recruiting and Retention**

We are committed to hiring quality candidates, including experienced managers and industry experts in and outside of China, to support our business and operations. We offer competitive wages and benefits, including medical insurance and complimentary meals as well as boarding, canteen and commuting buses at some locations. In addition, we also provide additional benefits for employees that serve for more than six months, as well as special gifts to further incentivize our employees.

In addition to perquisites and benefits, we believe continuous training and open communication to be vital in retaining our employees. To achieve this, we have implemented a number of initiatives, including establishing an orientation program for new employees to instill our corporate values and culture in new employees, conducting employee training programs to improve their job skills and help with their career advancement, providing management training programs on employee retention, encouraging internal communication by conducting annual employee surveys, and promote open-door policy within our organization, organizing periodic employee focus groups at each restaurant by bringing together a small group of employees to discuss issues and concerns in the work place. We also publish an internal magazine to promote our corporate culture and morale. In particular, our restaurant staff can participate in the management training program and earn the chance to be promoted to restaurant manager or more senior position. See “– Training” for further details.

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### Mandatory Benefit Plans and Labor Relationship

We are required under PRC law to make contributions to our employee benefit plans. In 2011, 2012, 2013 and the six months ended June 30, 2014, we made contributions to mandatory employee benefit plans including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans amounting to approximately RMB17.8 million, RMB54.3 million, RMB64.1 million and RMB36.6 million, respectively.

During the Track Record Period, we had not experienced any major disputes with our employees and we believe that we maintain a good working relationship with our employees. Our employees are covered by collective bargaining agreement.

### INFORMATION TECHNOLOGY SYSTEM

We began to establish a centralized IT infrastructure in 2009, using professional software system from international leading vendors coupled with tailor made and in-house developed interface to increase flexibility. Our senior management, the head of our other departments and member of other functions such as operation, procurement, logistics, finance and accounting are also involved in the development and the continuous management of the IT system. Set forth below is a summary of the major functions of our IT system:

<u>System</u>	<u>Function</u>
POS . . . . .	<ul style="list-style-type: none"><li>• Taking order from customers and transmit the order to the restaurant kitchen and the cashier through handheld mobile devices.</li><li>• Coordinating the flow of goods and services within a restaurant and centrally record sales and guest information.</li><li>• Printing cash and credit card receipt.</li><li>• Recording different restaurant level operation metrics including (i) mix of menu items sold, (ii) customer count, (iii) average customer spending, and (iv) inventory level.</li><li>• Data are transmitted to headquarter on a daily basis and the evaluation team to conduct evaluation on a monthly basis to ensure performance of each individual restaurant is up-to-standard.</li></ul>
Restaurant operation system . . .	<ul style="list-style-type: none"><li>• Cash management.</li><li>• Inventory management.</li><li>• Ordering from the central procurement system.</li></ul>

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System	Function
Procurement and inventory system . . . . .	<ul style="list-style-type: none"> <li>• Quarterly/monthly demand management.</li> <li>• Collecting data including pricing, delivery, inspection record, tracking of inventory intake and movements and levels, control price quality and supply of food ingredients.</li> <li>• Maintain suppliers data base of evaluation and accreditation.</li> </ul>
Financial management system . . . . .	<ul style="list-style-type: none"> <li>• Controlling cash management risk.</li> <li>• Internal control.</li> <li>• Asset management.</li> <li>• Physical inventory counts.</li> <li>• Invoicing and payment.</li> <li>• Capital expenditure planning.</li> <li>• Overall cash flow management.</li> </ul>
Human resources management . . . . .	<ul style="list-style-type: none"> <li>• Staffing and efficiency management.</li> <li>• Salary and benefits.</li> <li>• Promotion and retention.</li> <li>• Attendance rate management.</li> </ul>
Restaurant opening system . . . . .	<ul style="list-style-type: none"> <li>• Database and assessment tools for site selection.</li> <li>• Coordination among project development and operation team on schedule of new store opening, evaluation of results of new stores, record of license, permits.</li> </ul>

Going forward, we plan to implement a comprehensive OA system to integrate the different functions of our current IT systems, which we believe will further enhance our operational efficiency.

### INTELLECTUAL PROPERTY

We currently operate our restaurant network under the Xiabuxiabu brand. In connection with this brand, we maintain 155 trademark registrations in China. We also maintain a total of 13 trademark registrations in Hong Kong, Macau, Taiwan, Japan, Singapore, the United Kingdom, the United States of America, Canada and the United Arab Emirates. As our brand name is becoming more recognized among the customers, we are working to increase, maintain and enforce our rights in our trademark portfolio, the protection of which is important to our reputation and branding.

A number of proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also of significant importance to our operations. We rely on trade secret protection and confidentiality agreements to safeguard our interests in this respect. We believe that certain elements in our operations are not covered by patents or copyrights. We have taken security measures to protect these elements.

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All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies they develop during their employment with us. We also require our clients and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our operations, technology or business plans.

### INSURANCE

We maintain (i) public liability insurance to cover liability for damages arising out of our business operations for all of our restaurants in China including, among other things, claims of food and drink poisoning by our customers, (ii) money insurance for loss of cash in transit (against robbery or attempted robbery at certain prescribed zones) or at our business premises, and (iii) property insurance covering all risks for our restaurants to protect our business from certain natural disasters and other unfortunate events. Our Directors consider our insurance coverage to be customary for business of our size and type and in line with the standard commercial practice in China.

### PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our restaurants, food processing plants, distribution centers, warehouses, offices, and employee cafeteria and dormitories.

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of June 30, 2014, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

### Owned Properties

As of the Latest Practicable Date, we owned one parcel of land with a total area of approximately 19,513 square meters and five buildings with a GFA of approximately 13,262 square meters. We have obtained land use right certificate for the parcel of land, all the construction permits for all our buildings and structures and building ownership certificate for all of our buildings. As confirmed by our PRC legal advisor, we legally own all of our land and buildings.



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The following table sets out a summary of the properties owned by us.

<u>Address and Description of Location</u>	<u>Use of Property</u>	<u>GFA (square meters)</u>	<u>Duration of Lease or Land Use Rights</u>
Daxing District, Beijing, PRC . . . . .	Industrial	19,513	2060
Daxing District, Beijing, PRC* . . . . .	Warehouse and ancillary buildings (including offices)	13,262	not provided in the title ownership certificate

*\*Note: built on the land described above.*

### Leased Properties

As of the Latest Practicable Date, we leased spaces in 451 buildings with a GFA of approximately 119,383.12 square meters.

The following table sets out a summary of the properties leased by us which are considered material as they are used as warehouses and offices.

<u>Address and Description of Location</u>	<u>Use of Property</u>	<u>GFA (square meters)</u>	<u>Duration of Lease or Land Use Rights</u>
Daxing District, Beijing, PRC <sup>(1)</sup> . . . . .	Industrial (food processing plant and warehouse)	7,066.75	Two years
Shanghai, PRC . . . . .	Industrial (warehouse)	1,600	One year
Daxing District, Beijing, PRC . . . . .	Industrial (warehouse)	1,570	One year
Xuhui District, Shanghai, PRC . . . . .	Office	632	One year
Shijiazhuang, Hebei Province, PRC . . . . .	Industrial (warehouse)	410	Two years
Tianjin, PRC . . . . .	Industrial (warehouse)	390	One year
Shenyang, Liaoning Province, PRC <sup>(1)</sup> . . . . .	Industrial (warehouse)	370	Three years

*Note:*

(1) *The relevant lessors of the properties had not been able to provide us with the relevant title ownership certificates*

### *Title Certificate of Leased Properties*

With respect to 167 out of 451 of our leased properties in China, the lessors of such properties had not been able to provide us with the relevant title ownership certificates for the properties we leased or proof of authorizations from the property owners to sublease the properties to us. 165 of these properties are used for restaurant operations, with an aggregate GFA of approximately 40,496.13 square meters. One of these properties which we leased from Xiabu Fast Food is used as our food processing plant and warehouse and has a GFA of 7,066.75 square meters, while another one of these properties is used as a warehouse and has a GFA of 370 square meters. In aggregate, the GFA of these 167 properties accounted for approximately 40.2% of the total GFA of our leased properties.

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Based on the advice of our PRC legal advisor, if the lessors of the leased properties do not have the requisite rights to lease the relevant properties, the relevant lease agreements may be deemed invalid, and as a result, we may be required to vacate from the relevant properties and relocate our restaurants. See “Risk Factors – Risks Relating to Our Business – Our rights to use our leased properties for certain of our restaurants could be challenged by property owners or other third parties, which may result in a disruption of our operations”. We expect to incur total costs of approximately RMB199.5 million if we were required to vacate and relocate from these premises, consisting of approximately RMB1.2 million per restaurant, RMB1.5 million in connection with the food processing plant and warehouse we leased from Xiabu Fast Food and approximately RMB23,000 for the warehouse leased in Shenyang. We can quickly relocate the primary equipment of our food processing plant, the boilers and packing machines, to the alternative premises without incurring significant expenses. In addition, we currently own land and buildings used as warehouses adjacent to the warehouse we leased in Beijing, and such properties can also serve as a readily available alternative if we were required to relocate this warehouse. We expect to finish the relocation of our food processing plant and warehouses within five days and two days, respectively, upon notice of relocation. Based on the estimated expenses and time, we do not expect that our operation will be disrupted due to a forced relocation.

Based on our market research and restaurant location database, we believe that alternative premises for these properties are readily available on similar terms at similar locations given reasonable time and efforts. In particular, our market research indicates that alternative premises that can be used as food processing plants under the relevant PRC laws are readily available on similar terms in Daxing district where our current food processing plant is located. If we are required to relocate our food processing plant, we will undertake due enquiry as to the landlord’s title certificate, and we will not relocate to any premises where the landlord does not have a proper title certificate or authorization to sublet, so as to comply with our enhanced internal control measures. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures” for details of our enhanced internal control measures in this respect.

Furthermore, we have entered into a letter of intent with Beijing Yanqi Yilin Food Co., Ltd. (“**Beijing Yilin**”) to produce soup bases for us in case we were required to vacate and relocate the food processing plant and warehouse we leased from Xiabu Fast Food and we were not able to timely relocate the food processing plant to an alternative premise. Beijing Yilin is our qualified supplier for certain types of soup bases, and is subject to our rigorous quality control measures as described in “– Food Safety and Quality Control – Supplier Quality Control”. Beijing Yilin has sufficient capacity to produce 5,000 tonnes of soup bases per annum to supply our needs. Beijing Yilin has also undertaken to implement relevant measures to our satisfaction to protect our proprietary recipes and will compensate us for loss arising from leakage or misappropriation of such proprietary recipes. If we engage Beijing Yilin to produce soup bases for us in lieu of our own food processing plant for a full year, we estimate the additional costs to be approximately RMB4.8 million.

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Since the commencement of our operations and up to the Latest Practicable Date, to the best knowledge of our Directors, our leases had never been challenged by any third parties, and given that a substantial portion of our landlords are owners of large shopping malls and sizeable commercial real estate developers, we believe the risk that we are required to vacate and relocate from these premises is remote. Our landlords' failure to provide the relevant title ownership certificates for the properties we leased or proof of authorizations from the property owners to sublease the properties to us does not result in any discount on the rent we had to pay. Based on our experiences and due inquiries, proper title ownership certificates or proof of authorizations does not result in any material premium on the rent charged by the landlord.

### *Lease Registration*

As of the Latest Practicable Date, the lease agreements with respect to 405 out of 451 of our leased properties had not been registered and filed with the relevant land and real estate administration bureaus in the PRC because the relevant lessors failed to fulfill their obligation under the relevant PRC laws and regulations to register the leases with the local government authorities. These properties have an aggregate GFA of approximately 107,934.06 square meters. 392 of these properties are used as restaurants.

As advised by our PRC legal advisor, failure to complete the registration and filing of lease agreements will not affect the validity of the lease agreements or result in us being required to vacate the leased properties. However, the relevant PRC authorities may impose a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease. The aggregate amount of maximum fine will be approximately RMB4.1 million, which our directors believe will not have any material adverse impact on our business operations. See "Risk Factors – Risks Relating to Our Business – We may be subject to fines as a result of unregistered leases". We are endeavoring to follow up with the lease registration.

We have established a team to work on the lease registration by proactively communicating with the lessors in order to obtain their cooperation and collect the application documents for the relevant lease registration. We have submitted the application documents for lease registration where those documents are complete. We were advised by our PRC legal advisor that, if the lease registration can be completed in accordance with relevant laws and regulations within a reasonable time from the date of application or the prescribed time limit ordered by the competent government authorities, the probability of receiving penalty imposed by the competent government authorities on us with respect to these 405 leased properties is remote, on the basis that (i) no penalty was imposed on us for our failure to register and file the relevant lease agreements during the Track Record Period and as of the Latest Practicable Date, (ii) according to the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), if the parties to a lease arrangement do not register and file the lease with the competent government authorities, the competent government authorities may order the non-compliant parties to register and file the lease within a prescribed time limit, and the relevant companies that fail to do so may be subject to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease.

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During the Track Record Period and as of the Latest Practicable Date, we have not received any notice or order from the competent government authorities that requires us to rectify our failure to complete the registration and file lease agreements within a prescribed time limit, and (iii) our Directors are of the view that the lease registration we are following up with can be completed with the cooperation of the lessors in accordance with relevant laws and regulations within a reasonable time from the date of application. Our landlords' failure to provide the necessary documents for us to register the leases does not result in any discount on the rent. Based on our experiences and due inquiries, proper registration of the lease does not result in any material premium on the rent charged by the landlord.

### **ENVIRONMENTAL, HEALTH AND SAFETY MATTERS**

We are subject to the PRC national and local environmental laws and regulations. Under applicable PRC laws and regulations, any restaurant construction or renovation must be subject to an environmental impact assessment and approved by the relevant environmental protection authorities before the commencement of the construction work. Following the completion of the construction or renovation project, normally, we should obtain and pass an onsite inspection by the relevant environmental protection authorities before we officially commence use of the relevant site. The relevant environmental protection authorities will also ensure continuing compliance with applicable laws and regulations through random visits after the relevant site is put into use. If any incidents of non-compliance are found during such visits, the authorities may order rectification within a designated period of time. If we fail to rectify the area of non-compliance as ordered, the environmental protection authorities may order us to suspend our operations on such property or to pay a fine.

Due to the nature of our operation, the waste we produced is not hazardous and has minimal impact on the environment. In order to comply with the relevant environmental laws and regulations, we have undertaken wastewater and solid waste disposal and processing measures such as (i) installing proper wastewater treatment devices as required by PRC laws and regulations to process our wastewater at each of our restaurants and food processing plants; (ii) daily collection of solid wastes for which we contract qualified waste management companies to dispose of; (iii) special treatment for our water pipes to avoid leakage and corrosion; and (iv) timely payment of wastewater processing fees to the relevant authorities. See "Regulatory Overview" for additional information. Our Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period. In 2011, 2012, 2013 and the six months ended June 30, 2014, our cost of compliance with environmental protection rules and regulations was approximately RMB0.27 million, RMB0.43 million, RMB0.66 million and RMB1.26 million, respectively. We expect our annual cost of compliance with environmental protection rules and regulations for 2014 to be RMB2.52 million.

We are also subject to the PRC laws and regulations regarding labor, safety and work related incidents. We strive to provide a safe working environment to our employees. We have implemented work safety guidelines for all our employees which set out our work safety policies and promote safety on work sites. In addition, our kitchen operation manual provides clear guidance on various occupational and restaurant safety matters which our restaurant-level

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staff are required to follow. Our technicians are required to follow a separate set of work safety guidelines to ensure work safety at every step of any maintenance work. We provide our technicians with safety equipment which they are required to wear to perform any maintenance work. Furthermore, senior technicians must possess the relevant qualifications for the electricity maintenance or installation work performed. Non-compliance with our work safety procedures adversely factored into the staff's bonus payment so as to give our staff an incentive to adhere to safe working procedures. We have also implemented an internal control system to ensure the proper documentation of any work place safety incidents. We believe these measures help reduce the number and seriousness of work injuries of our employees and are adequate and effective to prevent serious work injuries. During the Track Record Period, we had complied with the relevant PRC workplace safety regulatory requirements in all material respects and have not had any incidents or complaints which had materially and adversely affected our financial condition or business operations.

### LEGAL PROCEEDINGS

We are currently not a party to, and we are not aware of any threat of, any legal, arbitral or administrative proceedings, which, in our opinion, is likely to have a material and adverse effect on our business, financial conditions or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

### LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

Our Directors, as advised by our PRC legal advisor, confirm that as of the Latest Practicable Date, we had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits from relevant regulatory authorities for our operations in China, except as disclosed below. During the Track Record Period, we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to obtain certain approvals and licenses to operate our restaurants in the total amount of RMB40,000. As of the Latest Practicable Date, we had not incurred any additional fine. We were advised by our PRC legal advisor that there are no substantial risks that the government will retrospectively impose any material penalty on the restaurants for which we did not timely obtain the relevant official licenses and permits for their operation during the Track Record Period and as of the Latest Practicable Date.

### Fire Safety

#### *Reasons for Non-compliance*

As of October 25, 2014, we were not able to complete the necessary fire safety verification or fire safety inspection for some of our restaurants when we started operation. In particular, there were (i) 18 restaurants located in shopping malls or buildings where the owners of the properties have not completed the fire safety inspections with respect to the shopping malls or buildings, which caused a delay in our application for fire safety inspections;

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and (ii) four restaurants for which we had submitted the applications for fire safety verifications or fire safety inspections, and the applications were being processed by government authorities. As a result of our efforts to rectify such non-compliances prior to the Listing, we had suspended the operation of these 22 restaurants. On November 3, 2014, we resumed the operation at one of these restaurants upon our receipt of the official fire safety certificate after our landlord obtain the official fire safety certificate for the shopping mall.

Such non-compliance incidents occurred primarily because our senior management was pre-occupied with the development and growth of the Company's business operations, which resulted in (i) their lack of comprehensive understanding of the PRC laws and regulations as a result of insufficient time and effort spent to understand the relevant PRC laws and regulations; and (ii) inadvertence in monitoring the Company's compliance status with the PRC laws and regulations. Since then, our senior management has enhanced their understanding of the relevant PRC laws and regulations. In addition, in preparation for the Listing, we have strengthened our internal controls to avoid the recurrence of such non-compliance incidents in the future. See “– Corresponding Internal Control Measures” for details. In this regard, we have engaged an internal control consultant to review and recommend enhancements to our internal control system which have subsequently been adopted to prevent the recurrence of similar non-compliance incidents.

### *Legal Consequences*

For our four restaurants for which we had submitted the applications, we were advised by our PRC legal advisor that (i) there will not be any substantial legal impediment for us to complete the fire safety verifications or fire safety inspections as long as our applications comply with relevant PRC laws and regulations; and (ii) once we complete the fire safety verifications or fire safety inspections, the government would not impose any fine retrospectively or order us to close these restaurants due to the historical non-compliance. Therefore, we were advised by our PRC legal advisor that the probability that the government authorities will take action toward these restaurants is remote if the fire safety verifications or fire safety inspections could be completed within a reasonable time from the date of application.

For the remaining 17 restaurants located in shopping malls or buildings where the owners of the properties have not completed the fire safety inspections, our maximum penalty for not being able to complete the necessary fire safety verification and fire safety inspection when we started operation will be (i) RMB10.2 million, which includes a fine of RMB600,000 per restaurant; and (ii) closure of all of these restaurants. Based on our revenue during the Track Record Period and our assessment of the probability of the maximum amount of fines that could be imposed on us, we believe that the potential penalty would not have a material and adverse impact on our business, results of operations or financial condition.

Mr. Ho, one of our Controlling Shareholders, has agreed to indemnify us against all the fines and penalties arising from such non-compliance incidents. Having considered (i) the advice by our PRC legal advisor in connection with these non-compliance incidents, (ii) the fact that during the Track Record Period, the total amount we were fined by relevant

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government authorities for certain isolated non-compliance incidents relating to our failure to obtain certain approvals and licenses to operate our restaurants is RMB40,000, which is insignificant and not material, our Directors are of the view that the probability that the government will take any action against these restaurants is remote. As of the Latest Practicable Date, we had not incurred any additional fine. In addition, having considered that (i) the indemnity provided by Mr. Ho against any fines and penalties arising from such non-compliance incidents, and (ii) the undertaking letters issued by certain lessors that they will bear all the relevant liabilities or otherwise resolve the relevant issues, our Directors are of the view that even in the event that the government authorities take any action against us, there will not be any material adverse impact on our business operations. As a result, we did not make any provisions in connection with these non-compliance incidents during the Track Record Period.

### *Rectification Measures*

As of the Latest Practicable Date, we had suspended the operations of the four restaurants for which we had submitted applications for fire safety verification or fire safety inspections but had not obtained relevant official fire safety certificates. As we expect to obtain the relevant official fire safety certificates for these restaurants, we will maintain the leases of these restaurants. Therefore, we do not expect to incur contractual penalties and forfeit our deposit and any rent paid as a result of the suspension of operations at these restaurants. If, however, we are required to terminate the leases, we expect to incur contractual penalties and forfeit our deposit and certain portion of the rent paid up to approximately RMB0.8 million.

Revenue generated from these four restaurants amounted to nil, nil, RMB8.1 million and RMB10.1 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing nil, nil, 0.4% and 1.0% of our revenue for the respective periods. Operating profit generated from these four restaurants amounted to nil, nil, RMB1.6 million and RMB2.1 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing nil, nil, 0.4% and 1.0% of our total restaurant level operating profit for the respective periods. Based on the revenue and profit contribution of these restaurants, we believe that the suspension of operation of these four restaurants would not have any material and adverse impact on our business, results of operations or financial condition.

As of the Latest Practicable Date, we had suspended our operation at our 17 restaurants located in shopping malls or buildings where the owners of the properties have not completed the fire safety inspections. We may need to terminate the leases of these restaurants and incur contractual penalties and forfeit our deposit and certain portion of the rent paid up to approximately RMB4.4 million in aggregate.

Revenue generated from these 17 restaurants amounted to RMB34.9 million, RMB54.4 million, RMB79.3 million and RMB41.5 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing 3.5%, 3.6%, 4.2% and 4.1% of our revenue for the respective periods. Operating profit generated from these 17 restaurants amounted to RMB7.6 million, RMB9.8 million, RMB16.1 million and RMB9.1 million in 2011, 2012, 2013 and the

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six months ended June 30, 2014, respectively, representing 3.9%, 3.5%, 4.3% and 4.1% of our total restaurant level operating profit for the respective periods. Based on the revenue and profit contribution of these restaurants, we believe that the suspension of operation of these 17 restaurants would not have any material and adverse impact on our business, results of operations or financial condition.

We will not re-open these 21 restaurants until we officially obtain the relevant fire safety certificates. In addition to the regular compliance status review carried out by our internal control and compliance department, our regulatory compliance committee will closely monitor the compliance status of these restaurants to ensure our observance of this undertaking and will report to our Board of Directors on a quarterly basis. See “– Corresponding Internal Control Measures” for details.

To mitigate our risks and public safety concern, we have (i) devised a fire safety plan with the help of qualified designers we engaged, which includes guidance on the use of building and decoration materials and electrical appliances, standard operation procedures in case of fire alarm and proper evacuation plan; (ii) installed the necessary fire safety equipment as required by PRC laws and regulations, including fire extinguishers, smoke detectors and automatic water spray; (iii) obtained public liability insurance to cover any potential damage, injury or death suffered by any third party (including our customers) and employer liability insurance to cover any potential injury or death suffered by our employees as a result of the accidents happened in the course of our business and operation. Failure to obtain the relevant fire safety certificate does not bar our claim or affect the amount of compensation we can receive against the loss under our public liability insurance or employer liability insurance coverage. In the event that any customer or employee suffers damage, injury or death, as applicable, in relation to fire safety or other accidents, we expect that the relevant insurance policies will cover our liability towards these customers or employees; and (iv) applied fire resistant building and decoration materials, installed proper evacuation route indication signs and where applicable, proper emergency exits. In particular, we have engaged Beijing Tianhui Zhongfang Fire Safety Technology Inspection Company Limited (北京天匯中方消防技術檢測有限公司) as the fire safety consultant (the “**Fire Safety Consultant**”) to conduct fire safety inspection and electrical fire prevention inspection on each of the restaurants which had not obtained the fire safety approval from the government authorities as of October 25, 2014.

After completing the inspections at our restaurants, the Fire Safety Consultant conducted a second round of inspection and inspected the shopping malls where our restaurants are located and where we have not obtained fire safety approvals as a result of the landlords’ failure to obtain the fire safety approval for the shopping mall, to ensure the fire safety equipment at the shopping malls and other arrangements such as fire escape routes from the store to the exits of the shopping malls are properly in place. After the two rounds of inspections, the Fire Safety Consultant confirmed that the scope of inspection (including restaurant level inspection and mall level inspection to the extent relevant to the fire safety protection measures of the restaurants) carried out by the Fire Safety Consultant has covered substantially similar inspection scope that would be conducted by a competent fire safety authority for us to obtain a fire safety approval. The Fire Safety Consultant was incorporated



in 2002. It is certified by Beijing Fire Protection Association as a specialist in fire safety inspection and electrical fire prevention inspection, and has the necessary quality control system in compliance with the relevant ISO standard. Beijing Fire Protection Association is an industry association under the supervision of Beijing Municipal Public Security Bureau and is allowed to conduct fire safety related studies and provide certification for fire safety inspection companies. In addition, the Fire Safety Consultant has undertaken the fire safety inspections and electrical fire prevention inspections at various large scale commercial, industrial and residential properties.

The Fire Safety Consultant employs fire safety inspectors with extensive experience in fire safety inspection, relevant education background and certificates issued by the fire safety bureaus. After inspection at all these 22 restaurants without proper fire safety approval as of October 25, 2014, the Fire Safety Consultant is of the view that (i) all of these restaurants have complied with the applicable fire safety laws, regulations and standards; and (ii) there are no material impediments for these restaurants to pass the verification and inspection of the fire safety supervisory authorities. In view of the fire safety plan and fire safety equipment in place at our restaurants, as well as the opinions of the Fire Safety Consultant, our Directors are of the view that adequate and effective fire safety measures have been taken at all of our restaurants, including the restaurants for which we had not obtained the proper fire safety approvals immediately prior to the Latest Practicable Date. Furthermore, as mentioned above, we have also strengthened our internal control measures to avoid future non-compliance incidents. For more information on our internal control measures, see “– Corresponding internal control measures” below.

## **Environmental Protection**

### ***Reasons for Non-compliance***

As of the Latest Practicable Date, we were not able to complete the environmental protection verification in some of our restaurants when we started operation. In particular, there were (i) five restaurants located in shopping malls or buildings where the owners of the properties have not completed the environmental protection verification with respect to the shopping malls or buildings, which caused a delay in our application for environmental protection completion verification; and (ii) 18 restaurants for which we had submitted the applications for environmental protection verifications, and the applications were being processed by government authorities.

The non-compliances occurred primarily because our senior management was pre-occupied with the development and growth of the Company’s business operations, which resulted in (i) lack of comprehensive understanding of the PRC laws and regulations as a result of insufficient time and effort spent to understand the relevant laws and regulations in the PRC; and (ii) inadvertence in monitoring the Company’s compliance status with the PRC laws and regulations. Since then, our senior management has (i) enhanced their understanding of the PRC laws and regulations; and (ii) strengthened our internal controls to avoid the recurrence of such non-compliance incidents in the future. In this regard, we have engaged an internal control consultant to review and recommend enhancements to our internal control system which have subsequently been adopted to prevent the recurrence of similar non-compliance incidents.

***Legal Consequences***

For our 18 restaurants for which we had submitted the applications, we were advised by our PRC legal advisor that (i) there will not be any substantial legal impediment for us to complete the environmental protection verifications as long as our applications comply with relevant PRC laws and regulations; and (ii) once we complete the environmental protection verifications, the government would not impose any fine retrospectively or order us to close these restaurants due to the historical non-compliances. Therefore, we were advised by our PRC legal advisors that the probability that the government authorities will take action toward these 18 restaurants is remote if the environmental protection verification could be completed within a reasonable time from the date of application. Revenue generated from these 18 restaurants amounted to nil, nil, nil and RMB0.4 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing nil, nil, nil and nil of our revenue for the respective periods. Operating (loss)/profit generated from these 18 restaurants amounted to nil, nil, nil and RMB(0.9) million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing nil, nil, nil and (0.4)% of our total restaurant level operating profit for the respective periods.

For the remaining five restaurants located in shopping malls or buildings where the owners of the properties have not completed the environmental protection verifications, our maximum penalty will be RMB500,000, which includes (i) a fine of RMB100,000 per restaurant; and (ii) closure of all of these restaurants. Revenue generated from these five restaurants amounted to RMB1.1 million, RMB7.0 million, RMB15.7 million and RMB11.1 million, for 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing 0.1%, 0.5%, 0.8% and 1.1% of our revenue for the respective periods. Operating (loss)/profit generated from these five restaurants amounted to RMB(0.1) million, RMB0.5 million, RMB2.4 million and RMB2.1 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing (0.1)%, 0.2%, 0.7% and 0.9% of our total restaurant level operating profit for the respective periods. Based on the revenue contribution of these restaurants and our assessment of the probability of the maximum amount of fines that could be imposed on us, we believe that the potential penalty would not have a material and adverse impact on our business, results of operations or financial condition.

Mr. Ho, one of our Controlling Shareholders, has agreed to indemnify us against all the fines and penalties arising from such non-compliance incidents. Having considered (i) the advice by our PRC legal advisor in connection with these non-compliance incidents, (ii) the fact that during the Track Record Period, the total amount we were fined by relevant government authorities for certain isolated non-compliance incidents relating to our failure to obtain certain approvals and licenses to operate our restaurants is RMB40,000, which is insignificant and not material, our Directors are of the view that the probability that the government will take any action against these restaurants is remote. As of the Latest Practicable Date, we had not incurred any additional fine. In addition, having considered the indemnity provided by Mr. Ho against any fines and penalties arising from such non-compliance incidents, our Directors are of the view that even in the event that the government authorities take any action against us, there will not be any material adverse impact on our business operations. As a result, we did not make any provisions in connection with these non-compliance during the Track Record Period.

***Rectification Measures***

For our 18 restaurants, we had submitted applications for the environmental protection verifications. We were advised by our PRC legal advisor that there will not be any substantial legal impediment for us to complete the environmental protection verifications as long as our applications meet the legal requirements. We expect to complete the environmental protection verifications for these restaurants by the end of March 2015.

For the remaining five restaurants, once the relevant owners of the shopping malls or buildings complete the necessary environmental protection verification on the shopping mall or building, we will immediately submit applications for the environmental protection verifications for these restaurants. We were advised by our PRC legal advisor that once we submit applications, there will not be any substantial legal impediment for us to complete the environmental protection verifications as long as our applications meet the legal requirements.

To mitigate our risks and public safety concern, we have (i) conducted the environmental assessment study; and (ii) undertaken various environmental protection measures and installed the necessary environmental protection equipment as required by PRC laws and regulations. Furthermore, we have also strengthened our internal control measures to avoid future non-compliance incidents. For more information on our internal control measures, please see “– Corresponding internal control measures” below.

**Others*****Catering Service Permit***

As of the Latest Practicable Date, due to administrative oversight by the restaurant level staff, the catering service permits for six of our restaurants expired on November 22, 2014 before we could complete the renewal application. Our maximum penalty for such failure to renew includes (i) confiscation of all the profit generated from these six restaurants since the expiry of the catering service permits until the date they were renewed; and (ii) a fine equals to ten times the value of the inventories sold at these six restaurants. The profit generated from these six restaurants and the value of the inventories sold at these six restaurants since expiry of the catering service permits is insignificant. Revenue generated from these six restaurants amounted to RMB1.0 million, RMB27.2 million, RMB31.8 million and RMB15.9 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing 0.1%, 1.8%, 1.7% and 1.6% of our total revenue for the respective periods. Operating profit (loss) generated from these six restaurants amounted to RMB(0.6 million), RMB5.1 million, RMB6.8 million and RMB3.8 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing (0.3)%, 1.8%, 1.8% and 1.7% of our total restaurant level operating profit for the respective periods.

As of the Latest Practicable Date, we had submitted the catering service permit renewal application for these six restaurants. As advised by our PRC legal advisor, (i) once the application is submitted, there will not be any substantial legal impediment for us to renew the catering service permits as long as our application comply with relevant laws and regulations; and (ii) once we renew the catering service permits, the government would not confiscate the profit or impose any fine on these six restaurants due to the historical non-compliance. Therefore, we were advised by our PRC legal advisor that the risk that the government

authorities will take action toward these six restaurants is remote if applications for renewal could be completed within a reasonable time from the date of application. Based on the revenue contribution and our assessment of probability of the maximum amount of fines that could be imposed on us, we believe that the potential penalty would not have a material and adverse impact on our business, results of operations or financial condition.

Having considered the advice by our PRC legal advisor that the probability that the government authorities will take action toward this non-compliance incident is remote, we did not make any provisions in connection with this non-compliance during the Track Record Period.

### ***Construction Permit***

In 2009, we began the construction of a building to be used as a warehouse, storage room, canteen, dormitory and research and development facilities in Beijing without first obtaining the construction permit due to administrative oversight. Upon completion of the building in 2011, we discovered that the building was being constructed without the necessary construction permit and that the local government authorities had notified us that it would impose a penalty for the violation. Apart from the lack of construction permit, we have complied with other laws and regulations in connection with our construction project.

After consultation and considering all facts and circumstances, we recognized a provision of RMB2.4 million in the profit and loss during 2011, to cover the estimated liabilities in respect of such violation. As of December 31, 2011, 2012 and 2013, we have re-assessed the estimation and considered the original estimation of provision amount continued to be appropriate. While we were in the process of finalizing the ultimate penalty amount with the relevant authority, we made payments of RMB0.4 million, RMB1.6 million and RMB0.4 million, respectively, to the relevant authority as partial settlements during each of 2011, 2012 and 2013. The aggregate amount paid in connection with the violation was RMB2.4 million. In November 2013, the penalty amount was finalized by the relevant authority at RMB2.4 million, representing the provision amount originally estimated by us and the sum of partial settlements we made up to that time. As a result, no additional provision was made. In addition, we were not subject to any other penalties in connection with this building. We have obtained the necessary building certificate in 2014.

### **Corresponding Internal Control Measures**

In view of the abovementioned non-compliance in respect of the licenses and approvals of some of our restaurants, we have implemented the following internal control procedures to reduce the risk of penalties from the PRC regulatory authorities in respect of restaurants that we operate in the future. We have also engaged Protiviti to review our internal control measures. Based on their initial review and recommendations, we have implemented the following enhanced internal control measures:

- we adopted the Restaurant Opening Approval Policy and the revised Licenses and Permits Management Policy to govern the procedures of new restaurant opening, particularly in the areas of applying for the relevant licenses and permits with PRC regulatory authorities;

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## BUSINESS

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- we have compiled, with the assistance of our PRC legal advisor, a list of the relevant licenses and permits that would be required in order for us to commence operation of a new restaurant, including primarily the catering service permit, the business license and the relevant approvals and inspections in connection with fire safety and environmental protection, across key regions;
- our in-house legal department will update this list from time to time based on our experience with local authorities and also advice given by our PRC legal advisor;
- we will conduct rigorous due diligence as to the ownership certificate and other necessary licenses, permits and approvals of the landlords before we sign leases for our new restaurants;
- we have required our site selection committee to strengthen its focus on the material license status of the prospective properties in the process of assessing and approving the selection of proper sites for new restaurants. Prior to entering into the lease agreements with relevant landlord, our project development department would submit a report to the site selection committee which includes, in particular, the information on the license status of the prospective properties. The site selection committee would take into consideration the feasibility of license application for stores to be opened in the prospective properties and may reject certain properties if their respective landlord fails to complete fire safety inspection or verification and/or obtain other relevant licenses;
- our new site selection guidance also requires that the certificates or proofs of the ownership of the properties must be reviewed in new site selection. If the lessor is not the owner of the property, the authorization of the sublease by the owner to the lessor must be obtained. Furthermore, the legal department will review the certificates or proofs of the ownership of the properties and the authorization of the sublease to ensure the guidance is implemented properly. If the authorization of the sublease is not obtained for the cases the lessor is different from the owner, the legal department will not agree to process the lease agreement with the lessor. For those existing restaurants, the same internal controls will be executed in lease agreement renewal. The consistency of the lessor and the owner will be reviewed and the authorization of the sublease will be required for those cases where the lessor is different from the owner;
- in determining the development plan and timetable for opening a new restaurant, we will prescribe specific timelines within which the various licenses and permits should be applied for and should be obtained so that our operation team will follow such timelines to make the necessary applications. We will also devise our new restaurant development timeline to allow sufficient time to obtain the necessary licenses, permits or approvals. The head of our chief executive officer's office is designated to review and monitor the progress of the license and permit applications at our headquarters;

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- as an internal control measure, our chief executive officer's office and internal control and compliance department will monitor the application process of the licenses against the list referred to above. We also require our in-house legal department to strengthen their focus on legal compliance matters and provide timely assistance and advice to our internal control and compliance department;
- our internal control and compliance department is required to carry out compliance status review on individual restaurants on a regular basis. In particular, it will make quarterly report on the status of our compliance undertaking to the audit committee of our Board of Directors, and to the compliance advisor for the first year after the Listing, to the compliance advisor;
- we have established a regulatory compliance committee at the group level headed by Mr. Fang Liang, our vice president of development and engineering, and consisting of our chief executive officer Ms. Yang Shuling, our chief financial officer Ms. Zhao Yi, our vice president responsible for strategies, our senior director of operation management department and our senior director of compliance and internal control, to oversee the application and obtainment of necessary licenses, permits and approvals. Mr. Fang Liang has a bachelor's degree in law and has more than ten years of experiences in store and restaurant openings and management for large-scale QSR and fast casual restaurants chains, including McDonald's, Yoshinoya and Yonghe King prior to joining us in 2012. Ms. Yang Shuling has been managing our operation since our inception and has over 15 years of experience in the catering service industry. Ms. Zhao Yi has also served management roles in various retail and QSR chains, including PepsiCo Food Co., Unilever Service Co., Ltd. and McDonald's prior to joining us in 2012. As such, they are familiar with the potential issues that could arise with respect to compliance and internal control of our business. All relevant due diligence work will be submitted to the committee for review and the opening of new restaurants and lease renewal of existing restaurants must be approved by the regulatory compliance committee to ensure the relevant compliance risks have been properly assessed and controlled. Where necessary, our regulatory compliance committee will also seek advice from external experts including internal control consultant or legal advisors as to the compliance with relevant PRC laws. The regulatory compliance committee is required to report to our Board of Directors on a quarterly basis;

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## BUSINESS

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- in connection with the application for the Listing, we have provided an undertaking (the “**Undertaking**”) to the effect that, going forward, we will not commence the operation of a new restaurant until all of the relevant material official licenses and permits required for the operation of such restaurant, such as the official fire safety certificates, have been obtained. To ensure the fulfilment of the Undertaking, we will fully and continuously implement the enhanced internal control measures described above. After Listing, we will also disclose the status of our compliance with the Undertaking in our annual reports. In particular, we will continue to enforce the two-committee process when assessing the prospective properties for a new restaurant site and approving the opening of a new restaurant;
- we have implemented and will continue to implement various training programs which are relevant to our operations at least once a year after Listing, with the help of our in-house legal department to update our Directors, senior management and employees on the relevant PRC laws and regulations and our internal control policies; and
- the results of the compliance review, together with all material correspondence with regulatory bodies, penalty incurred, as well as the compliance control deficiencies identified will be reported to the Board of Directors on a regular basis by our internal control and compliance department for follow up.

Since March 2014, our Internal Control Consultant, Protiviti, continued their reviews on our remediation of the identified deficiencies with respect to our internal controls over non-compliance and advised us on the enhancement of our internal control procedures and policies over non-compliance. Based on the several rounds of review, the latest round of which took place in October 2014, Protiviti considers that our enhanced internal control measures, if implemented continuously, are adequate and effective to reasonably prevent future material non-compliance incidents. After considering our remedial actions and results of the reviews by Protiviti, our Directors are of the view that these enhanced internal control measures are adequate and effective to ensure future compliance with the relevant PRC laws and regulations if implemented continuously. The Joint Sponsors, on similar basis as our Directors’, concur with our Directors’ view.

Considering that (i) the facts and circumstances surrounding the non-compliances; (ii) our effort to ensure the safety of our restaurants; (iii) the rectification measures we took; and (iv) the enhanced internal control measures we implemented and the trainings attended by our Directors in relation to their obligations and duties as directors of a listed company, our Directors are of the view, and the Joint Sponsors concur with the view that, our Directors, despite such non-compliance incidents, are still suitable to serve as directors of a listed company and our Company is suitable for listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering (assuming that all Preferred Shares are convertible into Shares on a one-for-one basis upon completion of the Global Offering and the Over-allotment Option is not exercised and without taking into account Shares which may be allotted and issued upon exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme), each of Ying Qi Investments and GASF will be entitled to exercise voting rights of approximately 42.68% and 32.32% of the issued share capital of our Company, respectively. Ying Qi Investments is wholly-owned by Ying Qi PTC, the trustee of the Ying Qi Trust, which was established by Mr. Ho (as the settlor). Accordingly, Mr. Ho, Ying Qi PTC, Ying Qi Investments and GASF are our Controlling Shareholders. For more information relating to the controlling shareholders and their shareholdings in our Company, see the section headed “Substantial Shareholders” in this prospectus.

### COMPETING INTEREST

Each of our Controlling Shareholders and Directors confirm that he, she or it does not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and their respective associates after the Global Offering.

#### Management Independence

The Board comprises two executive Directors (including Mr. Ho, our Controlling Shareholder), two non-executive Directors (one of whom, namely Mr. Wei Ke, was nominated by GASF) and three independent non-executive Directors. Our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and/or have substantial experience in the industry in which we are engaged. Please see the section “Directors and Senior Management” for further details. Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. Further, we believe our independent non-executive Directors bring independent judgment to the decision-making process of our Board. In addition, our Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of his/her close associates has a material interest and shall not be counted in the quorum present at the particular Board meeting.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Apart from the transactions set out in the section headed “Connected Transactions” in this prospectus, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

### **Operational Independence**

Although the Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independent from the Controlling Shareholders. Ying Qi Investments is an investment holding company, and we do not rely on any of its operational, administration or human resources. GASF is part of the General Atlantic private equity group and is our Financial Investor which continues to provide strategic advice and guidance to the Group, and we do not rely on any of its operational, administration or human resources and has been carrying out our own business operations independently. In addition, our organizational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business. Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

### **Financial Independence**

Our Group has our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and the ability to operate independently of our Controlling Shareholders from a financial perspective.

In addition, our Group does not rely on the Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance. Our Directors confirmed that, as at the Latest Practicable Date, none of the Controlling Shareholders or their respective associates had provided any loans, guarantees or pledges to our Group. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Our Directors also confirmed that, as at the Latest Practicable Date, our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders or their respective associates.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that it/he fully comprehends its/his obligations to act as our Shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and Senior Management – Directors and Senior Management – Independent Non-executive Directors" in this prospectus;
- (d) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between the Group on the one hand and the Controlling Shareholders and/or our Directors on the other, the Controlling Shareholders and/or our Directors shall provide the independent non-executive Directors with all necessary information and the Company shall disclose the decisions of the independent non-executive Directors (including why business opportunities referred to it by the Controlling Shareholders were not taken up) either through its annual report or by way of announcements; and
- (e) we have appointed Anglo Chinese Corporate Finance Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

We have entered into certain continuing agreements and arrangements with our connected persons in our ordinary and usual course of business. Upon the listing of the Shares on the Stock Exchange, the transactions disclosed under this section will constitute continuing connected transactions under the Listing Rules.

