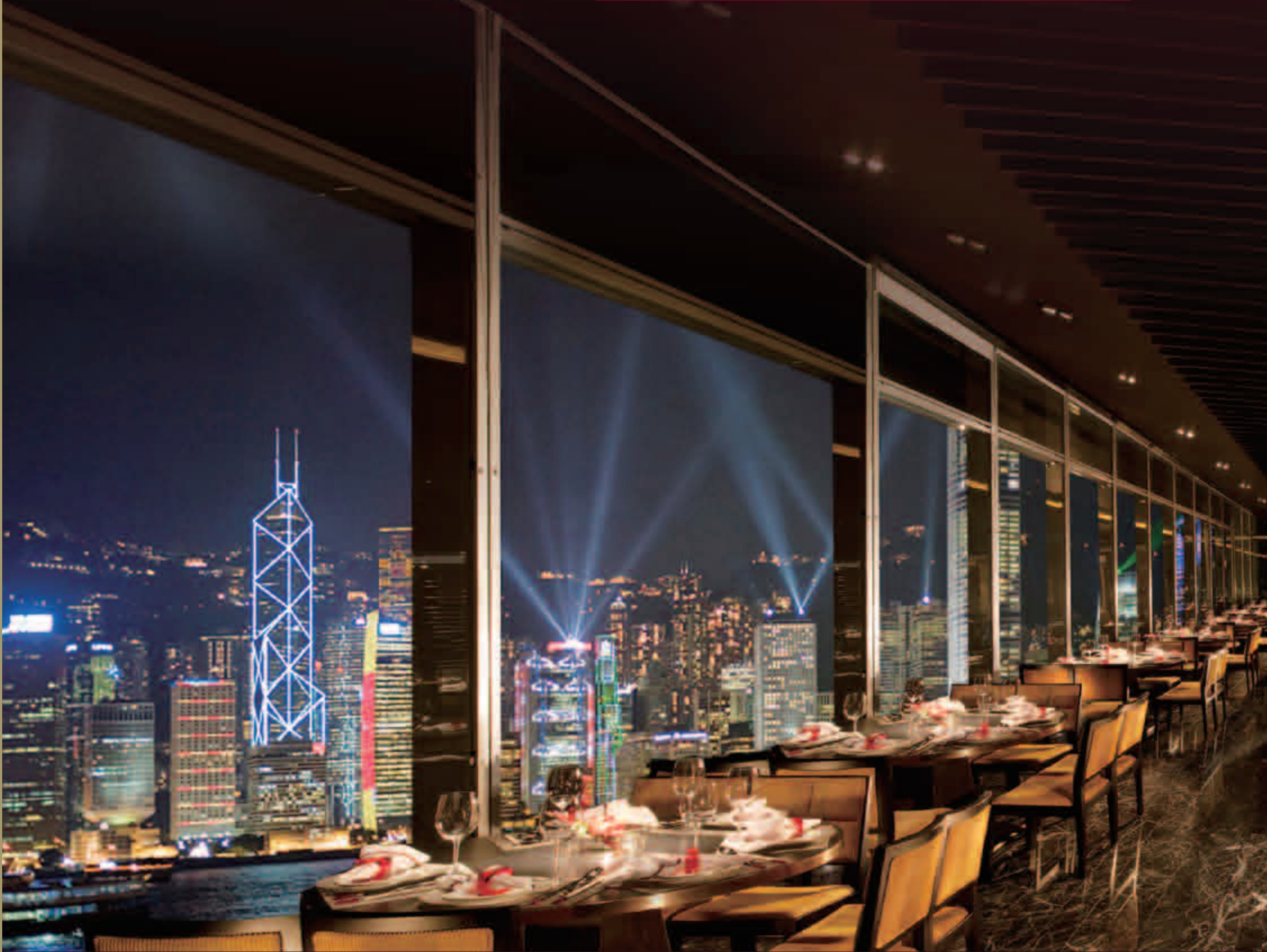
Interim Report 2012

上海 小南国
SHANGHAI MIN

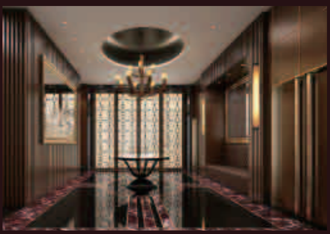
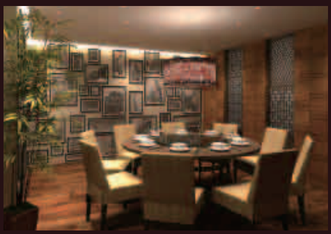
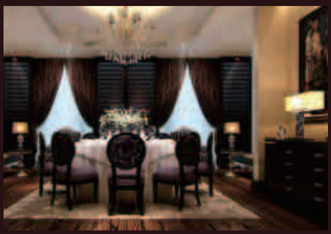
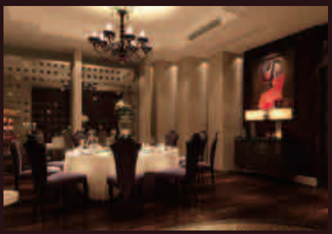


Xiao Nan Guo Restaurants Holdings Limited

小南國餐飲控股有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code: 3666

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Huimin (Chairlady)
Ms. Wu Wen
Mr. Kang Jie (Chief Executive Officer)

Non-executive Directors

Ms. Wang Huili
Mr. Tang Donald Wei
Mr. Weng Xiangwei
Mr. Wang Hairong

Independent Non-executive Directors

Mr. Tsang Henry Yuk Wong
Mr. Wang Chiwei
Mr. Wang Yu
Mr. Chen Anjie

JOINT COMPANY SECRETARIES

Ms. Leng Yijia
Ms. Mok Ming Wai

AUTHORIZED REPRESENTATIVES

Mr. Kang Jie
Ms. Leng Yijia
Mr. Zhang Jun (alternate authorized representative)

AUDIT COMMITTEE

Mr. Tsang Henry Yuk Wong (Chairman)
Mr. Weng Xiangwei
Mr. Wang Yu

REMUNERATION COMMITTEE

Mr. Wang Yu (Chairman)
Ms. Wang Huimin
Mr. Wang Chiwei

NOMINATION COMMITTEE

Mr. Wang Chiwei (Chairman)
Mr. Tang Donald Wei
Mr. Tsang Henry Yuk Wong

EXECUTIVE COMMITTEE

Ms. Wang Huimin (Chairlady)
Ms. Wu Wen
Mr. Kang Jie

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
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Cayman Islands