#### Fully Exempt Continuing Connected Transactions

We set out below details of the continuing connected transactions between our Group and Mr. Ho (our Chairman, executive Director and one of our Controlling Shareholders) which are fully exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

#### Lease Agreement

During the Track Record Period, Xiabu Beijing, our indirect wholly-owned subsidiary, entered into successive lease agreements with a company wholly-owned by Mr. Ho, Xiabu Fast Food, to lease the factory located at Suncun Industrial Development Zone, Huangcun Town, Daxing District, Beijing, PRC with a total area of 7,066.75 square meters. The property is to be used by Xiabu Beijing for industrial purpose, and which is utilized by Xiabu Beijing as the food processing plant and warehouse. The lease agreement (the "**Lease Agreement**") was for an initial term of ten months commencing from July 1, 2010 and ending on April 30, 2011. Upon the expiry of the initial term, the Lease Agreement has been renewed for three successive terms of one year, which period commenced on May 1 of each of the years 2011, 2012 and 2013 and ended on April 30 the following year. The rental payable by Xiabu Beijing to Xiabu Fast Food under the Lease Agreement was RMB100,000 per month for the period from May 1, 2010 to April 30, 2013 and RMB105,000 per month for the period from May 1, 2013 to April 30, 2014, amounting to a total rental expense of RMB1,200,000 for each of the years ended December 31, 2011 and 2012, RMB1,240,000 for the year ended December 31, 2013 and RMB420,000 for the four months ended April 30, 2014. The rental was negotiated and agreed by the parties on an arm's length basis with reference to the market rental of similar properties in nearby areas. The rental is payable by Xiabu Beijing on a monthly basis pursuant to the terms of the Lease Agreement.

On April 30, 2014, the parties renewed the Lease Agreement for a term of two years commencing on May 1, 2014 and ending on April 30, 2016. The monthly rental under the renewed Lease Agreement is RMB110,250 for the period commencing from May 1, 2014 and ending on April 30, 2015 and RMB115,000 for the period commencing from May 1, 2015 and ending on April 30, 2016. The remaining terms of the renewed Lease Agreement are substantially the same as those in the existing Lease Agreement.

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## CONNECTED TRANSACTIONS

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### **Listing Rules Implications**

Mr. Ho is a substantial shareholder and an executive Director of our Company. He is therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules. Xiabu Fast Food is wholly-owned by Mr. Ho and hence an associate of Mr. Ho. Xiabu Fast Food is therefore a connected person of our Company under Rule 14A.07(4) of the Listing Rules.

As the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the transaction contemplated under the Lease Agreement are below 5% and the total annual rental payable by Xiabu Beijing under the Lease Agreement is less than HK\$3,000,000, the transaction contemplated under the Lease Agreement constitutes *de minimis* continuing connected transactions under Rule 14A.76(1) of the Listing Rules, and is exempt from reporting, announcement and independent shareholders' approval requirements. No annual cap is therefore set for the Lease Agreement.

### **OUR DIRECTORS' VIEWS**

The Company has engaged CBRE Limited, an independent professional property valuer, to review the Lease Agreement and also inspect the relevant property. After studying the available market information and the terms of the Lease Agreement, CBRE Limited is of the opinion that the rental charged by Xiabu Fast Food under the Lease Agreement is within reasonable range of the market rental and that the terms of the Lease Agreement are considered fair and reasonable and on normal commercial terms.

In the view of our Directors (including our independent non-executive Directors), it is in the interests of our Group to continue with the continuing connected transactions described in this section after the Listing, and that all these transactions are conducted on normal commercial terms, were entered into in the ordinary and usual course of business of our Group, the terms are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The functions and duties of our Board include convening general meetings implementing the resolutions passed at the general meetings, determining business and investment plans, formulating our annual financial budget and final accounts, and formulating our proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles of Association. We have entered into service contracts with each of our executive Directors. We have also entered into letters of appointment with each of our non-executive Directors and independent non-executive Directors.

Our senior management is responsible for the day-to-day management and operation of our business.

The following table sets forth certain information in respect of our Directors and senior management:

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
<i>Directors</i>						
HO Kuang-Chi (賀光啓) . . . . .	51	Chairman of the Board and Executive Director	May 14, 2008	December 11, 1998	Formulating the overall development strategies and business plans of our Group	Husband of Chen Su-Yin
YANG Shuling (楊淑玲) . . . . .	53	Chief Executive Officer and Executive Director	November 3, 2008	December 11, 1998	Overseeing the management and strategic development of our Group	None
CHEN Su-Yin (陳素英) . . . . .	51	Non-executive Director	December 12, 2012	December 11, 1998	Providing strategic advice and guidance on the business development of our Group	Wife of Ho Kuang-Chi
WEI Ke (魏可) . . . . .	40	Non-executive Director	December 12, 2012	December 12, 2012	Providing strategic advice and guidance on the business development of our Group	None
HSIEH Lily Hui-yun (謝慧雲) . . . . .	60	Independent Non-executive Director	November 28, 2014	November 28, 2014	Supervising and providing independent judgment to our Board	None
HON Ping Cho Terence (韓炳祖) . . . . .	55	Independent Non-executive Director	November 28, 2014	November 28, 2014	Supervising and providing independent judgment to our Board	None
CHEUNG Sze Man (張詩敏) . . . . .	44	Independent Non-executive Director	November 28, 2014	November 28, 2014	Supervising and providing independent judgment to our Board	None

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Position	Date of appointment	Date of joining our Group	Roles and Responsibilities in our Group	Relationship with other Directors or senior management
<i>Senior Management</i>						
ZHAO Yi (趙怡) . . . . .	45	Chief Financial Officer	November 12, 2012	November 12, 2012	Responsible for the audit, accounting, financial management and IT related matters of our Group	None
YING Zhongqiu (應仲秋) . . . . .	48	Vice President of Human Resources	April 22, 2010	April 22, 2010	Responsible for the human resources and administration related matters of our Group	None
FANG Liang (房梁) . . . . .	42	Vice President of Development and Engineering	December 5, 2012	December 5, 2012	Responsible for development and engineering related matters of our Group	None

### Executive Directors

**Mr. HO Kuang-Chi (賀光啓)**, aged 51, is the Chairman of the Board and an executive Director. He was appointed as our Director on May 14, 2008 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Ho is also a director of each of the subsidiaries of our Group. Mr. Ho has over 16 years of experiences in the food and beverage industry. Mr. Ho founded our business in 1998 and continues to oversee the management of our operations and business. He established our first restaurant in Beijing in 1999 and has guided our operations and business in adhering to quality and innovation in our operations since our establishment. Mr. Ho was awarded the “Ten Significant Persons of Food and Beverages Industry in Beijing in 2012 (2012年度北京餐飲十大經濟人物)” by Beijing Cuisine Association and Beijing Business Today. Mr. Ho also serves as a director of the Eighth Session of the Board of Directors of Beijing Overseas Friendship Association and has been the Vice Chairman of the Beijing Association of Taiwanese-Invested Enterprises. For further information regarding the relationship between Mr. Ho and the Group, please refer to the section headed “Our History and Development”. Mr. Ho is the husband of Ms. Chen Su-Yin, our non-executive Director.

**Ms. YANG Shuling (楊淑玲)**, aged 53, is our chief executive officer and an executive Director. She joined Xiabu Fast Food in 1998 as an accountant and has subsequently continued to serve our Group as our finance manager, deputy general manager, executive vice president and president and has gained over 16 years of experiences in the food and beverage industry and also in operations management. Ms. Yang was appointed as a Director on November 3, 2008 and as the chief executive officer in March 2013 and is primarily responsible for overseeing the management and strategic development of our Group. Ms. Yang is also a director of each of the subsidiaries of our Group. Prior to joining our Group, Ms. Yang has served as statistics officer and an accounting officer, in certain Beijing enterprises. She obtained secondary technical education in finance and accounting.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Non-executive Directors

**Ms. CHEN Su-Yin (陳素英)**, aged 51, is a non-executive Director. She was appointed to our Board on December 12, 2012 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. Ms. Chen is also a director of each of the subsidiaries of our Group. Ms. Chen has continued to provide guidance on the range and variety of foods offered and the enhancement of the tastes and flavors of our foods and the development of our dipping sauces and our hot and spicy soup base since our establishment. Our hot and spicy soup base was awarded “Beijing Specialty Cuisine” by Beijing Cuisine Association. Ms. Chen graduated from Taipei Ching-Chwan Commercial High School in June 1981. Ms. Chen is the wife of Mr. Ho Kuang-Chi.

**Mr. WEI Ke (魏可)**, aged 40, is a non-executive Director. He was appointed to our Board on December 12, 2012 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Wei is also a director of our subsidiary in Hong Kong, Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. Mr. Wei is a Principal at General Atlantic LLC, where he has worked since 2009. Based in Beijing, he focuses on General Atlantic LLC’s investment opportunities in Greater China. Prior to joining General Atlantic LLC, Mr. Wei served as an Investment Principal at Actis, an emerging market private equity firm, from 2008 to 2009. He also worked at Boston Consulting Group from 2005 to 2008. Since August 2012, Mr. Wei has served as a non-executive director of Tenfu (Cayman) Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6868). Mr. Wei earned his Master’s degree in Business Administration from Harvard Business School in June 2005, and his Bachelor’s degree in Arts from University of Science and Technology, Beijing in July 1996.

### Independent Non-executive Directors

**Ms. HSIEH Hui Yun Lily (謝慧雲)**, aged 60, is an independent non-executive Director of the Company. She was appointed to our Board on November 28, 2014. She has over 30 years of experience in the auditing and accounting in various industries, including food retailing, manufacturing and processing, public utilities and airlines. Ms. Hsieh joined YUM! China in 1996 and was the chief financial officer of YUM! China from 2000 to 2012. Before joining YUM! China, she worked with Kraft Foods (Asia Pacific) Ltd., Pillsbury Canada and China Airlines. Ms. Hsieh serves as an independent non-executive director of Dongpeng Holdings Company Limited (Stock Code: 3386), a company listed on the Main Board of the Stock Exchange, since November 2013 and has served as a non-executive director of Little Sheep Group Limited (Stock Code: 00968) from November 2009 until it was delisted from the Main Board of the Stock Exchange in February 2012. Ms. Hsieh received an Master’s degree in Business Administration from University of Toronto in June 1980 and the title of Certified Management Accountant (CMA) in July 1985.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. HON Ping Cho Terence (韓炳祖)**, aged 55, is an independent non-executive Director. He was appointed to our Board on November 28, 2014. Mr. Hon joined Auto Italia Holdings Limited (Stock Code: 720), a company listed on the Main Board of the Stock Exchange in June 2013 and was appointed as the Chief Financial Officer, the Company Secretary and an authorized representative in December 2013. Mr. Hon has over 29 years of experience in accounting, treasury and financial management. Prior to joining Auto Italia Holdings Limited, Mr. Hon was appointed to various senior financial positions in a number of companies listed on the Main Board of the Stock Exchange. From December 2010 to September 2012, he was the chief financial officer and a member of executive committee of China Dongxiang (Group) Co., Ltd. (Stock Code: 3818). From September 2008 to December 2010, Mr. Hon was the chief financial officer of K.Wah Construction Materials Limited, a subsidiary of Galaxy Entertainment Group Limited (Stock Code: 0027). Mr. Hon served as the group finance director from March 2006 to February 2008 and as the group treasurer and general manager of the finance department from June 2001 to February 2006 of TOM Group Limited (Stock Code: 2383). From February 1996 to June 2001, he was the company secretary of Ng Fung Hong Limited, a company then listed on the Stock Exchange (former Stock Code: 318) and is a subsidiary of China Resources Enterprise, Limited (Stock Code: 291). Prior to this, Mr. Hon worked with KPMG, an international accounting firm for more than seven years since 1985. He is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Hon obtained his Master's degree in Business Administration (Financial Services) from The Hong Kong Polytechnic University in August 2004.

**Ms. CHEUNG Sze Man (張詩敏)**, aged 44, is an independent non-executive Director. She was appointed to our Board on November 28, 2014. Ms. Cheung has accumulated audit experience in an international accounting firm and has substantial experiences in corporate finance, accounting and human resource management by holding senior positions in private and public listed companies. She has also served as directors of listed companies in Hong Kong. She was an executive director of China Ocean Shipbuilding Industry Group (Stock Code: 651 and formerly known as Wonson International Holdings Ltd) from November 2006 to November 2007. She was an executive director of ITC Properties Group Limited (Stock Code: 199 and formerly known as Cheung Tai Hong) from May 2004 to May 2005. She also served as the independent non-executive director of 21 Holdings Limited (Stock Code: 1003) from November 2011 to April 2014. Ms. Cheung is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Cheung graduated from the University of Auckland in New Zealand with a Bachelor of Commerce degree and a Bachelor of Arts degree in May 1995. She also obtained a Master of Business Administration degree from the University of Bradford in the United Kingdom in July 2012.



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## DIRECTORS AND SENIOR MANAGEMENT

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Save as disclosed above, none of our Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. Please refer to the section headed “Appendix IV – Statutory and General Information” in this prospectus for further information about our Directors, including the particulars of their service contracts and remuneration, and details of the interests of our Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed in this prospectus, there are no other matters in respect of each of our directors that are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other material matters relating to our directors that need to be brought to the attention of our shareholders.

### Senior Management

**Ms. ZHAO Yi (趙怡)**, aged 45, is the Chief Financial Officer of our Group. Ms. Zhao joined our Group on November 12, 2012 and is primarily responsible for the audit, accounting, financial management and IT related matters of our Group. Ms. Zhao has almost 18 years of experience in accounting and corporate finance and business management in multi-national companies, such as The East Asiatic Company (China) Limited, PepsiCo Food Co., Unilever Service Co., Ltd., Sony Ericsson Group and McDonald’s, where she had taken up financial analysis, budgeting, auditing and management roles. Prior to joining our Group, the major roles and positions undertaken by Ms. Zhao includes serving as the Commercial Manager of Unilever Service Co., Ltd. from October 2001 to October 2004, the Chief Operating Officer of Sony Ericsson Mobile Communications (China) Co., Ltd. mainly responsible for strategic planning and the establishment of operating system from June 2005 to February 2009 and the Financial Director of McDonald’s in Northern China Region from June 2009 to October 2012. Ms. Zhao obtained a Master’s degree in Business Administration in Business Management from Newport University of the United States in May 2003, and her Bachelor’s degree in International Finance from China Institute of Finance (currently known as School of International Finance of the University of International Business and Economics) in July 1993.

**Mr. YING Zhongqiu (應仲秋)**, aged 48, is the Vice President of Human Resources of our Group and is primarily responsible for the human resources and administration related matters of our Group. Mr. Ying joined our Group on April 22, 2010. Mr. Ying has over 14 years of experience in managing human resources and administration related matters in the catering services industry. Prior to joining our Group, Mr. Ying served as the human resources director of Beijing Yoshinoya Fast Food Co., Ltd. from May 2006 to April 2010, where he was primarily responsible for human resources and administration related matters. In February 2001, Mr. Ying joined Yum! Brands, Inc., China Division, where he had served various positions, including acting as the strategic initiatives manager in human resources, until April 2006. Mr. Ying obtained a Bachelor’s degree of Science from Zhejiang Normal University in July 1985 and a Graduate Diploma from the Faculty of Education at Beijing Normal University in July 1990.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. FANG Liang (房梁)**, aged 42, is the Vice President of Development and Engineering of our Group. Mr. Fang joined our Group on December 5, 2012 and is primarily responsible for the development and engineering of new stores of our Group. Mr. Fang has nearly 20 years of experience in the fast casual restaurant and catering service industry, especially in operations development. Prior to joining our Group, Mr. Fang served as a senior manager of business development at Beijing Yoshinoya Fast Food Co. Ltd, a member of Hop Hing Fast Food Group from July 2009 to December 2012. Prior to that, Mr. Fang was employed by Beijing McDonald's Food Co., Ltd as a Supervisor of the property management department between August 1996 and March 1999 and Yonghe King between April 1999 and November 2001. From December 2001 to May 2009, he worked at EC Magic (Beijing) Supermarket Co., Ltd., a company which operates the Unimart Supermarkets in Beijing and a member of the Uni-President Group in Taiwan. Mr. Fang obtained a diploma in law from the China University of Political Science and Law in July 1990 and has further upgraded his diploma into a bachelor's degree in law from the same university through distance learning in June 1995.

### COMPANY SECRETARY

**Ms. NG Sau Mei (伍秀薇)**, aged 37, was appointed as our company secretary on November 28, 2014. Ms. Ng is a manager of KCS Hong Kong Limited and is responsible for provision of corporate secretarial and compliance services to listed company clients. She has over 13 years of experience in the company secretarial field. She has worked for various sizable and reputable Hong Kong Main Board listed companies. Ms. Ng has extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies such as corporate acquisitions and disposals and restructurings etc. She also specializes in handling and coordinating very substantial acquisition, major transaction and connected transaction exercises. Ms. Ng obtained a Bachelor's Degree in Laws from the City University of Hong Kong in November 2001 and is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom since 2007.

### BOARD COMMITTEES

#### Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, being two independent non-executive Directors, namely Ms. Hsieh Lily Hui-yun and Mr. Hon Ping Cho Terence, and one non-executive Director, namely Mr. Wei Ke. Ms. Hsieh Lily Hui-yun has been appointed as the chairman of the audit committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

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## DIRECTORS AND SENIOR MANAGEMENT

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### Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee has three members, being two independent non-executive Directors, namely Mr. Hon Ping Cho Terence and Ms. Cheung Sze Man, and one executive Director, namely Mr. Ho Kuang-chi. Mr. Hon Ping Cho Terence, our independent non-executive Director, has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

### Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of two independent non-executive Directors, being Ms. Hsieh Lily Hui-yun and Ms. Cheung Sze Man, and one executive Director, being Mr. Ho Kuang-Chi, who is the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

## WAIVER GRANTED BY THE STOCK EXCHANGE

### Management presence

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed “Waiver from Compliance with the Listing Rules – Waiver in relation to Management Presence in Hong Kong” in this prospectus.

## COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation from our Company in the form of fees, salaries, contributions to pension schemes and allowances and benefits in kind. The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 was approximately RMB2.6 million, RMB2.9 million, RMB3.7 million and RMB1.6 million, respectively.

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## DIRECTORS AND SENIOR MANAGEMENT

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The aggregate amount of emoluments, including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind, paid to our five highest paid individuals of our Company, including one Director (Ms. Yang Shuling) and four highest paid employees, during each of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014, was approximately RMB4.9 million, RMB8.3 million, RMB8.0 million and RMB3.4 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding discretionary bonuses, payable to our Directors for the year ending December 31, 2014 is estimated to be approximately RMB8.2 million.

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the three years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 by the Group to our Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

### COMPLIANCE ADVISOR

We have appointed Anglo Chinese Corporate Finance Limited as our compliance advisor (the “**Compliance Advisor**”) upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Advisor will provide advice to us when consulted by us in the following circumstances:

- (i) the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

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## **DIRECTORS AND SENIOR MANAGEMENT**

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The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and this appointment may be subject to extension by mutual agreement.

### **PRE-IPO SHARE INCENTIVE PLAN**

In order to assist us in attracting, retaining and motivating our key employees, we have adopted a Pre-IPO Share Incentive Plan, pursuant to which we may grant options and share awards to eligible directors, officers and employees of our Group. The principal terms of the Pre-IPO Share Incentive Plan is summarized in the section headed “Appendix IV – Statutory and General Information – Share Incentive Schemes – Pre-IPO Share Incentive Plan” in this prospectus.

### **RSU SCHEME**

We have also conditionally adopted the RSU Scheme. A summary of the principal terms of the RSU Scheme is set out in the section headed “Appendix IV – Statutory and General Information – Share Incentive Schemes – RSU Scheme” in this prospectus.

## SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, as of the date of this prospectus and immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme), the following persons will have an interest or a short position in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Name of shareholder	Nature of interest	Shares held as of the date of this prospectus		Immediately following the completion of the Global Offering	
		Number of Shares or securities held	Approximate percentage of interest in our Company	Number of Shares or securities held	Approximate percentage of interest in our Company <sup>(5)</sup>
Ying Qi PTC . . . . .	Trustee of a trust	450,000,000	54.40%	450,000,000	42.68%
Mr. Ho <sup>(2)(3)</sup> . . . . .	Founder of a discretionary trust	450,000,000	54.40%	450,000,000	42.68%
Ying Qi Investments <sup>(2)</sup> . .	Beneficial Owner	450,000,000	54.40%	450,000,000	42.68%
Ms. Chen Su-Yin <sup>(2)(3)</sup> . .	Interest of spouse	450,000,000	54.40%	450,000,000	42.68%
General Atlantic Partners (Bermuda) II, L.P. <sup>(4)</sup> . . . . .	Interest of controlled corporation	340,754,718	41.19%	340,754,718	32.32%
General Atlantic Singapore Fund Interholdco Ltd. <sup>(4)</sup> . . .	Interest of controlled corporation	340,754,718	41.19%	340,754,718	32.32%
GASF <sup>(4)</sup> . . . . .	Beneficial Owner	340,754,718	41.19%	340,754,718	32.32%

*Notes:*

- (1) All interests stated are long positions.
- (2) Ying Qi PTC, the trustee of the Ying Qi Trust, in its capacity as trustee holds the entire issued share capital of Ying Qi Investments. The Ying Qi Trust is a discretionary trust established by Mr. Ho (as the settlor) and the beneficiary of which includes Mr. Ho. Accordingly, each of Mr. Ho and Ying Qi PTC are deemed to be interested in the 450,000,000 Shares held by Ying Qi Investments by virtue of the SFO.
- (3) Ms. Chen Su-Yin is the wife of Mr. Ho and is deemed to be interested in the Shares which are interested by Mr. Ho under the SFO.
- (4) The sole shareholder of GASF is General Atlantic Singapore Fund Interholdco Ltd. (“GA Interholdco”) and the controlling shareholder of GA Interholdco is General Atlantic Partners (Bermuda) II, L.P. (“GAP LP”). The general partner of GAP LP is General Atlantic GenPar (Bermuda), L.P. (“GA GenPar”) and the general partner of GA GenPar is GAP (Bermuda) Limited. GASF is managed by its board of directors comprised of Hsien Yang Lee and Nicholas Nash. Assuming the Preferred Shares are converted into Shares of our Company on a one-for-one basis, GASF shall hold 340,754,718 Shares of our Company after the conversion. Accordingly, each of GA Interholdco and GAP LP is deemed to be interested in the 340,754,718 Shares held by GASF by virtue of the SFO.
- (5) The calculation is based on the total number of 1,054,364,152 Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme).

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## SUBSTANTIAL SHAREHOLDERS

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Other than as disclosed above, the substantial shareholders are not related to one another.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme), have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

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## CORNERSTONE INVESTOR

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### THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement (the “**Cornerstone Investment Agreement**”) with the following investors (the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 500 Shares) that may be subscribed for with an aggregate amount of US\$35,000,000 (equivalent to approximately HK\$271,397,000) (the “**Cornerstone Investor Shares**”). The table below sets out the total number of Cornerstone Investor Shares that the Cornerstone Investors would subscribe in aggregate and the respective approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan):

	<b>Total number of Cornerstone Investor Shares (rounded down to the nearest whole board lot of 500 Shares)</b>	<b>Approximate percentages of the Shares in issue immediately following completion of the Global Offering</b>
Assuming an Offer Price of HK\$4.40 (being the low end of the Offer Price range stated in this prospectus) . . . . .	61,681,000 Cornerstone Investor Shares	5.85%
Assuming an Offer Price of HK\$4.70 (being the mid-point of the Offer Price range stated in this prospectus) . . . . .	57,744,000 Cornerstone Investor Shares	5.48%
Assuming an Offer Price of HK\$5.00 (being the high end of the Offer Price range stated in this prospectus) . . . . .	54,279,000 Cornerstone Investor Shares	5.15%

Each of the Cornerstone Investors is independent from our Company, our connected persons and their respective associates. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreement. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company. The shareholdings of the Cornerstone Investors will be counted towards the public float of our Shares.

The cornerstone placing forms part of the International Offering. The Cornerstone Investor Shares to be purchased by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section entitled “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback” in this prospectus. Details of the allocations to the Cornerstone Investor will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on December 16, 2014.



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## CORNERSTONE INVESTOR

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### OUR CORNERSTONE INVESTORS

Details of our Cornerstone Investors are set out below:

#### Hillhouse Funds

Gaoling Fund, L.P. and YHG Investment, L.P. (collectively, the “**Hillhouse Funds**”) have agreed to subscribe for such number of Cornerstone Investor Shares (rounded down to the nearest board lot of 500 Shares) which may be subscribed for with an aggregate amount of US\$35,000,000 (equivalent to approximately HK\$271,397,000) at the Offer Price.

The Hillhouse Funds are both Asia-focused funds established in the Cayman Islands and managed by Hillhouse Capital Management, Ltd. (“**Hillhouse**”). Hillhouse manages capital for world-class institutional investors, concentrating on making equity investments over a long-term investment horizon. Hillhouse takes a research intensive, bottom-up approach to investing that is highly focused on business fundamentals.

### CONDITIONS PRECEDENT

The obligation of the Cornerstone Investors under the Cornerstone Investment Agreement is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements or as subsequently waived or varied by agreement of the parties thereto;
- (b) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (c) the Listing Committee having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked prior to the commencement of dealings in the Shares on the Main Board of the Stock Exchange;
- (d) that the respective representation, warranties undertakings and acknowledgments of the relevant Cornerstone Investors and the Company under the relevant cornerstone investment agreement are accurate and true in all material respects and not misleading and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor; and
- (e) no law having been enacted or promulgated by any governmental, regulatory or administrative authority, agency or commission or any court, tribunal or judicial body of Hong Kong, the Cayman Islands or any other relevant jurisdiction, which prohibit the consummation of the subscription and no order or injunction from a court of competent jurisdiction in effect precluding or prohibiting consummation of the subscription.

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## **CORNERSTONE INVESTOR**

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### **RESTRICTIONS ON THE CORNERSTONE INVESTOR'S INVESTMENT**

Each of the Cornerstone Investor has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the Cornerstone Investment Agreement) any of the Cornerstone Investor Shares subscribed for pursuant to the Cornerstone Investment Agreement or any interest in any company or entity holding any of such Cornerstone Investor Shares, or agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of such Cornerstone Investor Shares, other than transfers to any wholly-owned subsidiary of, or affiliate solely managed by the investment manager of, the relevant Cornerstone Investor provided that, among other things, such subsidiary or affiliate undertakes in writing to, and such Cornerstone Investor undertakes in writing to procure that such affiliate will, abide by the restrictions on disposals imposed on such Cornerstone Investor.

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## SHARE CAPITAL

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### AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and the issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Global Offering:

	US\$	Percentage
<i>Authorized share capital as of the Latest Practicable Date:</i>		
1,622,735,848 Shares of US\$0.000025 each	40,568	81.13%
<u>377,264,152</u> Preferred Shares of US\$0.000025 each	<u>9,432</u>	<u>18.87%</u>
<u><u>2,000,000,000</u></u> Shares of US\$0.000025 each	<u><u>50,000</u></u>	<u><u>100.00%</u></u>

*Authorized share capital immediately prior to the completion of the Global Offering:*

2,000,000,000 Shares of US\$0.000025 each	50,000	100.00%
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*Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:*

450,000,000 Shares in issue as of the date of this prospectus	11,250	42.68%
377,264,152 Shares to be issued upon conversion of all Preferred Shares on a one-for-one basis	9,432	35.78%
<u>227,100,000</u> Shares to be issued pursuant to the Global Offering	<u>5,678</u>	<u>21.54%</u>
<u><u>1,054,364,152</u></u> Total	<u><u>26,360</u></u>	<u><u>100.00%</u></u>

### ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares to be issued upon the exercise of the Over-allotment Option or the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

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## SHARE CAPITAL

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### RANKINGS

The Offer Shares will be ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### SHARE INCENTIVE SCHEMES

We have adopted the Pre-IPO Share Incentive Plan and conditionally adopted the RSU Scheme. Under the Pre-IPO Share Incentive Plan, certain persons were granted options prior to the Listing Date. The principal terms of the Pre-IPO Share Incentive Plan and the RSU Scheme are summarized in the section headed “Statutory and General Information – Share Incentive Schemes” in Appendix IV to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by our Directors other than pursuant to:

- (a) a rights issue;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles;
- (c) a specific authority granted by the Shareholders in general meeting,

shall not exceed the aggregate of:

- (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (ii) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in the section headed “– General Mandate to Repurchase Shares” below.

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## SHARE CAPITAL

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This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or
- (2) at the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information – Further Information About Our Group – Resolutions in Writing of the Shareholders of Our Company Passed on November 28, 2014” in Appendix IV to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the conditions stated in the section headed “Structure of the Global Offering – Conditions of the Hong Kong Public Offering”, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal value of our share capital in issue immediately following the completion of the Global Offering (but excluding any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information – Further Information About Our Group – Repurchases of Our Own Securities” in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

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## SHARE CAPITAL

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For further details of this general mandate, please see the section headed “Statutory and General Information – A. Further Information About Our Group – 3. Resolutions in Writing of the Shareholders of Our Company Passed on November 28, 2014” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Upon completion of the Global Offering, our Company will have only one class of Shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and the Articles, our Company may from time to time by ordinary shareholders’ resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders’ special resolution. For more details, please see the section headed “Summary of the Constitution of Our Company and Cayman Islands Company Law – Articles of Association – Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see “Summary of the Constitution of Our Company and Cayman Islands Company Law – Articles of Association – Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2011, 2012 and 2013 and as of and for the six months ended June 30, 2013 and 2014 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.*

### OVERVIEW

We are a leading fast casual restaurant operator in China as measured by system wide restaurant sales and restaurant count in 2013 according to Frost & Sullivan. We pioneered the bar-style hotpot cuisine in China in 1998, offering customers a fast casual dining experience. Our Xiabuxiabu brand concept offers our customers consistently great tasting and healthy food at value-oriented price with hospitable yet efficient services. Our brand concept and value proposition, our brand recognition, our bar-style hotpot restaurant models, our scalable and standardized business model and our commitment to the safety and quality ingredients result in our past financial success and position us well to capitalize on the robust growth trend of both the fast casual dining market in China and the broad target market of hotpot dining.

### FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

- Economic growth in China;
- Growth of the catering service industry and fast casual dining market in China;
- Number of restaurants in operation and expansion of our restaurants network;
- Same-store comparable sales;
- Restaurant level operating profit;
- Food prices;
- Staff costs; and
- Rental expenses.

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## FINANCIAL INFORMATION

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### **Economic condition in China**

All of our restaurants are located in China, and we derived all of our revenue from restaurant sales in China during the Track Record Period. The economic condition in China will have strong impact on the catering service industry, in particular the demand for fast casual restaurant, as well as food price, overall salary level and the commercial real estate market. All of these directly impact our business, results of operations and financial condition. Historically, our business expansion and the growth of the catering service industry have been driven by the rapid economic growth in China and the associated urbanization, increase in per capita disposable income and the growing dine-out trend. In recent years, China has been one of the fastest growing economies in the world. Between 2008 and 2013, China's GDP increased from approximately RMB31.4 trillion to approximately RMB56.9 trillion, representing a CAGR of 8.9%. In recent years, the growth rate of China's GDP has slowed down to 7.7% in 2012 and 2013. Going forward, we expect that the macro-economy in China and its growth will continue to significantly affect the growth of the catering service industry as well as our business.

### **Growth of the catering service industry and fast casual dining market in China**

Our future growth and prospects depend on China's catering service industry, particularly the fast casual dining market. As a result of the strong economic growth, China has experienced a significant increase in per capita disposable income as well as a strong growth trend in dining out, both of which drive the significant growth in China's catering service industry and fast casual dining market. According to Frost & Sullivan, the per capita annual disposable income of urban households in China will increase at a CAGR of 10.2% to reach RMB43,815 per annum in 2018, while the dining out expenditure is expected to account for 26.5% of the total food expenditure in 2018. According to Frost & Sullivan, the retail value of China's catering service industry grew from RMB1,265.2 billion in 2008 to RMB2,556.9 billion in 2013 at a CAGR of 15.1%, and is expected to further increase at a CAGR of 11.8% to reach RMB4,460.2 billion in 2018. In particular, the fast casual dining market is expected to enjoy a stronger growth at a CAGR of 24.0% to reach RMB37.2 billion in 2018.

As the leading fast casual restaurant operator in China, we believe that our proven track record, distinctive dishes, iconic brand, price for value proposition and extensive restaurant network well-position us to capture the growth opportunities in China's fast growing catering service industry and fast casual dining market.

### **Same-store comparable sales**

Our profitability is affected in part by our ability to successfully grow revenue from our existing restaurants. Same-store sales growth rate provides a period-to-period comparison of restaurant performance because it excludes the increases due to the opening of new restaurants by comparing the operational and financial performance of those restaurants that have been in operation. We define our same-store base to be those restaurants that were in operation throughout the periods under comparison.



## FINANCIAL INFORMATION

Same-store comparable sales are primarily affected by the average customer traffic per restaurant per day and the average spending per customer. We are committed to further enhance our financial performance by achieving higher same-store sales growth through initiatives such as offering premium or innovative menu items and combinations, enhance dining experience to attract repeat customers, attract more customers during non-peak hours and to extend our operating hours.

The table below sets forth our same-store sales during the Track Record Period.

	Year ended December 31,		Year ended December 31,		Six months ended June 30,	
	2011	2012	2012	2013	2013	2014
<b>Number of same-store (#)</b>						
Beijing . . . . .	158		198		215	
Shanghai . . . . .	30		39		49	
Tianjin . . . . .	14		24		27	
Other regions . . . . .	4		21		37	
Total. . . . .	206		282		328	
<b>Same-store sales (in RMB millions)</b>						
Beijing . . . . .	838.7	923.2	1,162.5	1,199.1	642.9	636.0
Shanghai . . . . .	76.7	82.7	133.5	125.9	83.4	85.5
Tianjin . . . . .	32.0	41.1	72.5	82.0	52.3	55.9
Other regions . . . . .	4.2	4.8	56.2	57.3	56.0	59.5
Total. . . . .	951.6	1,051.8	1,424.7	1,464.3	834.6	836.9
<b>Same-store sales growth (%)</b>						
Beijing . . . . .	10.1		3.1		(1.1)	
Shanghai . . . . .	7.9		(5.7)		2.6	
Tianjin . . . . .	28.2		13.1		6.8	
Other regions . . . . .	15.7		2.0		6.3	
Nationwide. . . . .	10.5		2.8		0.3	

In 2013 and the six months ended June 30, 2014, we recorded a lower same-store sales growth throughout the country, primarily because the overall QSR market experienced a slower growth. This is primarily attributable to a general slowdown in the economic growth in China as well as the growth of the overall catering service industry.

## FINANCIAL INFORMATION

### Number of restaurants in operation and expansion of our restaurant network

Our revenue is largely affected by the number of restaurant in our network, and our future revenue growth depends on our ability to open new restaurants. The number of restaurants in our network increased from 243 as of December 31, 2011 to 330 as of December 31, 2012, to 394 as of December 31, 2013 and further increased to 421 as of June 30, 2014. Set forth below summarized the movement of the number of our restaurants, each expressed as a percentage of the number of restaurants at the beginning of the year:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Opening Balance . . . . .	153	243	330	394
Addition . . . . .	93	96	86	34
Non-renewal or early termination of lease . . . . .	3	9	22	7
Net Increase . . . . .	90	87	64	27
Closing Balance . . . . .	243	330	394	421

We typically incur various expenses before opening a new restaurant, and new restaurants generally experience lower sales during the first few months of operation and require a ramp-up period. As a result, the revenue contribution of the newly opened restaurants is typically lower than the existing restaurants. It took approximately three months for the substantial majority of the restaurants opened during the Track Record Period to achieve the first monthly break-even. Meanwhile, it took approximately 14 months for the majority of the restaurants opened during the Track Record Period to achieve cash investment payback point.

We currently plan to open a total of approximately 85 new restaurants in 2014. As of the Latest Practicable Date, 54 of the 85 restaurants have been opened. We estimate the total capital expenditure for the opening of the remaining 31 restaurants to be RMB40.3 million, and a substantial portion of which has been spent on various expenses, primarily furnishing and decoration, prior to the official restaurant opening. As of the Latest Practicable Date, we had completed the furnishing and decoration of 22 out of these 31 restaurants and we will open these restaurants immediately upon our receipt of the official material licenses. See “Business – Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures”. The application process of these licenses is subject to a number of uncertainties beyond our control. See “Risk Factors – Risks Relating to our Business – Our future growth depends on our ability to open and profitably operate new restaurants. We may not be able to successfully enter into new markets” and “Risk Factors – Risks Relating to our Business – We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.” The proportion of new restaurants we have in operation during any period may affect our overall results of operations.

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The table below sets forth our revenue breakdown by geographical regions, each presented as a percentage of our total revenue for the years indicated, as well as the breakdown of our restaurant level operating profit and restaurant level operating margin for the years indicated:

	Year Ended December 31,						Six Months Ended June 30,	
	2011		2012		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%
(in thousands, except for percentages)								
<b>Revenue:</b>								
Beijing . . . . .	872,148	87.5	1,190,996	79.0	1,390,192	73.5	720,233	70.7
Shanghai . . . . .	81,035	8.1	161,837	10.7	197,291	10.4	99,131	9.7
Tianjin . . . . .	38,176	3.8	79,653	5.3	116,272	6.2	69,884	6.9
Other Regions . . . . .	5,910	0.6	75,845	5.0	186,715	9.9	129,450	12.7
<b>Total Revenue . . . . .</b>	<b>997,269</b>	<b>100.0</b>	<b>1,508,331</b>	<b>100.0</b>	<b>1,890,470</b>	<b>100.0</b>	<b>1,018,698</b>	<b>100.0</b>
<b>Restaurant Level</b>								
<b>Operating</b>								
<b>Profit<sup>(1)</sup>:</b>								
Beijing . . . . .	196,648	22.5	270,577	22.7	317,995	22.9	176,895	24.6
Shanghai . . . . .	(1,763)	(2.2)	389	0.2	3,225	1.6	8,954	9.0
Tianjin . . . . .	1,484	3.9	8,524	10.7	21,444	18.4	13,104	18.8
Other Regions . . . . .	(1,888)	(32.0)	3,155	4.2	23,159	12.4	21,095	16.3
<b>Total restaurant level operating profit . . . . .</b>	<b>194,481</b>	<b>19.5</b>	<b>282,645</b>	<b>18.7</b>	<b>365,823</b>	<b>19.4</b>	<b>220,048</b>	<b>21.6</b>

Note:

(1) Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses. Restaurant level operating profit is not a GAAP item. We have presented this non-GAAP item because we consider it important supplemental measures of our operating performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. Our management uses such non-GAAP item as an additional measurement tool for purposes of business decision-making. Other companies in our industry may calculate this non-GAAP item differently than we do. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under IFRS. Our presentation of this non-GAAP item should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Beijing is our home market, and revenue generated from our restaurants in Beijing constituted the substantial majority of our total revenue throughout the Track Record Period. This is primarily due to the stronger brand recognition and broad and loyal customer base we established in Beijing, which resulted in higher daily average restaurant sales.

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## FINANCIAL INFORMATION

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### **Food prices**

Food prices have direct impact on our raw materials and consumables used, which in turn affect our profitability. Key ingredients we use include lamb, beef and fresh vegetables. We have devoted substantial efforts to secure sufficient supply of these ingredients that meet our quality standards and at competitive prices. See “Business – Procurement”. However, despite the various initiatives we have undertaken, the price and supply of these ingredients are nonetheless subject to a number of factors that are beyond our control, including availability and demand as food and beverage are primarily determined at market prices in China. See “Business – Procurement – Purchase Cost Control”. According to the National Bureau of Statistic of China, the PRC food price index, its food inflation indicator, increased by 16.2% from January 2011 to June 2014.

In 2011, 2012, 2013 and the six months ended June 30, 2014, raw materials and consumables used amounted to RMB454.6 million, RMB673.1 million, RMB817.5 million and RMB395.6 million, respectively, representing 45.6%, 44.6%, 43.2% and 38.8% of our revenue for the respective periods. Throughout the Track Record Period, raw materials and consumables used as a percentage of our revenue remained relatively stable despite the inflation and increasing food prices in China. This is primarily a result of (i) our success in procurement cost control; (ii) our ability to optimize our menu, which is essential in maintaining our price-for-value perception while increasing average customer spending; and (iii) a relatively stable price for frozen meat in recent years.

Going forward, the food price index is expected to continue to rise according to Frost & Sullivan. As a result, we plan to continue our procurement cost control effort for our restaurants. We also plan to continue to adjust our menu and offer innovative menu items and combinations to offset the effect of inflation and rising food prices so as to maintain our profitability.

### **Staff costs**

Restaurant operations are highly service-oriented, and therefore our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and staff. Staff costs also have direct impact on our profitability. We believe high-quality customer service is a key attribute of the success of our restaurants. As employee attrition levels tend to be higher in the catering services industry, we offer competitive wages, career development opportunities and other benefits to our restaurant employees to manage employee attrition.

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During the Track Record Period, staff costs continued to increase as a percentage of our revenue from 18.3% in 2011 to 20.8% in 2012, 21.1% in 2013 and 22.8% in the six months ended June 30, 2014. This was primarily attributable to the general salary level increase in China and particularly the catering service industry. Going forward, the salary level in China and the catering service industry is expected to further increase. We believe the resulting upward pressure on our total staff costs as a percentage of total revenue could be mitigated by the facts that (i) we do not need to hire any chef in our restaurants due to our business model; and (ii) our restaurant layout centered around several U-shaped bars optimize our sales density and staff to customer ratio. We also endeavor to enhance our operation efficiency to minimize the impact of the rising salary level in China.

### **Rental expenses**

We lease all of the properties on which we operate our restaurants, and the level of rental expenses we incur impact our profitability directly. Our restaurants typically have a GFA that ranges from 200 square meters to 300 square meters. In general, our leases have initial lease terms of six to eight years, with some granting us an option to renew such lease terms upon re-negotiation of rental prices and other rental terms. During the Track Record Period, property rental and related expenses as a percentage of our revenue remained relatively stable at 12.9% in 2011, 12.6% in 2012, 12.3% in 2013 and 13.2% in the six months ended June 30, 2014, despite the increase in rent for commercial real estate in China, primarily due to (i) our long-term leases; and (ii) our ability to negotiate rent with our landlord leveraging on our large operation scale and brand name.

Going forward, we expect the rent for commercial real estate to further rise in China, particularly in the larger and more developed cities where a majority of our restaurants are located. According to Frost & Sullivan, commercial real estate rental is expected to further grow in China. As a result, we plan to take initiatives including (i) strategic alliances with commercial real estate developers; (ii) optimize our location selection approach and (iii) leverage on our strong brand recognition to negotiate with landlords to control our rental expenses and maintain our profitability.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations are set forth in detail in Note 3 to the Accountants' Report included in Appendix I to this prospectus. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period are set forth in note 4 "Key Sources of Estimation Uncertainty" to the Accountants' Report included in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on

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## FINANCIAL INFORMATION

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information and financial data that may change in future periods. We applied the accounting estimates throughout the Track Record Period and we do not foresee any changes in the near future. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies and estimates that we believe involve the most significant estimates and judgments used in the preparation of our financial statements. In addition, we discuss our revenue recognition policy below because of its significance, even though it does not involve significant estimates or judgment.

### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefit will flow to us and the revenue can be reliably measured on the following basis:

#### *Restaurant operations and provision of catering services*

Revenue is recognized when the related services have been rendered to customers.

Sales of goods that result in cash discounts or free goods (the “**Discounts**”) for customers for next sales transaction, under our coupons award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration receivable is allocated between the goods supplied and the Discounts granted. The consideration allocated to the coupons award is measured by reference to their fair value as measured by the amount for which the cash discount could be realized separately or which the goods designated could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction, but is deferred and recognized as revenue when the Discounts are realized and our obligations have been discharged, canceled or they expire.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to us and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

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### **Estimated useful lives and impairment of property, plant and equipment**

We determine the estimated useful lives, residual values and the depreciation method in determining the related depreciation charges for our property, plant and equipment. This estimate is based on our experience of the actual useful lives of property, plant and equipment of similar nature and functions. We will accelerate the depreciation charge where the economic useful lives are shorter than previously estimated due to removal or closure of restaurants. We will also write-off or write-down the carrying value of the items which are technically obsolete or non-strategic assets that have been abandoned. Actual economic useful lives may differ from estimated economic useful lives. Periodic review could result in a change in depreciation period and therefore depreciation charge in the future periods.

In addition, we assess impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. When the recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the carrying amounts of property, plant and equipment are approximately RMB183.5 million, RMB240.0 million, RMB271.9 million and RMB285.6 million, respectively.

### **Deferred tax assets**

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable temporary difference and taxable profit will be available against which the losses can be utilized. Our significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits together with future tax planning strategies. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the carrying amount of deferred tax assets are approximately RMB11.2 million, RMB15.0 million, RMB17.5 million and RMB17.3 million, respectively.

### **Convertible preferred shares**

Convertible preferred shares issued by our Company in which our Group has no contractual obligation to redeem and the conversion option of which will be settled by the exchange of fixed number of our Company's own equity instruments are classified as equity instruments. Convertible preferred shares issued are recognized at the proceeds received, net of direct issue costs. Any excess of net proceeds over par value of issued convertible preferred shares is recorded as share premium.

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### PRINCIPAL INCOME STATEMENT COMPONENTS

The following table sets forth a summary, for the periods indicated, of our combined results of operations. Each item has also been expressed as a percentage of our revenue.

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(in thousands, except for percentages)									
<b>Consolidated</b>										
<b>Statement</b>										
<b>of Profit or Loss</b>										
<b>and Other</b>										
<b>Comprehensive</b>										
<b>Income</b>										
Revenue . . . . .	997,269	100.0	1,508,331	100.0	1,890,470	100.0	865,275	100.0	1,018,698	100.0
Other income . . . . .	9,387	0.9	9,711	0.6	13,505	0.7	3,418	0.4	2,811	0.3
Raw materials and										
consumables used . . . . .	(454,646)	(45.6)	(673,088)	(44.6)	(817,548)	(43.2)	(379,603)	(43.9)	(395,636)	(38.8)
Staff cost. . . . .	(182,328)	(18.3)	(314,171)	(20.8)	(399,312)	(21.1)	(187,186)	(21.6)	(232,766)	(22.8)
Property rentals and										
related expenses . . . . .	(128,657)	(12.9)	(189,515)	(12.6)	(232,969)	(12.3)	(111,356)	(12.9)	(134,453)	(13.2)
Utilities expenses . . . . .	(42,966)	(4.3)	(62,934)	(4.2)	(78,346)	(4.1)	(36,405)	(4.2)	(41,196)	(4.0)
Depreciation and										
amortization . . . . .	(44,650)	(4.5)	(66,268)	(4.4)	(87,206)	(4.6)	(33,151)	(3.8)	(38,429)	(3.8)
Other expenses. . . . .	(52,087)	(5.2)	(72,380)	(4.8)	(92,856)	(4.9)	(43,582)	(5.0)	(75,466)	(7.4)
Other gains and										
losses . . . . .	(2,023)	(0.2)	(130)	–	(11,030)	(0.6)	(1,178)	(0.1)	4,651	0.5
Finance costs. . . . .	(528)	(0.1)	–	–	–	–	–	–	–	–
<b>Profit before tax . . . . .</b>	<b>98,771</b>	<b>9.9</b>	<b>139,556</b>	<b>9.3</b>	<b>184,708</b>	<b>9.8</b>	<b>76,232</b>	<b>8.8</b>	<b>108,214</b>	<b>10.6</b>
Income tax . . . . .	(23,109)	(2.3)	(32,033)	(2.1)	(43,998)	(2.3)	(18,105)	(2.1)	(25,849)	(2.5)
<b>Profit for the year . . . . .</b>	<b>75,662</b>	<b>7.6</b>	<b>107,523</b>	<b>7.1</b>	<b>140,710</b>	<b>7.4</b>	<b>58,127</b>	<b>6.7</b>	<b>82,365</b>	<b>8.1</b>



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### Revenue

During the Track Record Period, we generated revenue from the sales of dishes and beverages at our restaurants, which are recorded net of discount and sales related taxes. Primary factors affecting our revenue are the number of our restaurants, customer traffic at our restaurants and average customer spending. Set forth below are certain key performance indicators that affect our revenue:

	As of or for the years ended December 31,			As of or for the six months ended June 30,	
	2011	2012	2013	2013	2014
<b>Revenue (in RMB thousands)</b>					
Beijing . . . . .	872,148	1,190,996	1,390,192	647,776	720,233
Shanghai . . . . .	81,035	161,837	197,291	92,886	99,131
Tianjin . . . . .	38,176	79,653	116,272	53,076	69,884
Other regions . . . . .	5,910	75,845	186,715	71,536	129,450
Total . . . . .	997,269	1,508,331	1,890,470	865,275	1,018,698
<b>Number of restaurants (#)</b>					
Beijing . . . . .	179	210	243	220	247
Shanghai . . . . .	37	56	55	58	54
Tianjin . . . . .	19	28	34	28	35
Other regions . . . . .	8	36	62	47	85
Total . . . . .	243	330	394	353	421
<b>Average customer per day per restaurant (#)<sup>(1)</sup></b>					
Beijing . . . . .	489	470	454	452	402
Shanghai . . . . .	309	270	241	227	228
Tianjin . . . . .	270	278	300	291	277
Other regions . . . . .	405	332	308	276	331
Nationwide . . . . .	453	414	388	380	350
<b>Seat turnover rate (X)<sup>(2)</sup></b>					
Beijing . . . . .	5.0	4.9	4.8	4.8	4.2
Shanghai . . . . .	3.4	3.0	2.7	2.5	2.5
Tianjin . . . . .	3.3	3.2	3.4	3.3	3.2
Other regions . . . . .	3.9	3.5	3.3	3.0	2.9
Nationwide . . . . .	4.7	4.4	4.2	4.1	3.7
<b>Average daily restaurant sales (RMB)<sup>(3)</sup></b>					
Beijing . . . . .	16,250	17,322	17,474	17,021	16,746
Shanghai . . . . .	10,709	10,410	9,754	9,090	10,062
Tianjin . . . . .	8,849	10,179	11,429	10,845	11,488
Other regions . . . . .	12,628	11,585	11,312	9,837	13,337
Nationwide . . . . .	15,105	15,286	14,949	14,333	14,567
<b>Average spending per customer (RMB)<sup>(4)</sup></b>					
Beijing . . . . .	35.1	39.0	40.8	39.8	43.9
Shanghai . . . . .	36.6	40.8	42.9	42.4	47.1
Tianjin . . . . .	34.7	38.8	40.3	39.5	43.2
Other regions . . . . .	33.0	37.0	39.0	37.8	42.7
Nationwide . . . . .	35.2	39.1	40.8	39.9	44.0

*Notes:*

- (1) Calculated by dividing total customer traffic for the year by total restaurant operation days during the period.
- (2) Calculated by dividing total customer traffic by the product of total restaurant operation days and average seat count during the period.
- (3) Calculated by dividing revenue for the year by total restaurant operation days during the period.
- (4) Calculated by dividing revenue before business tax for the year by total customer traffic for the period.

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Our revenue increased from RMB997.3 million in 2011 to RMB1,508.3 million in 2012, and further increased to RMB1,890.5 million in 2013. For the six months ended June 30, 2014, our revenue increased to RMB1,018.7 million from RMB865.3 million for the six months ended June 30, 2013. Such increase in our revenue was primarily due to (i) the increase in the number of our restaurants as part of our nationwide expansion plan; and (ii) the same-store sales growth we recorded, primarily driven by an increase in average customer spending due to an increase in the prices of our menu items to reflect the general increase in food prices in China. Macro-economic factors, growing popularity of fast casual restaurants and the broad customer base of hotpot cuisine all contributed to our rapid expansion during the Track Record Period. Beijing is our home market, and revenue generated from our restaurants in Beijing constituted the substantial majority of our total revenue during the Track Record Period. This is primarily due to the stronger brand recognition and broad and loyal customer base we established in Beijing, which resulted in higher daily average restaurant sales. Going forward, we expect to continue to capitalize on such favorable trends by further expanding our restaurant network while driving same-store sales growth.

The table below sets forth the revenue contribution of our top restaurant and top ten restaurants in terms of sales during the Track Record Period, both in absolute terms and as percentage of our total revenue:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)									
Top restaurant . . . . .	11,010	1.1	11,700	0.8	12,566	0.7	5,945	0.7	6,346	0.6
Top ten restaurants . . . . .	96,850	9.7	107,651	7.1	116,870	6.2	55,718	6.4	58,680	5.8

### Other Income

Other income includes interest income on bank deposits and short-term investment, promotion service income, government grants and others. We received interest income on bank deposits and short-term investments of RMB3.3 million, RMB3.2 million, RMB5.2 million, RMB1.9 million and RMB0.8 million in 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, respectively. Our promotion service income represents the income from promotion service provided to suppliers. As we expect our restaurant network, we expect the frequency and scale of promotion activities to increase, and we expect to continue to receive such promotion service income.

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## FINANCIAL INFORMATION

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The government grant we received included the subsidies we received for our farm-to-table procurement approach, tax payment award and our food processing plant in Beijing. In particular, the subsidies we received for our food processing plant in Beijing were booked as deferred income, and the amount released from the deferred income is booked as other income for each year over the useful lives of the relevant buildings. There is no repayment provision for such government subsidy, and we are required to use the money for building the food processing plant exclusively. We have completed and commenced operation at the food processing plant, and we believe we are in compliance with such requirement. In 2011, 2012, 2013 and the six months ended June 30, 2013 and 2014, the release of deferred income of RMB0.5 million, RMB0.9 million, RMB0.9 million, RMB0.5 million and RMB0.5 million, respectively.

### **Raw Materials and Consumables Used**

Our raw materials and consumables used comprise (i) cost of ingredients procured from external suppliers; (ii) raw materials costs for the ingredients we produced in our food processing plants; and (iii) consumables used in our restaurants and food processing plants (including chopsticks, napkins, paper cups and aprons). In terms of purchase amount, lamb, beef and vegetables are our three largest ingredients. In 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, raw materials and consumables used amounted to RMB454.6 million, RMB673.1 million, RMB817.5 million, RMB379.6 million and RMB395.6 million, respectively, representing 45.6%, 44.6%, 43.2%, 43.9% and 38.8% of our revenue for the respective periods.

Throughout the Track Record Period, our raw materials and consumables used continued to increase as our restaurant sales continued to increase. Going forward, we expect our raw materials and consumables used to further increase as we further expand our restaurant network throughout China. On the other hand, our raw materials and consumables used as a percentage of our revenue remained relatively stable despite inflation and increasing food price in China throughout the Track Record Period. This is primarily attributable to (i) our success in procurement cost control; (ii) our ability to optimize our menu, which is essential in maintaining our price-for-value perception while increasing average customer spending; and (iii) a relatively stable price for frozen meat in recent years. Going forward, we plan to continue our procurement cost control effort for our restaurants. We also plan to continue to adjust our menu and offer innovative menu items and combinations to offset the effect of inflation and rising food prices. As a result, we expect our raw materials and consumables used as a percentage of our revenue to remain relatively stable in the future.

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### Staff Costs

Our staff costs comprise salaries and benefits, including wages, salaries, bonuses, retirement benefit costs, housing provident fund, social security costs and other allowances and benefits payable to all our employees and staff, including our (i) executive Directors, (ii) headquarters staff, and (iii) our restaurant and food processing plant staff. The number of our employees increased by 41.6%, from 6,373 as of December 31, 2011 to 9,024 as of December 31, 2012, and then by 19.0% to 10,739 as of December 31, 2013. As of June 30, 2014, the number of our employees further increased by 3.8% to 11,150. Our staff costs amounted to RMB182.3 million, RMB314.2 million, RMB399.3 million, RMB187.2 million and RMB232.8 million for 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, respectively, representing 18.3%, 20.8%, 21.1%, 21.6% and 22.8% of our revenue for the respective periods. The following table sets forth a breakdown of our staff costs during the Track Record Period:

	Year Ended December 31,						Six Months Ended June 30,					
	2011		2012		2013		2013		2014			
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%		
	(unaudited)											
	(in thousands, except for percentages)											
Directors' emoluments . . .	2,621	1.4	2,896	1.0	3,661	1.0	1,830	1.0	1,563	0.7		
Salaries and other allowances . . . .	168,162	92.2	277,618	88.4	354,859	88.9	164,041	87.6	208,111	89.4		
Retirement benefit contribution . . . .	11,545	6.4	33,657	10.6	40,792	10.1	21,315	11.4	23,092	9.9		
<b>Total staff cost . . .</b>	<b>182,328</b>	<b>100.0</b>	<b>314,171</b>	<b>100.0</b>	<b>399,312</b>	<b>100.0</b>	<b>187,186</b>	<b>100.0</b>	<b>232,766</b>	<b>100.0</b>		

See “– Factors Affecting Our Results of Operations – Staff Costs” and “– Results of Operations” for the historical and future trend of our staff costs.

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### Property Rentals and Related Expenses

Our property rentals and related expenses primarily consist of lease payments under operating leases for our restaurants, food processing plant and headquarters. Our property rentals and related expenses amounted to RMB128.7 million, RMB189.5 million, RMB233.0 million, RMB111.4 million and RMB134.5 million for 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, respectively, representing 12.9%, 12.6%, 12.3%, 12.9% and 13.2% of our revenue for the respective periods. In 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, our per square meter per month property rental and related expenses amounted to RMB213, RMB233, RMB224, RMB220 and RMB221, respectively.

As of June 30, 2014, the rents under the leases for 198 out of our 421 restaurants were subject to the sales at our restaurants. Certain of these leases also include a minimum rent payment clause, and we are required to pay the higher of the minimum rent and the contingent rent. The remainder of our leases were under fixed rent arrangement. In 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, the minimum and fixed rent payments for our restaurants (which includes the rent we paid under fixed rent arrangement leases as well as the minimum rent we paid under variable rent arrangement leases) amounted to RMB104.6 million, RMB159.0 million, RMB197.3 million, RMB94.3 million and RMB116.7 million, respectively, representing 81.3%, 83.9%, 84.7%, 84.7% and 86.8% of our total restaurant level property rentals and related expenses for the respective periods. Meanwhile, total lease payments under variable rent arrangement leases we paid in 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014 amounted to RMB54.2 million, RMB65.6 million, RMB116.7 million, RMB60.2 million and RMB63.2 million, respectively, representing approximately 42.1%, 34.6%, 50.1%, 54.1% and 47.0% of our total property rentals and related expenses for the respective periods.

See “– Factors Affecting Our Results of Operations – Rental Expenses” and “– Results of Operations” for the historical and future trend of our property rentals and related expenses.

### Utilities Expenses

Our utilities expenses primarily consist of expenses incurred for electricity, gas and water utilities. Our utilities expenses amounted to RMB43.0 million, RMB62.9 million, RMB78.3 million, RMB36.4 million and RMB41.2 million for 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, respectively, representing 4.3%, 4.2%, 4.1%, 4.2% and 4.0% of our revenue for the respective periods.

### Depreciation and Amortization

Depreciation and amortization represents depreciation charges for our property, plant and equipment, which comprises land and buildings, leasehold improvements, catering and other equipment, furniture and fixtures, motor vehicles and transportation vehicles. Our depreciation and amortization amounted to RMB44.7 million, RMB66.3 million, RMB87.2 million, RMB33.2 million and RMB38.4 million for 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, representing 4.5%, 4.4%, 4.6%, 3.8% and 3.8% of our revenue for the respective periods.

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### Other Expenses

Our other expenses comprised other sales and marketing expenses and other administrative expenses. The following table sets forth a breakdown of our other expenses during the Track Record Period, each expressed as a percentage of the revenue for the respective periods:

	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(unaudited)									
	(In thousands, except for percentages)									
<b>Other expenses</b>										
Market promotion fee . . . . .	13,598	1.4	14,650	1.0	20,989	1.1	8,354	1.0	11,176	1.1
Logistics expense . . . . .	7,447	0.7	13,097	0.9	17,642	0.9	8,449	1.0	9,139	0.9
Office and administrative expense . . . . .	9,857	1.0	13,815	0.9	14,814	0.8	6,198	0.7	7,050	0.7
Other tax expense . . . . .	5,303	0.5	7,651	0.5	13,182	0.7	4,878	0.6	5,532	0.5
Travel and communication expense . . . . .	4,873	0.5	7,326	0.5	9,930	0.5	4,369	0.5	5,242	0.5
Professional fee . . . . .	2,708	0.3	6,080	0.4	8,788	0.5	5,924	0.7	12,555	1.2
Expense in relation to the listing . . . . .	–	–	–	–	450	–	–	–	18,794	1.9
Repair expense . . . . .	2,182	0.2	3,482	0.2	3,891	0.2	1,619	0.2	3,279	0.3
Penalties (related to our provision for the infrastructure project) . . . . .	2,400	0.2	–	–	–	–	–	–	–	–
Others . . . . .	3,719	0.4	6,279	0.4	3,170	0.2	3,791	0.4	2,699	0.3
<b>Total . . . . .</b>	<b>52,087</b>	<b>5.2</b>	<b>72,380</b>	<b>4.8</b>	<b>92,856</b>	<b>4.9</b>	<b>43,582</b>	<b>5.0</b>	<b>75,466</b>	<b>7.4</b>

Our other expenses amounted to RMB52.1 million, RMB72.4 million, RMB92.9 million, RMB43.6 million and RMB75.5 million for 2011, 2012, 2013, the six months ended June 30, 2013 and June 30, 2014, respectively, representing 5.2%, 4.8%, 4.9%, 5.0% and 7.4% of our revenue for the respective periods. Our other expenses continued to grow during the Track Record Period as our operation scale continued to grow. In the six months ended June 30, 2014, our professional fee increased significantly primarily because we engaged consulting firms specialized in marketing to provide comprehensive solutions of our nationwide marketing strategy. Our other tax expenses comprised primarily of stamp duty, real property tax and governmental welfare fees for people with disability. On the other hand, as a percentage of our revenue, our other expenses remained relatively stable from 2011 to 2013. In the six months ended June 30, 2014, as we incurred expenses in connection with the Global Offering of RMB18.8 million, our other expenses as a percentage of our revenues increased to 7.4%.

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### TAXATION

Under the current laws of the Cayman Islands, we are not subject to income tax or capital gains tax in the Cayman Islands. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands.

We are subject to Hong Kong profits tax at 16.5% on estimated assessable profit for the Track Record Period. No provision has been made for Hong Kong profits tax as we did not earn income subject to Hong Kong profits tax in 2011, 2012, 2013 and the six months ended June 30, 2014. There is no withholding tax on the dividends distributed from our Hong Kong subsidiary.

Under the EIT Law and EIT Rule, our PRC subsidiaries are subject to the statutory enterprise income tax rate of 25% during the Track Record Period. Further, a 10% withholding income tax is generally imposed on the assessable profits earned by foreign investors from the foreign investment enterprises established in PRC from September 16, 2008 onwards.

Under the EIT Law, withholding tax is imposed on our royalty income determined with reference to revenue earned by our PRC subsidiary and interests income from a PRC subsidiary. During the Track Record Period, Xiabu Hong Kong recognized taxable royalty income determined with reference to revenue earned by the PRC subsidiary and interest income from a PRC subsidiary, and the corresponding amounts of which are deductible expenses for the PRC subsidiary according to the EIT Law and Article 7 of Enterprise Income Tax Law and Implementation Rules of the People's Republic of China (中華人民共和國企業所得稅法實施條例). In 2011, 2012, 2013 and the six months ended June 30, 2014, such deductible expenses amounted to RMB53.4 million, RMB76.9 million, RMB92.3 million and RMB49.5 million, respectively. According to Article 3 of the Notice of the State Administration of Taxation on Issuing the Interim Measures for the Administration of Source-based Withholding of Enterprise Income Tax on Non-resident Enterprises (國家稅務總局關於印發《非居民企業所得稅源泉扣繳管理暫行辦法》的通知), such royalty income and the interest income are subject to withholding tax of 10% during the Track Record Period. Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by a PRC subsidiary from January 1, 2008 onwards.

Deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of the PRC subsidiary, as we are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. No deferred tax asset has been recognized in relation to the unutilized tax losses and deductible temporary differences due to the unpredictability of our future profit streams and it is not probable that taxable profit will be available against which the tax losses and the deductible temporary differences can be utilized. During the Track Record Period, our PRC subsidiaries have fulfilled their tax obligation and did not have any unresolved tax disputes.

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### RESULTS OF OPERATIONS

#### Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2014

*Revenue.* Our revenue increased by 17.7% from RMB865.3 million in the six months ended June 30, 2013 to RMB1,018.7 million in the six months ended June 30, 2014, primarily due to the increase in the number of our restaurants from 350 as of June 30, 2013 to 421 as of June 30, 2014, as well as the same-store sales growth of 0.3% we recorded. In the six months ended June 30, 2014, we opened 34 new restaurants throughout China to capture the growth in the fast casual restaurant market. Meanwhile, we continued to record same-store sales growth as the average customer spending further increased, driven primarily by (i) rising food prices in China; and (ii) our efforts to further optimize our menu.

*Other income.* Our other income decreased by 17.6% from RMB3.4 million in the six months ended June 30, 2013 to RMB2.8 million in the six months ended June 30, 2014, primarily due to the decrease in interest income from short-term investments as we reduced our investments in short-term investment contracts. This is because we allocated more capital resources to increase our frozen beef and lamb stock and paid out a dividend in the amount of RMB150.0 million in the six months ended June 30, 2014.

*Raw materials and consumables used.* Our raw materials and consumables costs increased by 4.2% from RMB379.6 million in the six months ended June 30, 2013 to RMB395.6 million in the six months ended June 30, 2014 as the scale of our operations further increased, which included the number of the restaurants in our network and our system-wide sales. As a percentage of our revenue, our raw materials and consumables costs decreased from 43.9% in the six months ended June 30, 2013 to 38.8% in the six months ended June 30, 2014, primarily due to (i) an increase in the prices of our menu items to reflect the general increase in food prices in China; (ii) the increase in sales of premium menu items with high profit margin as we continued to optimize our menus; and (iii) our continued procurement cost control efforts.

*Staff cost.* Our staff cost increased by 24.4% from RMB187.2 million in the six months ended June 30, 2013 to RMB232.8 million in the six months ended June 30, 2014, primarily due to an increase in the number of our employees from 10,044 as of June 30, 2013 to 11,150 as of June 30, 2014. As a percentage of our revenue, our staff cost increased from 21.6% in the six months ended June 30, 2013 to 22.8% in the six months ended June 30, 2014, primarily as a result of an increase in the average salary we paid. The increase in our average salary we paid was primarily the result of overall market trend in China. In addition, we commenced an incentive bonus system for our restaurant staff in July 2013.

*Property rentals and related expenses.* Our property rentals and related expenses increased by 20.7% from RMB111.4 million in the six months ended June 30, 2013 to RMB134.5 million in the six months ended June 30, 2014, primarily as a result of an increase in the number of our restaurants. As a percentage of our revenue, property rentals and related expenses remained relatively stable at 13.2% the six months ended June 30, 2014 as compared with 12.9% in the six months ended June 30, 2013.



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*Utilities expenses.* Our utilities expenses increased by 13.2% from RMB36.4 million in the six months ended June 30, 2013 to RMB41.2 million in the six months ended June 30, 2014 as the scale of our operation in terms of number of our restaurants continued to increase. As a percentage of our revenue, utilities expenses decreased from 4.2% in the six months ended June 30, 2013 to 4.0% in the six months ended June 30, 2014.

*Depreciation and amortization.* Our depreciation and amortization increased by 15.7% from RMB33.2 million in the six months ended June 30, 2013 to RMB38.4 million in the six months ended June 30, 2014, primarily as a result of an increase in our property, plant and equipment as we continued to open new restaurants. As a percentage of our revenue, depreciation and amortization remained stable at 3.8%.

*Other expenses.* Our other expenses increased by 73.2% from RMB43.6 million in the six months ended June 30, 2013 to RMB75.5 million in the six months ended June 30, 2014 as our scale of operation continued to grow. As a percentage of our revenue, our other expenses increased from 5.0% in the six months ended June 30, 2013 to 7.4% in the six months ended June 30, 2014, primarily due to the expenses of RMB18.8 million we incurred in connection with the Global Offering.

*Other gains and losses.* We recorded other loss of RMB1.2 million in the six months ended June 30, 2013, consisted primarily of foreign exchange loss. We recorded other gains of RMB4.7 million in the six months ended June 30, 2014, primarily due to our foreign exchange gain of RMB3.5 million and the reversal of impairment loss on trade receivables of RMB1.3 million. See “– Analysis of Selected Statement of Financial Position Items – Trade and Other Receivables Analysis”. This is partially offset by our loss on closure of restaurants.

*Profit before taxation.* As a result of the foregoing, in particular that the increase in revenue substantially exceeded the increase in raw materials and consumable used, staff cost and property rentals and related expenses, our profit before taxation increased by 42.0% from RMB76.2 million in the six months ended June 30, 2013 to RMB108.2 million in the six months ended June 30, 2014, and as a percentage of our revenue, our profit before tax (“**operating margin**”) increased from 8.8% in the six months ended June 30, 2013 to 10.6% in the six months ended June 30, 2014.

*Income tax expense.* Our income tax expenses increased by 42.5% from RMB18.1 million in the six months ended June 30, 2013 to RMB25.8 million in the six months ended June 30, 2014, primarily as a result of the increase in our taxable income. Our effective tax rate, calculated by dividing our income tax expense by our profit before taxation, remained relatively stable at 23.7% in the six months ended June 30, 2013 as compared with 23.9% in the six months ended June 30, 2014.

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*Profit for the period.* As a result of the cumulative effect of the above factors, in particular that the increase in revenue substantially exceeded the increase in raw materials and consumable used, staff cost and property rentals and related expenses, our profit for the period increased by 41.8% from RMB58.1 million in the six months ended June 30, 2013 to RMB82.4 million in the six months ended June 30, 2014, and as a percentage of our revenue, our profit for the period (“**net margin**”) increased from 6.7% in the six months ended June 30, 2013 to 8.1% in the six months ended June 30, 2014.

### **Year Ended December 31, 2012 Compared to Year Ended December 31, 2013**

*Revenue.* Our revenue increased by 25.3% from RMB1,508.3 million in 2012 to RMB1,890.5 million in 2013, primarily due to the increase in the number of our restaurants from 330 as of December 31, 2012 to 394 as of December 31, 2013, as well as a same-store sales growth of 2.8% we recorded in 2013. In 2013, we opened 86 new restaurants throughout China to capture the growth in the fast casual restaurant market. Meanwhile, the same-store sales growth we recorded was primarily the result of increase in average customer spending, driven by (i) rising food prices in China; and (ii) our efforts to further optimize our menu.

*Other income.* Our other income increased by 39.1% from RMB9.7 million in 2012 to RMB13.5 million in 2013, primarily due to an increase in our interest income from short-term investments.

*Raw materials and consumables used.* Our raw materials and consumables costs increased by 21.5% from RMB673.1 million in 2012 to RMB817.5 million in 2013, primarily as a result of increases in the scale of our operations, including the number of the restaurants in our network and our system-wide sales. As a percentage of our revenue, our raw materials and consumables costs decreased from 44.6% in 2012 to 43.2% in 2013, primarily due to the increase in sales of premium menu items, which resulted from our efforts to optimize our menus.

*Staff cost.* Our staff cost increased by 27.1% from RMB314.2 million in 2012 to RMB399.3 million in 2013, primarily due to an increase in the number of our employees from 9,024 as of December 31, 2012 to 10,739 as of December 31, 2013. As a percentage of our revenue, our staff cost increased from 20.8% in 2012 to 21.1% in 2013, primarily as a result of an increase in the average salary we paid. The increase in our average salary we paid was primarily the result of overall market trend in China. In addition, we commenced an incentive bonus system for our restaurant staff in July 2013.

*Property rentals and related expenses.* Our property rentals and related expenses increased by 22.9% from RMB189.5 million in 2012 to RMB233.0 million in 2013, primarily as a result of an increase in the number of our restaurant in 2013. As a percentage of our revenue, property rentals and related expenses decreased from 12.6% in 2012 to 12.3% in 2013, primarily as a result of our effort to negotiate more favorable terms for new leases.

*Utilities expenses.* Our utilities expenses increased by 24.5% from RMB62.9 million in 2012 to RMB78.3 million in 2013, primarily as a result of an increase in the production volume at our food processing plant. As a percentage of our revenue, utilities expenses decreased from 4.2% in 2012 to 4.1% in 2013.

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*Depreciation and amortization.* Our depreciation and amortization increased by 31.6% from RMB66.3 million in 2012 to RMB87.2 million in 2013, primarily as a result of an increase in our property, plant and equipment as we continued to open new restaurants. As a percentage of our revenue, depreciation and amortization increased from 4.4% in 2012 to 4.6% in 2013.

*Other expenses.* Our other expenses increased by 28.3% from RMB72.4 million in 2012 to RMB92.9 million in 2013 as our operation scale continued to grow. As a percentage of our revenue, our other expenses increased from 4.8% in 2012 to 4.9% in 2013.

*Other gains and losses.* Our other losses increased significantly from RMB0.1 million in 2012 to RMB11.0 million in 2013, primarily due to an increase in our foreign exchange loss, loss on closure of restaurants and the impairment loss on trade receivables we recorded.

*Profit before taxation.* As a result of the foregoing, our profit before taxation increased by 32.4% from RMB139.6 million in 2012 to RMB184.7 million in 2013, and as a percentage of our revenue, our operating margin increased from 9.3% in 2012 to 9.8% in 2013.

*Income tax expense.* Our income tax expenses increased by 37.4% from RMB32.0 million in 2012 to RMB44.0 million in 2013, primarily as a result of the increase in taxable income. Our effective tax rate, calculated by dividing our income tax expense by our profit before taxation, remained relatively stable at 23.8% in 2013 as compared with 23.0% in 2012.

*Profit for the year.* As a result of the cumulative effect of the above factors, our profit of the year increased by 30.9% from RMB107.5 million in 2012 to RMB140.7 million in 2013, and as a percentage of our revenue, our net margin increased from 7.1% in 2012 to 7.4% in 2013.

### **Year Ended December 31, 2011 Compared to Year Ended December 31, 2012**

*Revenue.* Our revenue increased by 51.2% from RMB997.3 million in 2011 to RMB1,508.3 million in 2012. Such increase was attributable to an increase in the number of our restaurants from 243 as of December 31, 2011 to 330 as of December 31, 2012, as well as a same-store sales growth of 10.5% we recorded in 2012. The number of our restaurants increased as we continued our expansion plan to capitalize on the strong growth of the fast casual restaurant market in China and opened 96 new restaurants in 2012. The same-store sales growth we recorded in 2012 was primarily the result of increase in average customer spending as we continued to optimize our menu selection in response to the prevailing consumer preferences and increasing food price.

*Other income.* Our other income increased by 3.5% from RMB9.4 million in 2011 to RMB9.7 million in 2012, primarily due to an increase in government grant. In 2012, we received a one-time government grant in connection with our farm-to-table business model.

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*Raw materials and consumables used.* Our raw materials and consumables used increased by 48.0% from RMB454.6 million in 2011 to RMB673.1 million in 2012, primarily due to an increase in the number of our restaurants as well as in increase in average restaurant sales. As a percentage of our revenue, our raw materials and consumables used decreased from 45.6% in 2011 to 44.6% in 2012. Such decrease was due primarily to an increase in our average customer spending, partially offset by an increase in the prices of our ingredients.

*Staff cost.* Our staff cost increased by 72.3% from RMB182.3 million in 2011 to RMB314.2 million in 2012, primarily due to an increase in the number of our employees from 6,373 as of December 31, 2011 to 9,024 as of December 31, 2012. As a percentage of our revenue, our staff cost increased from 18.3% in 2011 to 20.8% in 2012, primarily as a result of a change in mandatory pension contribution rule in 2012. The increase was also due to an increase in per employee salary we paid, which was in line with the overall market trend in China.

*Property rentals and related expenses.* Our property rentals and related expenses increased by 47.3% from RMB128.7 million in 2011 to RMB189.5 million in 2012, primarily as a result of the 96 new restaurants we opened in 2012. As a percentage of our revenue, property rentals and related expenses decreased from 12.9% in 2011 to 12.6% in 2012.

*Utilities expenses.* Our utilities expenses increased by 46.5% from RMB43.0 million in 2011 to RMB62.9 million in 2012, primarily as a result of the growth of our operation scale, both in terms of number of restaurant and production volume at our food processing plant. As a percentage of our revenue, utilities expenses decreased from 4.3% in 2011 to 4.2% in 2012.

*Depreciation and amortization.* Our depreciation and amortization increased by 48.4% from RMB44.7 million in 2011 to RMB66.3 million in 2012, primarily as a result of an increase in our property, plant and equipment, which was in line with our nationwide expansion. As a percentage of our revenue, depreciation and amortization decreased from 4.5% in 2011 to 4.4% in 2012.

*Other expenses.* Our other expenses increased by 39.0% from RMB52.1 million in 2011 to RMB72.4 million in 2012, primarily as a result of the growth of our operation scale. As a percentage of our revenue, other expenses decreased from 5.2% in 2011 to 4.8% in 2012.

*Other gains and losses.* Our other losses decreased by 93.6% from RMB2.0 million in 2011 to RMB0.1 million in 2012, primarily due to the foreign exchange loss we recorded in connection with the depreciation of U.S. dollars.

*Finance costs.* Our finance costs in 2011 were RMB0.5 million, which were incurred in connection with a bank loan with principal amount of RMB10.0 million, which was repaid in 2011. We did not have any bank loan and therefore did not incur any finance cost in 2012.

*Profit before tax.* As a result of the foregoing, our profit before tax increased by 41.3% from RMB98.8 million in 2011 to RMB139.6 million in 2012, and our operating margin decreased from 9.9% in 2011 to 9.3% in 2012.

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*Income tax expense.* Our income tax expenses increased by 38.6% from RMB23.1 million in 2011 to RMB32.0 million in 2012, primarily as a result of the increase in taxable income. Our effective tax rate, calculated by dividing our income tax expense by our profit before taxation, remained relatively stable at 23.0% in 2012 as compared with 23.4% in 2011.

*Profit for the year.* As a result of the cumulative effect of the above factors, our profit of the year increased by 42.1% from RMB75.7 million in 2011 to RMB107.5 million in 2012, and our net margin decreased from 7.6% in 2011 to 7.1% in 2012.

### LIQUIDITY AND CAPITAL RESOURCES

#### Overview

To date, we have financed our operations primarily through cash from our operations. As of June 30, 2014, we had RMB173.5 million in cash and cash equivalents, substantially all of which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash on hand and demand deposits.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
Net cash generated from operating activities . . . . .	173,146	234,634	165,471	57,797
Net cash used in investing activities.	(99,865)	(104,687)	(111,622)	(81,096)
Net cash (used in)/generated from financing activities . . . . .	(16,829)	(50,284)	31,304	(150,000)
Net increase (decrease) in cash and cash equivalents. . . . .	56,452	79,663	85,153	(173,299)
Cash and cash equivalents at the beginning of the year/period . . . .	126,184	180,584	260,221	343,306
Effect of foreign exchange rate changes, net . . . . .	(2,052)	(26)	(2,068)	3,484
Cash and cash equivalents at the end of the year/period . . . . .	180,584	260,221	343,306	173,491

#### Operating Activities

Net cash generated from operating activities in the six months ended June 30, 2014 was RMB57.8 million, which was primarily attributable to our profit before tax of RMB108.2 million, adjusted to add back the non-cash depreciation and amortization of RMB38.4 million and deduct the (i) the foreign exchange gain of RMB3.5 million and (ii) the interest income of

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RMB0.8 million that was accounted for as cash inflow from investing activities. The amount was further-adjusted by changes in itemized balances that have a negative effect on cashflow, including (i) an increase in our inventories of RMB64.8 million as we increased the stock of frozen beef and lamb in anticipation of future price increase; (ii) an increase in other receivables of RMB8.2 million; and (iii) an increase in rental deposits of RMB3.6 million as we continued to enter into new leases, as well as certain changes in itemized balances that have a positive effect on cashflow, including (i) an increase in other payables of RMB24.6 million in connection with rent, marketing expenditure, salaries and compensation for staff and taxes; and (ii) an increase in our trade payables of RMB15.9 million. The increases in our trade and other payables were due to the growth of our operation scale and increase in our procurement.

Net cash generated from operating activities in 2013 was RMB165.5 million, which was primarily attributable to our profit before tax of RMB184.7 million, adjusted to add back the non-cash depreciation and amortization of RMB87.2 million and deduct the interest income of RMB5.2 million that was accounted for as cash inflow from investing activities. The amount was further-adjusted by changes in itemized balances that have a negative effect on cashflow, including (i) an increase in our inventories of RMB78.2 million as we increased the stock of frozen beef and lamb in anticipation of future price increase; (ii) a decrease in our trade payables of RMB16.3 million; (iii) an increase in other receivables of RMB4.7 million; and (iv) an increase in rental deposits of RMB4.1 million as we continued to enter into new leases, as well as certain changes in itemized balances that have a positive effect on cashflow, including an increase in other payables of RMB33.5 million in connection with rent, marketing expenditure, salaries and compensation for staff and taxes.

Net cash generated from operating activities in 2012 was RMB234.6 million, which was primarily attributable to our profit before tax of RMB139.6 million, adjusted to add back the non-cash depreciation and amortization of RMB66.3 million and deduct the interest income of RMB3.2 million that is accounted for as cash inflow from investing activities. The amount was further-adjusted by changes in itemized balances that have a negative effect on cashflow, including (i) an increase in rental deposits of RMB6.7 million in connection with the opening of new restaurants; (ii) an increase in our trade receivables of RMB5.6 million; and (iii) an increase in our inventories of RMB5.6 million, as well as certain changes in itemized balances that have a positive effect on cashflow, including (i) an increase in our other payables of RMB42.3 million in connection with increases in accrual of employee salary and construction fee payable, both resulted from the opening of new restaurant; and (ii) an increase in our trade payables of RMB38.2 million as our procurement amount further increased.

Net cash generated from operating activities in 2011 was RMB173.1 million, which was primarily attributable to our profit before tax of RMB98.8 million, adjusted to add back the non-cash depreciation and amortization of RMB44.7 million and deduct the interest income of RMB3.3 million that is accounted for as cash inflow from investing activities. The amount was further-adjusted by changes in itemized balances that have a negative effect on cashflow, including (i) an increase in rental deposits of RMB8.9 million in connection with the opening of new restaurants; and (ii) an increase in our other receivables of RMB3.7 million in connection with the prepaid rental expenses for our restaurants, as well as certain changes in

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itemized balances that have a positive effect on cashflow, including (i) an increase in our trade payables of RMB38.3 million as our procurement amount increased, which was the result of the growth of our operation scale; and (ii) an increase in our other payables of RMB26.7 million in connection with increases in accrual of employee salary and construction fee payable, both resulted from the opening of new restaurant.

### **Investing Activities**

Net cash used in investing activities in the six months ended June 30, 2014 was RMB81.1 million, primarily attributable to payment for the purchase of (i) property, plant and equipment of RMB52.0 million in connection with the opening of new restaurants; and (ii) the short term-investment of RMB30.0 million. In the six months ended June 30, 2014, we opened 34 new restaurants.

Net cash used in investing activities in 2013 was RMB111.6 million, primarily attributable to payment for the purchase of property, plant and equipment of RMB118.5 million in connection with the opening of new restaurants, partially offset by our interest income of RMB5.2 million. In 2013, we opened 86 new restaurants.

Net cash used in investing activities in 2012 was RMB104.7 million, primarily attributable to payment for the purchase of property, plant and equipment of RMB103.8 million in connection with the opening of new restaurants. In 2012, we opened 96 new restaurants.

Net cash used in investing activities in 2011 was RMB99.9 million, primarily attributable to payment for the purchase of property, plant and equipment of RMB110.1 million in connection with the opening of new restaurants. In 2011, we opened 93 new restaurants.

During the Track Record Period, as part of our cash management and investment policy, we invested in certain standard financial products in the form of short-term guaranteed income contracts issued by Shanghai Pudong Development Bank and Bank of Communications. Historically, we had never recorded any losses in connection with these short-term investments. Our risk management policy requires all these short-term investments contract to guarantee the return of our principal.

In June 2014, however, we purchased a standard financial product issued by Bank of Communications that does not have a principal protection clause. Principal terms of this standard investment product includes the redemption of principal and premium (if any) at maturity, term of investment, the risk rating, indicative mix of underlying assets (primarily corporate and government bonds with AA rating if a rating has been obtained, deposits and other money markets fund) and other standard clauses. The principal amount of this financial product was RMB30.0 million with an investment term of 28 days. Considering that (i) the risk rating is low (2R, being the second lowest rating designated by the issuing bank); and (ii) the term of the investment was short, we made an exception to our general policy. In July 2014, we received all the principal back with a return of approximately RMB120,000, representing an annualized yield rate of approximately 5.2%. In August, September and October 2014, we

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continued to invest in these standard financial products with substantially similar terms as the short-term investment contracts we purchased during the Track Record Period. The aggregate principal amount of these short-term investment contracts is RMB147.0 million as of October 31, 2014. The issuing bank has guaranteed the return of the principal amount. These investment contracts have maturity range from 14 to 63 days. As of the Latest Practicable Date, all of these short-term investment contracts had matured, and we received all the principal back with a profit of RMB0.8 million.

We make this type of short-term investments only when our internal cash flow and liquidity forecast indicates that we have sufficient capital resources for our operating activities and our capital expenditure. As a result, we believe that these short-term investments do not have any adverse effect on our liquidity and enable us to generate additional income stream with minimal risk. Our internal policy and guidance requires that any investment of this nature, regardless of the amount, shall be approved by our Chairman Mr. Ho, our chief executive officer Ms. Yang Shuling and our chief financial officer Ms. Zhao Yi. Please see “Directors and Senior Management” for their background and relative expertise. Our cash management and investment policy requires that all of these guaranteed income contracts to be bought and mature in the same calendar year, and therefore we recorded identical amount of purchase and disposal of short-term investments in each of 2011, 2012 and 2013. The return on these short-term investments was recorded as interests income received under our cash flow from investing activities. The table below sets forth the details of our short-term investment during the Track Record Period:

Type of investment	Estimated risk <sup>(1)</sup>	Primary underlying investments	Maximum/ Actual Annual yield rate	Term of investment	Redemption provision	Potential maximum loss <sup>(1)</sup>
Standard guaranteed income contracts . . .	None	Government bond, corporate bond and deposit	Approximately 3.5% to 5.5%	35 days to 91 days	Redeemable at maturity	None
14-days guaranteed income contracts . . .	None	Government bond, corporate bond and deposit	Approximately 4%	14 days to 21 days	Redeemable at maturity	None
Floating income investment contracts . . .	None	Government bond, corporate bond and deposit	Approximately 4% to 9%	8 days to 28 days	Redeemable at maturity	None to investment amount

*Note:*

(1) As required by our risk management policy, we purchase exclusively short-term financial products that guarantee the return of our principal, while the majority of these short-term financial products also guarantee certain return of interest income.



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### Financing Activities

Net cash used in financing activities in the six months ended June 30, 2014 was RMB150.0 million, which was the dividend we distributed to shareholders. The distribution of the dividend was funded by the cash flow generated from our operating activities. See “– Dividend Policy” for further details.

Net cash generated from financing activities in 2013 was RMB31.3 million from the issuance of preferred shares. See “Our History and Development – Financial Investment” for details of our issuance of preferred shares.

Net cash used in financing activities in 2012 was RMB50.3 million, which was the dividend we distributed. The distribution of the dividend was funded by the cash flow generated from our operating activities.

Net cash used in financing activities in 2011 was RMB16.8 million primarily attributable to (i) repayment of a bank loan in the amount of RMB10.0 million; (ii) distribution of dividend of RMB6.3 million funded by the cash flow from our operating activities; and (iii) interest incurred on the bank loan of RMB0.5 million.

### COMMITMENTS

As of June 30, 2014, we had capital commitments of RMB18.0 million representing capital expenditure contracted for but not provided in respect of acquisitions of property, plant and equipment. Set forth below summarizes our capital commitments as of the respective dates:

	As of December 31,			As of June 30,	As of October 31,
	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB
					(Unaudited)
					(in thousands)
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment . . .	17,085	12,307	24,500	17,996	14,613

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These capital commitments were primarily in connection with the opening of new restaurants. In addition, we had commitments for future minimum lease payments under non-cancellable operating lease within one year of RMB253.2 million as of June 30, 2014. Set forth below summarizes our non-cancellable operating lease commitments as of the respective dates:

	As of December 31,			As of June 30,	As of October 31,
	2011	2012	2013	2014	2014
					(unaudited)
	(in RMB thousands)				
<b>Minimum lease payments under operating leases</b>					
Within one year . . . . .	138,850	179,745	224,580	253,266	238,118
In the second to fifth year . .	417,900	526,339	637,506	732,744	614,587
After five years . . . . .	144,507	163,697	143,406	212,820	263,540
<b>Total . . . . .</b>	<b>701,257</b>	<b>869,781</b>	<b>1,005,492</b>	<b>1,198,830</b>	<b>1,116,245</b>

Operating lease payments represent rental payable by us for the premises we lease for our logistic centers and restaurants. These leases were negotiated for lease terms of one to 15 years. Monthly rental was fixed for certain leases.

The operating lease rentals for certain restaurants are determined by applying pre-determined percentage to revenue of the respective restaurants (“**Prorated Rental**”) or at the higher of a fixed rental and a Prorated Rental pursuant to the terms and conditions as set out in the respective rental agreements. As the future revenue of these restaurants could not be reliably determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table.

Other than the contractual obligations set forth above, we do not have any other long-term debt obligations, operating lease commitments, capital commitments or other long-term liabilities.

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### CAPITAL EXPENDITURES

We made payment for the capital expenditures representing the purchase of property, plant and equipment of RMB110.1 million, RMB103.8 million, RMB118.5 million and RMB52.0 million in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. In the past, our capital expenditures were used primarily to procure property, plant and equipment for new restaurant opening. These historical capital expenditure were funded primarily by cash generated from our operating activities. In 2011, 2012, 2013 and the six months ended June 30, 2014, we opened 93, 96, 86 and 34 new restaurants, respectively.

We currently plan to open approximately 85 new restaurant in 2014 (including 54 restaurants that had been opened as of the Latest Practicable Date). We estimate the total capital expenditure for the opening of the remaining 31 restaurants to be RMB40.3 million, and a substantial portion of which has been spent on various expenses, primarily furnishing and decoration, prior to the official restaurant opening. As of the Latest Practicable Date, we had completed the furnishing and decoration of 22 out of these 31 restaurants and we will open these restaurants immediately upon our receipt of the official material licenses. See “– Licenses, Regulatory Approvals and Compliance Record – Corresponding Internal Control Measures”. The application process of these licenses is subject to a number of uncertainties beyond our control. See “Risk Factors – Risks Relating to our Business – Our future growth depends on our ability to open and profitably operate new restaurants. We may not be able to successfully enter into new markets” and “Risk Factors – Risks Relating to our Business – We require various approvals, licenses and permits to operate our business and any failure to obtain or renew any of these approvals, licenses and permits could materially and adversely affect our business and results of operations.” We also plan to establish an additional logistics and production center in Beijing and establish an additional logistics and production center in Shanghai. We plan to fund these capital expenditures with our existing cash and cash equivalents, cash flow generated from operating activities and proceeds from the Global Offering. See “Business – Growth Strategies”, “– Expansion Plans, Site Selection and Development – Recent and Planned Expansion”, “– Production and Logistics – Food Processing Plants” and “Future Plans and Use of Proceeds” for further details about our planned capital expenditure.

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### WORKING CAPITAL

The table below sets forth the details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2011	2012	2013	2014	2014 (unaudited)
(in RMB thousands)					
<b>Current Assets</b>					
Inventories . . . . .	36,428	41,990	120,154	184,947	174,311
Trade and other receivables and prepayments . . . . .	22,835	29,956	28,202	36,976	42,762
Short-term investments . . . . .	—	—	—	30,000	147,000
Bank balances and cash . . . . .	180,584	260,221	343,306	173,491	113,791
<b>Total current assets . . . . .</b>	<b>239,847</b>	<b>332,167</b>	<b>491,662</b>	<b>425,414</b>	<b>477,864</b>
<b>Current Liabilities</b>					
Trade payables . . . . .	68,590	106,796	90,471	106,392	136,803
Accrual and other payables . . . . .	79,632	138,272	170,447	194,035	211,822
Amount due to a related party . . . . .	300	—	—	—	—
Tax payables . . . . .	6,949	16,684	21,831	2,715	10,671
Provision . . . . .	2,000	370	—	—	—
Deferred income . . . . .	1,850	1,487	2,798	114	—
<b>Total current liabilities . . . . .</b>	<b>159,321</b>	<b>263,609</b>	<b>285,547</b>	<b>303,256</b>	<b>359,296</b>
<b>Net Current Assets . . . . .</b>	<b>80,526</b>	<b>68,558</b>	<b>206,115</b>	<b>122,158</b>	<b>118,568</b>

Our net current assets decreased from RMB122.2 million as of June 30, 2014 to RMB118.6 million as of October 31, 2014, primarily due to (i) a decrease in our bank balances and cash as we continued to open new restaurants and purchase into short-term investment contracts; and (ii) an increase in our trade payables and accrual and other payables as the scale of our operation and our procurement volume continued to grow. These increases were partially offset by an increase in the balance of our short-term investments, which represent the short-term investment contracts we purchased but not yet mature as of October 31, 2014. See “—Liquidity and Capital Resources-Investment Activities” for further details.

Our net current assets decreased from RMB206.1 million as of December 31, 2013 to RMB122.2 million as of June 30, 2014, primarily due to (i) a substantial decrease in our bank balances and cash as we distributed dividend of RMB150.0 million in February 2014 to our shareholders; and (ii) increases in our trade and other payables, which were due to the growth of our scale of operation and the increase in our procurement. These were partially offset by an increase in our inventories as we continued to increase our frozen beef and lamb stock.

Our net current assets increased from RMB68.6 million as of December 31, 2012 to RMB206.1 million as of December 31, 2013, primarily due to (i) a substantial increase in our inventories, primarily as we increased our frozen beef and lamb stock; and (ii) an increase in our bank balances and cash, primarily from our operating cash flow and the issuance of preferred shares, partially offset by the investing cash outflow in connection with new restaurant opening. Such increase in our current assets was partially offset by an increase in our accrual and other payables in connection with rent, marketing expenditure, salaries and compensation for staff and taxes.

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Our net current assets decreased from RMB80.5 million as of December 31, 2011 to RMB68.6 million as of December 31, 2012, primarily because (i) an increase in our accrual and other payables due primarily to the new restaurants we opened; and (ii) an increase in our trade payables due to the growth in our operation scale, partially offset by an increase in our bank balances and cash, primarily due to our operating cash inflow, which was in turn partially offset by the increase in our bank balance and cash from our operating cash flow.

Our directors confirm that our current cash and cash equivalents, anticipated cash flow from operations and proceeds from the Global Offering will be sufficient to meet our anticipated cash needs, including our working capital and capital expenditures requirements for at least the next 12 months from the date of this prospectus. We currently have no external financing plan other than the Global Offering.

### INDEBTEDNESS

As of December 31, 2011, 2012 and 2013 and June 30, 2014, and as of 31 October 2014 being our indebtedness statement date, we did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection. After due and careful consideration, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our indebtedness since October 31, 2014.

### MAJOR LIQUIDITY RATIOS

The following table sets forth the major liquidity ratios as of the dates indicated:

	Year Ended December 31,			As of
	2011	2012	2013	June 30, 2014
			(%)	
Current ratio <sup>(1)</sup> . . . . .	150.5	126.0	172.2	140.3
Quick ratio <sup>(2)</sup> . . . . .	127.7	110.1	130.1	79.3

Notes:

(1) Current ratio is calculated by dividing current assets by current liabilities.

(2) Quick ratio is calculated by dividing current assets less inventory by current liabilities.

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### Current Ratio

Our current ratio decreased from 150.5% as of December 31, 2011 to 126.0% as of December 31, 2012, primarily due to increases in our accrual and other payables and our trade payables, both of which were due to the expansion of our restaurant network and growth in our operation scale. Such increases were partially offset by an increase in our bank balances and cash. Our current ratio increased to 172.2% as of December 31, 2013, primarily due to a substantial increase in our inventories and an increase in our bank balances and cash. Such increases were partially offset by an increase in our accrual and other payables. Our current ratio decreased to 140.3% as of June 30, 2014, primarily due to a substantial decrease in our bank balances and cash and increases in our trade and other payables, partially offset by an increase in our inventories.

### Quick Ratio

Our quick ratio decreased from 127.7% as of December 31, 2011 to 110.1% as of December 31, 2012, primarily due to increases in our accrual and other payables and our trade payables, partially offset by an increase in our bank balances and cash. Our Quick ratio increased to 130.1% as of December 31, 2013, primarily due to an increase in our bank balances and cash, partially offset by an increase in our accrual and other payables. Our quick ratio decreased to 79.3% as of June 30, 2014, primarily due to a substantial decrease in our bank balances and cash and increases in our trade and other payables.

## ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

### Inventory Analysis

During the Track Record Period, inventories were one of the principal components of our current assets. Our inventories consist primarily of food and beverage, other materials and consumables. See “Our Business – Procurement – Purchasing Procedures and Inventory Management” and “Our Business – Food Safety and Quality Control – Inventory Quality Control” for details on our inventory policy.

The following table the balance of our inventories as of the dates indicated:

	As of December 31,			As of
	2011	2012	2013	June 30, 2014
	(in RMB thousands)			
Food and beverage . . . . .	32,428	35,203	105,608	171,503
Other materials. . . . .	2,750	4,353	10,742	8,765
Consumables . . . . .	1,250	2,434	3,804	4,679
<b>Total inventories . . . . .</b>	<b>36,428</b>	<b>41,990</b>	<b>120,154</b>	<b>184,947</b>

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The value of our inventories increased 15.4% from RMB36.4 million as of December 31, 2011, to RMB42.0 million as of December 31, 2012 and further increased by 186.1% to RMB120.2 million as of December 31, 2013. As of June 30, 2014, the value of our inventories further increased by 54.0% to RMB184.9 million. The value of our inventories increased significantly in 2013 and the six months ended June 30, 2014 as we increased the stock of frozen beef and lamb beginning in September 2013 in anticipation of price increase. Of the RMB184.9 million of inventories as of June 30, 2014, RMB121.3 million of food and beverage, RMB8.6 million of other materials and RMB4.6 million of consumables had been utilized as of October 31, 2014, respectively.

The following table sets forth our inventory turnover days for the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Total inventory turnover days <sup>(1)</sup> . . .	31	21	36	70

*Note:*

(1) Inventory turnover days are calculated using the average of opening balance and closing balance of inventory for a year/period divided by raw materials and consumables costs for the relevant year/period and multiplied by 365 days or 181 days, as applicable.

Our inventory turnover days decreased from 31 days in 2011 to 21 days in 2012, primarily attributable to a more stringent inventory control measure we undertook in 2012. In 2013, our inventory turnover days increased to 36 days primarily as we increased the stock of frozen beef and lamb in anticipation of price increases. In the six months ended June 30, 2014, our inventory turnover days further increased to 70 days as we continued to increase the stock of frozen beef and lamb.

### Trade and Other Receivables Analysis

The following table sets forth our trade and other receivables as of the dates indicated:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
Trade receivables . . . . .	7,590	13,238	11,444	10,681
Less: allowance of doubtful debts . .	–	–	(4,635)	(3,294)
Net trade receivables . . . . .	7,590	13,238	6,809	7,387
Prepaid operating expenses . . . . .	11,839	12,695	16,129	17,575
Prepayments to suppliers . . . . .	537	510	320	1,197
Deferred expenses in relation to the listing expenses . . . . .	–	–	–	5,963
Current portion of lease prepayments for land use right . .	534	534	534	534
Other receivables . . . . .	2,335	2,979	4,410	4,320
<b>Total trade and other receivables .</b>	<b>22,835</b>	<b>29,956</b>	<b>28,202</b>	<b>36,976</b>

## FINANCIAL INFORMATION

Our customers pay us primarily through cash or credit card. For certain of our restaurants located in shopping malls, we also accept prepaid gift cards issued by the shopping malls. Generally, there was no credit period for our restaurant operations, except for certain shopping malls in connection with the gift cards they issued. During the Track Record Period, the majority of the shopping malls received a credit term of no more than 90 days. As of December 31, 2011, 2012 and 2013 and June 30, 2014, our net trade receivables net of allowance for doubtful debts amounted to RMB7.6 million, RMB13.2 million, RMB6.8 million and RMB7.4 million, respectively. Of the RMB7.4 million trade receivables outstanding as of June 30, 2014, RMB5.7 million had been settled as of October 31, 2014.

The prepaid operating expenses consist of the rent we prepaid to our landlords. Under our leases, we pay our rent either monthly, quarterly or semi-annually, and the rents paid quarterly or semi-annually were accounted for as prepaid rental expenses. Our prepayment to suppliers consists of prepayment for certain consumables to be used at our food processing plant in Beijing. Current portion of prepaid lease payment represent the current portion of our lease prepayment made in connection with land use rights for our food processing plant in Beijing.

The following table sets forth our trade receivables turnover days for the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
Trade receivable turnover days <sup>(1)</sup> . . .	3	3	2	2

*Note:*

(1) Trade receivables turnover days are calculated using the average of opening balance and closing balance of trade receivables for a year/period divided by turnover for the relevant year/period and multiplied by 365 days or 181 days, as applicable.

Due to the nature of our business, our trade receivable turnover days remained stable throughout the Track Record Period.

### *Aging analysis*

The following table sets out the aging analysis of our trade receivables as of the dates indicated, presented based on the invoice date:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
Within 60 days . . . . .	6,667	6,441	4,789	3,892
More than 61 days but less 180 days . . . . .	839	1,825	636	1,475
More than 181 days but less than one year . . . . .	84	4,972	1,384	2,020
<b>Total trade receivables . . . . .</b>	<b>7,590</b>	<b>13,238</b>	<b>6,809</b>	<b>7,387</b>



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The following table sets out our trade receivables that were past due but not impaired:

	As of December 31,			As of
	2011	2012	2013	June 30,
	(in RMB thousands)			2014
Overdue by less than 30 days . . . . .	923	1,367	550	1,046
Overdue by more than 31 days but less than 90 days . . . . .	–	2,926	834	513
Overdue by more than 91 days but less than 180 days . . . . .	84	679	–	461
<b>Total trade receivables . . . . .</b>	<b>1,007</b>	<b>4,972</b>	<b>1,384</b>	<b>2,020</b>

The trade receivables that were past due but not impaired were related to certain shopping malls that have good trading record with us. Based on past experiences, our management believes that no impairment allowances is necessary in respect of these amounts as there has not been a significant change in credit quality of the trade receivables from the invoice date up to the end of the reporting period.

### *Impairment*

Our management determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Our management reassesses the impairment of trade and other receivables at the end of reporting period. The following table sets forth the movement in the allowance for doubtful debts during the Track Record Period:

	For the Year Ended December 31,			For the Six
	2011	2012	2013	Months Ended
	(in RMB thousands)			June 30,
				2014
As of January 1 . . . . .	–	–	–	4,635
Impairment losses recognized on trade receivables . . . . .	–	–	4,635	–
Reversal of impairment losses on trade receivables . . . . .	–	–	–	(1,341)
<b>As of December 31 . . . . .</b>	<b>–</b>	<b>–</b>	<b>4,635</b>	<b>3,294</b>

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In 2013, we recorded allowances for doubtful debts of RMB4.6 million for individually impaired trade receivables related to certain shopping malls and a dining vouchers distributor that were in dispute with us on the outstanding amount owed to us, and trade receivables that have been long overdue. The impairment represents the difference between the carrying amount of these trade receivable and present value of expected liquidation proceeds. We do not hold any collateral over these balances. In the six months ended June 30, 2014, we reversed impairment losses of RMB1.3 million as the shopping malls with whom we were in dispute agreed to credit the amount in dispute against the our rents payable to them. Our Directors are of the view that the allowance for doubtful debts under trade receivables as of June 30, 2014 are adequate and that the accounting policies on provisions for impairment of trade receivables are appropriate.

### Trade and Other Payables Analysis

The following table sets forth our trade payables as of the dates indicated:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
<b>Trade payables . . . . .</b>	<b>68,590</b>	<b>106,796</b>	<b>90,471</b>	<b>106,392</b>
Staff costs payables . . . . .	26,701	46,706	49,777	53,526
Construction fee payables . . . . .	15,107	31,484	30,137	29,082
Rental payables . . . . .	12,914	18,190	21,220	22,844
Deposits from suppliers . . . . .	7,529	12,525	15,324	14,821
Accrued operating expenses . . . . .	6,757	8,637	14,555	25,633
Other PRC tax payables . . . . .	6,833	9,889	18,305	12,249
Listing fee payable . . . . .	–	–	–	13,908
Others . . . . .	3,791	10,841	21,129	21,972
<b>Total accrual and other payables. . .</b>	<b>79,632</b>	<b>138,272</b>	<b>170,447</b>	<b>194,035</b>

Our trade payables primarily consist of trade payables to suppliers of ingredients. Our suppliers typically grant us a credit period of 60 days. All of our trade payables are expected to be settled within one year. Of the RMB106.4 million trade payables outstanding as of June 30, 2014, RMB101.9 million had been settled as of October 31, 2014.

We also incur accrual and other payables in connection with various aspects of our operations, including staff salary payment and other contributions, decoration and renovation of our restaurants, rental payment and other expenditure in connection with our operations. Throughout the Track Record Period, the increase in our accrual and other payables was the result of our continued growth and expansion.

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## FINANCIAL INFORMATION

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The following table sets forth our trade payables turnover days during the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2011	2012	2013	2014
	Trade payables turnover days <sup>(1)</sup> . . . .	40	48	44

*Note:*

(1) *Trade payables turnover days are calculated using the average of opening balance and closing balance of trade payables for a year/period divided by raw materials and consumables costs for the relevant year/period and multiplied by 365 days or 181 days, as applicable.*

During the Track Record Period, our trade payables turnover days remained stable, and were in line with the credit period our suppliers typically grant us.

### OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

### CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

### RELATED PARTY TRANSACTIONS

For a discussion of related party transactions, see note 33 to the Accountants' Report set forth in Appendix I to this prospectus.

The property leasing transactions as set out in note 33(b) to the Accountants' Report will also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules. For details, see the section headed "Connected Transactions" in this prospectus.

Our Directors believe that the related party transactions were carried out on an arm's length basis and will not distort our results during the Track Record Period or make such results not reflective of our future performance.

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### NO OTHER OUTSTANDING INDEBTEDNESS

We did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of October 31, 2014, being our indebtedness statement date. Our Directors confirm that, as at the Latest Practicable Date, there is no material change in the Company's indebtedness since October 31, 2014.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Foreign Currency Risk

We undertake certain financing and operating transactions in foreign currencies, which expose us to foreign currency risk. We do not use any derivative contracts to hedge against our exposure to currency risk. Our management manages the currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of our foreign currency denominated monetary assets as of the dates indicated are as follows:

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
USD . . . . .	62,014	48,785	79,342	38,443
HK\$ . . . . .	4	3	4	11

Our functional currency is RMB in which most of our transactions are denominated. We do not have any foreign currency transaction during the Track Record Period which exposes us to foreign currency risk.

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### *Sensitivity analysis*

We are mainly exposed to the risk of fluctuations in the U.S. dollar against RMB.

The following table details our sensitivity to a 5% increase and decrease in RMB against U.S. dollar. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the U.S. dollar. For a 5% strengthening of RMB against the U.S. dollar, there would be an equal and opposite impact on the profit for the year/period and the amounts below would be negative.

	As of December 31,			As of June 30,
	2011	2012	2013	2014
	(in RMB thousands)			
Profit for the year . . . . .	3,101	2,439	3,967	1,922

### **Interest rate risk**

We are exposed to cash flow interest risk in relation to variable-rate bank balances, which carry prevailing market interest, and short-term investment. We currently do not have a specific policy to manage our interest rate risk but will closely monitor their interest rate risk exposure in the future.

No sensitivity analysis on interest rate risk on bank balance is presented as management consider the sensitivity on interest rate risk on bank balance is insignificant.

### **Credit risk**

Our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the statements of financial position.

We trade with a large number of individual customers and trading terms are mainly on cash and credit card settlement. We do not have significant credit risk exposure to any single individual customer. For the trade receivables due from the shopping malls, we monitor the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. In addition, the receivable balances are also monitored on ongoing basis. Hence, our management believes that our credit risk is significantly reduced.

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We have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation.

### Liquidity risk

In management of liquidity risk, our management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance our operations and mitigate the impacts of fluctuations in cash flows. Our management relies on the cash generated from operating activities as the main source of liquidity. In 2011, 2012, 2013 and the six months ended June 30, 2014, we had cash generated from operating activities of RMB173.1 million, RMB234.6 million, RMB165.5 million and RMB57.8 million, respectively. We expect to meet our other obligations from operating cash flows and proceeds of maturing financial assets.

The following tables details our remaining contractual maturity for our non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which we can be required to pay.

As of December 31, 2011	Repayable on demand or within one month	One to three months	Three months to one year	Total undiscounted cash flows	Carrying amount
(in RMB thousands)					
<b>Financial Liabilities</b>					
Trade payables . . . . .	19,994	48,596	–	68,590	68,590
Other payables . . . . .	39,041	15,913	3,433	58,513	58,513
Amount due to a related party . . . . .	300	–	–	300	300
	<u>59,335</u>	<u>64,509</u>	<u>3,433</u>	<u>127,403</u>	<u>127,403</u>
(in RMB thousands)					
<b>Financial Liabilities</b>					
Trade payables . . . . .	61,344	45,452	–	106,796	106,796
Other payables . . . . .	78,945	21,120	7,155	107,221	107,221
	<u>140,289</u>	<u>66,572</u>	<u>7,155</u>	<u>214,017</u>	<u>214,017</u>

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As of December 31, 2013	Repayable on demand or within one month	One to three months	Three months to one year	Total undiscounted cash flows	Carrying amount
(in RMB thousands)					
<b>Financial Liabilities</b>					
Trade payables . . . . .	46,070	44,401	–	90,471	90,471
Other payables . . . . .	78,648	36,766	6,849	122,263	122,263
	<u>124,718</u>	<u>81,167</u>	<u>6,849</u>	<u>212,734</u>	<u>212,734</u>

As of June 30, 2014	Repayable on demand or within one month	One to three months	Three months to one year	Total undiscounted cash flows	Carrying amount
(in RMB thousands)					
<b>Financial liabilities</b>					
Trade payables . . . . .	51,685	54,533	174	106,392	106,392
Other payables . . . . .	107,629	24,813	8,890	141,332	141,332
<b>Total . . . . .</b>	<u>159,314</u>	<u>79,346</u>	<u>9,064</u>	<u>247,724</u>	<u>247,724</u>

### LISTING EXPENSES

The estimated total listing expenses (based on mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and all discretionary incentive fees in the Global Offering are paid in full) incurred or to be incurred in relation to the Global Offering are approximately RMB71.4 million, of which RMB32.6 million was or will be charged as other expenses to our consolidated statement of profit or loss and other comprehensive income and RMB38.8 million was or will be charged against equity, in accordance with International Accounting Standard 32, *Financial Instruments: Presentation* (“IAS 32”). Pursuant to such accounting standard, expenses that are incremental and directly attributable to the offering of new Shares are accounted for as a deduction from equity upon Listing and issuance of new Shares. The expenses which do not relate to the offering of new Shares are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the offering of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

For the year ended December 31, 2013 and the six months ended June 30, 2014, we recognized approximately RMB0.5 million and RMB18.8 million of listing expenses as our other expenses. Listing expenses of RMB0.2 million and RMB5.8 million were recognized as deferred expenses as of December 31, 2013 and June 30, 2014 which are expected to be charged against equity upon the Listing and issuance of new Shares.

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We incurred approximately RMB8.4 million of listing expenses for the period from July 1, 2014 to the Latest Practicable Date, and expect to incur an additional RMB37.7 million of listing expenses (based on mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and all discretionary incentive fees in the Global Offering are paid in full) after the Latest Practicable Date. We estimate that the listing expenses of approximately RMB13.3 million, incurred or to be incurred after June 30, 2014 will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ending December 31, 2014. The estimated listing expense of approximately RMB32.8 million, including the discretionary incentive fees in Global Offering of RMB4.2 million, incurred or to be incurred after June 30, 2014, is expected to be charged against equity upon Listing and issuance of new Shares.

The estimated total discretionary incentive fees in the Global Offering are approximately RMB4.2 million, which will be deducted directly from equity, in accordance with IAS 32, pursuant to which those expenses that are directly attributable to the issue of new Shares are accounted for as a deduction from equity and the expenses that relate jointly to the issue of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

### **DIVIDEND POLICY**

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare a dividend of no less than 30% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;



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- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

In 2011, 2012, 2013 and the six months ended June 30, 2014, our dividends recognized as distributions during the year amounted to RMB6.3 million, RMB50.3 million, nil and RMB150.0 million, respectively. Set forth below details our past dividend distribution:

- On February 18, 2011, we declared and paid a dividend of US\$0.0010 per ordinary share with total dividends of US\$1.0 million (equivalent to approximately RMB6.3 million) to ordinary shareholders for the year ended December 31, 2010.
- On September 14, 2012, we declared and paid a dividend of US\$0.0083 per ordinary share with total dividends of US\$8.0 million (equivalent to approximately RMB50.3 million) to shareholders for the year ended December 31, 2011.
- On January 17, 2014, we declared a dividend of RMB0.1808 per ordinary and convertible preferred share with total dividends of RMB150.0 million to shareholders for the year ended December 31, 2013. The dividend was paid in February 2014.
- On September 11, 2014, we declared a dividend of RMB0.0846 per ordinary and convertible preferred share with total dividends of RMB70.0 million to shareholders for the six months ended June 30, 2014. The dividend was paid in September 2014.

### **DISTRIBUTABLE RESERVES**

As of June 30, 2014, we did not have reserves available for distribution to our members. The Companies Law provides that share premium account of a company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

### **NO MATERIAL ADVERSE CHANGE**

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial and trading position or prospects since June 30, 2014, and there is no event since June 30, 2014 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group, which is based on the consolidated net tangible assets of our Group attributable to the owners of the Company as of June 30, 2014 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, adjusted as described below. The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2014	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	Equivalent to HK\$ (Note 5)
Based on an Offer Price of HK\$4.40 per Share .	466,505	740,007	1,206,512	1.78	2.25
Based on an Offer Price of HK\$5.00 per Share .	466,505	843,981	1,310,486	1.94	2.45

*Notes:*

- (1) *The audited consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of June 30, 2014 of approximately RMB469.8 million less the intangible assets of the Group as at 30 June 2014 of approximately RMB3.3 million.*
- (2) *The estimated net proceeds from the Global Offering are based on 227,100,000 Offer Shares at the indicative Offer Price of HK\$4.40 (equivalent to RMB3.48) and HK\$5.00 (equivalent to RMB3.95) per Offer Share, respectively after deduction of total estimated underwriting commissions and fees and other listing related expenses (excluding approximately RMB19.2 million listing expenses which has been accounted for up to 30 June 2014) paid or payable by the Company, and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which have been or may be granted under the Pre-IPO Share Incentive Plan and the RSU Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.*

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- (3) *The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2014 per Share is arrived at after the adjustments referred to in note 2 and on the assumption that 677,100,000 Shares (being the number of ordinary shares in issue as of June 30, 2014 and those shares to be issued pursuant to the Global Offering) were in issue upon completion of the Global Offering. The unaudited pro forma adjusted consolidated net tangible assets of the Group as stated above has not been adjusted the effect of the shares to be issued upon conversion of 377,264,152 Preferred Shares on a one-for-one basis immediately prior to the closing of the Listing. Had the conversion of the Preferred Shares been taken into account by adjusting the total number of shares were in issue upon completion of the Global Offering to 1,054,364,152 Shares, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would decrease to RMB1.14 (equivalent to HK\$1.45) based on the Offer Price of HK\$4.40 per Offer Share and to RMB1.24 (equivalent to HK\$1.57) based on the Offer Price of HK\$5.00 per Offer Share. The unaudited pro forma adjusted consolidated net tangible assets of the Group also takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which have been or may be granted under the Pre-IPO Share Incentive Plan and the RSU Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.*
- (4) *No adjustment has been made to reflect any trading or other transactions of the Group entered into subsequent to June 30, 2014, and in particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group has not been adjusted the effect of the dividend distribution amounting to RMB70 million in September 2014. The dividend distribution would result in a decrease of RMB70 million on the Group's net tangible asset value attributable to the owners of the Company before the Global Offering. Had the dividend been taken into account by adjusting RMB70 million to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company and based on 1,054,364,152 Shares as mentioned in note 3 above, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would decrease to RMB1.08 (equivalent to HK\$1.36) based on the Offer Price of HK\$4.40 per Offer Share and to RMB1.18 (equivalent to HK\$1.49) based on the Offer Price of HK\$5.00 per Offer Share.*
- (5) *For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted to Renminbi at the rate of HK\$1 to RMB0.79080, as set out in "Information About This Prospectus and The Global Offering – Exchange Rate Conversion" to this prospectus. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at all.*

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

As of the Latest Practicable Date, our Directors confirmed that there are no circumstances that will give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### NO SIGNIFICANT INTERRUPTIONS

Our Directors confirmed that there have been no interpretations in our business that may have a material adverse effect on our financial position and results of operations in the 12 months period prior to the Latest Practicable Date.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

See the section headed “Business – Growth Strategies” for a detailed description of our future plans.

We plan to remit the net proceeds from the Global Offering into China through a mix of equity investments and shareholder loans. See “– Methods of remitting net proceeds into the PRC” for further details. The table below summarizes the maximum amount of remittance we are allowed to make under PRC and Taiwan regulations for each of 2014, 2015, 2016, 2017 and 2018. We plan to fully comply with such restriction when remitting the net proceeds from the Global Offering into China.

	2014		2015		2016		2017		2018 <sup>(1)</sup>		Total	
	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$
	(in million)											
Equity . . . . .	–	–	11.7	90.8	11.7	90.8	11.7	90.8	11.7	90.8	46.8	363.2
Shareholder loan . . . . .	3.9	30.0	17.6	136.3	33.8	261.9	23.4	181.7	3.7	28.4	82.4	638.3
<b>Total . . . . .</b>	<b>3.9</b>	<b>30.0</b>	<b>29.3</b>	<b>227.1</b>	<b>45.5</b>	<b>352.7</b>	<b>35.1</b>	<b>272.5</b>	<b>15.4</b>	<b>119.2</b>	<b>129.2</b>	<b>1,001.5<sup>(2)(3)</sup></b>

*Notes:*

- (1) The maximum remittance allowed in 2018, 2019 and onwards is the same as 2017.
- (2) Based on an Offer Price of HK\$4.70. In the event that (i) the Offer Price is fixed at a higher level compared to the midpoint of the proposed Offer Price; and (ii) the Over-allotment Option is exercised, and the net proceeds exceeds the amount indicated above consequently, we plan to remit the additional net proceeds in 2018 and 2019.
- (3) We may not necessarily need to remit the HK\$29.1 million that we plan to use for working capital and general corporate purpose into China.

Our future remittance plan is based on the following assumptions:

1. relevant PRC and Taiwan laws and regulations remain substantially unchanged;
2. Mr. Ho’s shareholding in our Company remains unchanged, and his application for TIC’s approval on his indirect investment into China will be granted in future years;
3. the future increase in the registered capital of the Company’s subsidiaries in China will be approved by the relevant government authorities; and
4. there will be no significant change to foreign exchange rate between USD and RMB.

Combining with our plan to use the net proceeds as disclosed in “– Use of Proceeds” below, we plan to use the net proceeds from the Global Offering as follow:

	2014		2015		2016		2017		2018		Total	
	HK\$	RMB	HK\$	RMB	HK\$	RMB	HK\$	RMB	HK\$	RMB	HK\$	RMB
	(in million)											
New Restaurants . . . . .	29.6	23.4	197.3	156.0	230.1	182.0	271.2	214.5	16.4	13.0	744.6	588.9
Shanghai food processing plant . . . . .	–	–	–	–	–	–	–	–	126.5	100.0	126.5	100.0
Beijing food processing plant . . . . .	–	–	–	–	101.2	80.0	–	–	–	–	101.2	80.0
<b>Total . . . . .</b>	<b>29.6</b>	<b>23.4</b>	<b>197.3</b>	<b>156.0</b>	<b>331.3</b>	<b>262.0</b>	<b>271.2</b>	<b>214.5</b>	<b>142.9</b>	<b>113.0</b>	<b>972.3</b>	<b>768.9</b>

## FUTURE PLANS AND USE OF PROCEEDS

### USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$4.70 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$1,001.5 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$4.70 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$154.5 million.

If the Offer Price is fixed at HK\$5.00 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive additional net proceeds of (i) approximately HK\$65.7 million, assuming the Over-allotment Option is not exercised; and (ii) approximately HK\$75.6 million, assuming the Over-allotment Option is exercised in full.

If the Offer Price is fixed at HK\$4.40 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds we receive will be reduced by (i) approximately HK\$65.7 million, assuming the Over-allotment Option is not exercised; and (ii) approximately HK\$75.6 million, assuming the Over-allotment Option is exercised in full.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 74.4%, or HK\$744.7 million, will be used for opening 453 restaurants throughout China by 2018. The table below sets forth our restaurant expansion plan up to the end of 2018 and the associated capital expenditures:

	2014			2015			2016			2017			2018		
	New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure		New Restaurants	Capital Expenditure	
	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$	#	RMB	HK\$
	(in millions)			(in millions)			(in millions)			(in millions)			(in millions)		
Beijing . . .	11	14.3	18.1	25	32.5	41.1	20	26.0	32.9	15	19.5	24.7	10	13.0	16.4
Shanghai . . .	4	5.2	6.6	15	19.5	24.7	15	19.5	24.7	15	19.5	24.7	15	19.5	24.7
Tianjin . . .	4	5.2	6.6	13	16.9	21.4	13	16.9	21.4	10	13.0	16.4	10	13.0	16.4
Other regions <sup>(1)</sup> .	12	15.6	19.7	67	87.0	110.1	92	119.6	151.2	125	162.5	205.5	150	195.0	246.6
<b>Total . . .</b>	<b>31<sup>(2)</sup></b>	<b>40.3<sup>(3)</sup></b>	<b>51.0</b>	<b>120<sup>(4)</sup></b>	<b>156.0</b>	<b>197.3</b>	<b>140<sup>(4)</sup></b>	<b>182.0</b>	<b>230.1</b>	<b>165<sup>(4)</sup></b>	<b>214.5</b>	<b>271.2</b>	<b>185<sup>(5)</sup></b>	<b>240.5</b>	<b>304.1</b>

Notes:

- Including Hebei, Liaoning, Jiangsu, Shandong, Henan, Shanxi, Zhejiang, Shaanxi, Jilin and Guangdong.
- Including 18 restaurants to be funded by the net proceeds of the Global Offering. We estimate the total capital expenditure for the opening of these restaurants to be RMB23.4 million. The remaining 13 restaurants will be primarily funded through cash flow generated from operating activities.

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## FUTURE PLANS AND USE OF PROCEEDS

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- (3) *A substantial portion of the amount has been spent on various expenses, primarily furnishing and decoration, prior to the official restaurant opening.*
- (4) *We plan to fund all these restaurants by the net proceeds of the Global Offering.*
- (5) *Including ten restaurants to be funded by the net proceeds of the Global Offering. We expect to incur capital expenditure of approximately RMB13 million for these ten restaurants. The remaining 175 restaurants will be funded primarily through cash flow generated from operating activities.*
- approximately 10.1%, or HK\$101.2 million, will be used for establishing an additional logistics and production center in Beijing. We expect the total capital expenditure for the logistics and production center in Beijing to be approximately RMB80 million, including approximately RMB20 million for the acquisition of land and approximately RMB60 million for the procurement of equipment. We plan to fund the logistics and production center in Beijing entirely by the proceeds of the Global Offering. We expect to complete the logistics and production center and commence operation and trial production by 2017. Based on our current plan, this logistics and production center will increase our annual production capacity of soup bases by approximately 7,000 tonnes and our annual production capacity of dipping sauces by approximately 10,000 tonnes, and can support a total of 500 new restaurants.
  - approximately 12.6%, or HK\$126.5 million, will be used for establishing an additional logistics and production center in Shanghai. We expect the total capital expenditure for the logistics and production center in Shanghai to be approximately RMB100 million, including approximately RMB40 million for the acquisition of land and approximately RMB60 million for the procurement of equipment. We plan to fund the logistics and production center in Shanghai entirely by the proceeds of the Global Offering. We expect to complete the logistics and production center and commence operation and trial production by 2019. Based on our current plan, this logistics and production center will increase our annual production capacity of soup bases by approximately 4,000 tonnes and our annual production capacity of dipping sauces by approximately 6,000 tonnes, and can support a total of approximately 300 new restaurants.
  - the remaining amount of approximately HK\$29.1 million, representing approximately 2.9% of the net proceeds, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the proposed Offer Price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

## FUTURE PLANS AND USE OF PROCEEDS

### METHODS OF REMITTING NET PROCEEDS INTO THE PRC

A large portion of the net proceeds we receive from the Global Offering is expected to be remitted into the PRC after the Global Offering and we plan to do so through:

- equity investments into our PRC subsidiaries; and
- the provision of shareholders’ loans to our PRC subsidiaries.

The remittance of the net proceeds into the PRC are subject to regulations in both Taiwan and China. The maximum amount of equity investment the Company can made into its PRC subsidiaries is subject to the Taiwan/Mainland Investment Regulations, while the maximum amount of shareholder loans the Company’s PRC subsidiaries can incur is determined by the difference between its registered capital and total investment amount. See “– Regulation applicable to Mr. Ho” and “– PRC regulations regarding Foreign Invested Investing Enterprises” for further details.

The table below summarizes the maximum amount of remittance we are allowed to make under PRC and Taiwan regulations for each of 2014, 2015, 2016, 2017 and 2018. We plan to fully comply with such restriction when remitting the net proceeds from the Global Offering into China.

	2014		2015		2016		2017		2018 <sup>(1)</sup>		Total	
	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$	US\$	HK\$
	(in million)											
Equity investment . . .	–	–	11.7	90.8	11.7	90.8	11.7	90.8	11.7	90.8	46.8	363.2
Shareholder loan. . .	3.9	30.0	17.6	136.3	33.8	261.9	23.4	181.7	3.7	28.4	82.4	638.3
<b>Total. . . . .</b>	<b>3.9</b>	<b>30.0</b>	<b>29.3</b>	<b>227.1</b>	<b>45.5</b>	<b>352.7</b>	<b>35.1</b>	<b>272.5</b>	<b>15.4</b>	<b>119.2</b>	<b>129.2</b>	<b>1,001.5<sup>(2)(3)</sup></b>

*Notes:*

- (1) *The maximum remittance allowed in 2018, 2019 and onwards is the same as 2017.*
- (2) *Based on an Offer Price of HK\$4.70. In the event that (i) the Offer Price is fixed at a higher level compared to the midpoint of the proposed Offer Price; and (ii) the Over-allotment Option is exercised, and the net proceeds exceeds the amount indicated above consequently, we plan to remit the additional net proceeds in 2018 and 2019.*
- (3) *We may not necessarily need to remit the HK\$29.1 million that we plan to use for working capital and general corporate purpose into China.*

### Remittance Plan in 2014

- Xiabu Beijing has a registered capital of RMB55.0 million (US\$9.0 million), and a total investment amount of RMB137.5 million (US\$22.4 million). The difference amounts to RMB82.5 million (US\$13.5 million).
- Xiabu Shanghai has a registered capital of US\$1.0 million and a total investment amount of US\$1.42 million. The difference amounts to US\$0.42 million.

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## FUTURE PLANS AND USE OF PROCEEDS

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- As a result, the aggregate maximum amount of shareholder loan these two entities can incur amount to US\$13.9 million.
- As of June 30, 2014, the outstanding shareholder loans of Xiabu Beijing and Xiabu Shanghai owed to Xiabu Hong Kong amounted to US\$10.0 million. As Xiabu Beijing and Xiabu Shanghai do not plan to repay these shareholder loans within the Group, the Company will only be able to remit the net proceeds from the Global Offering in the form of shareholder loan of US\$3.9 million in 2014.

### Remittance Plan in 2015

- In 2015, the Company will be allowed to make equity investment in China of US\$11.7 million.
- According to the Provisional Administrative Guidance on the Amount of Registered Capital as a Percentage of Total Investment for Sino-foreign Equity Joint Ventures (國家工商行政管理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定) (the “**Administrative Guidance**”), for WOFEs with total investment amount of more than US\$10.0 million but less than US\$30.0 million, the registered capital has to be at least 40% of the total investment amount. As a result, the total investment amount of the Company’s subsidiaries in China can be increased by US\$29.3 million due to the additional US\$11.7 million in equity investments.
- As such, in 2015, the Company’s subsidiaries in China can incur additional shareholder loan of US\$17.6 million in aggregate as the difference between the incremental registered capital and total investment amount according to the Foreign Debt Regulations.
- The Company can therefore remit a total amount of US\$29.3 million by way of both shareholder loan and equity investment.