HONG KONG SHARE REGISTRAR

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18 Chater Road
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Grand Cayman KY1-1111
Cayman Islands

COMPLIANCE ADVISER

Haitong International Capital Limited

AUDITOR

Ernst & Young
Certified Public Accountants

STOCK CODE

03666

COMPANY'S WEBSITE

www.xiaonanguo.com

INVESTOR RELATIONS

Ms. Louisa Wong
Email: ir@xiaonanguo.com

Financial Highlights

	Six months ended 30 June		% Change increase
	2012	2011	
	(audited)	(unaudited)	
Revenue (RMB'000)	**647,778**	495,708	30.7%
Gross profit[1] (RMB'000)	**438,724**	327,438	34.0%
Gross margin[2]	**67.7%**	66.1%	1.6%
Profit for the period (RMB'000)	**56,178**	37,040	51.7%
Net profit margin[3]	**8.7%**	7.5%	1.2%
Earnings per share — Basic	**RMB5.1 cents**	RMB3.8 cents	
Interim dividend per share (HK$ cents)	**1.4**	—	
Number of restaurants[4] (as at 30 June)	**62**	48	

Notes:

1 The calculation of gross profit is based on revenue less cost of inventories consumed.

2 The calculation of gross margin is based on gross profit divided by revenue.

3 Net profit margin is calculated as profit for the period divided by revenue.

4 Number of restaurants as at 30 June 2012 includes 58 Shanghai Xiao Nan Guo restaurants, 3 Maison De L'Hui restaurants and 1 The Dining Room restaurant.