### Remittance Plan in 2016

- In 2016, the Company is allowed to make equity investment of US\$11.7 million.
- According to the Administrative Guidance, for WOFEs with total investment amount of more than US\$30.0 million, the registered capital has to be at least 33.3% of the total investment amount. As a result, the total investment amount can be increased by US\$45.5 million due to the additional US\$11.7 million in equity investments.
- As such, in 2016, the Company’s subsidiaries in China can incur additional shareholder loan of US\$33.8 million in aggregate as the difference between the incremental registered capital and total investment amount according to the Foreign Debt Regulations.
- The Company can therefore remit a total amount of US\$45.5 million by way of both shareholder loan and equity investment.



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## FUTURE PLANS AND USE OF PROCEEDS

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### Remittance Plan in 2017 and 2018

- In each of 2017 and 2018, the Company is allowed to make equity investment of US\$11.7 million into its subsidiaries in China.
- According to the Administrative Guidance, for WOFEs with total investment amount of more than US\$30.0 million, the registered capital has to be at least 33.3% of the total investment amount. As a result, in each of 2017 and 2018, the total investment amount can be increased by US\$35.1 million due to the additional US\$11.7 million in equity investments.
- As such, in each of 2017 and 2018, the Company's subsidiaries in China can incur additional shareholder loan of US\$23.4 million in aggregate as the difference between the incremental registered capital and total investment amount according to the Foreign Debt Regulations.
- The Company can therefore remit a total amount of US\$35.1 million in each of 2017 and 2018 by way of both shareholder loan and equity investment.

### Regulation applicable to Mr. Ho

The Taiwan/Mainland Investment Regulations set forth certain limitations on the amount of investments that each Taiwanese person may make in the PRC regardless of whether such investments were made by such Taiwanese person directly or through a third area company (such as our Company) indirectly. Currently, a Taiwanese individual, such as Mr. Ho, is restricted by the Taiwan/Mainland Investment Regulations from investing more than US\$5,000,000 in the PRC per year. When calculating the investment amount, the PRC investments made by a company wholly or partially owned by a Taiwanese person would be included to evaluate the investment limitation to the extent of the shareholding of the Taiwanese person, so that his deemed indirect investment into China does not exceed US\$5,000,000 per year. Having considered the investment amount limitation imposed on Mr. Ho and indirect impact on the Company resulting from Mr. Ho's interest in us, we have adopted measures that comply with the relevant regulations when injecting the net proceeds we receive from the Global Offering to our PRC subsidiaries.

Considering Mr. Ho's shareholding in the Company, the Company will be able to remit the net proceeds in the form of capital injection of US\$11.7 million (HK\$90.7 million) per year starting in 2015. Despite Mr. Ho's intention to provide the Company with maximum flexibility for future capital injection, as advised by our Taiwan legal advisor, the TIC may not consider an application for the further capital injection of IPO proceeds in 2014 because the annual quota of Mr. Ho has been almost fully used up for his previous investment rectified in the supplemental application to the TIC submitted on April 2, 2014. In addition, TIC will not consider an application for the future capital injection of IPO proceeds prior to completion of the Global Offering as such application must specify the exact amount of the investment to be made by the Company in the PRC in that particular year and is subject to the annual quota of Mr. Ho in the year of application.

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## FUTURE PLANS AND USE OF PROCEEDS

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To avoid unduly delaying our expansion plan, we plan to make up the difference through our existing cash and cash flow generated from future operating activities. Furthermore, given that a larger portion of our net proceeds from the Global Offering will be used after 2015, our Directors are confident that such delay in remittance of the net proceeds from the Global Offering into China will not result in any material adverse impact on our expansion plan. To the extent that the net proceeds of the Global Offering could not be remitted immediately to China, our Directors currently intend that such proceeds will be placed in short-term interest bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions.

Before the remittance of each installment, we undertake to coordinate with Mr. Ho to apply for prior approval from the Taiwan Investment Commission. The TIC does not specify the timeframe for their review and approval process. We were advised by our Taiwan legal advisor that, based on their prior experiences, it generally takes one month to obtain such prior approval from TIC. We will make proper announcement about the results of Mr. Ho's application with the Taiwan Investment Commission. We were advised by our Taiwan legal advisor that, as catering service is not a restricted industry for investment in the PRC under Taiwan/Mainland Investment Regulations, the probability that the TIC will refuse to issue the approval is minimal as long as the application meets the applicable legal requirement (including the investment amount limitation) and all information and/or document requested and inquired by the TIC have been provided to the satisfaction of the TIC. Furthermore, according to our Taiwan legal advisor, given the TIC issued the approval to Mr. Ho on April 8, 2014 rectifying the non-compliance with the Taiwan/Mainland Investment Regulations in connection with Mr. Ho's equity interests in Xiabu Beijing and Xiabu Shanghai, based on their prior experience, it is unlikely the TIC will reject Mr. Ho's application in 2015 and in subsequent years as long as the application meets the applicable legal requirement (including the investment amount limitation), the investment structure of Mr. Ho remains unchanged and all information and/or document requested or inquired by the TIC have been provided to its satisfaction. Considering the advice of our Taiwan legal advisor and the fact that an approval has been granted in 2014, we believe that the probability that Mr. Ho cannot obtain the prior approval for subsequent years is minimal. In addition, we may consider injecting the remaining proceeds we receive from the Global Offering through loans to our PRC subsidiaries, subject to approval from the relevant PRC government authorities.

### *Shareholders' loans are not subject to the Taiwan/Mainland Investment Regulations*

Notwithstanding the requirements imposed by the Taiwan/Mainland Investment Regulations, our Taiwan legal advisor, is of the opinion that the provision of funds in the form of loan to a PRC entity does not fall within the scope of "PRC investment activities" as defined in the Taiwan/Mainland Investment Regulations and therefore Mr. Ho would not be required to obtain approval from or make any post-filing with the Taiwan Investment Commission with respect to (i) inter-company loans provided to Xiabu Beijing and/or Xiabu Shanghai by our Company ("**Inter-Company Loans**"), and (ii) any subsequent loans made by Xiabu Beijing and/or Xiabu Shanghai to any other PRC subsidiaries we may have in the future by using the funds received from the Inter-Company Loans.

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## FUTURE PLANS AND USE OF PROCEEDS

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### PRC regulations regarding Foreign Invested Investing Enterprises

We have been advised by our PRC legal advisors that Xiabu Beijing and Xiabu Shanghai are “wholly foreign owned enterprises” in China. Accordingly, these two companies can borrow foreign debt, including shareholders’ loans from our Company up to an amount equal to the difference between the paid-in registered capital and the total investment amount (the “**Loan Limit**”). As of the Latest Practicable Date, the paid-in capital of Xiabu Beijing and Xiabu Shanghai was RMB55.0 million and US\$1.0 million (approximately RMB6.2 million), respectively, while their respective total investment amount was RMB137.5 million and US\$1.42 million (approximately RMB8.8 million). Such shareholders’ loans will only be subject to filing with the local foreign exchange authority in the PRC.

Our PRC legal advisors have advised that shareholders’ loans are a common way for foreign invested companies in the PRC to obtain capital from their foreign shareholders and that the relevant PRC laws and regulations allow such shareholders’ loans and they are a typical way for offshore companies to remit money into their PRC foreign invested entities. Based on PRC laws and our PRC legal advisor’s advice, it is permitted by law and common practice for foreign invested companies in the PRC to typically set a difference between their total investment amount and registered capital when incorporating foreign-invested companies such that they are able to borrow foreign debts (including shareholders’ loans) from their foreign shareholders within such gap. The foreign debts borrowed within such gap are not subject to any prior regulatory approvals except for the filing formalities with local foreign exchange administration authority. Our PRC legal advisors are of the view that such investments are in compliance with relevant PRC laws and regulation, subject to cumulative amounts of shareholders’ loan not exceeding the gap between the total investment and registered capital of these foreign invested companies.

As of the Latest Practicable Date, the maximum amount that our Company can lend to Xiabu Beijing and Xiabu Shanghai in the form of shareholders’ loan was approximately RMB84.6 million.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Joint Lead Managers

##### **Merrill Lynch Far East Limited**

55/F Cheung Kong Center

2 Queen's Road Central

Central

Hong Kong

##### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre

1 Austin Road West

Kowloon

Hong Kong

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 22,710,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue, to be issued upon conversion of the Preferred Shares, and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

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## UNDERWRITING

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### *Grounds for Termination*

If any of the events set out below shall occur at any time prior to 8:00 a.m. on the Listing Date, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their absolute discretion may, by giving a written notice to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect:

- (a) there develops, occurs or comes into force:
  - (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak or escalations of disease, economic sanctions, strikes, labor disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting Hong Kong, the Cayman Islands, the BVI, Guernsey, the PRC, the United States, and the European Union as a whole (the “**Relevant Jurisdictions**”);
  - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions;
  - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange;
  - (iv) any general moratorium on commercial banking activities in any Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions;
  - (v) any new Law (as defined in the Hong Kong Underwriting Agreement) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any Governmental Authority (as defined in the Hong Kong Underwriting Agreement) in or affecting any of the Relevant Jurisdictions;

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## UNDERWRITING

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- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, on any of the Relevant Jurisdictions;
- (vii) any valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity;
- (viii) any Action (as defined in the Hong Kong Underwriting Agreement) of any third party being threatened or instigated against any member of the Group; or
- (ix) any change or development involving a prospective change or amendment in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or Renminbi against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the U.S. dollar or the Renminbi is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions,
- (x) any executive Director or any director of any Subsidiary (as defined in the Hong Kong Underwriting Agreement) is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xi) the chairman of the Board or the chief executive officer of our Company vacating his office;
- (xii) any Governmental Authority or a political body or organization in any Relevant Jurisdiction is commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director or any director of any Subsidiary;
- (xiii) any contravention by any member of the Group of the Listing Rules or applicable Laws;
- (xiv) any non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xv) any change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (1) has or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits,

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## UNDERWRITING

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losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole, (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering, (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering, or (4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice in connection with the Hong Kong Public Offering (the “**Formal Notice**”) and/or any notices, announcements, advertisements, communications or other documents (including any announcement, circular, document or other communication) issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respects, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable assumptions;
  - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from this prospectus, the Application Forms, the Formal Notice and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto);
  - (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement (other than upon any of the Joint Global Coordinators, the Joint Sponsors or the Hong Kong Underwriters);
  - (iv) any event, act or omission which gives or is likely to give rise to any material liability of any of the Warrantors (as defined in the Hong Kong Underwriting Agreement) pursuant to the indemnities given by any of them under the Hong Kong Underwriting Agreement;

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## UNDERWRITING

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- (v) any material adverse change or development or any prospective material adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole and the effect of which is, in the sole opinion of the Joint Global Coordinators, so adverse as to make it impracticable or inadvisable to proceed with the Global Offering;
- (vi) any breach of, or any event rendering untrue or incorrect in any material respect, any of the Warranties (as defined in the Hong Kong Underwriting Agreement) given by any of the Warrantors;
- (vii) that the approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- (viii) that our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (ix) any litigation or dispute or potential litigation or disputes, which would materially adversely affect the operation or financial condition of the Group taken as a whole;
- (x) any person (other than any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) or to the issue of any of the Offer Documents;
- (xi) any prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or
- (xii) any order or petition for the winding-up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group.



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## UNDERWRITING

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### UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

#### Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

#### Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering (including the Over-allotment Option), he will not and shall procure that the relevant registered holder(s) will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (1) in the period commencing on the date by reference to which disclosure of his shareholdings in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company in respect of which he is shown by this prospectus to be the beneficial owner; and
- (2) in the period of six months commencing on the date on which the period referred to in paragraph (1) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (1) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would then cease to be a controlling shareholder of our Company for the purposes of the Listing Rules.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his shareholdings is made in this prospectus and ending on the date which is 12 months from the Listing Date, he will:

- (1) when he pledges or charges any securities of our Company or interests therein beneficially owned by him in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and

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## UNDERWRITING

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- (2) when he receives indications, either verbal or written, from the pledgee or chargee that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

### UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

#### Undertaking by Our Company

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that, save for the issue of the Offer Shares pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or any approved employee incentive schemes of any members of the Group, our Company will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date falling six months after the Listing Date (the “**First Six-Month Period**”):

- (a) offer, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, either directly or indirectly, any of the Shares or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares or other securities of our Company or any interest therein (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) offer to or agree to or publicly disclose that our Company will or may enter into any such transaction described in paragraphs (a), (b) or (c) above,

in each case, whether any such transaction described in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise, provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the

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## UNDERWRITING

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Global Offering (including pursuant to the exercise of the Over-allotment Option). In the event that, during the six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any such transactions or agrees or contracts to, or publicly announces an intention to, enter into any such transactions, we will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

### **Undertakings by the Controlling Shareholders**

Pursuant to the Hong Kong Underwriting Agreement, each of (i) the Controlling Shareholders (except GASF) and (ii) GASF, severally but not jointly, agrees and undertakes to our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that:

- (a) save for any lending of Shares by Ying Qi Investments pursuant to the Stock Borrowing Agreement, during the First Six-Month Period, he/it will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules (including, without limitation, Note (2) to Rule 10.07 of the Listing Rules):
  - (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such Shares or securities or any interest therein); or
  - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares), or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares, or any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or
  - (iii) enter into any transaction with the same economic effect as any transaction described in paragraphs (i) or (ii) above; or
  - (iv) publicly disclose that he/it will or may enter into any transaction described in paragraphs (i), (ii) or (iii) above,

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## UNDERWRITING

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whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Shares or securities, in cash or otherwise;

- (b) during the Second Six-Month Period, he/it will not enter into any transaction described in paragraphs (a)(i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transaction, such party would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company;
- (c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any such transactions specified in paragraphs (a)(i), (ii) or (iii) above or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company;

For the avoidance of doubt, the foregoing restrictions shall not prevent such party from purchasing additional Shares and selling any such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float; and

- (d) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, he/it shall:
  - (i) if and when he/it pledges or charges any securities or interests in the securities of our Company beneficially owned by him/it, immediately inform our Company and the Joint Global Coordinators in writing of such pledge or charge together with the number of securities so pledged or charged; and
  - (ii) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be disposed of, immediately inform our Company and the Joint Global Coordinators in writing of such indications.

We agree and undertake that upon receiving such information in writing from any of (i) the Controlling Shareholders (except GASF) or (ii) GASF, we shall, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of press announcement.

## INTERNATIONAL OFFERING

### **International Underwriting Agreement**

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters and the Joint Global Coordinators. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally to purchase, or procure purchasers for, the International Offer Shares being offered pursuant to the International Offering.

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## **UNDERWRITING**

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We expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, on or before January 9, 2015, being the 30th day after the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 34,065,000 Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations, if any, in the International Offering.

### **COMMISSION AND EXPENSES**

The Hong Kong Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. The commissions payable to the Underwriters will be borne by our Company with respect to the new Offer Shares to be issued by the Company under the Global Offering (including pursuant to the exercise of the Over-allotment Option). Our Company may also in our sole discretion pay any or all of the Joint Global Coordinators an additional incentive fee of up to 0.5% in the aggregate of the sale proceeds of the offer of Offer Shares under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK\$90.3 million in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-allotment Option is not exercised).

### **HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

### **JOINT SPONSORS' INDEPENDENCE**

Each of the Joint Sponsors satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 22,710,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described in “The Hong Kong Public Offering” below; and
- (ii) the International Offering of 204,390,000 Shares (subject to adjustment as mentioned below) in the United States with QIBs in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, and outside the United States in reliance on Regulation S.

The Offer Shares will represent approximately 21.54% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 23.99% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section headed “– The International Offering – Over-allotment Option” below.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offering Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offering Shares to QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements of the US Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the International Offering Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the International Offering Shares. Prospective investors will be required to specify the number of International Offering Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the sub-section headed “– The Hong Kong Public Offering – Reallocation and Clawback” below.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE HONG KONG PUBLIC OFFERING

#### Number of Shares Initially Offered

Our Company is initially offering 22,710,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the total number of the Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares initially offered under the Hong Kong Public Offering will represent 2.15% of our total issued share capital immediately after completion of the Global Offering, without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

#### Allocation

For allocation purposes only, the total number of the Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A comprising 11,355,000 Hong Kong Offer Shares and Pool B comprising 11,355,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

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## STRUCTURE OF THE GLOBAL OFFERING

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Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **Reallocation and Clawback**

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 68,130,000, 90,840,000 and 113,550,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “Mandatory Reallocation”. In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B. If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate. In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators may, at their discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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Multiple or suspected multiple applications and any application for more than 50% of the total number of the Offer Shares initially available under the Hong Kong Public Offering (that is 11,355,000 Hong Kong Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$5.00 per Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “– Pricing of the Global Offering” below, is less than the maximum price of HK\$5.00 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled “How to Apply for Hong Kong Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### THE INTERNATIONAL OFFERING

#### Number of International Offer Shares Offered

The number of International Offer Shares to be initially offered for subscription under the International Offering will consist of an initial offering of 204,390,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 19.39% of our enlarged issued share capital immediately after completion of the Global Offering without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme.

#### Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the International Offer Shares with QIBs in the United States in reliance on Rule 144A or another available exemption from the registration requirements under the US Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

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## STRUCTURE OF THE GLOBAL OFFERING

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Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

### **Reallocation**

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in the sub-section headed “– The Hong Kong Public Offering – Reallocation and Clawback”, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

### **Over-allotment Option**

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at their sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Joint Global Coordinators will have the right to require our Company to issue and allot up to an aggregate of 34,065,000 Shares representing in aggregate approximately 15% of the initial number of the Offer Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

## **PRICING OF THE GLOBAL OFFERING**

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around December 11, 2014 and, in any event, not later than December 12, 2014. The Offer Price will be not more than HK\$5.00 and is currently expected not to be less than HK\$4.40, unless otherwise announced as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

**If, for any reason, the Offer Price is not agreed by December 12, 2014 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.**

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## STRUCTURE OF THE GLOBAL OFFERING

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If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of December 10, 2014, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk), and on the Company's website at [www.xiabu.com](http://www.xiabu.com) notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for the Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the Offer Price is/are so reduced, such applications can subsequently be withdrawn.

If the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application will be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Offer Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Offering at the discretion of the Joint Global Coordinators.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on December 16, 2014 through a variety of channels as described in "How to Apply for Hong Kong Offer Shares – 11. Publication of Results".

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## STRUCTURE OF THE GLOBAL OFFERING

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### STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 34,065,000 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilizing action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization and stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (i) the Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- (ii) there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (iii) liquidation of any such long position by the Stabilizing Manager may have an adverse impact on the market price of the Shares;
- (iv) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on January 9, 2015, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (v) the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- (vi) stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 34,065,000 Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

### STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 34,065,000 Shares from Ying Qi Investments pursuant to the Stock Borrowing Agreement.

### UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that our Company will, on or about December 11, 2014, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting".

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## STRUCTURE OF THE GLOBAL OFFERING

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### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 17, 2014, it is expected that dealings in Shares on the Stock Exchange will commence on December 17, 2014. Our Shares will be traded in board lots of 500 Shares each.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, to be issued upon conversion of the Preferred Shares, and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme (subject only to allotment and dispatch of the share certificates in respect thereof and such other normal conditions acceptable to the Company and the Joint Global Coordinators, on behalf of the Underwriters) not later than December 16, 2014 (or such later date as the Company and the Joint Global Coordinators on behalf of the Underwriters may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

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## STRUCTURE OF THE GLOBAL OFFERING

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If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on December 16, 2014 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on December 17, 2014, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via **White Form eIPO** at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, December 5, 2014 till 12:00 noon on Wednesday, December 10, 2014 from:

- (i) any of the following offices of the Hong Kong Underwriters:

**Merrill Lynch Far East Limited**

55/F Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

**Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon  
Hong Kong

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(ii) any of the branches of the following receiving bank:

Standard Chartered Bank (Hong Kong) Limited

	<u>Branch name</u>	<u>Address</u>
<b>Hong Kong Island</b> . . . . .	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No.6-12 Nam Ning Street, Aberdeen
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No.156-162 Hennessy Road, Wanchai
<b>Kowloon</b> . . . . .	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No.63 Hoi Yuen Road, Kwun Tong
	Tsimshatsui Branch	G/F, 8A-10 Granville Road, Tsimshatsui
	Mei Foo Manhattan Branch	Shop Nos.07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
<b>New Territories</b> . . . . .	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	Metroplaza Branch	Shop No.175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Shatin Plaza Branch	Shop No.8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, December 5, 2014 till 12:00 noon on Wednesday, December 10, 2014 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Horsford Nominees Limited – Xiabuxiabu Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Friday, December 5, 2014 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, December 6, 2014 – 9:00 a.m. to 1:00 p.m.**  
**Monday, December 8, 2014 – 9:00 a.m. to 5:00 p.m.**  
**Tuesday, December 9, 2014 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, December 10, 2014 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, December 10, 2014, the last application day or such later time as described in "– 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through **White Form eIPO**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Memorandum and Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** by you or by any one as your agent or by any other person; and

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **Yellow** Application Form for details.

## **5. APPLYING THROUGH WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “– 2. Who Can Apply” may apply through **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of **White Form eIPO**.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, December 5, 2014 until 11:30 a.m. on Wednesday, December 10, 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, December 10, 2014 or such later time in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### **No Multiple Applications**

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK\$2 for each “Xiabuxiabu Catering Management (China) Holdings Co., Ltd.” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form. You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

<b>Friday, December 5, 2014</b>	<b>– 9:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Saturday, December 6, 2014</b>	<b>– 8:00 a.m. to 1:00 p.m.<sup>(1)</sup></b>
<b>Monday, December 8, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Tuesday, December 9, 2014</b>	<b>– 8:00 a.m. to 8:30 p.m.<sup>(1)</sup></b>
<b>Wednesday, December 10, 2014</b>	<b>– 8:00 a.m.<sup>(1)</sup> to 12:00 noon</b>

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*Note:*

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, December 5, 2014 until 12:00 noon on Wednesday, December 10, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, December 10, 2014, the last application day or such later time as described in “– 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through **White Form eIPO** service is also only a facility provided by Computershare Hong Kong Investor Services Limited to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, December 10, 2014.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

*“Unlisted company”* means a company with no equity securities listed on the Stock Exchange.

*“Statutory control”* means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering – Pricing of the Global Offering.”

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, December 10, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, December 10, 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, December 16, 2014 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Company’s website at [www.xiabu.com](http://www.xiabu.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at [www.xiabu.com](http://www.xiabu.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Tuesday, December 16, 2014;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, December 16, 2014 to 12:00 midnight on Monday, December 22, 2014;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, December 16, 2014 to Friday, December 19, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, December 16, 2014 to Thursday, December 18, 2014 at all the receiving bank branches and sub-branches.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White From eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$5.00 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering – Conditions of the Hong Kong Public Offering” in this Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, December 16, 2014.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).



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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, December 16, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, December 17, 2014 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) If you apply using a WHITE Application Form**

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, December 16, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, December 16, 2014, by ordinary post and at your own risk.

#### **(ii) If you apply using a YELLOW Application Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, December 16, 2014, by ordinary post and at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, December 16, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "– 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 16, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) If you apply through White Form eIPO service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 16, 2014, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, December 16, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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### (iv) If you apply via Electronic Application Instructions to HKSCC

#### **Allocation of Hong Kong Offer Shares**

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of share certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, December 16, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “– 11. Publication of Results” above on Tuesday, December 16, 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 16, 2014 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, December 16, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, December 16, 2014.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

5 December 2014

The Directors  
Xiabuxiabu Catering Management (China) Holdings Co., Ltd.

Merrill Lynch Far East Limited  
Credit Suisse (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2013 and the six months ended 30 June 2014 (the "Track Record Period") for inclusion in the prospectus of the Company dated 5 December 2014 (the "Prospectus") in connection with the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing").

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 14 May 2008. The Company has been the holding company of companies now comprising the Group since its incorporation.

During the Track Record Period and as at the date of this report, the Company has interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Equity interest attributable to the Group				Date of the report	Principal activities
			31 December 2011	31 December 2012	31 December 2013	30 June 2014		
			%	%	%	%	%	
Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. (呷哺呷哺餐飲管理(香港)控股有限公司) ("Xiabu Hong Kong")	Hong Kong 16 May 2008	Ordinary share capital HK\$1	100	100	100	100	100	Investment holding
Xiabuxiabu Restaurant Management Co., Ltd.* (呷哺呷哺餐飲管理有限公司) ("Xiabu Beijing") (Note i)	The People's Republic of China (the "PRC") 16 September 2008	Registered capital RMB55,000,000	100	100	100	100	100	Operating restaurant
Xiabuxiabu Restaurant Management (Shanghai) Co., Ltd.* (呷哺呷哺餐飲管理(上海)有限公司) ("Xiabu Shanghai") (Note i)	The PRC 10 June 2010	Registered capital USD1,000,000	100	100	100	100	100	Operating restaurant

\* *The English name is for identification only. The official names of the companies are in Chinese.*

Notes:

- (i) *The entities are wholly owned foreign enterprises.*
- (ii) *Except for Xiabu Hong Kong which is directly held by the Company, both other subsidiaries are indirectly held by the Company.*

The financial year end date of the companies now comprising the Group is December 31.

No statutory financial statements have been prepared for the Company since the date of incorporation as there is no statutory requirement for the Company to issue audited financial statements in Cayman Islands.

The statutory financial statements of the Company's subsidiaries were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for entity incorporated in Hong Kong, or the relevant accounting principles and financial regulations applicable to entities established in the PRC (the "PRC GAAP") for entities established in the PRC. They were audited by the following certified public accountants registered in the respective jurisdictions.

<u>Name of subsidiaries</u>	<u>Financial year ended</u>	<u>Name of auditors</u>
Xiabu Hong Kong . . . . .	31 December 2011, 2012 and 2013	Servman & Co. Certified Public Accountants (尚文會計師事務所)
Xiabu Beijing. . . . .	31 December 2011	Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (德勤華永會計師事務所有限公司)
	31 December 2012 and 2013	Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合夥))
Xiabu Shanghai . . . . .	31 December 2011	Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (德勤華永會計師事務所有限公司)
	31 December 2012 and 2013	Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合夥))

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with the accounting policies that are in conformity with International Financial Reporting Standards ("IFRSs") (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period as set out in this report has been prepared from the Underlying Financial Statements. No adjustment was considered necessary by us to the Underlying Financial Statements in preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the Directors who approved their issue. The Directors are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity of the Group for the six months ended 30 June 2013 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “30 June 2013 Financial Information”) which was prepared by the Directors solely for the purpose of this report. We have reviewed the 30 June 2013 Financial Information 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 HKICPA. Our review of the 30 June 2013 Financial Information consists of making enquiries, primarily of persons responsible for the 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 on the 30 June 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December			For the six months ended 30 June	
		2011	2012	2013	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue . . . . .	5	997,269	1,508,331	1,890,470	865,275	1,018,698
Other income . . . . .	6	9,387	9,711	13,505	3,418	2,811
Raw materials and consumables used . . .		(454,646)	(673,088)	(817,548)	(379,603)	(395,636)
Staff costs . . . . .		(182,328)	(314,171)	(399,312)	(187,186)	(232,766)
Property rentals and related expenses . . . .		(128,657)	(189,515)	(232,969)	(111,356)	(134,453)
Utilities expenses . . . . .		(42,966)	(62,934)	(78,346)	(36,405)	(41,196)
Depreciation and amortization . . . . .		(44,650)	(66,268)	(87,206)	(33,151)	(38,429)
Other expenses . . . . .		(52,087)	(72,380)	(92,856)	(43,582)	(75,466)
Other gains and losses . .	7	(2,023)	(130)	(11,030)	(1,178)	4,651
Finance costs . . . . .	8	(528)	–	–	–	–
Profit before tax . . . . .	9	98,771	139,556	184,708	76,232	108,214
Income tax expense . . .	10	(23,109)	(32,033)	(43,998)	(18,105)	(25,849)
Profit and total comprehensive income for the year/period attributable to owners of the Company . . . . .		75,662	107,523	140,710	58,127	82,365
Earnings per share						
– basic (RMB per share) . . . . .	12	0.08	0.11	0.17	0.07	0.10
– diluted (RMB per share) . . . . .	12	N/A	0.11	0.17	0.07	0.10



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2011	2012	2013	30 June
		RMB'000	RMB'000	RMB'000	2014
<b>Non-current assets</b>					
Property, plant and equipment . . .	14	183,509	240,004	271,919	285,563
Intangible assets. . . . .		4,238	6,138	4,275	3,277
Lease prepayments for land use right . . . . .	15	25,146	24,612	24,078	23,811
Deferred tax assets . . . . .	16	11,199	14,980	17,503	17,345
Rental deposits . . . . .		21,291	27,946	31,902	35,548
		<u>245,383</u>	<u>313,680</u>	<u>349,677</u>	<u>365,544</u>
<b>Current assets</b>					
Inventories . . . . .	18	36,428	41,990	120,154	184,947
Trade and other receivables and prepayments. . . . .	19	22,835	29,956	28,202	36,976
Short-term investment . . . . .	20	–	–	–	30,000
Bank balances and cash . . . . .	21	180,584	260,221	343,306	173,491
		<u>239,847</u>	<u>332,167</u>	<u>491,662</u>	<u>425,414</u>
<b>Current liabilities</b>					
Trade payables . . . . .	22	68,590	106,796	90,471	106,392
Accrual and other payables . . . . .	23	79,632	138,272	170,447	194,035
Amount due to a related party . . .	33	300	–	–	–
Tax payables. . . . .		6,949	16,684	21,831	2,715
Provision . . . . .	24	2,000	370	–	–
Deferred income . . . . .	25	1,850	1,487	2,798	114
		<u>159,321</u>	<u>263,609</u>	<u>285,547</u>	<u>303,256</u>
Net current assets . . . . .		<u>80,526</u>	<u>68,558</u>	<u>206,115</u>	<u>122,158</u>
Total assets less current liabilities . .		<u>325,909</u>	<u>382,238</u>	<u>555,792</u>	<u>487,702</u>
<b>Non-current liability</b>					
Deferred income . . . . .	25	17,745	16,835	18,375	17,920
Net assets . . . . .		<u>308,164</u>	<u>365,403</u>	<u>537,417</u>	<u>469,782</u>
<b>Capital and reserves</b>					
Share capital. . . . .	26	164	134	136	136
Share premium . . . . .	27	142,855	140,371	171,673	167,673
Reserves . . . . .		165,145	224,898	365,608	301,973
Total equity . . . . .		<u>308,164</u>	<u>365,403</u>	<u>537,417</u>	<u>469,782</u>

## STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December			As at
		2011	2012	2013	30 June
		RMB'000	RMB'000	RMB'000	2014
					RMB'000
Non-current asset					
Investment in a subsidiary . . . . .	17	30,430	36,367	41,106	44,425
Amounts due from a subsidiary . .	17	120,515	120,221	144,049	117,682
		<u>150,945</u>	<u>156,588</u>	<u>185,155</u>	<u>162,107</u>
Current assets					
Prepayments . . . . .	19	–	–	–	5,963
Bank balances and cash . . . . .	21	841	705	3,421	2,449
		<u>841</u>	<u>705</u>	<u>3,421</u>	<u>8,412</u>
Current liabilities					
Amounts due to subsidiaries . . . .	17	997	3,006	3,515	12,924
Other payables. . . . .	23	–	–	–	11,058
		<u>997</u>	<u>3,006</u>	<u>3,515</u>	<u>23,982</u>
Net current liabilities . . . . .		<u>(156)</u>	<u>(2,301)</u>	<u>(94)</u>	<u>(15,570)</u>
Total assets less current liabilities . .		<u>150,789</u>	<u>154,287</u>	<u>185,061</u>	<u>146,537</u>
Net assets . . . . .		<u>150,789</u>	<u>154,287</u>	<u>185,061</u>	<u>146,537</u>
Capital and reserves					
Share capital. . . . .	26	164	134	136	136
Share premium . . . . .	27	142,855	140,371	171,673	167,673
Retained earnings. . . . .	27	7,770	13,782	13,252	(21,272)
Total equity . . . . .		<u>150,789</u>	<u>154,287</u>	<u>185,061</u>	<u>146,537</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attribute to owners of the Company				
	Share capital	Share premium	Statutory surplus reserve	Retained earnings	Total
	RMB'000 (Note 26)	RMB'000 (Note 27)	RMB'000 (Note i)	RMB'000	RMB'000
Balance at 1 January 2011 . . . . .	164	143,485	7,989	87,165	238,803
Profit and total comprehensive income for the year . . . . .	–	–	–	75,662	75,662
Payment of dividends . . . . .	–	(630)	–	(5,671)	(6,301)
Appropriation of statutory surplus reserve . . . . .	–	–	5,289	(5,289)	–
Balance at 31 December 2011 . . . . .	164	142,855	13,278	151,867	308,164
Profit and total comprehensive income for the year . . . . .	–	–	–	107,523	107,523
Cancellation of ordinary shares in exchange of newly issued convertible preferred shares (Note ii) . . . . .	(30)	30	–	–	–
Payment of dividends . . . . .	–	(2,514)	–	(47,770)	(50,284)
Appropriation of statutory surplus reserve . . . . .	–	–	6,859	(6,859)	–
Balance at 31 December 2012 . . . . .	134	140,371	20,137	204,761	365,403
Profit and total comprehensive income for the year . . . . .	–	–	–	140,710	140,710
Issue of convertible preferred shares (Note 26) . . . . .	2	31,302	–	–	31,304
Appropriation of statutory surplus reserve . . . . .	–	–	8,863	(8,863)	–
Balance at 31 December 2013 . . . . .	136	171,673	29,000	336,608	537,417
Profit and total comprehensive income for the period . . . . .	–	–	–	82,365	82,365
Payment of dividends . . . . .	–	(4,000)	–	(146,000)	(150,000)
Balance at 30 June 2014 . . . . .	136	167,673	29,000	272,973	469,782

	Attribute to owners of the Company				
	Share capital	Share premium	Statutory surplus reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000
For the six months ended 30 June 2013 (Unaudited)					
Balance at 1 January 2013 . . . . .	134	140,371	20,137	204,761	365,403
Profit and total comprehensive income for the period . . . . .	–	–	–	58,127	58,127
Issue of convertible preferred shares (Note 26) . . . . .	2	31,302	–	–	31,304
Balance at 30 June 2013 . . . . .	136	171,673	20,137	262,888	454,834

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*Notes:*

- (i) *According to the PRC Company Law and the Articles of Association of the PRC subsidiaries of the Group, these companies are required to transfer 10% of their respective after-tax profits, calculated in accordance with the PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilized, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital.*
- (ii) *On 12 December 2012, pursuant to a special resolution passed on 23 November 2012, 510,000,000 ordinary shares were cancelled and in exchange, the Company allotted and issued 365,094,340 convertible preferred shares with par value of USD0.000025 each to the same shareholder. Further details are set out in Note 26.*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax . . . . .	98,771	139,556	184,708	76,232	108,214
Adjustments for:					
Depreciation of property, plant and equipment . . . . .	42,303	63,463	84,521	31,733	37,042
Release of lease prepayments for land use right . . . . .	534	534	534	267	267
Amortization of intangible assets .	1,813	2,271	2,151	1,151	1,120
Interest income . . . . .	(3,311)	(3,169)	(5,237)	(1,920)	(754)
Other income from government grant released from deferred income . . . . .	(455)	(910)	(910)	(455)	(455)
Finance costs . . . . .	528	–	–	–	–
Foreign exchange loss (gain), net . . . . .	2,052	26	2,068	1,170	(3,484)
Impairment loss recognized on trade receivables . . . . .	–	–	4,635	–	–
Reversal of impairment loss on trade receivables . . . . .	–	–	–	–	(1,341)
Impairment loss recognized on rental deposit . . . . .	–	–	185	–	–
(Gain) loss on disposal of property, plant and equipment, net . . . . .	(29)	104	379	(31)	(13)
Loss on intangible assets written off . . . . .	–	–	859	–	–
Operating cash flows before movements in working capital . . . . .	142,206	201,875	273,893	108,147	140,596
Movements in working capital					
Decrease (increase) in inventories . . . . .	4,760	(5,562)	(78,164)	323	(64,793)
Decrease (increase) in trade receivables . . . . .	2,255	(5,648)	1,794	770	763
Increase in other receivables . . . .	(3,737)	(1,473)	(4,675)	(2,545)	(8,196)
Increase in rental deposits . . . . .	(8,854)	(6,655)	(4,141)	(1,817)	(3,646)
Increase (decrease) in trade payables . . . . .	38,341	38,206	(16,325)	(20,917)	15,921
Decrease in amount due to a related party . . . . .	–	(300)	–	–	–
Increase in other payables . . . . .	26,653	42,263	33,522	9,022	24,643
Increase (decrease) in provision . .	2,000	(1,630)	(370)	–	–
(Decrease) increase in deferred income . . . . .	(1,021)	(363)	1,311	(710)	(2,684)
Cash generated from operations . . .	202,603	260,713	206,845	92,273	102,604
Income taxes paid . . . . .	(29,457)	(26,079)	(41,374)	(25,180)	(44,807)
Net cash generated from operating activities . . . . .	173,146	234,634	165,471	67,093	57,797

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from investing activities					
Interests income received . . . . .	3,311	3,169	5,237	1,920	754
Purchase of short-term investments . . . . .	(484,000)	(190,000)	(715,000)	(275,000)	(30,000)
Proceeds of disposal of short- term investments . . . . .	484,000	190,000	715,000	110,000	–
Purchases of property, plant and equipment . . . . .	(110,070)	(103,840)	(118,501)	(39,062)	(51,995)
Proceeds of government grant . . .	8,200	–	2,450	–	–
Proceeds from disposal of property, plant and equipment . .	48	155	339	152	267
Purchase of intangible assets . . .	(1,354)	(4,171)	(1,147)	(1,074)	(122)
Net cash used in investing activities . . . . .	(99,865)	(104,687)	(111,622)	(203,064)	(81,096)
Cash flows from financing activities					
Dividend paid . . . . .	(6,301)	(50,284)	–	–	(150,000)
Interests paid . . . . .	(528)	–	–	–	–
Repayment of a bank loan . . . . .	(10,000)	–	–	–	–
Proceeds from issue of convertible preferred shares . . .	–	–	31,304	31,304	–
Net cash (used in) generated from financing activities . . . . .	(16,829)	(50,284)	31,304	31,304	(150,000)
Net increase (decrease) in cash and cash equivalents . . . . .	56,452	79,663	85,153	(104,667)	(173,299)
Cash and cash equivalents at the beginning of the year/period . . .	126,184	180,584	260,221	260,221	343,306
Effect of foreign exchange rate changes, net . . . . .	(2,052)	(26)	(2,068)	(1,170)	3,484
Cash and cash equivalents at the end of the year/period represented by bank balances and cash . . . . .	<u>180,584</u>	<u>260,221</u>	<u>343,306</u>	<u>154,384</u>	<u>173,491</u>

## NOTES TO THE FINANCIAL INFORMATION

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 14 May 2008. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company and the Group is principally engaged in Chinese hotpot restaurant operations in the PRC.

From 1 January 2011 to 11 December 2012, the Company's immediate and ultimate holding company is Super Hot (AEM General) Limited ("Super Hot"). Since 12 December 2012, the Company's immediate and ultimate holding company is Ying Qi Investments Limited incorporated in the British Virgin Islands, which is wholly-owned by Mr. Ho Kuang-Chi.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted all the IFRSs which are effective for the Group's financial year beginning on 1 January 2014 consistently throughout the Track Record Period.

At the date of this report, the following new and revised IFRSs have been issued which are not yet effective. The Group has not early adopted these IFRSs.

IFRS 9 . . . . .	Financial Instruments <sup>1</sup>
IFRS 14 . . . . .	Regulatory Deferral Accounts <sup>2</sup>
IFRS 15 . . . . .	Revenue from Contracts with Customers <sup>3</sup>
Amendments to IFRS 11 . . . . .	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to IAS 16 and IAS 38 . . . . .	Clarification of Acceptable Methods of Depreciation and Amortization <sup>5</sup>
Amendments to IAS 19 . . . . .	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to IFRSs . . . . .	Annual Improvements to IFRSs 2010-2012 Cycle <sup>6</sup>
Amendments to IFRSs . . . . .	Annual Improvements to IFRSs 2011-2013 Cycle <sup>4</sup>
Amendments to IFRSs . . . . .	Annual Improvements to IFRSs 2012-2014 Cycle <sup>5</sup>
Amendments to IAS 16 and IAS 41 . . . . .	Agriculture: Bearer Plants <sup>5</sup>
Amendments to IAS 27 . . . . .	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to IFRS 10 and IAS 28 . . . . .	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for first annual IFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

**IFRS 9 Financial Instruments**

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 and 2014 to include the new requirements for hedge accounting and impairment methodology, respectively.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate that the application of IFRS 9 will not have significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's financial instruments reported at the end of each reporting period.

The Directors anticipate that the application of other new and revised IFRSs will have no material impact on the Financial Information of the Group.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with the accounting policies set out below which conform to IFRSs. In addition, the Financial Information included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance which for the Track Record Period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangement for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The Financial Information has been prepared under the historical cost basis, except for certain financial instrument which is measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

**Basis of consolidation**

The Financial Information incorporates the financial information of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- (i) has power over the investee;
- (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (iii) has the ability to use its power to affect its returns.



The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins with the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains controls until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Investment in a subsidiary**

Investment in a subsidiary is stated as cost less any identified impairment loss on the statement of financial position of the Company.

#### **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured on the following basis:

##### ***Restaurant operations and provision of catering services***

Revenue is recognized when the related services have been rendered to customers.

Sales of goods that result in cash discounts or free goods ("the Discounts") for customers for next sales transaction, under the Group's coupons award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration receivable is allocated between the goods supplied and the Discounts granted. The consideration allocated to the coupons award is measured by reference to their fair value – the amount for which the cash discount could be realised separately or which the goods designated could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction – but is deferred and recognized as revenue when the Discounts are realised and the Group's obligations have been discharged or expired.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognized in profit or loss in the period in which they arise.

**Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

The employees of the Group are members of state-managed retirement benefit schemes, the obligations of the Group under which are equivalent to those arising in a defined contribution retirement benefit plan. Payments to state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contribution.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Share-based payment arrangements**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instrument expected to vest. The impact of the revision of the original estimate, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payments transactions with parties other than employees are measured at the fair value of the goods or services received, except that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Contingent rental arising under operating leases are recognized as an expense in the period in which they are incurred.

**Leasehold land and building**

When a lease included both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. The lease payments for leasehold land that is accounted for as an operating lease is presented as "lease prepayments for land use right" in the consolidated statements of financial position and is amortized over the lease term on a straight-line basis.

**Property, plant and equipment**

Property, plant and equipment other than construction in progress as described below are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognized impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**Intangible assets***Intangible assets acquired separately*

Intangible assets representing trademark and software that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives as below:

Trademark. . . . .	10 years
Software. . . . .	3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

*Derecognition of intangible assets*

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

**Impairment of tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

## **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### *Current tax*

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantial enacted by the end of the reporting period.

### *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantial enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### *Current and deferred tax for the year/period*

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an assets if it is virtually certain that reimbursement will be received and amount of the receivable can be measured reliably.

**Financial instruments**

Financial assets and financial liabilities are recognized in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified as loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Effective interest method***

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in other income.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from a subsidiary and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

***Financial assets at fair value through profit or loss***

Financial assets at FVTPL include financial assets held for trading or designated as FVTPL.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excluded any dividend or interest earned on the financial assets and is included in "other gains and losses" in the profit or loss. The dividend or interest earned on the financial assets is included in "other income" in the profit or loss.