Management Discussion and Analysis

Industry Review

During the first half of 2012, due to the European sovereign debt crisis, the global economy recovered at a slow pace. The European sovereign debt crisis continued to expand to various European countries and had a negative effect on the economy in other countries and regions in the world. Under these circumstances, Chinese economy encountered a slow down in growth. According to statistics issued by the National Bureau of Statistics, China's gross domestic product ("GDP") in the second quarter of 2012 was RMB22,709.8 billion, representing an increase of 7.8% as compared to the same period last year. The growth rate decreased by 0.3% as compared to that of last quarter. Furthermore, it was the first time in the last three years that the quarterly growth rate of China's GDP returned to below 8%.

The slower economic growth also had a negative impact on the catering and restaurant industry in which the Company and its subsidiaries (collectively, the "Group") operates. The purchasing power and spending will of domestic residents decreased to varied degrees, and consumers became more sensitive to prices. According to statistics, which showed a slower growth of consumer price index ("CPI") of the PRC in the six months prior, and the CPI in June 2012 increased by 2.2% as compared to the same period last year. Meanwhile, the growth rate of retail sales of consumer goods significantly decreased to 13.1% in June 2012 from 14.7% in January 2012. As the commodity price control measures take effect, the year-on-year growth rate of the CPI may continue to drop, and decrease in commodity prices and demand causes concerns about deflation.

Although current economic environment in the PRC and abroad raises concern, there still exists vast growth potential for the Chinese cuisine full-service restaurant market in which the Group operates. The Twelfth Five-Year Plan (2011 - 2015) of the PRC expressly sets a target that residential income shall grow faster than the GDP. With the increase in disposable income, China's full-service restaurant industry will benefit from the policies of development planning in the long run. As disclosed in the Company's prospectus issued on 21 June 2012 (the "Prospectus"), the total sales of Chinese FSR segment has grown at a compound annual growth rate ("CAGR") of 15% from RMB1,148 billion in 2007 to RMB2,005 billion in 2011, and is expected to continue to grow to RMB3,318 billion by 2016, representing a CAGR of 10.1% from 2012. Due to the Group's strong brand recognition, high customer loyalty and utilization of its competitive strengths of product research and development and standardized operation (of central kitchens and central warehouses), the Group believes that its earnings will steadily grow through strengthening operation management and market development, adjusting marketing strategies and implementing effective cost control measures.

Business Review

In the first half of 2012, due to the debt financial crisis, the global economy continued to deteriorate and gradually affected the growth of the Chinese economy. Meanwhile, the catering and restaurant industry continued to face the pressure of rising ingredient food cost, labor costs and rentals, which had a negative effect on operating costs. However, through implementing existing measures and the strategy of adjusting development, the Group successfully managed to record revenue of RMB647.8 million for the first half of 2012, representing an increase of 30.7% as compared to the same period last year; net profit of RMB56.2 million, representing an increase of 51.7% as compared to the same period last year; and earnings per share of RMB5.1 cent, representing an increase of 34.2% as compared to the same period last year.

During the reporting period, we continued to expand our restaurant base in new and existing markets based on a distinctive hub-and-spoke strategy. Under this strategy, we have six central kitchens and five central warehouses during the reporting period, servicing our restaurant network of 58 Shanghai Xiao Nan Guo restaurants, three Maison De L'Hui restaurants and one "The Dining Room" restaurant, which covered some of the most affluent and fastest-growing cities in Greater China, including Shanghai, Beijing, Dalian, Suzhou, Nanjing, Tianjin, Ningbo, Wuxi, Shenzhen and Hong Kong. Compared to 30 June 2011, we added two additional cities and 14 restaurants. As disclosed in the Prospectus, we are the largest self-owned mid-to high-end Chinese cuisine full-service restaurant chain headquartered in the PRC, based on number of self-owned restaurants in Greater China as of 31 December 2011.