#### *Impairment of financial assets*

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Derecognition of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognized in profit or loss.

*Financial liabilities and equity instruments**Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

*Convertible preferred shares*

Convertible preferred shares issued by the Company in which the Group has no contractual obligation to redeem and the conversion option of which will be settled by the exchange of fixed number of the Company's own equity instruments are classified as equity instruments. Convertible preferred shares issued are recognized at the proceeds received, net of direct issue costs. Any excess of net proceeds over par value of issued convertible preferred shares is recorded as share premium.

*Financial liabilities*

The financial liabilities (including trade payables, other payables, amount due to subsidiaries and amount due to a related party) are subsequently measured at amortized cost using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Derecognition of financial liabilities*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management of the Group are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

##### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of each reporting period.

##### *Estimated useful lives and impairment of property, plant and equipment*

The Group's management determines the estimated useful lives, residual values and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will accelerate the depreciation charge where the economic useful lives are shorter than previously estimated due to removal or closure of restaurants. The management will also write-off or write-down the carrying value of the items which are technically obsolete or non-strategic assets that have been abandoned. Actual economic useful lives may differ from estimated economic useful lives. Periodic review could result in a change in depreciation period and therefore depreciation charge in the future periods.

In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. When the recoverable amounts of property, plant and equipment differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the carrying amounts of property, plant and equipment are approximately RMB183,509,000, RMB240,004,000, RMB271,919,000 and RMB285,563,000, respectively.

##### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable temporary difference and taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the carrying amount of deferred tax assets are approximately RMB11,199,000, RMB14,980,000, RMB17,503,000 and RMB17,345,000, respectively. Further details are contained in Note 16.



## 5. REVENUE AND SEGMENT INFORMATION

During the Track Record Period, the Group's revenue which represents the amount received and receivable from the operation of restaurants net of discount and sales related taxes, are as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Restaurant operations . . . . .	997,269	1,508,331	1,890,470	865,275	1,018,698

Information reported to the executive directors of the Company, who are identified as the chief operating decision maker (the "CODM") of the Group, in order to allocate resources and to assess performance, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

All of the Group's operations are located in the PRC. The Group's revenue from external customers and all of its non-current assets are located in PRC based on geographical location of assets.

No revenue from individual external customer contributing over 10% of total revenue of the Group.

## 6. OTHER INCOME

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income on:					
– bank deposits . . . . .	1,001	1,732	1,471	590	697
– short-term investments . . . . .	2,310	1,437	3,766	1,330	57
	3,311	3,169	5,237	1,920	754
Promotion service income . . . . .	1,819	1,957	2,665	237	720
Government grant					
– subsidy received (Note i) . . . . .	838	1,775	3,140	261	–
– release from deferred income (Note 25) . . . . .	455	910	910	455	455
	1,293	2,685	4,050	716	455
Others . . . . .	2,964	1,900	1,553	545	882
	9,387	9,711	13,505	3,418	2,811

Note:

(i) The amounts represent the subsidy received from the local government for the Group's local business development. There were no unfulfilled conditions in the period in which they were recognized.

## 7. OTHER GAINS AND LOSSES

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Gain (loss) on disposal of property, plant and equipment, net . . . . .	29	(104)	(379)	31	13
Loss on intangible assets written off . . . . .	–	–	(859)	–	–
Foreign exchange (loss) gain, net . . . . .	(2,052)	(26)	(2,068)	(1,170)	3,484
Loss on closure of restaurants. . .	–	–	(2,904)	(39)	(187)
Impairment loss on trade receivables . . . . .	–	–	(4,635)	–	–
Reversal of impairment loss on trade receivables . . . . .	–	–	–	–	1,341
Impairment loss on rental deposit . . . . .	–	–	(185)	–	–
	<u>(2,023)</u>	<u>(130)</u>	<u>(11,030)</u>	<u>(1,178)</u>	<u>4,651</u>

## 8. FINANCE COSTS

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interests on a bank loan wholly repayable within five years . . .	<u>528</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 9. PROFIT BEFORE TAX

The Group's profit for the year/period has been arrived at after charging:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation of property, plant and equipment . . . . .	42,303	63,463	84,521	31,733	37,042
Amortization of intangible assets . . . . .	1,813	2,271	2,151	1,151	1,120
Release of lease prepayments for land use right . . . . .	534	534	534	267	267
Total depreciation and amortization . . . . .	44,650	66,268	87,206	33,151	38,429
Operating lease rentals in respect of					
– rented premises (minimum lease payments) . . . . .	3,968	4,420	5,435	1,221	4,425
– restaurants					
– minimum lease payments . . . . .	104,591	158,968	197,297	95,499	116,709
– contingent rent* . . . . .	20,098	26,127	30,237	14,636	13,319
	124,689	185,095	227,534	110,135	130,028
Total property rentals and related expenses . . . . .	128,657	189,515	232,969	111,356	134,453
Directors' emoluments (Note 11) . . . . .	2,621	2,896	3,661	1,830	1,563
Other staff cost					
Salaries and other allowance . . . . .	168,162	277,618	354,859	164,041	208,111
Retirement benefit contribution . . . . .	11,545	33,657	40,792	21,315	23,092
Total staff costs . . . . .	182,328	314,171	399,312	187,186	232,766
Auditor's remuneration . . . . .	1,200	1,300	480	–	–
Expense in relation to the listing (included in other expenses) . . . . .	–	–	450	–	18,794

\* The contingent rent refers to the operating rentals based on pre-determined percentages to revenue less minimum rentals of the respective leases.

## 10. INCOME TAX EXPENSE

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Enterprise income tax ("EIT")					
Current tax in the PRC . . . . .	22,796	28,127	37,292	14,169	20,746
Withholding EIT-current year . . . . .	5,338	7,687	9,229	4,231	4,945
Deferred tax (Note 16) . . . . .	(5,025)	(3,781)	(2,523)	(295)	158
Total income tax recognized in profit or loss . . . . .	23,109	32,033	43,998	18,105	25,849

The Company is tax exempted company incorporated in the Cayman Islands.

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% on estimated assessable profit and no taxable profit derived from Xiabu Hong Kong for the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax ("EIT Law") effective from 1 January 2008 and Implementation Regulation of the EIT Law, the statutory EIT rate of PRC subsidiaries of the Company is 25% during the Track Record Period.

Further, in the PRC, 10% withholding income tax is generally imposed on the assessable profits earned by foreign investors from the foreign investment enterprises established in the PRC from 16 September 2008 onwards. During the Track Record Period, Xiabu Hong Kong recognized taxable royalty income determined with reference to revenue earned by the PRC subsidiary and interest income from a PRC subsidiary, and the corresponding amounts of which are deductible expenses for the PRC subsidiary. Such royalty income and the interest income are subject to withholding tax of 10% during the Track Record Period.

Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to RMB119 million, RMB181 million, RMB269 million and RMB324 million as at 31 December 2011, 2012 and 2013 and 30 June 2014 respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The tax charge for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before tax . . . . .	98,771	139,556	184,708	76,232	108,214
Tax calculated at applicable domestic tax rates at 25%. . . . .	24,693	34,889	46,177	19,058	27,054
Tax effect of different tax rate on intra-group royalty income and interest income subject to withholding tax . . . . .	(8,007)	(11,531)	(13,844)	(6,347)	(7,418)
Tax effect of expenses not deductible for tax purposes . . . . .	2,807	2,770	3,543	1,468	4,760
Tax effect of tax losses and deductible temporary differences not recognized . . .	3,616	5,152	6,878	3,356	655
Tax effect of deemed interest income from intra-group balances . . . . .	–	753	1,244	570	798
Income tax expenses . . . . .	23,109	32,033	43,998	18,105	25,849

## 11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

The Directors' emoluments for the Track Record Period are as follows:

	For the year ended 31 December 2011				
	Directors' fee	Salaries and allowances	Performance related bonuses*	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
Mr. Ho Kuang-Chi (賀光啓先生) . . . . .	700	–	–	–	700
Ms. Yang Shuling (楊淑玲女士) . . . . .	300	955	354	12	1,621
	<u>1,000</u>	<u>955</u>	<u>354</u>	<u>12</u>	<u>2,321</u>
Non-executive Directors:					
Mr. Lin Ming'an (林明安先生) . . . . .	100	–	–	–	100
Ms. Zhong Dong (鐘東女士) . . . . .	100	–	–	–	100
Mr. Wu Guosheng (吳國升先生) . . . . .	100	–	–	–	100
	<u>300</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>300</u>
Total . . . . .	<u>1,300</u>	<u>955</u>	<u>354</u>	<u>12</u>	<u>2,621</u>
For the year ended 31 December 2012					
	Directors' fee	Salaries and allowances	Performance related bonuses*	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
Mr. Ho Kuang-Chi (賀光啓先生) . . . . .	700	–	–	–	700
Ms. Yang Shuling (楊淑玲女士) . . . . .	300	1,203	393	–	1,896
	<u>1,000</u>	<u>1,203</u>	<u>393</u>	<u>–</u>	<u>2,596</u>
Non-executive Directors:					
Mr. Lin Ming'an** (林明安先生) . . . . .	100	–	–	–	100
Ms. Zhong Dong (鐘東女士)** . . . . .	100	–	–	–	100
Mr. Wu Guosheng (吳國升先生)** . . . . .	100	–	–	–	100
Ms. Chen Su-Yin (陳素英女士)** . . . . .	–	–	–	–	–
Mr. Leng Xuesong (冷雪松先生)** . . . . .	–	–	–	–	–
Mr. Wei Ke (魏可先生)** . . . . .	–	–	–	–	–
	<u>300</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>300</u>
Total . . . . .	<u>1,300</u>	<u>1,203</u>	<u>393</u>	<u>–</u>	<u>2,896</u>

\*\* On 12 December 2012, Mr. Lin Ming'an, Ms. Zhong Dong and Mr. Wu Guosheng resigned as the directors of the Company, and Ms. Chen Su-Yin, Mr. Leng Xuesong and Mr. Wei Ke were appointed as the directors of the Company.

## For the year ended 31 December 2013

	Directors' fee	Salaries and allowances	Performance related bonuses*	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
Mr. Ho Kuang-Chi (賀光啓先生) . . . . .	800	–	252	–	1,052
Ms. Yang Shuling (楊淑玲女士) . . . . .	300	1,321	688	–	2,309
	<u>1,100</u>	<u>1,321</u>	<u>940</u>	<u>–</u>	<u>3,361</u>
Non-executive Directors:					
Ms. Chen Su-Yin (陳素英女士) . . . . .	100	–	–	–	100
Mr. Leng Xuesong (冷雪松先生) . . . . .	100	–	–	–	100
Mr. Wei Ke (魏可先生) . . . . .	100	–	–	–	100
	<u>300</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>300</u>
Total . . . . .	<u>1,400</u>	<u>1,321</u>	<u>940</u>	<u>–</u>	<u>3,661</u>

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

	Directors' fee	Salaries and allowances	Performance related bonuses*	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
Mr. Ho Kuang-Chi (賀光啓先生) . . . . .	400	–	126	–	526
Ms. Yang Shuling (楊淑玲女士) . . . . .	150	660	344	–	1,154
	<u>550</u>	<u>660</u>	<u>470</u>	<u>–</u>	<u>1,680</u>
Non-executive Directors:					
Ms. Chen Su-Yin (陳素英女士) . . . . .	50	–	–	–	50
Mr. Leng Xuesong (冷雪松先生) . . . . .	50	–	–	–	50
Mr. Wei Ke (魏可先生) . . . . .	50	–	–	–	50
	<u>150</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>150</u>
Total . . . . .	<u>700</u>	<u>660</u>	<u>470</u>	<u>–</u>	<u>1,830</u>

	For the six months ended 30 June 2014				
	Directors' fee	Salaries and allowances	Performance related bonuses*	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:					
Mr. Ho Kuang-Chi (賀光啓先生) . . . . .	400	–	–	–	400
Ms. Yang Shuling (楊淑玲女士) . . . . .	100	786	127	–	1,013
	<u>500</u>	<u>786</u>	<u>127</u>	<u>–</u>	<u>1,413</u>
Non-executive Directors:					
Ms. Chen Su-Yin (陳素英女士) . . . . .	50	–	–	–	50
Mr. Leng Xuesong (冷雪松先生) . . . . .	50	–	–	–	50
Mr. Wei Ke (魏可先生) . . . . .	50	–	–	–	50
	<u>150</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>150</u>
Total . . . . .	<u>650</u>	<u>786</u>	<u>127</u>	<u>–</u>	<u>1,563</u>

\* Certain executive directors and other key management personnel of the Company are entitled to bonus payments which are determined based on the Group's profit for the year/period.

Note: Ms. Yang Shuling is also the chief executive of the Group and her emoluments disclosed above include those for services rendered by her as the chief executive.

Of the five individuals with the highest emoluments in the Group, one was the director of the Company for each of the years ended 31 December 2011, 2012 and 2013, and each of the six months ended 30 June 2013 and 2014 whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals for the Track Record Period were as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and allowance . . . . .	2,635	3,566	4,766	2,274	1,992
Performance related bonuses . . .	600	2,813	929	833	371
Contributions to retirement benefits schemes . . . . .	107	53	37	21	30
	<u>3,342</u>	<u>6,432</u>	<u>5,732</u>	<u>3,128</u>	<u>2,393</u>

The number of these highest paid employees whose remuneration fell within the following band is as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
Nil to HK\$1,000,000 . . . . .	1	–	–	4	4
HK\$1,000,001 to HK\$1,500,000 . . . . .	2	2	1	–	–
HK\$1,500,001 to HK\$2,000,000 . . . . .	1	1	1	–	–
HK\$2,000,001 to HK\$2,500,000 . . . . .	–	–	2	–	–
HK\$3,500,001 to HK\$4,000,000 . . . . .	–	1	–	–	–
Total . . . . .	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Track Record Period, no Directors waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the Track Record Period is as following:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
				(Unaudited)	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Earnings					
Profit for the year/period attributable to owners of the Company . . . . .	75,662	107,523	140,710	58,127	82,365
Less: Undistributed earnings attributable to convertible preferred shares . . . . .	–	(2,253)	(63,977)	(26,344)	(37,562)
Earnings for the purpose of basic earnings per share . . .	75,662	105,270	76,733	31,783	44,803
Add: Undistributed earnings attributable to convertible preferred shares . . . . .	N/A	2,253	63,977	26,344	37,562
Earnings for the purpose of diluted earnings per share . .	<u>N/A</u>	<u>107,523</u>	<u>140,710</u>	<u>58,127</u>	<u>82,365</u>
				For the six months ended 30 June	
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
				(Unaudited)	
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation . . . . .	<u>960,000</u>	<u>932,131</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>



The weighted average number of ordinary shares for the purpose of basic earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	'000	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation . . . . .	960,000	932,131	450,000	450,000	450,000
Effect of dilutive potential ordinary shares:					
Convertible preferred shares . . .	N/A	19,950	375,196	373,007	377,264
	<u>N/A</u>	<u>952,081</u>	<u>825,196</u>	<u>823,007</u>	<u>827,264</u>

The calculation of dilutive earnings per share has not considered the share options granted which are contingently issuable shares with multiple conditions that have not been met up to 30 June 2014. Details of the terms of the share options are set out in Note 28.

### 13. DIVIDENDS

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Dividends recognized as distributions during the year/period . . . . .	6,301	50,284	–	–	150,000
	<u>6,301</u>	<u>50,284</u>	<u>–</u>	<u>–</u>	<u>150,000</u>

On 18 February 2011, the Company declared a dividend of USD0.0010 per ordinary share with total dividends of USD1,000,000 (equivalent to approximately RMB6,301,000) to ordinary shareholders for the year ended 31 December 2010. The dividend was paid in March 2011.

On 14 September 2012, the Company declared a dividend of USD0.0083 per ordinary share with total dividends of USD8,000,000 (equivalent to approximately RMB50,284,000) to ordinary shareholders for the year ended 31 December 2011. The dividend was paid in October 2012.

On 17 January 2014, the Company declared a dividend of RMB0.1808 per ordinary share and per convertible preferred share with total dividends of RMB150,000,000 to shareholders of ordinary and convertible preferred shares for the year ended 31 December 2013. The dividend was paid in February 2014.

On 11 September 2014, the Company declared a dividend of RMB0.0846 per ordinary and per convertible preferred share with total dividends of RMB70,000,000 to shareholders of ordinary and convertible preferred shares for the six months ended 30 June 2014. The dividend was paid in September 2014.

## 14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold Improvement	Machinery	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011 . . . . .	-	87,272	758	3,365	17,911	34,952	144,258
Additions . . . . .	-	-	-	793	13,031	99,451	113,275
Transfer . . . . .	45,717	77,139	7,685	-	-	(130,541)	-
Disposals . . . . .	-	-	-	(80)	(71)	-	(151)
At 31 December 2011 . . . . .	45,717	164,411	8,443	4,078	30,871	3,862	257,382
Additions . . . . .	185	-	425	356	12,166	107,085	120,217
Transfer . . . . .	-	107,560	-	-	-	(107,560)	-
Disposals . . . . .	-	-	-	(60)	(861)	-	(921)
At 31 December 2012 . . . . .	45,902	271,971	8,868	4,374	42,176	3,387	376,678
Additions . . . . .	-	-	-	219	17,494	99,441	117,154
Transfer . . . . .	-	102,351	-	-	-	(102,351)	-
Disposals . . . . .	-	(22,410)	(19)	(67)	(3,540)	-	(26,036)
At 31 December 2013 . . . . .	45,902	351,912	8,849	4,526	56,130	477	467,796
Additions . . . . .	-	-	-	-	5,476	45,464	50,940
Transfer . . . . .	-	41,600	-	-	-	(41,600)	-
Disposals . . . . .	-	-	-	(30)	(693)	-	(723)
At 30 June 2014 . . . . .	45,902	393,512	8,849	4,496	60,913	4,341	518,013
ACCUMULATED DEPRECIATION							
At 1 January 2011 . . . . .	-	24,165	215	1,681	5,641	-	31,702
Charge for the year . . . . .	1,275	33,859	511	865	5,793	-	42,303
Eliminated on disposals . . . . .	-	-	-	(76)	(56)	-	(132)
At 31 December 2011 . . . . .	1,275	58,024	726	2,470	11,378	-	73,873
Charge for the year . . . . .	2,179	51,297	859	671	8,457	-	63,463
Eliminated on disposals . . . . .	-	-	-	(57)	(605)	-	(662)
At 31 December 2012 . . . . .	3,454	109,321	1,585	3,084	19,230	-	136,674
Charge for the year . . . . .	2,241	69,330	849	490	11,611	-	84,521
Eliminated on disposals . . . . .	-	(22,410)	(17)	(35)	(2,856)	-	(25,318)
At 31 December 2013 . . . . .	5,695	156,241	2,417	3,539	27,985	-	195,877
Charge for the period . . . . .	1,100	29,763	412	222	5,545	-	37,042
Eliminated on disposals . . . . .	-	-	-	(30)	(439)	-	(469)
At 30 June 2014 . . . . .	6,795	186,004	2,829	3,731	33,091	-	232,450
CARRYING AMOUNT							
At 31 December 2011 . . . . .	44,442	106,387	7,717	1,608	19,493	3,862	183,509
At 31 December 2012 . . . . .	42,448	162,650	7,283	1,290	22,946	3,387	240,004
At 31 December 2013 . . . . .	40,207	195,671	6,432	987	28,145	477	271,919
At 30 June 2014 . . . . .	39,107	207,508	6,020	765	27,822	4,341	285,563

Buildings are located in the PRC on a medium-term land use right.

The above items of property, plant and equipment, other than construction in progress, are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis as follows:

Buildings . . . . .	20 years
Leasehold improvement . . . . .	Over the shorter of the lease term and estimated useful lives up to 5 years
Machinery . . . . .	10 years
Motor vehicles . . . . .	4 years
Furniture and fixtures . . . . .	3 – 5 years

According to the management's periodic review on the performance of the operating restaurants, the management changed the estimated useful lives of the leasehold improvement of those restaurants planned to be closed and will depreciate the remaining depreciable amount of the leasehold improvement up to the date of planned closure. During the year ended 31 December 2013 and the six months ended 30 June 2014, the increase in depreciation charge due to the change in estimated useful lives are RMB9,301,000 and RMB949,000, respectively.

As at 31 December 2011, 2012 and 2013, the Group was in the process of obtaining the relevant building ownership certificates of the buildings. On 20 January 2014, all of the Group's buildings have obtained the building ownership certificates.

#### 15. LEASE PREPAYMENTS FOR LAND USE RIGHT

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Cost:				
At beginning and the end of the year/period . . . . .	26,704	26,704	26,704	26,704
Accumulated amortization:				
At beginning of the year/period . .	490	1,024	1,558	2,092
Charge for the year/period . . . . .	534	534	534	267
At the end of the year/period . . . . .	1,024	1,558	2,092	2,359
Carrying amount at the end of the year/period . . . . .	25,680	25,146	24,612	24,345

Analyse for reporting purpose as:

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Current portion included in trade and other receivables and prepayments (Note 19). . . . .	534	534	534	534
Non-current portion . . . . .	25,146	24,612	24,078	23,811
	25,680	25,146	24,612	24,345

The leasehold land with the land use right is held under medium-term leases with lease term of 50 years and is situated in the PRC.

## 16. DEFERRED TAX ASSETS

The movements of the Group's deferred tax assets during the Track Record Period are as follows:

	Accrued staff costs	Deferred income	Allowance for doubtful debts	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 . . . . .	3,008	3,112	–	54	6,174
Charge to profit or loss . . .	2,764	1,763	–	498	5,025
At 31 December 2011 . . . .	5,772	4,875	–	552	11,199
Charge (credit) to profit or loss . . . . .	4,453	(311)	–	(361)	3,781
At 31 December 2012 . . . .	10,225	4,564	–	191	14,980
Charge (credit) to profit or loss . . . . .	682	701	1,205	(65)	2,523
At 31 December 2013 . . . .	10,907	5,265	1,205	126	17,503
Charge (credit) to profit or loss . . . . .	945	(785)	(335)	17	(158)
At 30 June 2014 . . . . .	11,852	4,480	870	143	17,345

Deferred tax assets have not been recognized in respect of the following items:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Tax losses . . . . .	18,968	37,355	64,531	67,401
Deductible temporary differences				
Accrued expenses . . . . .	3,613	5,864	6,150	5,900
Deferred income . . . . .	95	66	114	114
	22,676	43,285	70,795	73,415

The tax losses will be expired as follow:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
2015 . . . . .	6,646	6,646	6,646	6,646
2016 . . . . .	12,322	12,322	12,322	12,322
2017 . . . . .	–	18,387	18,387	18,387
2018 . . . . .	–	–	27,176	27,176
2019 . . . . .	–	–	–	2,870
	18,968	37,355	64,531	67,401

No deferred tax asset has been recognized in relation to the unutilized tax losses and deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit will be available against which the tax losses and the deductible temporary differences can be utilized.

## 17. INVESTMENT IN A SUBSIDIARY/AMOUNTS DUE FROM/TO SUBSIDIARIES

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Unlisted share, at cost, including deemed contribution to a subsidiary (Note i) . . . . .	30,430	36,367	41,106	44,425
Amounts due from a subsidiary (Note i) . . . . .	120,515	120,221	144,049	117,682
Amounts due to subsidiaries (Note ii) . . . . .	997	3,006	3,515	12,924

*Notes:*

- (i) Interest in a subsidiary represents the investment in Xiabu Hong Kong for its fully paid share capital of HK\$1 and deemed contributions to Xiabu Hong Kong from 2008 to June 2014, which represent the fair value adjustments of the interest free advances to the subsidiary upon initial recognition. The amounts due from a subsidiary are unsecured, bear effective interest rate and have no fixed terms of repayment.
- (ii) The amount represented the amounts due to Xiabu Hong Kong and Xiabu Beijing as at the end of each reporting period, which is unsecured, interest-free and had no fixed terms of repayment.

## 18. INVENTORIES

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Food and beverage . . . . .	32,428	35,203	105,608	171,503
Other materials . . . . .	2,750	4,353	10,742	8,765
Consumables . . . . .	1,250	2,434	3,804	4,679
	36,428	41,990	120,154	184,947

## 19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

**The Group**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Trade receivables . . . . .	7,590	13,238	11,444	10,681
Less: allowance for doubtful debts . .	–	–	(4,635)	(3,294)
	7,590	13,238	6,809	7,387
Prepaid operating expenses . . . . .	11,839	12,695	16,129	17,575
Prepayments to suppliers . . . . .	537	510	320	1,197
Deferred expenses in relation to the listing expenses . . . . .	–	–	–	5,963
Current portion of lease prepayments for land use right . .	534	534	534	534
Other receivables . . . . .	2,335	2,979	4,410	4,320
	22,835	29,956	28,202	36,976

The Company

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred expenses in relation to the listing expense . . . . .	–	–	–	5,963

Generally, there was no credit period for sales from operation of restaurant, except for collection from certain shopping malls for which the credit terms provided are ranging from 60 to 180 days. The following is an aged analysis of trade receivables presented based on the invoice date:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 60 days . . . . .	6,667	6,441	4,789	3,892
61 to 180 days . . . . .	839	1,825	636	1,475
181 days to 1 year . . . . .	84	4,972	1,384	2,020
	<u>7,590</u>	<u>13,238</u>	<u>6,809</u>	<u>7,387</u>

## Movement in the allowance for doubtful debts

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
At beginning of the year/period . . . . .	–	–	–	–	4,635
Impairment losses recognized on trade receivables . . . . .	–	–	4,635	–	–
Reversal of impairment losses on trade receivables . . . . .	–	–	–	–	(1,341)
At the end of the year/period . . . . .	<u>–</u>	<u>–</u>	<u>4,635</u>	<u>–</u>	<u>3,294</u>

Included in the allowance for doubtful debts of 2013 are individually impaired trade receivables related to certain shopping malls and a dining vouchers distributor that were in dispute with the Group on the outstanding amount, and trade receivables that have been long overdue. The impairment losses recognized represent the difference between the carrying amount of these trade receivables and present value of expected cashflows. During the six months ended 30 June 2014, the reversal of impairment loss of RMB1,341,000 mainly due to certain shopping malls with whom the Group were in dispute have repaid partially the outstanding receivables and one of them has set off rental payable of the Group. The Group does not hold any collateral over these balances.

Aging of trade receivables that are past due but not impaired:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue by:				
Less than 30 days. . . . .	923	1,367	550	1,046
31 to 90 days . . . . .	–	2,926	834	513
91 to 180 days. . . . .	84	679	–	461
	<u>1,007</u>	<u>4,972</u>	<u>1,384</u>	<u>2,020</u>

Trade receivables that were past due but not impaired related to a number of shopping malls that have a good trading record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the trade receivable from the date that credit was initially granted up to the end of each reporting period. Trade receivable that were neither past due nor impaired at the end of the reporting period related to customers that have a good repayment record with the Group. The Group's exposure to the concentration of credit risk is disclosed in Note 34.

## 20. SHORT-TERM INVESTMENT

As at 30 June 2014, the Group's short-term investment represents an investment in financial product issued by a bank with no predetermined or guaranteed return and not principal protected. The investment has been designated at fair value through profit or loss. In July 2014, the Group received the principal with a return of RMB120,000, represented approximately 5.2% per annum.

There were no significant changes in the counterparties' credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for these financial assets designated at fair value through profit or loss during the Track Record Period.

## 21. BANK BALANCES AND CASH

### The Group

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances denominated in:				
– RMB . . . . .	118,566	211,433	263,960	135,037
– USD. . . . .	62,014	48,785	79,342	38,443
– HKD . . . . .	4	3	4	11
	<u>180,584</u>	<u>260,221</u>	<u>343,306</u>	<u>173,491</u>

### The Company

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances denominated in:				
– USD. . . . .	841	705	3,421	2,449
	<u>841</u>	<u>705</u>	<u>3,421</u>	<u>2,449</u>

Bank balances carried interest at market rates which range from 0.001% to 0.50%, 0.001% to 0.35%, 0.001% to 0.35% and 0.001% to 0.35% per annum as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively.

The bank balances denominated in RMB were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## 22. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on 60-days credit term. An aged analysis of the Group's trade payables, as at the end of each reporting period, based on the goods received date, is as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 60 days . . . . .	67,610	99,979	88,384	104,017
61 to 180 days . . . . .	418	5,807	1,719	890
181 days to 1 year . . . . .	458	456	118	1,485
Over 1 year . . . . .	104	554	250	–
	<u>68,590</u>	<u>106,796</u>	<u>90,471</u>	<u>106,392</u>

## 23. ACCRUAL AND OTHER PAYABLES

### The Group

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Staff cost payables . . . . .	26,701	46,706	49,777	53,526
Construction fee payables . . .	15,107	31,484	30,137	29,082
Rental payables . . . . .	12,914	18,190	21,220	22,844
Deposits from suppliers . . . .	7,529	12,525	15,324	14,821
Accrued operating expenses . .	6,757	8,637	14,555	25,633
Other PRC tax payables . . . .	6,833	9,889	18,305	12,249
Listing expenses payable . . .	–	–	–	13,908
Others . . . . .	3,791	10,841	21,129	21,972
	<u>79,632</u>	<u>138,272</u>	<u>170,447</u>	<u>194,035</u>

### The Company

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Listing expenses payable . . . .	–	–	–	11,058



## 24. PROVISION

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Penalty and related expenses . . . . .	2,000	370	–	–

In 2009, the Group has commenced the construction of an infrastructure project. As represented by the management of the Company, upon completion of such project in 2011, they have come to realize that the construction was made without the necessary construction permit and that the Construction Committee of Da Xing District has notified the Group that it would impose a penalty on the Group for the violation of the relevant laws under the provisions of Article 57 of “Construction Quality Management Regulations”. However, the penalty amount has not been specified at the time.

After consultation and considering all facts and circumstances, based on its best estimation, the management of the Company estimated that the Group’s liabilities in respect of the above-mentioned violation to be approximately RMB2,400,000. As a result, a provision of RMB2,400,000 has been recognized in the profit and loss during the year ended 31 December 2011. At the end of each reporting periods, the management of the Company has re-assessed its estimation and considered the original estimation of provision amount continued to be appropriate.

During the Track Record Period, while the Group was in the process of finalizing the ultimate penalty amount with the relevant authority, it has made payments of RMB400,000, RMB1,630,000 and RMB370,000, respectively, to the relevant authority as partial settlements during each of the years ended 31 December 2011, 2012 and 2013, amounting to RMB2,400,000 in aggregate. In November 2013, the penalty amount was finalized by the relevant authority at RMB2,400,000, representing the provision amount originally estimated by the management of the Company and the sum of partial settlements made by the Group up to that time. As a result, no additional provision has been made.

The Group has obtained building certificate in respect of such infrastructure subsequent to the Track Record Period.

## 25. DEFERRED INCOME

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Customer loyalty programme (i) . . . . .	1,850	1,487	2,798	114
Government grant (ii). . . . .	17,745	16,835	18,375	17,920
	19,595	18,322	21,173	18,034
Current. . . . .	1,850	1,487	2,798	114
Non-current. . . . .	17,745	16,835	18,375	17,920
	19,595	18,322	21,173	18,034

## Notes:

- (i) The deferred income arises in respect of the Group’s coupon award scheme is recognized in accordance with IFRIC 13 Customer Loyalty Programmes.
- (ii) The deferred income represents the infrastructure subsidies granted by government which were received of RMB10 million, RMB8.2 million and RMB2.45 million in the years ended 31 December 2010, 2011 and 2013, respectively. The release of deferred income was RMB455,000, RMB910,000, RMB910,000, RMB455,000 (unaudited) and RMB455,000 for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively, over the useful lives of the relevant buildings.

## 26. SHARE CAPITAL

Issued and fully paid-up:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	USD'000	USD'000	USD'000	USD'000
Share capital of USD0.000025 each . . . . .	24	20	21	21
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Represented as:				
Ordinary shares . . . . .	164	77	77	77
Convertible preferred shares . . . . .	–	57	59	59
	164	134	136	136
	<b>'000</b>	<b>'000</b>	<b>'000</b>	<b>'000</b>
Number of shares:				
Fully paid ordinary shares . . . . .	960,000	450,000	450,000	450,000
Fully paid convertible preferred shares . . . . .	–	365,094	377,264	377,264
	960,000	815,094	827,264	827,264

## 26.1 Ordinary shares

	Authorized shares		Issued capital	
	Number of shares	Amount	Number of shares	Amount
	'million	RMB'000	'000	RMB'000
Balance at 1 January and 31 December 2011 . . . . .	2,000	341	960,000	164
Cancellation of authorized/issued ordinary shares in exchange of newly issued convertible preferred shares (Note i) . . . . .	(510)	(87)	(510,000)	(87)
Increase of authorized capital . . . . .	145	25	–	–
Balance at 31 December 2012 . . . . .	1,635	279	450,000	77
Cancellation of authorized ordinary shares in exchange of newly issued convertible preferred shares (Note ii) . . . . .	(12)	(2)	–	–
Balance at 31 December 2013 and 30 June 2014 . . . . .	1,623	277	450,000	77

## 26.2 Convertible preferred shares

	Authorized shares		Issued capital	
	Number of shares	Amount	Number of shares	Amount
	'million	RMB'000	'000	RMB'000
Balance at 1 January and 31 December 2011 . . . . .	–	–	–	–
Increase of authorized capital and issue of shares (Note i) . . . . .	365	57	365,094	57
Balance at 31 December 2012 . . . . .	365	57	365,094	57
Increase of authorized capital and issue of shares (Note ii) . . . . .	12	2	12,170	2
Balance at 31 December 2013 and 30 June 2014 . . . . .	377	59	377,264	59

The convertible preferred shares, which have a par value of USD0.000025 each, contain same voting right, right to dividend and right to share of net assets at liquidation as holders of ordinary shares except for preference at liquidation including distribution in priority with minimum return, details of which are set out in sub-note 2 below. Convertible preferred shares, in whole or in part, can be converted into ordinary shares on a one-for-one basis and are convertible at any time after the date of issuance of the shares. In accordance with the Articles of Association of the Company:

- 1) If the Company is not successful in an initial public offering and listing of ordinary shares of the Company on the Main Board of the Stock Exchange of Hong Kong (“Qualified IPO”) has not been consummated by the fifth anniversary of the date of the shareholders agreement on 23 November 2012 (the “Agreement”), the convertible preferred shares could be sold to the ordinary shareholders with a transfer price to be negotiated during the exit process. If no agreement is reached between the ordinary shareholder and preferred shareholders within an agreed period as specified in the Agreement, the convertible preferred shares could be sold to independent third parties;
- 2) Upon any liquidation, prior to any distribution or payment to the holders of any ordinary shares, the holder of the convertible preferred shares shall be entitled to receive, with respect to each convertible preferred share, an amount equal to the greater of (i) the sum of the liquidation preference amount, which is calculated based on the investment amount plus a compound annual income equivalent to 7% of such investment amount less any dividend (or other cash distribution) received, and (ii) the amount that such holder of convertible preferred shares would have been entitled to receive, with respect to such convertible preferred shares, if such convertible preferred shares had been converted into ordinary shares (the “Liquidation Payment”). After the holder of the convertible preferred shares have been paid the Liquidation Payment in full, the holder of the convertible preferred shares shall not be entitled to any further participation in any distribution of assets of the Company.

## Notes:

- (i) On 23 November 2012, Super Hot entered into a sales and purchase agreement with General Atlantic Singapore Fund Pte. Ltd. (“GASF”) to transfer 510,000,000 ordinary shares to GASF owned by Super Hot. On the same date, GASF entered into an agreement with the Company to subscribe for 365,094,340 convertible preferred shares.

On 12 December 2012, the transferred ordinary shares were cancelled and in exchange, the Company allotted and issued 365,094,340 convertible preferred shares with par value of USD0.000025 each to GASF. On the same date, pursuant to a special resolution passed, the Company increased the authorised ordinary share capital to 1,634,905,660 shares with par value of USD0.000025 each by the creation of 144,905,660 shares with par value of USD0.000025 each.

- (ii) On 8 February 2013, GASF entered into a sales and purchase agreement with Elite Century Capital Limited (“Elite”) to transfer 24,339,622 convertible preferred shares to Elite owned by GASF. On the same date, Elite entered into a share subscription agreement with the Company to subscribe for 12,169,812 convertible preferred shares. On 4 March 2013, pursuant to a special resolution passed, the Company redesignated 12,169,812 authorized but unissued ordinary shares into 12,169,812 convertible preferred shares. On the same date, a total of 12,169,812 convertible preferred shares with par value of USD0.000025 each were issued for cash to Elite at a consideration of USD5,000,000 (approximately equivalent to RMB31,304,000).

All the convertible preferred shares will be converted into ordinary shares of the Company on a one-for-one basis immediately prior to the closing of the Listing.

## 27. SHARE PREMIUM AND RESERVES OF THE COMPANY

	Share Premium	Retained earnings/ (accumulated loss)	Total
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011 . . . . .	143,485	6,978	150,463
Profit and total comprehensive income for the year . . . . .	–	6,463	6,463
Payment of dividends . . . . .	(630)	(5,671)	(6,301)
Balance at 31 December 2011 . . . . .	142,855	7,770	150,625
Profit and total comprehensive income for the year . . . . .	–	53,782	53,782
Cancellation of authorized ordinary shares in exchange of newly issued convertible preferred shares . . . . .	30	–	30
Payment of dividends . . . . .	(2,514)	(47,770)	(50,284)
Balance at 31 December 2012 . . . . .	140,371	13,782	154,153
Loss and total comprehensive expense for the year . . . . .	–	(530)	(530)
Proceeds from issue of shares . . . . .	31,302	–	31,302
Balance at 31 December 2013 . . . . .	171,673	13,252	184,925
Profit and total comprehensive income for the period . . . . .	–	111,476	111,476
Payment of dividends . . . . .	(4,000)	(146,000)	(150,000)
Balance at 30 June 2014 . . . . .	167,673	(21,272)	146,401

## 28. SHARE OPTION SCHEME

The Company adopted a share option scheme for the grant of options to eligible participants on 28 August 2009 (the "Pre-IPO Share Incentive Plan"). In accordance with the terms of the scheme, executives and senior employees may be granted options to purchase ordinary shares of the Company when there is a Qualified IPO. The share options granted under the Pre-IPO Share Incentive Plan were granted in four different tranches on 31 August 2009, 17 May 2011, 24 December 2012 and 21 March 2014, respectively. The share options are exercisable according to the following arrangement:

Share option tranche	Number of options granted	Grant date	Vesting period
Share option tranche A . . .	4,233,000	31/08/2009	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche B . . .	11,795,228	17/05/2011	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche C . . .	9,670,361	24/12/2012	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche D			
Schedule I . . . . .	3,207,461	21/03/2014	25% for each of 4 years after 24 months from the date of Qualified IPO
Schedule II. . . . .	5,717,140	21/03/2014	25% for each of 4 years after 36 months from the date of Qualified IPO
Schedule III . . . . .	6,664,542	21/03/2014	25% for each of 4 years after 48 months from the date of Qualified IPO

Further details of the Pre-IPO Share Incentive Plan are set out in "Statutory and General Information – Share Incentive Schemes – Pre-IPO Share Incentive Plan" in Appendix IV to the Prospectus.

Each share option can subscribe for one ordinary share of the Company when exercise. No amounts are paid or payable upon the acceptance of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the vesting date to the expiry date as mentioned below.

The exercise price of the share option is the agreed price at the date of the grant. The expiry date is no more than ten years from the date of the grant and the options would be forfeited when the staff resigned before the expiry day.

## (1) Analysis of share options granted to the Group's employees related to the share option scheme

Share option tranches	For the year ended 31 December						For the six months ended 30 June					
	2011		2012		2013		2014					
	Tranche A	Tranche B	Tranche A	Tranche B	Tranche C	Tranche A	Tranche B	Tranche C	Tranche A	Tranche B	Tranche C	Tranche D
Share options granted to Directors . . .	1,400,000	6,029,200	1,400,000	3,564,800	4,594,994	1,400,000	3,564,800	4,594,994	1,400,000	3,564,800	4,594,994	3,437,974
Other key management personnel . . .	600,000	1,977,600	–	739,200	1,387,810	–	739,200	580,663	–	739,200	580,663	5,820,442
Other staff. . .	1,311,000	3,092,172	1,311,000	2,677,373	3,687,557	1,311,000	2,667,106	3,515,355	1,311,000	2,660,946	3,506,418	6,324,105
Share options granted at the end of the year/period .	3,311,000	11,098,972	2,711,000	6,981,373	9,670,361	2,711,000	6,971,106	8,691,012	2,711,000	6,964,946	8,682,075	15,582,521

## (2) The movement of share options

Share options	For the year ended 31 December						For the six months ended 30 June	
	2011		2012		2013		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the year/period . . . . .	4,233,000	0.84	14,409,972	1.57	19,362,734	1.68	18,373,118	1.67
Granted during the year/period . . . . .	11,795,228	1.79	9,670,361	1.84	-	-	15,589,143	2.78
Forfeited during the year/period . . . . .	(1,618,256)	1.25	(4,717,599)	1.67	(989,616)	1.67	(21,719)	2.11
Balance at end of the year/period . . . . .	14,409,972	1.57	19,362,734	1.68	18,373,118	1.67	33,940,542	2.18

## (3) The range of the exercise price about the share options at the end of each reporting period

Share option tranches	Number of options granted	Grant date	Expiry date	Exercise price	Fair value at grant date
Share option tranche A . . . . .	4,233,000	31/08/2009	31/08/2019	0.84	0.33
Share option tranche B . . . . .	11,795,228	17/05/2011	17/05/2021	1.79	0.90
Share option tranche C . . . . .	9,670,361	24/12/2012	24/12/2022	1.84	1.10
Share option tranche D					
Schedule I . . . . .	3,207,461	21/03/2014	21/03/2024	2.78	1.19
Schedule II . . . . .	5,717,140	21/03/2014	21/03/2024	2.78	1.22
Schedule III . . . . .	6,664,542	21/03/2014	21/03/2024	2.78	1.24

## (4) The approach of determining the fair value of the share options

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumption. The inputs into the model were as follows:

Share option schemes	Tranche A	Tranche B	Tranche C	Tranche D		
				Schedule I	Schedule II	Schedule III
Fair value per share . . . . .	0.82	1.86	1.81	2.60	2.60	2.60
Exercise price . . . . .	0.84	1.79	1.84	2.78	2.78	2.78
Dividend yield . . . . .	1.65%	1.37%	-	2%	2%	2%
Risk-free interest rate . . . . .	4.16%	3.58%	1.52%	1.92%	1.99%	2.08%
Year to expiration . . . . .	7.59	6.70	7.38	7.14	7.64	8.14
Expected volatility . . . . .	39.9%	49.9%	60.7%	56.0%	56.0%	56.0%

As the vesting of the share options is contingent on a Qualified IPO and the employee being granted of the share options shall remain employment with the Group at the time of a Qualified IPO, in the opinion of the Directors, no share-based payment expense shall be recognized unless and until the Qualified IPO is probable. As a result, there is no expense has yet been recognized during the Track Record Period.

**29. OPERATING LEASES****The Group as lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payments under operating leases:				
Within one year . . . . .	138,850	179,745	224,580	253,266
In the second to fifth year . . . . .	417,900	526,339	637,506	732,744
After five years . . . . .	144,507	163,697	143,406	212,820
	<u>701,257</u>	<u>869,781</u>	<u>1,005,492</u>	<u>1,198,830</u>

The above operating lease payments commitments represent rental payable by the Group for warehouse and premises leased for restaurants. These leases were negotiated for lease terms of one to fifteen years. Monthly rental was fixed for certain leases.

The operating lease rentals for certain restaurants are determined by applying pre-determined percentage to revenue of the respective restaurants ("Prorated Rental") or at the higher of a fixed rental and a Prorated Rental pursuant to the terms and conditions as set out in the respective rental agreements. As the future revenue of these restaurants could not be reliably determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table.

**30. CAPITAL COMMITMENTS**

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment . . . . .	17,085	12,307	24,500	17,996
	<u>17,085</u>	<u>12,307</u>	<u>24,500</u>	<u>17,996</u>

**31. CONTINGENT LIABILITY**

The Group and the Company had no significant contingent liability at the end of each reporting period.

**32. RETIREMENT BENEFITS CONTRIBUTION**

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for each of the years ended 31 December 2011, 2012 and 2013 and each period of the six months ended 30 June 2013 and 2014 amounted to RMB11,557,000, RMB33,657,000, RMB40,792,000 RMB21,315,000 (unaudited) and RMB23,092,000, respectively.

## 33. RELATED PARTY TRANSACTIONS

## (a) Name and relationship

Name	Relationship
From 1 January 2011 to 11 December 2012 Xiabuxiabu Fast Food Chain Management Co., Ltd. ("Xiabu Fast Food")	Entity controlled by a shareholder with significant influence over the Company
From 12 December 2012 to 30 June 2014 Xiabu Fast Food	Entity controlled by the ultimate controlling shareholder of the Company

## (b) Related party transactions

	Year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Expense on property leasing . . . . .	1,200	1,200	1,240	610	641

At 31 December 2011, 2012 and 2013 and 30 June 2013 and 2014, the commitment for future minimum lease payments under non-cancellable operating lease with Xiabu Fast Food was RMB400,000, RMB400,000, RMB420,000, RMB1,050,000 (unaudited) and RMB2,482,500 respectively.

## (c) Related party balance

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a related party . . . . .	300	-	-	-

The amounts represented rental payable to Xiabu Fast Food. The amounts due to a related party is unsecured, interest-free and repayable on demand. The balance was settled in January 2012.

## (d) Remuneration of key management personnel of the Group

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Short term employee benefits . . . . .	5,643	8,284	9,740	4,432	3,747
Performance related bonuses . . . . .	1,547	3,595	2,172	1,388	498
Post-employment benefit . . . . .	132	57	73	35	36
	<u>7,322</u>	<u>11,936</u>	<u>11,985</u>	<u>5,855</u>	<u>4,281</u>

Further details of the Directors' emoluments are included in Note 11.



## 34. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of the financial instruments*The Group*

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Loans and receivables (Including cash and bank balances) . . . . .	190,509	276,438	354,675	185,347
FVTPL – designated at fair value through profit or loss . . . . .	–	–	–	30,000
Financial liabilities:				
Amortized cost . . . . .	127,403	214,017	212,734	246,724

*The Company*

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Loans and receivables (Including cash and bank balances) . . . . .	121,356	120,926	147,470	120,131
Financial liabilities:				
Amortised cost . . . . .	997	3,006	3,515	23,982

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash and bank balances, short-term investment, trade payables, other payables and amount due to a related party. The Company's major financial instruments are amounts due from a subsidiary, amounts due to subsidiaries, other payables and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

The Group's activities expose it primarily to the foreign currency risk and interest rate risk, which details are described as follows:

*Foreign currency risk management*

The Group undertakes certain financing and operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets as at the end of the reporting period are as follows:

	Assets			
	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
USD . . . . .	62,014	48,785	79,342	38,443
HK\$ . . . . .	4	3	4	11

The functional currency of the Company is RMB in which most of its transactions are denominated. The Company does not have any foreign currency transaction during the Track Record Period which exposes the Company to foreign currency risk.

#### *Sensitivity analysis*

The Group is mainly exposed to the risk of fluctuations in the US dollar against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US dollar. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year/period end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the US dollar. For a 5% strengthening of RMB against the US dollar, there would be an equal and opposite impact on the profit for the year/period, and the amounts below would be negative.

	As at 31 December			As at 30 June
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year . . . . .	3,101	2,439	3,967	1,922

#### *Interest rate risk*

The Group is exposed to cash flow interest risk in relation to variable-rate bank balances (see Note 21), which carry prevailing market interest and short-term investment (see Note 20). The Company is exposed to cash flow interest risk in relation to variable-rate bank balances (see Note 21), which carry prevailing market interest. The Group and the Company currently do not have a specific policy to manage their interest rate risk but will closely monitor their interest rate risk exposure in the future.

No sensitivity analysis on interest rate risk on bank balances is presented as management consider the sensitivity on interest rate risk on bank balances is insignificant.

#### *Credit risk*

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the statements of financial position.

The Group trades with a large number of individual customers and trading terms are mainly on cash and credit card settlement; the Group does not have significant credit risk exposure to any single individual customer. For the trade receivables due from the shopping malls, the Group monitors the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. In addition, the receivable balances are also monitored on ongoing basis. Hence, the management of the Company believes that the Group's credit risk is significantly reduced.

The Group and the Company have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation.

#### *Liquidity risk*

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Company had net current liabilities amounting to RMB156,000, RMB2,301,000, RMB94,000 and RMB15,570,000. The Company relies on the cash generated from dividend declared by its subsidiary as main source of liquidity to meet its financial obligations when they fall due.

In management of liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management relies on the cash generated from operating activities as the main source of liquidity. For the years end 31 December 2011, 2012, 2013 and the six months ended 30 June 2014, the Group had cash generated from operating activities of approximately RMB173.1 million, RMB234.6 million, RMB165.5 million and RMB57.8 million, respectively. The Group expects to meet its other obligations from operating cash flows.

As at 31 December 2011, 2012, 2013 and 30 June 2014, the amounts due to subsidiaries and other payables of the Company were repayable on demand. The following tables details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	<b>On demand or within one month</b>	<b>Over 1 month but within 3 months</b>	<b>Over 3 months but within 1 year</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amount</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<u>As at 31 December 2011</u>					
<b>Financial liabilities</b>					
Trade payables . . . . .	19,994	48,596	–	68,590	68,590
Other payables . . . . .	39,041	15,913	3,433	58,513	58,513
Amount due to a related party . . . . .	300	–	–	300	300
<b>Total . . . . .</b>	<b>59,335</b>	<b>64,509</b>	<b>3,433</b>	<b>127,403</b>	<b>127,403</b>
	<b>On demand or within one month</b>	<b>Over 1 month but within 3 months</b>	<b>Over 3 months but within 1 year</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amount</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<u>As at 31 December 2012</u>					
<b>Financial liabilities</b>					
Trade payables . . . . .	61,344	45,452	–	106,796	106,796
Other payables . . . . .	78,945	21,120	7,155	107,221	107,221
<b>Total . . . . .</b>	<b>140,289</b>	<b>66,572</b>	<b>7,155</b>	<b>214,017</b>	<b>214,017</b>

	On demand or within one month	Over 1 month but within 3 months	Over 3 months but within 1 year	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>As at 31 December 2013</u>					
<b>Financial liabilities</b>					
Trade payables. . . . .	46,070	44,401	–	90,471	90,471
Other payables. . . . .	78,648	36,766	6,849	122,263	122,263
Total. . . . .	<u>124,718</u>	<u>81,167</u>	<u>6,849</u>	<u>212,734</u>	<u>212,734</u>

	On demand or within one month	Over 1 month but within 3 months	Over 3 months but within 1 year	Total undiscounted cash flows	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>As at 30 June 2014</u>					
<b>Financial liabilities</b>					
Trade payables. . . . .	51,685	54,533	174	106,392	106,392
Other payables. . . . .	107,629	24,813	8,890	141,332	141,332
Total. . . . .	<u>159,314</u>	<u>79,346</u>	<u>9,064</u>	<u>247,724</u>	<u>247,724</u>

#### Fair value of financial instruments

The fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The short-term investment of the Group is stated as Level 3 fair value measurement. Fair value of short-term investment is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. Future cash flows are estimated based on expected interest rates. Details of the terms of the short-term investment is set out in Note 20.

Fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

### 35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while to maximise the return to the owners of the Company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of the total equity of the Group.

The management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Group will balance its overall capital structure through issue of new shares, issue of new debts as well as the redemption of existing debts.

## **B. DIRECTORS' REMUNERATION**

Under the arrangements presently in force, the aggregate remuneration payable to the Directors (excluding performance related bonus) for the year ending 31 December 2014 is estimated to be approximately RMB8,161,000.

Save as disclosed in this report, no other remuneration has been paid or is payable by the Company or any of its subsidiaries to the Directors in respect of the Track Record Period.

## **C. SUBSEQUENT EVENTS**

Other than those disclosed in the Section A of the Financial Information, the following significant event took place subsequent to 30 June 2014:

1. On 28 November 2014, the restricted share unit (“RSU”) scheme of the Company was conditionally approved and adopted by the board of Directors. The principal terms of the RSU scheme are set out in the section “Statutory and General Information – Share Incentive Schemes – RSU Scheme” in Appendix IV to the prospectus.
2. By the end of November 2014, the Group has suspended the operation of 21 restaurants of which the Group has not yet completed the necessary fire safety verification or fire safety inspection up to the relevant dates of the suspension. The carrying amount of the leasehold improvement, rental deposits and prepaid rental as at 31 October 2014 related to these restaurants were approximately RMB15.4 million in aggregate. In addition, pursuant to the terms of the relevant lease agreements, the Group may also incur penalties and compensation as a result of early termination of the relevant leases. At the date of this report, the directors of the Company are still in the process of negotiation with the relevant landlords and assessing the resulting financial impact.

## **D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by any of the companies now comprising the Group in respect of any period subsequent to 30 June 2014.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules, and is set forth below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2014, as if it had taken place on 30 June 2014.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared for illustrative purposes only, and due to its hypothetical nature, may not give a true picture of the financial position of the Group had the Global Offering been completed as of 30 June 2014 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2014 as set forth in the Accountants' Report contained in Appendix I to this prospectus, and adjusted as described below.

	<b>Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2014</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share</b>	
	<b>RMB'000 (Note 1)</b>	<b>RMB'000 (Note 2)</b>	<b>RMB'000</b>	<b>RMB (Note 3)</b>	<b>Equivalent to HK\$ (Note 5)</b>
Based on an Offer Price of HK\$4.40 per Share . . . . .	466,505	740,007	1,206,512	1.78	2.25
Based on an Offer Price of HK\$5.00 per Share . . . . .	466,505	843,981	1,310,486	1.94	2.45

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*Notes:*

- (1) *The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2014 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as of 30 June 2014 of approximately RMB469.8 million less the intangible assets of the Group as at 30 June 2014 of approximately RMB3.3 million.*
- (2) *The estimated net proceeds from the Global Offering are based on 227,100,000 Offer Shares at the indicative Offer Price of HK\$4.40 (equivalent to RMB3.48) and HK\$5.00 (equivalent to RMB3.95) per Offer Share, respectively after deduction of total estimated underwriting commissions and fees and other listing related expenses (excluding approximately RMB19.2 million listing expenses which has been accounted for up to 30 June 2014) paid or payable by the Company, and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which have been or may be granted under the Pre-IPO Share Incentive Plan and the RSU Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.*
- (3) *The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2014 per Share is arrived at after the adjustments referred to in Note (2) and on the assumption that 677,100,000 Shares (being the number of ordinary shares in issue as of 30 June 2014 and those shares to be issued pursuant to the Global Offering) were in issue upon completion of the Global Offering. The unaudited pro forma adjusted consolidated net tangible assets of the Group as stated above has not been adjusted the effect of the shares to be issued upon conversion of 377,264,152 Preferred Shares on a one-for-one basis immediately prior to the closing of the Listing. Had the conversion of the Preferred Shares been taken into account by adjusting the total number of shares were in issue upon completion of the Global Offering to 1,054,364,152 Shares, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would decrease to RMB1.14 (equivalent to HK\$1.45) based on the Offer Price of HK\$4.40 per Offer Share and to RMB1.24 (equivalent to HK\$1.57) based on the Offer Price of HK\$5.00 per Offer Share. The unaudited pro forma adjusted consolidated net tangible assets of the Group also takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or upon the exercise of options which have been or may be granted under the Pre-IPO Share Incentive Plan and the RSU Scheme or of any Shares which may be allotted and issued or repurchased by the Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.*
- (4) *No adjustment has been made to reflect any trading or other transactions of the Group entered into subsequent to 30 June 2014, and in particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group has not been adjusted the effect of the dividend distribution amounting to RMB70 million in September 2014. The dividend distribution would result in a decrease of RMB70 million on the Group's net tangible asset value attributable to the owners of the Company before the Global Offering. Had the dividend been taken into account by adjusting RMB70 million to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company and based on 1,054,364,152 Shares as mentioned in Note (3) above, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would decrease to RMB1.08 (equivalent to HK\$1.36) based on the Offer Price of HK\$4.40 per Offer Share and to RMB1.18 (equivalent to HK\$1.49) based on the Offer Price of HK\$5.00 per Offer Share.*
- (5) *For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted to Renminbi at the rate of HK\$1 to RMB0.79080, as set out in "Information about this Prospectus and the Global Offering – Exchange Rate Conversion" to this prospectus. No representation is made that the HK\$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at all.*

**B.    ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON  
UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF XIABUXIABU CATERING MANAGEMENT (CHINA)  
HOLDINGS CO., LTD.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2014 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 5 December 2014 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 30 June 2014 as if the Global Offering had taken place at 30 June 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2013 and the six months ended 30 June 2014, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").



**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 5 December 2014

*This Appendix contains a summary of the Memorandum and Articles of Association of our Company. As the information set out below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus, a copy of the Memorandum and Articles of Association is available for inspection.*

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 14, 2008 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on November 28, 2014. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

- (i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such

restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

## (vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

## (vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;



(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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*Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.*

(ix) Proceedings of the Board

The board may meet for the dispatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.



Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by

an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.



**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 27 May 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of Our Company**

Our Company was incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on May 14, 2008. Our Company has established a place of business in Hong Kong at Room 1201, 12/F., OfficePlus@Wan Chai, No. 303 Hennessy Road, Wanchai, Hong Kong and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on March 4, 2014. Ms. Hailin Zhao has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was established in the Cayman Islands, its operations is subject to the Cayman Companies Law and to the Memorandum and Articles of Association. A summary of certain aspects of the Cayman Islands company law and a summary of certain provisions of our Articles of Associations are set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus.

**2. Changes in the Share Capital of Our Company**

As of the date of incorporation of our Company, our Company had an authorized share capital of US\$50,000, divided into 500,000,000 shares in one class of US\$0.0001 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- On May 14, 2008, we allotted and issued one subscriber share at par of US\$0.0001 to Codan Trust Company (Cayman) Limited. On the same date, the one subscriber share was transferred to Mr. Ho at par of US\$0.0001.
- On May 29, 2008, Mr. Ho transferred the one share directly held by him to Ying Qi Investments at par.
- On June 2, 2008, we allotted and issued 99 shares of US\$0.0001 each to Ying Qi Investments.
- On November 3, 2008, the authorized share capital of the Company was redesignated and reclassified into 350,000,000 ordinary shares of US\$0.0001 par value each, 100,000,000 class A shares of US\$0.0001 par value each and 50,000,000 class B shares of US\$0.0001 par value each and that the then existing 100 issued ordinary shares of par value of US\$0.0001 each held by Ying Qi Investments was redesignated as ordinary shares.
- On November 3, 2008, we allotted and issued 95,313 of the then class A shares to Ying Qi Investments for cash at par of US\$0.0001 per share.

- On November 3, 2008, we allotted and issued to three special purpose vehicle of Actis, namely Super Hot (AEM3A) Limited, Super Hot (AEM General) Limited and Super Hot (AC3A) Limited, 1,487 class A shares, 13,377 class A shares and 2,335 class A shares, respectively, at a consideration of RMB144 million.
- On November 3, 2008, Ying Qi Investments transferred 3,630 class A shares to Super Hot (AEM3A) Limited, 32,995 class A shares to Super Hot (AEM General) Limited, and 5,948 class A shares to Super Hot (AC3A) Limited at a consideration of RMB207 million.
- On November 3, 2008, we repurchased the 100 ordinary shares of par value of US\$0.0001 each of our Company then held by Ying Qi Investments at a consideration of US\$0.0001 per share for an aggregate purchase price of US\$0.01. The purchase price was paid out of capital of our Company.
- On August 28, 2009, we effected a reorganization of our share capital pursuant to which 112,512 of the then existing issued class A shares of par value of US\$0.0001 each (including 52,740 class A shares held by Ying Qi Investments, 5,117 class A shares held by Super Hot (AEM3A) Limited, 8,283 class A shares held by Super Hot (AC3A) Limited and 46,372 class A shares held by Super Hot (AEM General) Limited) were repurchased and canceled by our Company in exchange for the issue and allotment of a total of 240,000,000 ordinary shares of US\$0.0001 par value each, which include the issue and allotment of 112,500,000 ordinary shares to Ying Qi Investments, 10,915,103 ordinary shares to Super Hot (AEM3A) Limited, 17,668,515 ordinary shares to Super Hot (AC3A) Limited and 98,916,382 ordinary shares to Super Hot (AEM General) Limited.
- On August 28, 2009 and immediately upon the completion of the capital reorganization stated above, the authorized share capital of the Company was re-designated as US\$50,000 divided into 500,000,000 ordinary shares of which 240,000,000 ordinary shares were issued and outstanding. On the same date and immediately upon the re-designation of the authorized share capital becoming effective, every one (1) issued and unissued ordinary share of US\$0.0001 par value each was sub-divided into four (4) ordinary shares of US\$0.000025 par value each such that the authorized share capital was further amended to US\$50,000 divided into 2,000,000,000 Shares in one class with par value of US\$0.000025 each, of which 960,000,000 Shares were issued and outstanding. Out of these 960,000,000 Shares, 450,000,000 Shares were held by Ying Qi Investments, 43,660,412 Shares by Super Hot (AEM3A) Limited, 70,674,060 Shares by Super Hot (AC3A) Limited and 395,665,528 Shares by Super Hot (AEM General) Limited.
- On December 30, 2009, the 43,660,412 Shares held by Super Hot (AEM3A) Limited and the 70,674,060 Shares held by Super Hot (AC3A) Limited were transferred and amalgamated with the 395,665,528 Shares held by Super Hot (AEM General) Limited. Accordingly, Super Hot (AEM General) Limited held a total of 510,000,000 Shares upon completion of the amalgamation.

- On December 12, 2012, the authorized share capital of the Company was altered to US\$50,000, divided into 1,634,905,660 ordinary shares of par value of US\$0.000025 each and 365,094,340 voting convertible preferred shares of par value of US\$0.000025 each, by the re-designation of 960,000,000 issued shares and 674,905,660 authorized but unissued shares into 1,634,905,660 ordinary shares and the re-designation of 365,094,340 authorized but unissued shares into 365,094,340 preferred shares.
- On December 12, 2012, Super Hot (AEM General) Limited transferred 510,000,000 Shares then held by it to GASF at a consideration of US\$150 million.
- On December 12, 2012, we allotted and issued to GASF 365,094,340 Preferred Shares in consideration of the contribution of the 510,000,000 Shares acquired by GASF to us. The 510,000,000 Shares were repurchased and canceled on the same date.
- On March 4, 2013, the authorized share capital of the Company was further altered to US\$50,000, divided into 1,622,735,848 ordinary shares of par value of US\$0.000025 each and 377,264,152 voting convertible preferred shares of par value of US\$0.000025 each, by the re-designation of 12,169,812 authorized but unissued ordinary shares into 12,169,812 preferred shares.
- On March 4, 2013, we allotted and issued to Elite Century Capital 12,169,812 Preferred Shares at a consideration of US\$5 million. On the same date, 24,339,622 Preferred Shares were transferred from GASF to Elite Century Capital at a consideration of US\$10 million.

Upon the automatic conversion of all Preferred Shares upon Listing and assuming the Preferred Shares are converted into Shares on a one-for-one basis, we shall allot and issue to each of GASF and Elite Century Capital 340,754,718 Shares and 36,509,434 Shares, respectively, and the 377,264,152 issued Preferred Shares shall be canceled upon completion of the conversion. Immediately following the completion of the conversion, our authorized share capital will be altered to US\$50,000, divided into 2,000,000,000 shares in one class of US\$0.000025 by the re-designation of all authorized but unissued shares as ordinary shares. Immediately following the completion of the Global Offering but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme, our issued share capital will be US\$26,359, divided into 1,054,364,152 Shares of US\$0.000025 each, all fully paid or credited as fully paid and 945,635,848 Shares of US\$0.000025 each will remain unissued.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our establishment.

**3. Resolutions in Writing of the Shareholders of Our Company Passed on November 28, 2014**

Pursuant to the written resolutions passed by the Shareholders on November 28, 2014:

- (a) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (ii) the Offer Price being fixed on the Price Determination Date and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
  - (i) our Company approved and adopted the Memorandum and Articles of Association which will come into effect upon Listing;
  - (ii) the authorized share capital of our Company was altered to US\$50,000, divided into 2,000,000,000 shares in one class of US\$0.000025 by the re-designation of all authorized but unissued shares as ordinary shares;
  - (iii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the new Shares pursuant to the Global Offering and the Over-allotment Option;
  - (iv) the granting of the Over-allotment Option was approved;
  - (v) the proposed Listing was approved and our Directors were authorized to implement the Listing;
- (b) a general unconditional mandate was granted to our Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles, (iii) the exercise of options granted pursuant to the Pre-IPO Share Incentive Plan, (iv) the exercise of any subscription or conversion into Shares or in issue prior to the date of passing the relevant resolution or (v) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (i) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but excluding any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and (ii)



the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (f) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”);

- (c) a general unconditional mandate was granted to our Directors to exercise all the powers of our Company to repurchase on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Global Offering (but excluding any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect during the Applicable Period;
- (d) the general unconditional mandate mentioned in paragraph (b) above be extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the Company’s share capital in issue immediately following completion of the Global Offering (but excluding any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (e) conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares underlying the RSUs which may be granted pursuant to the RSU Scheme and the commencement of trading of the Shares on the Stock Exchange, the Board or any committee thereof was authorized to grant RSUs pursuant to the RSU Scheme and to allot and issue Shares, procure the transfer of, and otherwise deal with Shares in connection with the RSU Scheme.

#### 4. Our Corporate Reorganization

The companies comprising our Group did not undergo a reorganization in preparation for the Listing.

#### 5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report, we do not have any other subsidiaries.

There have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

#### 6. Repurchases of Our Own Securities

##### *(a) Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

##### *(i) Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on November 28, 2014, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Global Offering (without taking into account any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the conclusion of our next annual general meeting, the expiration of the period within which we are required by any applicable laws or our Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

*(ii) Source of Funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum and our Articles, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by our Company may be made out of the profits of our Company, out of the share premium account of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

*(iii) Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

*(iv) Status of Repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

*(v) Suspension of Repurchase*

A listed company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange

in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

*(vi) Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

*(vii) Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the listed company.

*(b) Reasons for Repurchases*

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

*(c) Funding of Repurchases*

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

*(d) General*

The exercise in full of the repurchase mandate, on the basis of 1,054,364,152 Shares in issue immediately following the completion of the Global Offering (without taking into account any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme or any Shares which may be issued pursuant to the exercise of the Over-allotment Option), could accordingly result in up to approximately 105,436,415 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of Shares that results in the number of Shares held by the public falling below 25% of the total number of Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the share subscription agreement dated February 8, 2013 entered into between the Company and Elite Century Capital, pursuant to which Elite Century Capital agreed to subscribe for, and the Company agreed to allot and issue to Elite Century Capital, 12,169,812 convertible preferred shares with a par value of US\$0.000025 at US\$0.410852 per share for a total purchase price of US\$5,000,000;
- (b) the amended and restated shareholders agreement dated March 4, 2013 entered into among the Company, Mr. Ho, Ying Qi Investments, GASF and Elite Century Capital, governing the relationship of the parties as shareholders of the Company and the management and operation of the Company Group (as defined therein);
- (c) the deed of indemnity dated November 28, 2014 made by Mr. Ho in favor of our Company (for itself and as trustee for its subsidiaries), pursuant to which Mr. Ho has agreed to indemnify our Group against all the fines and penalties arising from non-compliance incidents;
- (d) the cornerstone investment agreement dated November 29, 2014 entered into among our Company, Gaoling Fund, L.P., YHG Investment, L.P. and the Joint Global Coordinators, pursuant to which Gaoling Fund, L.P. and YHG Investment, L.P. agreed to purchase the Offer Shares, at the Offer Price, in the aggregate amount of US\$35,000,000; and
- (e) the Hong Kong Underwriting Agreement.


















**2. Our Material Intellectual Property Rights**













As of the Latest Practicable Date, we have registered the following intellectual property rights which we consider to be material in relation to our business.

**(a) Trademarks**

As of the Latest Practicable Date, our Group has registered the following trademarks which are material to our business:

No.	Trademark	Type and Class <sup>(1)</sup>	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
1.		43	Xiabu Hong Kong	Hong Kong	301020644	December 24, 2007	December 23, 2017
2.		43	Xiabu Hong Kong	Hong Kong	301020671	December 24, 2007	December 23, 2017
3.		42	Xiabu Hong Kong	PRC	1415989	June 28, 2010	June 27, 2020

No.	Trademark	Type and Class <sup>(1)</sup>	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
4.		43	Xiabu Hong Kong	PRC	4950310	May 28, 2009	May 27, 2019
5.		43	Xiabu Hong Kong	PRC	4762342	February 7, 2009	February 6, 2019
6.		43	Xiabu Hong Kong	PRC	4762343	February 21, 2009	February 20, 2019
7.		43	Xiabu Hong Kong	PRC	4762344	February 21, 2009	February 20, 2019
8.		29	Xiabu Hong Kong	PRC	5348040	April 21, 2009	April 20, 2019
9.		31	Xiabu Hong Kong	PRC	5348041	April 21, 2009	April 20, 2019
10.		43	Xiabu Hong Kong	PRC	4762345	February 7, 2009	February 6, 2019
11.		43	Xiabu Hong Kong	PRC	3628091	October 14, 2005	October 13, 2015
12.		43	Xiabu Hong Kong	PRC	3628090	October 14, 2005	October 13, 2015
13.		30	Xiabu Hong Kong	PRC	4614740	December 7, 2007	December 6, 2017
14.		32	Xiabu Hong Kong	PRC	4614738	December 7, 2007	December 6, 2017
15.		43	Xiabu Hong Kong	PRC	4614736	December 7, 2008	December 6, 2018
16.		43	Xiabu Hong Kong	PRC	4614737	December 7, 2008	December 6, 2018
17.		43	Xiabu Hong Kong	PRC	4614739	December 7, 2008	December 6, 2018
18.		43	Xiabu Hong Kong	PRC	4697145	January 21, 2009	January 20, 2019
19.		43	Xiabu Hong Kong	PRC	8985631	June 14, 2012	June 13, 2022
20.		43	Xiabu Hong Kong	PRC	8985629	May 7, 2012	May 6, 2022

No.	Trademark	Type and Class <sup>(1)</sup>	Registered Owner	Place of Registration	Registration Number	Registration Date	Expiry Date
21.		43	Xiabu Hong Kong	PRC	8985630	May 7, 2012	May 6, 2022
22.		43	Xiabu Hong Kong	Macau	N/052079	February 9, 2011	February 9, 2018
23.		43	Xiabu Hong Kong	Taiwan	1267557	June 16, 2007	June 15, 2017
24.		43	Xiabu Hong Kong	Taiwan	1253684	March 1, 2007	February 28, 2017
25.		43	Xiabu Hong Kong	Korea	41-0213506	July 14, 2011	July 14, 2021
26.		43	Xiabu Hong Kong	Canada	1487084	October 28, 2011	October 27, 2026
27.		43	Xiabu Hong Kong	England	2549574	June 4, 2010	June 3, 2020
28.		43	Xiabu Hong Kong	United States	3922792	July 6, 2010	July 5, 2020
29.		43	Xiabu Hong Kong	Australia	1366482	June 11, 2010	June 10, 2020
30.		43	Xiabu Hong Kong	Singapore	T1007379Z	June 11, 2010	June 10, 2020
31.		43	Xiabu Hong Kong	The United Arab Emirates	148357	October 20, 2010	October 19, 2020
32.		43	Xiabu Hong Kong	Japan	5375578	December 10, 2010	December 9, 2020

*Note:*

(1) *Class 29: Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs; milk and milk products; edible oils and fats.*

*Class 30: Coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.*

*Class 31: Grains and agricultural, horticultural and forestry products not included in other classes; live animals; fresh fruits and vegetables; seeds; natural plants and flowers; foodstuffs for animals; malt.*

*Class 32: Beers; mineral and aerated waters and other non-alcoholic beverages; fruit beverages and fruit juices; syrups and other preparations for making beverages.*

*Class 43: Services for providing food and drink; temporary accommodation.*



As of the Latest Practicable Date, our Group has applied for the registration of the following trademarks which are material to our business:

No.	Trademark	Type and Class	Name of Applicant	Place of Application	Application Number	Application Date
1.		43	Xiabu Hong Kong	India	1979744	June 15, 2010
2.	呷哺呷哺涮涮鍋	43	Xiabu Hong Kong	PRC	13614442	November 26, 2013

**(b) Domain Names**

As of the Latest Practicable Date, our Group has registered the following domain names:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1.	xiabu.com.hk	Xiabu Hong Kong	August 5, 2011	August 5, 2017
2.	xiabu.tw	Xiabu Hong Kong	August 3, 2011	August 3, 2017
3.	xiabu.hk	Xiabu Hong Kong	August 5, 2011	August 3, 2017
4.	xiabu.com.tw	Xiabu Hong Kong	August 3, 2011	August 3, 2017
5.	呷哺.公司	Xiabu Hong Kong	November 27, 2006	August 20, 2017
6.	呷哺.com	Xiabu Hong Kong	September 12, 2006	September 12, 2017
7.	xiabu.mobi	Xiabu Hong Kong	September 18, 2006	September 18, 2017
8.	xiabu.cn	Xiabu Hong Kong	September 16, 2003	September 16, 2017
9.	xiabu.com	Xiabu Hong Kong	September 15, 2003	September 15, 2015
10.	呷哺呷哺.中國	Xiabu Beijing	November 17, 2009	November 17, 2019
11.	呷哺呷哺.公司	Xiabu Beijing	August 20, 2014	August 21, 2020
12.	呷哺呷哺.網絡	Xiabu Beijing	August 20, 2014	August 21, 2020
13.	呷哺呷哺.net	Xiabu Beijing	November 17, 2009	November 17, 2019
14.	呷哺呷哺.com	Xiabu Beijing	November 17, 2009	November 17, 2019
15.	呷哺呷哺.cn	Xiabu Beijing	November 17, 2009	November 17, 2019

**(c) Copyrights**

As of the Latest Practicable Date, we have registered the following copyrights:

No.	Registrant	Title of Product	Registration Number	Place of Registration	Registration Date
1.	Xiabu Hong Kong	Xiabuxiabu (呷哺呷哺)	2011-F-050296	PRC	November 29, 2011
					
2.	Xiabu Hong Kong	2012 Xiabuxiabu Calendar (2012年呷哺呷哺檯曆呷哺版)	2011-F-050297	PRC	November 29, 2011
3.	Xiabu Hong Kong	Xia Ke (呷客)	2011-F-050295	PRC	November 29, 2011
4.	Xiabu Hong Kong	Caicai Rourou (菜菜肉肉)	2011-F-035229	PRC	January 20, 2011

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of Interests

#### (a) *Interests of the Directors and the Chief Executive of Our Company*

Immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or any Shares to be issued under the RSU Scheme, so far as our Directors are aware, the interests or short positions of the Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed, will be as follows:

Name of Director/ Chief Executive	Capacity/Nature of Interest	Number of Underlying Shares	Approximate percentage of shareholding immediately following the completion of the Global Offering
Mr. Ho <sup>(3)</sup> . . . . .	Founder of a discretionary trust	450,000,000	42.68%
Ms. Yang Shuling <sup>(4)</sup> . . . . .	Beneficial owner	12,997,767	1.23%
Ms. Chen Su-Yin <sup>(3)(5)</sup> . . . . .	Interest of spouse	450,000,000	42.68%

*Notes:*

- (1) *The calculation is based on the total number of 1,054,364,152 Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme).*
- (2) *All interests stated are long positions.*
- (3) *The Ying Qi Trust, a discretionary trust established by Mr. Ho (as the settlor) for the benefit of Mr. Ho and with Ying Qi PTC acting as the Trustee, holds the entire issued share capital of Ying Qi Investments. Accordingly, Mr. Ho is deemed to be interested in the 450,000,000 Shares held by Ying Qi Investments.*
- (4) *Ms. Yang Shuling is interested in 12,997,767 options granted to him under the Pre-IPO Share Incentive Plan subject to vesting. Such options represent 12,997,767 underlying shares.*
- (5) *Ms. Chen Su-Yin is the wife of Mr. Ho and is deemed to be interested in the Shares which are interested by Mr. Ho under the SFO.*

*(b) Interests of the Substantial Shareholders*

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares or the underlying Shares which, once the Shares are listed, would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

**2. Directors’ Service Contracts and Letters of Appointment**

Each of our executive Directors has entered into a service contract with our Company on November 28, 2014 and we have issued letters of appointment to our non-executive Director and each of our independent non-executive Directors. The principal particulars of these service contracts with our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial term of three years commencing from November 28, 2014. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**3. Directors’ Remuneration**

The aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2014 was approximately RMB2.6 million, RMB2.9 million and RMB3.7 million and RMB1.6 million, respectively.

Save as disclosed in this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors for the years ended December 31, 2011, 2012 and 2013.

Pursuant to the service contracts entered into between our Company and each of our executive Directors, the director's fee and basic annual salary payable to each of our executive Directors are as follows:

Director	Remuneration (per annum) (HK\$)
Mr. Ho . . . . .	1,100,000
Ms. Yang Shuling . . . . .	480,000

Each of our non-executive Directors and independent non-executive Directors shall be entitled to a director's fee of HK\$240,000 per annum.

Under the existing arrangements that are currently in force as of the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending December 31, 2014 is estimated to be approximately RMB8.2 million in aggregate.

#### **4. Directors' Competing Interests**

None of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

#### **5. Indemnity Given by Mr. Ho**

Mr. Ho has, pursuant to a deed of indemnity referred to in the section headed "B. Further Information about Our Business – 1. Summary of Material Contracts" in this Appendix IV, given indemnities in favor of our Company in connection with, among other things, all fines and penalties arising from the alleged violation or non-compliance incidents by our Group as set forth in the section headed "Business – Licenses, Regulatory Approvals and Compliance Record" in this prospectus during the Track Record Period and up to the date on which the Global Offering becomes unconditional. The aforesaid deed of indemnity is conditional on the conditions set out in the paragraph headed "Conditions of the Hong Kong Public Offering" in the section headed "Structure of the Global Offering" being fulfilled.

**6. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive of our Company has any interests and short positions in the shares, underlying shares and debentures of our Company or our associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;
- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (c) none of our Directors nor any of the parties listed in the section headed “Other Information – Qualification of experts” of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) save as disclosed in this prospectus or in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in section headed “Other Information – Qualification of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group as a whole;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Other Information – Qualification of experts” of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) none of our Directors or their respective associates (as defined under the Listing Rules) or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

**D. SHARE INCENTIVE SCHEMES****1. Pre-IPO Share Incentive Plan**

The following is a summary of the principal terms of the Pre-IPO Share Incentive Plan approved and adopted by our sole Shareholder on August 28, 2009.

**(a) Purpose**

The purpose of the Pre-IPO Share Incentive Plan is to promote the success of our Company and the interests of our shareholders by providing a means through which our Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of the grantees or recipients of the options (“**Options**”) or share awards (“**Share Awards**”, together with the Options, collectively referred to as the “**Awards**”) with those of our shareholders generally.

**(b) Who may participate**

Awards may be granted under the Pre-IPO Share Incentive Plan only to those persons that the Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Pre-IPO Share Incentive Plan) (the “**Administrator**”) determines to be Eligible Persons. An “**Eligible Person**” means any person who qualifies as one of the following at the time of grant of the respective Award:

- (i) an officer (whether or not a director) or employee of our Company or any of our affiliates;
- (ii) any member of the Board; or
- (iii) any director of one of our affiliates, or any individual consultant or advisor who renders or has rendered bona fide services (other than services in connection with the offering or sale of securities of our Company or one of our affiliates, as applicable, in a capital raising transaction or as a market maker or promoter of that entity’s securities) to our Company or one of our Affiliates.

**(c) Maximum number of Shares in respect of which Awards may be granted**

The maximum number of Shares which may be issued and/or delivered pursuant to all Awards granted under the Pre-IPO Share Incentive Plan must not exceed 40,000,000 Shares, representing approximately 4.84% of our total issued share capital immediately prior to the completion of the Global Offering.

*(d) Acceptance of an offer of options*

Each Award shall be evidenced by an award agreement (“**Award Agreement**”) in the form approved by the Administrator. The Award Agreement evidencing an Award shall contain the terms established by the Administrator for that Award, as well as any other terms, provisions, or restrictions that the Administrator may impose on the Award, and in the case of Options, any Shares subject to the Option; in each case subject to the applicable provisions and limitations of the Pre-IPO Share Incentive Plan. The Administrator may require that the recipient of an Award promptly execute and return to our Company his or her Award Agreement evidencing the Award. The grantee or recipient of the Award is not required to pay for the grant of any Award under the Pre-IPO Share Incentive Plan.

*(e) Exercise price*

The exercise price in respect of any Option granted under the Pre-IPO Share Incentive Plan shall be set forth in the relevant Award Agreement, and the exercise price of an Option shall be no less than the greatest of:

- (i) the par value of the Shares; and
- (ii) the value as reasonably determined by the Administrator.

Payment of the exercise price for the number of Shares being purchased pursuant to the exercise of any Option shall be made:

- (i) in cash, by cheque payable to the order of our Company or electronic funds transfer;
- (ii) notice and third party payment in such manner as may be authorized by the Administrator;
- (iii) the delivery of previously owned Shares;
- (iv) by a reduction in the number of Shares otherwise deliverable pursuant to the Awards;
- (v) subject to such procedures as the Administrator may adopt pursuant to a “cashless exercise”; or
- (vi) if authorized by the Administrator or specified in the applicable Award Agreement, by a promissory note of the participant,

provided that no Shares newly-issued by the Company may be issued for less than the minimum lawful consideration for such Shares or for consideration other than consideration permitted by applicable law.

In the case of Share Awards granted under the Pre-IPO Share Incentive Plan, the Administrator will determine the purchase price per share of the Shares covered covered by each Share Award at the time of grant of the Share Award, provided that such purchase price shall not be less than the par value of the Shares. The purchase price of any Shares subject to a Share Award must be paid in full at the time of the purchase in such lawful consideration as may be permitted or required by the Administrator.

*(f) Duration of Pre-IPO Share Incentive Plan*

The Pre-IPO Share Incentive Plan shall be valid and effective for a period from the date of adoption and expiring on the Listing Date, after which period no further Awards will be granted but the provisions of the Pre-IPO Share Incentive Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any Awards granted prior thereto which are at that time or become thereafter capable of exercise under the Pre-IPO Share Incentive Plan, or otherwise to the extent as may be required in accordance with the provisions of the Pre-IPO Share Incentive Plan.

*(g) Time of vesting and exercise of options*

Any Option may be exercised only to the extent that it is vested and exercisable. The Administrator will determine the vesting and/or exercisability provisions of each Option (which may be based on performance criteria, passage of time or other factors or any combination thereof), which provisions shall be set forth in the relevant Award Agreement. Unless the Administrator otherwise expressly provides, once exercisable an Option will remain exercisable until the expiration or earlier termination of the Option. Each Option shall expire not more than 10 years after its date of grant. Any exercisable Option will be deemed to be exercised when our Company receives written notice of such exercise from the participant (on a form and in such manner as may be required by the Administrator), together with any required payment. Fractional share interests will be disregarded, but may be accumulated. No fewer than 1,000 Shares may be purchased on exercise of any Option at one time unless the number purchased is the total number at the time available for purchase under the Option. The Administrator may, in its discretion, designate any Option as an Option eligible for exercise prior to vesting in accordance with the provisions of the Pre-IPO Share Incentive Plan. The applicable Award Agreement will specify the extent (if any) to which and the time (if ever) at which the Participant will be entitled to dividends, voting and other rights in respect of such restricted Shares prior to vesting, and the restrictions imposed on such Shares and the conditions of release or lapse of such restrictions.

In the case of Share Awards granted under the Pre-IPO Share Incentive Plan, the restrictions imposed on the Shares subject to the Share Award (which may be based on performance criteria, passage of time or other factors or any combination thereof) will be set forth in the relevant Award Agreement. A Share Award shall either vest or be repurchased by the Company not more than 10 years after the date of grant. Each Share Award will be subject to earlier repurchase as provided otherwise provided in the Pre-IPO Share Incentive Plan. Any payment of cash or delivery of shares in payment for a Share Award may be delayed until a future date if specifically authorized by the Administrator in writing and by the participant.



***(h) Ranking of the Shares***

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an Option that has not been exercised. Shares allotted and issued on the exercise of an Option or the granting of the Share Awards will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment. Unless otherwise provided in the Award Agreement, a participant holding restricted Shares will be entitled to cash dividend and voting rights for all restricted Shares issued, if any, even though they are not vested, but such rights will terminate immediately as to any restricted Shares which cease to be eligible for vesting or are repurchased by our Company.

***(i) Restrictions on transfer***

All awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The Awards can only be exercised by the participant and the amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and, in the case of Shares, registered in the name of the participant. The Shares and Awards shall also be subject to any restrictions set forth in the relevant Award Agreement.

***(j) Rights on dismissal***

Unless otherwise provided in the Award Agreement and subject to earlier termination, if a participant's employment by or service to our Company or any of our affiliates is terminated by such entity for cause, the participant's Option will terminate on the relevant dismissal date, whether or not the Option is then vested and/or exercisable.

***(k) Rights on other termination of employment***

Unless otherwise provided in the Award Agreement and subject to earlier termination, if a participant's employment by or service to our Company or any of our affiliates terminates for any reason other than a termination by such entity for cause or because of the participant's death or total disability:

- (i) the participant will have until the date that is 90 days after the termination date to exercise his or her Option (or portion thereof) to the extent that it was vested and exercisable on the termination date;
- (ii) the Option, to the extent not vested and exercisable on the termination date, shall terminate on the termination date; and
- (iii) the Option, to the extent exercisable for the 90-day period following the participant's termination date and not exercised during such period, shall terminate at the close of business on the last day of the 90-day period.

*(l) Rights on death or disability*

Unless otherwise provided in the Award Agreement and subject to earlier termination, if a participant's employment by or service to our Company or any of our affiliates terminates as a result of the participant's death or total disability:

- (i) the participant (or his or her personal representative or beneficiary, in the case of the participant's total disability or death, respectively), will have until the date that is 12 months after the relevant date to exercise the participant's Option (or portion thereof) to the extent that it was vested and exercisable on the such date;
- (ii) the Option, to the extent not vested and exercisable on the relevant date, shall terminate on such date; and
- (iii) the Option, to the extent exercisable for the 12-month period following the relevant date and not exercised during such period, shall terminate at the close of business on the last day of the 12-month period.

*(m) Effect of alteration to share capital*

Upon (or, as may be necessary to effect the adjustment, immediately prior to) any reclassification, recapitalization, share split (including a share split in the form of a share dividend) or reverse share split; any merger, combination, consolidation, or other reorganization; any split-up, spin-off, or similar extraordinary dividend distribution in respect of the Shares; or any exchange of Shares or other securities of our Company, or any similar, unusual or extraordinary corporate transaction in respect of the Shares; then the Administrator shall equitably and proportionately adjust (1) the number of Shares (or other securities) that thereafter may be made the subject of Awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number and amount of shares of Ordinary Shares (or other securities or property) subject to any outstanding Awards, (3) the grant, purchase, or exercise price of any outstanding Awards, and/or (4) the securities, cash or other property deliverable upon exercise or vesting of any outstanding Awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by the Pre-IPO Share Incentive Plan and the then-outstanding Awards.

Unless otherwise expressly provided in the Award Agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Administrator shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based Awards to the extent necessary to preserve (but not increase) the level of incentives by the Pre-IPO Share Incentive Plan and the then-outstanding performance-based Awards.

Without limiting the generality of the foregoing, any good faith determination by the Administrator as to whether an adjustment is required in the circumstances, and the extent and nature of any such adjustment, shall be conclusive and binding on all Persons.

Unless otherwise expressly provided by the Administrator, in no event shall a conversion of one or more outstanding shares of our Company's preferred share (if any) or any new issuance of securities by our Company for consideration be deemed, in and of itself, to require an adjustment.

*(n) Change in control and early termination of Awards*

Upon the occurrence of a change in control event, each then-outstanding Award (whether or not vested and/or exercisable, but after giving effect to any accelerated vesting required in the circumstances specifically set out in the Pre-IPO Share Incentive Plan) shall terminate, subject to any provision that has been expressly made by the Administrator, through a plan of reorganization or otherwise, for the survival, substitution, assumption, exchange or other continuation or settlement of such Award and provided that, in the case of Options that will not survive or be substituted for, assumed, exchanged, or otherwise continued or settled in the change in control event, the holder of such Award shall be given reasonable advance notice of the impending termination and a reasonable opportunity to exercise his or her outstanding and vested Options (the vested portion of such Options determined after giving effect to any accelerated vesting required in the relevant circumstances) in accordance with their terms before the termination of the Awards (except that in no case shall more than ten days' notice of accelerated vesting and the impending termination be required and any acceleration may be made contingent upon the actual occurrence of the event). An Award shall be deemed to have been "assumed" if (without limiting other circumstances in which an Award is assumed) the Award continues after the change in control event, and/or is assumed and continued by a parent company beneficially own, directly or indirectly, more than 50% of the then outstanding share capital and the combined voting power following a change in control event, and confers the right to purchase or receive, as applicable and subject to vesting and the other terms and conditions of the Award, for each Ordinary Share subject to the Award immediately prior to the change in control event, the consideration (whether cash, shares, or other securities or property) received in the change in control event by the shareholders of the Company for each Share sold or exchanged in such transaction (or the consideration received by a majority of the shareholders participating in such transaction if the shareholders were offered a choice of consideration); provided, however, that if the consideration offered for an Share in the transaction is not solely the ordinary or common shares of a successor company or a parent company, the Administrator may provide for the consideration to be received upon exercise or payment of the Award, for each share subject to the Award, to be solely ordinary or common shares (as applicable) of the successor company or a parent company equal in fair market value to the per share consideration received by the shareholders participating in the change in control event.

*(o) Termination of the Pre-IPO Share Incentive Plan*

The Pre-IPO Share Incentive Plan will expire automatically on the Listing Date. The Board may terminate the Pre-IPO Share Incentive Plan at any time without Shareholders' approval by resolving that no additional Awards may be granted under the Pre-IPO Share Incentive Plan, but previously granted Awards (and the authority of the Administrator with respect thereto, including the authority to amend such Awards) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Pre-IPO Share Incentive Plan.

*(p) Amendments to the Pre-IPO Share Incentive Plan*

No amendment, suspension or termination of the Pre-IPO Share Incentive Plan or change of or affecting any outstanding Award shall, without written consent of the participant, affect in any manner materially adverse to the participant any rights or benefits of the participant or obligations of the Company under any Award granted under the Pre-IPO Share Incentive Plan prior to the effective date of such change.

Without limiting any other express authority of the Administrator under (but subject to) the express limits of the Pre-IPO Share Incentive Plan, the Administrator by agreement or resolution may waive conditions of or limitations on Awards to participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a participant, and may make other changes to the terms and conditions of Awards. The Board may amend any of the provisions of the Pre-IPO Share Incentive Plan (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any option-holder at that date), except that amendments which are to the advantage of present or future option-holders in respect of certain matters must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Pre-IPO Share Incentive Plan which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Pre-IPO Share Incentive Plan.

Any amendments to the terms of any options granted may only be made with the approval of the Shareholders of the Company in general meeting save where the amendments take effect automatically under the existing terms of the Pre-IPO Share Incentive Plan.

Any change to the authority of the Board in relation to any amendment of the rules of the Pre-IPO Share Incentive Plan may only be made with the approval of the Shareholders in general meeting.

*(q) Outstanding Options granted under the Pre-IPO Share Incentive Plan*

The Options granted under the Pre-IPO Share Incentive Plan were granted in four different tranches on August 31, 2009, May 17, 2011, December 24, 2012 and March 21, 2014. Options representing a total of (i) 41,287,732 Shares were granted, (ii) 5,278,625 Shares were lapsed and (iii) 2,464,400 Shares were canceled.

As at the date of this prospectus, options to subscribe for an aggregate of 33,544,707 Shares, representing approximately 3.18% of the issued share capital of our Company immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the Options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme) are outstanding. No Share Awards was granted pursuant to the Pre-IPO Share Incentive Plan.

As at the date of this prospectus, none of the Options granted under the Pre-IPO Share Incentive Plan has been exercised. No further options will be granted under the Pre-IPO Share Incentive Plan prior to the Listing Date.

The Options have been granted based on the performance of the option holders who have made important contributions to and are important to the long term growth and profitability of our Group. There are altogether 46 option holders including an executive Director and the Chief Executive Officer of our Company, three members of senior management of our Group and 42 other employees of our Group. Details of the outstanding options granted under the Pre-IPO Share Incentive Plan and details of the vesting period, exercise period and the exercise price are set out below:

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
<i>Director of our Company</i>						
1. Yang Shuling (楊淑玲) .....	Executive Director and Chief Executive Officer	Room 1004, Building 3, No. 3, Block 1, Fang Qun Yuan, Fengtai District, Beijing, PRC	August 31, 2009	1,400,000	0.84	0.13%
			May 17, 2011	3,564,800	1.79	0.34%
			December 24, 2012	4,594,994	1.84	0.43%
			March 21, 2014	3,437,973	2.78	0.33%
			<b>Total</b>	<b>12,997,767</b>		<b>1.23%</b>

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
<i>Senior management members of our Group</i>						
2. Zhao Yi (趙怡).....	Chief Financial Officer	No. 3 Unit 45, No. 5 Zhong Guan Cun Nan Street, Haidian District, Beijing, PRC	March 21, 2014	2,006,629	2.78	0.19%
			<b>Total</b>	<b>2,006,629</b>		<b>0.19%</b>
3. Ying Zhongqiu (應仲秋).....	Vice President of Human Resources	2A, Unit 4, Building 5, Qingxue Garden of Century City, Landianchang, Haidian District, Beijing, PRC	May 17, 2011 December 24, 2012 March 21, 2014	739,200 580,663 1,160,117	1.79 1.84 2.78	0.07% 0.06% 0.11%
			<b>Total</b>	<b>2,479,980</b>		<b>0.24%</b>
4. Fang Liang (房梁).....	Vice President of Development and Engineering	No. 9, Block 1, 1st Floor, No. 19 West 3rd Ring Middle Road, Haidian District, Beijing, PRC	March 21, 2014	1,349,678	2.78	0.13%
			<b>Total</b>	<b>1,349,678</b>		<b>0.13%</b>
<i>Other Option-holders</i>						
5. Xiao Jing (肖靜).....	Senior Head of Operations Management	24-2-402 Xinjulixiaogu, Daxing District, Beijing, PRC	August 31, 2009 May 17, 2011 December 24, 2012 March 21, 2014	400,000 737,600 883,153 907,701	0.84 1.79 1.84 2.78	0.0379% 0.0700% 0.0838% 0.0861%
			<b>Total</b>	<b>2,928,454</b>		<b>0.2777%</b>
6. Huai Tao (槐濤).....	Head of Procurement	403, No.2 Building, Yard No. 28, Wushengxili, Chaoyang District, Beijing, PRC	December 24, 2012 March 21, 2014	176,176 420,296	1.84 2.78	0.0167% 0.0399%
			<b>Total</b>	<b>596,472</b>		<b>0.0566%</b>

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
7. Liu Tongli (劉同利) .....	Senior Head of Logistics	10-3-901, Yongjinli, Haidian District, Beijing, PRC	May 17, 2011	92,400	1.79	0.0088%
			December 24, 2012	195,942	1.84	0.0186%
			March 21, 2014	397,992	2.78	0.0377%
			<b>Total</b>	<b>686,334</b>		<b>0.0651%</b>
8. Tang Jin (唐進) .....	Head of Information Technology	4-2-2B, Block 5 of Shijicheng, Haidian District, Beijing, PRC	May 17, 2011	184,800	1.79	0.0175%
			December 24, 2012	178,129	1.84	0.0169%
			March 21, 2014	414,395	2.78	0.0393%
			<b>Total</b>	<b>777,324</b>		<b>0.0737%</b>
9. Zhang Yanmei (張豔梅) .....	Head of Internal Control	No. 404, 4th Floor, No.2 Building, No. 9 Lianhuachi East Road, Haidian District, Beijing, PRC	August 31, 2009	400,000	0.84	0.0379%
			May 17, 2011	628,400	1.79	0.0596%
			December 24, 2012	852,942	1.84	0.0809%
			March 21, 2014	667,710	2.78	0.0633%
			<b>Total</b>	<b>2,549,052</b>		<b>0.2418%</b>
10. Zhang Lanfang (張蘭芳) .....	Vice President	No.7 Qingchengnanqu, Daxing District, Beijing, PRC	August 31, 2009	400,000	0.84	0.0379%
			May 17, 2011	383,200	1.79	0.0363%
			December 24, 2012	628,483	1.84	0.0596%
			March 21, 2014	318,934	2.78	0.0302%
			<b>Total</b>	<b>1,730,617</b>		<b>0.1641%</b>
11. Yu Kun (俞琨) .....	Head of Business Development	No. 6, Entrance 1, Yard No. 1, Shoutinanlu, Haidian District, Beijing, PRC	May 17, 2011	9,856	1.79	0.0009%
			December 24, 2012	112,147	1.84	0.0106%
			March 21, 2014	351,355	2.78	0.0333%
			<b>Total</b>	<b>473,358</b>		<b>0.0449%</b>

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
12. Zhang Liguo (張利國) .....	Vice Head of Business Development	Room 1609, No. 29 Building, Wangyuandongli, Fengtai District, Beijing, PRC	December 24, 2012	7,820	1.84	0.0007%
13. Wang Yu (王昱) .....	Senior Management of Quality Control	12-8-402 Yongjinlixiaoqu, Tian Cun, Haidian District, Beijing, PRC	December 24, 2012 March 21, 2014 <b>Total</b>	7,820 9,451 <b>17,271</b>	1.84 2.78	0.0007% 0.0009% <b>0.0016%</b>
14. Li Yutao (李玉濤) .....	Manager of Central Kitchen	Huo Cun, Huangcun Town, Daxing District, Beijing, PRC	May 17, 2011 December 24, 2012 <b>Total</b>	12,320 8,937 <b>21,257</b>	1.79 1.84	0.0012% 0.0008% <b>0.0020%</b>
15. Yin Xuena (尹雪娜) .....	Head of Human Resources	No. 1401, Entrance 1, No. 6 Building, Hongyexing Garden, Fengtai District, Beijing, PRC	December 24, 2012 March 21, 2014 <b>Total</b>	41,460 397,969 <b>439,429</b>	1.84 2.78	0.0039% 0.0377% <b>0.0417%</b>
16. Cheng Xiaomei (程曉梅) .....	Senior Manager of Human Resources – Beijing	No. 1901, 19 Floor, No. 1 Building, 17 Yuyuantannanlu, Haidian District, Beijing, PRC	May 17, 2011 December 24, 2012 <b>Total</b>	3,080 8,937 <b>12,017</b>	1.79 1.84	0.0003% 0.0008% <b>0.0011%</b>
17. Li Ou (李鵬) .....	Vice Head of Administration	No. 201, Unit 8, No. 16 Building, Xingzhengxili, Huangcun Town, Daxing District, Beijing, PRC	August 31, 2009 May 17, 2011 December 24, 2012 March 21, 2014 <b>Total</b>	20,000 11,712 13,406 114,835 <b>159,953</b>	0.84 1.79 1.84 2.78	0.0019% 0.0011% 0.0013% 0.0109% <b>0.0152%</b>



Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
18. An Jianjun (安建軍) .....	Long-term employee	No. 602, Unit 1,	August 31,	20,000	0.84	0.0019%
		No. 26 Building,	2009			
		Shoudihuanxigu,	May 17, 2011	12,000	1.79	0.0011%
		6 Anshunbeilu, Daxing District, Beijing, PRC	December 24, 2012	18,000	1.84	0.0017%
		<b>Total</b>		<b>50,000</b>		<b>0.0047%</b>
19. Jin Runhua (金潤華) .....	Long-term employee	6-3-702, 6 Minshun Road,	August 31,	6,000	0.84	0.0006%
		Huangcun Town,	2009			
		Daxing District,	May 17, 2011	9,600	1.79	0.0009%
		Beijing, PRC	December 24, 2012	14,400	1.84	0.0014%
		<b>Total</b>		<b>30,000</b>		<b>0.0028%</b>
20. Zhu Jianlin (竹建林) .....	Long-term employee	No. 1, 4 Tiao,	August 31,	8,000	0.84	0.0008%
		Dabailou Cun,	2009			
		Xihongmen Town,	May 17, 2011	8,800	1.79	0.0008%
		Daxing District, Beijing, PRC	December 24, 2012	13,200	1.84	0.0013%
		<b>Total</b>		<b>30,000</b>		<b>0.0028%</b>
21. Huo Shouke (霍守科) .....	Long-term employee	Jia 5-3-603, Xingzhengxili,	August 31,	5,000	0.84	0.0005%
		Huang cun Town,	2009			
		Daxing District,	May 17, 2011	8,000	1.79	0.0008%
		Beijing, PRC	December 24, 2012	12,000	1.84	0.0011%
		<b>Total</b>		<b>25,000</b>		<b>0.0024%</b>
22. Yang Xuefen (楊學芬) .....	Long-term employee	27-2-202, Zaoyuandongli,	August 31,	4,000	0.84	0.0004%
		Huangcun Town,	2009			
		Daxing District,	May 17, 2011	6,400	1.79	0.0006%
		Beijing, PRC	December 24, 2012	9,600	1.84	0.0009%
		<b>Total</b>		<b>20,000</b>		<b>0.0019%</b>

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
23. Li Hongtao (李紅濤).....	Long-term employee	6-5-401, Haizijiaonanli, Daxing District, Beijing, PRC	August 31, 2009	4,000	0.84	0.0004%
			May 17, 2011	6,400	1.79	0.0006%
			December 24, 2012	9,600	1.84	0.0009%
			<b>Total</b>	<b>20,000</b>		<b>0.0019%</b>
24. Zhao Yun (趙雲).....	Long-term employee	21 Shuanghuaihu, Tian Cun, Haidian District, Beijing, PRC	August 31, 2009	4,000	0.84	0.0004%
			May 17, 2011	6,400	1.79	0.0006%
			December 24, 2012	9,600	1.84	0.0009%
			<b>Total</b>	<b>20,000</b>		<b>0.0019%</b>
25. Zhu Lei (朱雷).....	Long-term employee	Suncun Industrial Development Zone, Daxing District, Beijing, PRC	August 31, 2009	3,000	0.84	0.0003%
			December 24, 2012	7,000	1.84	0.0007%
			<b>Total</b>	<b>10,000</b>		<b>0.0009%</b>
26. Zhang Lei (張磊).....	Long-term employee	Room 201, Unit 2, No. 14 Building, Xinxingjiayuan, Huangcun Town, Daxing District, Beijing, PRC	August 31, 2009	2,000	0.84	0.0002%
			May 17, 2011	3,200	1.79	0.0003%
			December 24, 2012	4,800	1.84	0.0005%
			<b>Total</b>	<b>10,000</b>		<b>0.0009%</b>
27. Yang Ke (楊柯).....	Department Head of Production – Recipe Management	No.1 Xisantiao, Qingcai Road, Hejinying Cun, Changziying Town, Daxing District, Beijing, PRC	August 31, 2009	15,000	0.84	0.0014%
			May 17, 2011	21,392	1.79	0.0020%
			December 24, 2012	29,937	1.84	0.0028%
			March 21, 2014	20,351	2.78	0.0019%
			<b>Total</b>	<b>86,680</b>		<b>0.0082%</b>
28. Shi Menglin (施夢麟).....	Assistant Manager of Asset Management -Beijing	No. 202, Entrance 1, 11 Kunminghuanlu, Haidian District, Beijing, PRC	<b>August 31, 2009</b>	<b>20,000</b>	<b>0.84</b>	<b>0.0019%</b>

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
29. Lu Rongqing (陸榮慶) .....	General Manager of Shanghai Markets	73-413, 2601 Xietu Road, Xuhui District, Shanghai, PRC	May 17, 2011	492,800	1.79	0.0467%
			December 24, 2012	213,775	1.84	0.0203%
			March 21, 2014	374,178	2.78	0.0355%
			<b>Total</b>	<b>1,080,753</b>		<b>0.1025%</b>
30. Sun Junyan (孫俊豔) .....	Vice Head of Business Development – Shanghai Markets	1-3901, 133 Linping Road, Hongkou District, Shanghai, PRC	December 24, 2012	13,406	1.84	0.0013%
			March 21, 2014	183,976	2.78	0.0174%
			<b>Total</b>	<b>197,382</b>		<b>0.0187%</b>
31. Kang Hao (康浩) .....	Manager of Business Development – Shanghai Markets	Chunshen Road, Minhang District, Shanghai, PRC	May 17, 2011	5,133	1.79	0.0005%
			December 24, 2012	8,937	1.84	0.0008%
			<b>Total</b>	<b>14,070</b>		<b>0.0013%</b>
32. Liu Hua (劉華) .....	Senior Manager of Public Relations – Shanghai Markets	106-402, 790 Laohumin Road, Shanghai, PRC	May 17, 2011	5,133	1.79	0.0005%
			December 24, 2012	8,937	1.84	0.0008%
			<b>Total</b>	<b>14,070</b>		<b>0.0013%</b>
33. Ye Lu (葉露) .....	Senior Manager of Business Planning – Shanghai	1897 Longming Road, Shanghai, PRC	May 17, 2011	6,160	1.79	0.0006%
			December 24, 2012	8,937	1.84	0.0008%
			<b>Total</b>	<b>15,097</b>		<b>0.0014%</b>
34. Jiang Zhijun (江治軍) .....	Project Manager – Shanghai	14 Xigou, Development Zone, Lianyungang City, Jiangsu Province, PRC	May 17, 2011	6,160	1.79	0.0006%
			December 24, 2012	8,937	1.84	0.0008%
			<b>Total</b>	<b>15,097</b>		<b>0.0014%</b>

## APPENDIX IV

## STATUTORY AND GENERAL INFORMATION

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
35. Bai Yang (白楊).....	Head of Operations – Shanghai	9-2-502, Shijilijingxiaoqu, Block 1 Heyixili, Fengtai District, Beijing, PRC	March 21, 2014	287,409	2.78	0.0273%
36. Cao Jiandong (曹建東) .....	Head of Training	201 Guloudong Avenue, Dongcheng District, Beijing, PRC	March 21, 2014	425,044	2.78	0.0403%
37. Luan Qiuyan (樂秋豔).....	Vice Head of Human Resources	Room 102, Unit 6, No. 5 Building, Dahuangzhuangnanli, Chaoyang District, Beijing, PRC	March 21, 2014	7,426	2.78	0.0007%
38. Wang Xiaofeng (王曉峰) .....	Head of Operations – Shenyang	174 Ruyiyi Road, Dadong District, Shenyang, PRC	March 21, 2014	374,689	2.78	0.0355%
39. Xue Bo (薛波).....	Vice Head of Procurement	Room 321, 204 Cuipingbeili Dongqu, Tongzhou District, Beijing, PRC	March 21, 2014	7,973	2.78	0.0008%
40. Yu Hong (于虹).....	Vice Head of Marketing	17-1107, Songyuxili, Chaoyang District, Beijing, PRC	March 21, 2014	908,183	2.78	0.0861%
41. Zhao Junling (趙俊嶺) .....	Vice Head of Information Technology	16-2-703, Shanghai Salon, Yizhuang Development Zone, Beijing, PRC	March 21, 2014	9,085	2.78	0.0009%
42. Chang Xiaohong (常小宏) .....	Head of Quality Control	1-502, No.13 Building, Wangquanjiayuan, Shunyi District, Beijing, PRC	March 21, 2014	131,945	2.78	0.0125%

Name of Option holder	Position held with our Group	Address	Date of Grant	Number of Shares represented by Options	Exercise price (RMB)	Approximate percentage of shareholding immediately following the completion of the Global Offering (%)
43. Chu Xueyou (楚學友) .....	Senior Head of Public Relations	2-5-602, 9 Dongwei Road, Chaoyang District, Beijing, PRC	March 21, 2014	131,945	2.78	0.0125%
44. Zhao Hailin (趙海琳) .....	Vice Head of Finance – Investor Relations	6 Erqijuchang Road, Xicheng District, Beijing, PRC	March 21, 2014	105,556	2.78	0.0100%
45. Zhao Muquan (趙木銓) .....	Head of Research and Development	2-201, No. 37 Building, Caihongxiaogu, Daxing District, Beijing, PRC	March 21, 2014	131,945	2.78	0.0125%
46. Zhao Honglin (趙宏林) .....	Head of Projects	1-2-402, Bachang Road, Fangshan District, Beijing, PRC	March 21, 2014	131,945	2.78	0.0125%
			<b>Date of Grant</b>	<b>Number of Shares represented by Options</b>	<b>Exercise price (RMB)</b>	<b>Approximate percentage of shareholding immediately following the completion of the Global Offering (%)</b>
<b>GRAND TOTAL OF ALL GRANTEES. . . . .</b>		August 31, 2009	2,711,000	0.84	0.26%	
		May 17, 2011	6,964,946	1.79	0.66%	
		December 24, 2012	8,682,075	1.84	0.82%	
		March 21, 2014	15,186,686	2.78	1.44%	
		<b>Total</b>	<b>33,544,707</b>		<b>3.18%</b>	

*The vesting period and the exercise period of the Options granted under the Pre-IPO Share Incentive Plan*

The holders of the Options granted under the Pre-IPO Share Incentive Plan as referred to in the table above are not required to pay for the grant of any Option under the Pre-IPO Share Incentive Plan.

For the Options granted on August 31, 2009, the exercise price per Share is RMB0.84, representing a discount of approximately 78.8% to the high end and a discount of approximately 75.9% to the low end of the Offer Price, respectively. For the Options granted on May 17, 2011, the exercise price per Share is RMB1.79, representing a discount of approximately 54.7% to the high end and a discount of approximately 48.6% to the low end of the Offer Price, respectively. For the Options granted on December 24, 2012, the exercise price per Share is RMB1.84, representing a discount of approximately 53.5% to the high end and a discount of approximately 47.1% to the low end of the Offer Price, respectively. For the Options granted on March 21, 2014, the exercise price per Share is RMB2.78, representing a discount of approximately 29.7% to the high end and a discount of approximately 20.1% to the low end of the Offer Price, respectively.

Subject to the satisfactory performance of the Option holders, the Options granted to each of the Option holders shall be vested in accordance with vesting schedule as follows:

- (i) as to 25% of the aggregate number of Shares underlying the Option on the date ending 12 months after the Listing Date;
- (ii) as to 25% of the aggregate number of Shares underlying the Option on the date ending 24 months after the Listing Date;
- (iii) as to 25% of the aggregate number of Shares underlying the Option on the date ending 36 months after the Listing Date; and
- (iv) as to the remaining 25% of the aggregate number of Shares underlying the Option on the date ending 48 months after the Listing Date.

Each option granted under the Pre-IPO Share Incentive Plan has a ten-year exercise period provided that none of the Options shall be exercisable prior to the Listing.

On the basis that the total of 227,100,000 Shares which shall be issued under the Global Offering were deemed to have been in issue throughout the year ended December 31, 2013, there will be a dilution effect of approximately 21.5% on the audited diluted earnings per Share for the year ended December 31, 2013 from RMB17 cents to RMB13 cents. Based on the foregoing, assuming that all the options granted under the Pre-IPO Share Incentive Plan had been exercised in full during the year ending December 31, 2014 and that 1,087,908,859 Shares, comprising 1,054,364,152 Shares to be in issue immediately after completion of the Global Offering and 33,544,707 Shares to be issued upon the exercise of all the Options

granted and outstanding under the Pre-IPO Share Incentive Plan, were deemed to have been in issue throughout the year ending December 31, 2014, there will be a further dilution effect of the exercise of the options approximately 3.1% on the diluted audited earnings per Share for the year ended December 31, 2013 from RMB13 cents to RMB13 cents.

The Options granted and outstanding under the Pre-IPO Share Incentive Plan represent approximately 3.18% of the enlarged issued share capital of our Company immediately after completion of the Global Offering. If all the Options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of approximately 3.08%. However, as the options are exercisable over an four-year period, any such dilutive effect on the shareholding of our Shareholders will be staggered over several years.

An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which were granted pursuant to the Pre-IPO Share Incentive Plan.

## 2. RSU Scheme

The following is a summary of the principal terms of the RSU Scheme approved and adopted by our Shareholders on November 28, 2014. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by our Company to subscribe for new Shares.

### *(a) Purposes of the RSU Scheme*

The purpose of the RSU Scheme is to incentivize Directors (excluding independent non-executive Directors), senior management and other selected personnel for their contribution to our Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of our Group by providing them with the opportunity to own equity interests in our Company.

### *(b) RSUs*

A RSU gives a participant in the RSU Scheme (the “**RSU Participant**”) a conditional right when the RSU vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of exercise of the RSUs, less any tax, stamp duty and other charges applicable, as determined by our Board in its absolute discretion. Each RSU represents one underlying Share. A RSU may include, if so specified by our Board in its entire discretion, cash and non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares.

### *(c) Participants in the RSU Scheme*

Persons eligible to receive RSUs under the RSU Scheme are existing directors (whether executive or non-executive, but excluding independent non-executive directors), senior management or officers of our Company or any of our subsidiaries (“**RSU Eligible Persons**”). Our Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its absolute discretion.

*(d) Conditions of the RSU Scheme*

The RSU Scheme is conditional upon:

- (i) the passing by the shareholders of a resolution to authorize the Board to grant RSUs under the RSU Scheme and to allot and issue, procure the transfer of, and otherwise deal with Shares in connection with the RSU Scheme;
- (ii) the Listing Committee of the Stock Exchange granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of and permission to deal in the Shares underlying any RSU which may be granted pursuant to the RSU Scheme; and
- (iii) the commencement of the dealings in the Shares on the Stock Exchange (the “**RSU Conditions**”).

*(e) Term of the RSU Scheme*

The RSU Scheme will be valid and effective for a period of ten (10) years from the Listing Date (unless it is terminated earlier in accordance with its terms) (the “**RSU Scheme Period**”), after which no further RSUs shall be granted or accepted, but the provisions of the RSU Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of RSUs granted and accepted prior to the expiration of the RSU Scheme Period.

*(f) Grant and acceptance*

*(i) Making an offer*

An offer to grant a RSU will be made to a RSU Eligible Person selected by our Board (“**RSU Selected Person**”) by a letter, in such form as our Board may determine (“**RSU Grant Letter**”). The RSU Grant Letter will specify the manner of acceptance of the RSU, the number of RSUs granted and the number of underlying Shares represented by the RSUs, the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as our Board considers necessary, and will require the RSU Selected Person to undertake to hold the RSU on the terms on which it is granted and to be bound by the provisions of the RSU Scheme.

*(ii) Acceptance of an offer*

A RSU Selected Person may accept an offer of the grant of RSUs in such manner as set out in the RSU Grant Letter. Once accepted, the RSUs are deemed granted from the date of the RSU Grant Letter (“**RSU Grant Date**”).



*(iii) Restrictions on grants*

Our Board may not grant any RSUs to any RSU Selected Persons in any of the following circumstances:

- (a) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless our Board determines otherwise; or
- (b) where granting the RSUs would result in a breach by our Company, our subsidiaries or any of their directors of any applicable securities laws, rules or regulations; or
- (c) after inside information has come to the knowledge of the Company until such inside information has been announced as required under the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:
  - 1) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
  - 2) the deadline for the Company to publish an announcement of our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement; or
- (d) where such grant of any RSUs would result in a breach of the limits of the RSU Scheme (as set out in paragraph (g) below).

*(iv) Grants to Directors*

Where any RSU is proposed to be granted to a Director, it shall not be granted on any day on which our financial results are published and during the period of:

- (a) 60 days immediately preceding the publication date of our annual results or, if shorter, the period from the end of our relevant financial year up to the publication date of our results; and
- (b) 30 days immediately preceding the publication date of our quarterly results (if any) and half-year results or, if shorter, the period from the end of our relevant quarterly or half-year period up to the publication date of our results.

*(v) Grants to Connected Persons*

Before making any grant to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates, all of our independent non-executive Directors must approve the grant of the RSU, and such grants shall otherwise be subject to compliance with the Listing Rules.

*(g) Maximum number of Shares pursuant to RSUs*

*(i) RSU Scheme Limit*

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) must not exceed 4% of the total number of Shares in issue as at the Listing Date (the “**RSU Scheme Mandate Limit**”).

*(ii) Refreshment of the RSU Scheme Limit*

The RSU Scheme Limit may be refreshed from time to time subject to prior approval from our shareholders in general meeting, provided that the total number of Shares underlying the RSUs granted following the date of approval of the refreshed limit (the “**New Approval Date**”) under the limit as refreshed from time to time must not exceed 4% of the number of Shares in issue as of the relevant New Approval Date. Shares underlying the RSUs previously granted under the RSU Scheme (including RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) prior to such New Approval Date will not be counted for the purpose of calculating the limit as refreshed.

*(h) Rights attached to RSUs*

A RSU Participant does not have any contingent interest in any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Further, a RSU Participant may not exercise voting rights in respect of the Shares underlying the RSUs prior to their exercise and, unless otherwise specified by our Board in its entire discretion in the RSU Grant Letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs.

*(i) Rights attached to Shares*

Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members, and accordingly will entitle the holder to participate in all dividends or other distributions paid or made on or after the date of the transfer or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members.

*(j) Assignment of RSUs*

The RSUs granted pursuant to the RSU Scheme are personal to each RSU Participant, and are not assignable. RSU Participants are prohibited from selling, transferring, assigning, charging, mortgaging, encumbering, hedging or creating any interest in favor of any other person over or in relation to any property held by the RSU Trustee (as defined in paragraph (1) below) on trust for the RSU Participants, the RSUs, or any interest or benefits therein.

*(k) Vesting of RSUs*

Our Board can determine the vesting criteria, conditions and the time schedule when the RSUs will vest and such criteria, conditions and time schedule shall be stated in the RSU Grant Letter.

Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, our Board will send a vesting notice (“**Vesting Notice**”) to each of the relevant RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

*(l) Appointment of the RSU Trustee*

Our Company may appoint a trustee (the “**RSU Trustee**”) to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise. Our Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as our Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme.

*(m) Exercise of RSUs*

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to our Company. Any exercise of RSUs must be in respect of a board lot of 500 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot). Upon receipt of an exercise notice, our Board may decide at its absolute discretion to:

- (a) direct and procure the RSU Trustee to, within a reasonable time, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which our Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

- (b) pay, or direct and procure the RSU Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the Shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) less any exercise price (where applicable) and after deduction of any tax, levies, stamp duty and other charges applicable to the sale of any Shares to fund such payment and in relation thereto.

*(n) Rights on a takeover*

If a general offer to acquire the Shares (whether by takeover offer, merger, or otherwise in a like manner) is made to all of our Shareholders (or Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and the general offer to acquire the Shares is approved and the offer becomes or is declared unconditional in all respects, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

*(o) Rights on a compromise or arrangement*

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies and a notice is given by our Company to our Shareholders to convene a general meeting to consider and if thought fit approve such compromise or arrangement and such Shareholders' approval is obtained, a RSU Participant's RSUs will vest immediately, even if the vesting period has not yet commenced.

*(p) Rights on voluntary winding-up*

If an effective resolution is passed during the RSU Scheme Period for the voluntary winding-up of the Company (other than for the purposes of a reconstruction, amalgamation or scheme of arrangement), all outstanding RSUs shall be treated as having vested immediately. No Shares will be transferred, and no cash alternative will be paid, to the RSU Participant, but the RSU Participant will be entitled to receive out of the assets available in liquidation on an equal basis with our Shareholders such sum as they would have received in respect of the RSUs.

(q) *Lapse of RSUs*

(i) *Full lapse of RSU*

Any unvested RSU will automatically lapse immediately where:

- (a) such RSU Participant's employment or service terminates for any reason, except (i) the employment or service is terminated by reason of death, retirement or disability, (ii) where the employment is terminated involuntarily without cause, (iii) where the company employing the RSU Participant ceases to be one of our subsidiaries or (iv) any other incident occurs as the Board may at its discretion specify; or
- (b) the RSU Participant makes any attempt or takes any action to sell, transfer, assign, charge, mortgage, encumber, hedge or create any interest in favor of any other person over or in relation to any RSUs or any interests or benefits pursuant to the RSUs.

(ii) *Partial Lapse of RSU*

A RSU Participant's unvested RSU will lapse on a proportional basis based on the proportion that:

- (a) the time between the RSU Grant Date and the occurrence of the following relevant event bears to
- (b) the entire vesting period set out in the RSU Participant's RSU Grant Letter if:
  - (i) the RSU Participant's employment or service is terminated because of the RSU Participant's death, retirement or disability;
  - (ii) the RSU Participant's employment or service is terminated involuntarily without cause;
  - (iii) the company with which the RSU Participant is employed ceases to be one of our subsidiaries; or
  - (iv) any other incident occurs as our Board may at its discretion specify,

provided that the performance criteria set out in the RSU Grant Letter have been fully satisfied and fulfilled, if capable of being satisfied or fulfilled, with reference to the date of occurrence of that event.

(iii) *If at any time, a RSU Participant:*

- (a) ceases to be an employee as a result of termination of his employment with our Group for Cause. For the purpose of this paragraph, “Cause” means the RSU Participant is in breach of his contract of employment with or any other obligation to the Group;
- (b) fails, during the course of his employment, to devote the whole of his time and attention to the business of our Group or to use his best endeavors to develop the business and interests of our Group;
- (c) is concerned during the course of his employment with our Group (without the prior written consent of our Company) with any (competitive or other) business other than that of our Group; and/or
- (d) is in breach of his contract of employment with or any other obligation to our Group,

then all vested and unvested RSUs shall automatically lapse and such RSU Participant shall have no claim whatsoever in respect of the RSUs or the underlying Shares.

**(r) *Cancellation of RSUs***

Our Board may at its discretion cancel any RSU that has not vested or lapsed, provided that:

- (i) our Company or our subsidiaries pay to the RSU Participant an amount equal to the fair value of the RSU at the date of the cancellation as determined by the Board, after consultation with our auditors or an independent financial adviser appointed by our Board;
- (ii) our Company or our relevant subsidiary provides to the RSU Participant a replacement award (or a grant or option under any other restricted share unit scheme, share option scheme or share-related incentive scheme) of equivalent value to the RSUs to be canceled; or
- (iii) our Board makes any arrangement as the RSU Participant may agree in order to compensate him/her for the cancellation of the RSUs.

**(s) *Reorganization of capital structure***

In the event of any capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of the Company, our Board may, but is not obliged to, make such equitable adjustments, designed to protect the RSU Participants’ interests, to the number of Shares underlying the outstanding RSUs or to the amount of the equivalent value, as it may deem appropriate at its absolute discretion.

*(t) Amendment of the RSU Scheme*

Save as provided in the RSU Scheme, our Board may alter any of the terms of the RSU Scheme at any time. Written notice of any amendment to the RSU Scheme shall be given to all RSU Participants.

Any alterations to the terms and conditions of the RSU Scheme which are of a material nature or any changes to the terms of the RSUs granted which shall operate to affect materially adversely any subsisting rights of any RSU Participant shall be subject to the consent of the RSU Participants amounting to three-fourths in nominal value of all underlying RSUs so held by the RSU Participants on the date of the relevant resolution passed by our Board in approving the amendment of the RSU Scheme or the terms of the RSUs granted (as the case may be), except where the alterations or changes take effect automatically under the existing terms of the RSU Scheme. Our Board's determination as to whether any proposed alteration to the terms and conditions of the RSU Scheme or the terms of the RSUs granted (as the case may be) is material shall be conclusive.

*(u) Termination of the RSU Scheme*

Our Board may terminate the RSU Scheme at any time before the expiry of the RSU Scheme Period. The provisions of the RSU Scheme shall remain in full force and effect in respect of RSUs which are granted pursuant to the rules of the RSU Scheme prior to the termination of the operation of the RSU Scheme. Our Company or our relevant subsidiary shall notify the RSU Trustee and all RSU Participants of such termination and of how any property held by the RSU Trustee on trust for the RSU Participants (including, but not limited to, any Shares held) and the outstanding RSUs shall be dealt with.

*(v) Administration of the RSU Scheme*

Our Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. Our Board may delegate the authority to administer the RSU Scheme to a committee of our Board. Our Board may also appoint one or more independent third party contractors (including the RSU Trustee) to assist in the administration of the RSU Scheme and delegate such powers and/or functions relating to the administration of the RSU Scheme as our Board thinks fit.

Our Board's determinations under the RSU Scheme need not be uniform and may be made by it selectively with respect to persons who are granted, or are eligible to be granted, RSUs under it. If a Director is a RSU Participant he may, notwithstanding his own interest and subject to our Articles, vote on any Board resolution concerning the RSU Scheme (other than in respect of his own participation in it), and may retain RSUs under it.

Each RSU Participant waives any right to contest, amongst other things, the value and number of RSUs or Shares or equivalent value of cash underlying the RSUs or Shares and our Board's administration of the RSU Scheme.

(w) *General*

An application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, new Shares underlying the RSUs which may be granted pursuant to the RSU Scheme.

**E. OTHER INFORMATION**

**1. Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

**2. Litigation**

During the Track Record Period and up to the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on its business, financial condition or results of operations.

**3. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue, to be issued upon conversion of the Preferred Shares, and our Shares to be issued pursuant the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares to be issued upon the exercise of the options which were granted under the Pre-IPO Share Incentive Plan or Shares to be issued under the RSU Scheme). All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The Joint Sponsors satisfy the independent criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to the section headed “Underwriting – Joint Sponsors’ Independence” for details regarding the independence of the Joint Sponsors.

The sponsors fees payable to each of the Joint Sponsors are US\$500,000 and are payable by our Company.



#### 4. Qualification of Experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Merrill Lynch Far East Limited. . . . .	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities under the SFO
Credit Suisse (Hong Kong) Limited . . . . .	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) of the regulated activities under the SFO
Deloitte Touche Tohmatsu . . . . .	Certified public accountants
King & Wood Mallesons . . . . .	PRC legal advisor
Conyers Dill & Pearman (Cayman) Limited . . . . .	Cayman Islands attorneys-at-law
Lee and Li, Attorneys-at-Law . . . . .	Taiwan legal advisors
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. . . . .	Industry consultants
Protiviti Shanghai Co., Ltd. . . . .	Internal control consultants
CBRE Limited . . . . .	Independent property valuers
Beijing Tianhui Zhongfang Fire Safety Technology Inspection Company Limited . . . . .	Fire safety consultant

#### 5. Consents of Experts

Each of the experts as referred to in the section headed “Other Information – Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or legal opinion (as the case may be) and references to their names included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

#### 6. Promoters

Our Company has no promoter for the purpose of the Listing Rules.

**7. Preliminary Expenses**

The preliminary expenses incurred by our Company were approximately US\$10,000 and were payable by us.

**8. No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since June 30, 2014 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

**9. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**10. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**11. Miscellaneous**

- (a) Save as disclosed in this prospectus:
- (i) within the two years immediately preceding the date of this prospectus, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
  - (iv) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;

- (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
  - (vi) our Company has no outstanding convertible debt securities or debentures; and
  - (vii) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus.
- (c) None of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

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**APPENDIX V            DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** application forms, the written consents referred to in the section headed “Other Information – Consents of Experts” in Appendix IV to this prospectus and copies of the material contracts referred to in the section headed “Further Information about our Business – Summary of our material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Simpson Thacher & Bartlett, at ICBC Tower, 35/F, 3 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the auditor’s report on the consolidated financial statements of the Group underlying the financial information of the Group incorporated in the Accountants’ Report for the years ended December 31, 2011, 2012 and 2013;
- (c) the Accountants’ report for the years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (d) the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (e) the letter prepared by Conyers Dill & Pearman (Cayman) Limited, our Cayman legal advisor, summarizing certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the material contracts referred to in the section headed “Further Information about our Business – Summary of our material contracts” in Appendix IV to this prospectus;
- (g) the written consents referred to in the section headed “Other Information – Consents of Experts” in Appendix IV to this prospectus;
- (h) the rules of the Pre-IPO Share Incentive Plan and the RSU Scheme;

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**APPENDIX V                    DOCUMENTS DELIVERED TO THE REGISTRAR OF  
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- (i) the full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Incentive Plan containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of Part I of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (j) the service contracts and the letters of appointment referred to in the section headed “Further Information About our Directors and Substantial Shareholders – Directors’ Service Contracts and Letters of Appointment” in Appendix IV to this prospectus;
- (k) the PRC legal opinions dated December 5, 2014 issued by King & Wood Mallesons, our PRC Legal Advisor, in respect of certain aspects of our Group and our property interests;
- (l) the report for internal control review over the non-compliance incidents referred to in the paragraph headed “Licenses, Regulatory Approvals and Compliance Record” in the section headed “Business” in this prospectus prepared by Protiviti;
- (m) the Frost & Sullivan Report;
- (n) a letter issued by CBRE Limited in respect of the review of the lease agreement entered into between our Company and Xiabuxiabu Fast Food Chain Management Co., Ltd., a connected person (as defined under the Listing Rules) of the Company, and an assessment of the reasonableness of the rental charge under the lease agreement;
- (o) a letter of advice issued by Lee and Li, Attorneys-at-Law in respect of certain aspects of Taiwan laws and regulations governing investments by a Taiwanese person in the PRC; and
- (p) reports issued by Beijing Tianhui Zhongfang Fire Safety Technology Inspection Company Limited, the fire safety consultant, in respect of their findings on the fire safety inspection and electrical fire prevention inspection on certain restaurants which had not obtained relevant fire safety approval from the government authorities.

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