Under the impact of the economic situation, the development of China's commercial property industry in 2012 has been encountering difficult challenges, and such will cause delay of the leasors' project progress and handover time of some of the Company's new sites on which we have entered into lease contract or letter of intent. Moreover, in the second half of 2012, the management will adopt more prudent measures to monitor the schedule of opening new stores, which include requiring more developed ambiance before commencing business of a new store. The above factors will lead to a decrease in the total number of new stores in 2012 as compared with that estimated in the year earlier. On the other hand, the management will leverage on the economic cycles to seek for more favorable leasing terms for the new sites, so as to lower the rental costs, and to speed up the opening of stores in due course.

The continuing implementation of a multi-brand strategy is critical to our sustainable expansion and growth. Our "Shanghai Xiao Nan Guo" brand caters to medium and high-end Chinese consumers, our "Maison De L'Hui" brand is a high-end brand focused on business clientele and our "The Dining Room" brand will pursue opportunities in mass markets by offering a simplified menu to medium-end clients. All three brands had a good performance in the first half of this year:

- Revenue of Shanghai Xiao Nan Guo in the first half of this year was RMB614.0 million, representing an increase of 31.8% as compared to the same period last year. Among these, the total number of 21 new stores opened in 2011 contributed revenue of RMB169.3 million, representing 26.1% of total revenue, and most of our net profit growth. Shanghai Xiao Nan Guo, our existing brand, continued its growth momentum, and became a major contributor of the Group's revenue and the cornerstone of development.

- Revenue of Maison De L'Hui in the first half of this year was RMB23.4 million, with a significant increase of comparable restaurants sales by 46.1% and realization of profit. Having achieved such a success within a short period of two years as a newly established high-end catering and restaurant brand, Maison De L'Hui signified the effectiveness of the Group's strategy and implementation of its multi-brand strategy.

- The new restaurant under "The Dining Room" brand opened in the reporting period in June 2012 generated a revenue of HK$2.35 million, customer traffic of 21,400, a per capita spending of HK$110 and a daily table turnover rate of 6.6 times, and achieved profit within one month after commencement of business. The Group will capitalize on "The Dining Room" concept, a medium-end brand, to capture the mass market segment and be resilience to downward economic pressure. Its lower investment on fixed assets, smaller area floor, flexible and simplified menu enable a faster replication ability and profitability. We intend to make appropriate adjustments and speed up the opening of more "The Dining Room" restaurants in Hong Kong and Mainland China.

The following table sets out the important factors of each brand of the Group, and shows their complementary positioning and sharing of the Group's existing resources during the six months ended 30 June 2012:

	Shanghai Xiao Nan Guo	Maison De L'Hui	The Dining Room
Number of restaurants	58	3	1
Number of cities	10	1	1
Positioning	Medium to High-end	High-end	Medium-end (casual dining)
Estimated average check per guest of comparable restaurants	RMB233	RMB687	HK$110[(i)]
Shared service from central kitchens		shared	
Shared service from central warehouses		shared	
Shared service from management team at headquarters		shared	

Note

(i) Estimated average check per guest of "The Dining Room" is calculated based on actual data of June 2012.

Despite facing various challenges, through the joint and complementary developments of the above three brands, the Group realized revenue of RMB647.8 million for the six months ended 30 June 2012, representing an increase of 30.7% as compared to the same period last year, and a net profit of RMB56.2 million, representing an increase of 51.7% as compared to the same period last year.

In the first half of 2012, the Group continued to enlarge the infrastructural of the Company's standardized operation. In addition to its existing food safety measures, the Group had taken various additional measures (including a third party inspection, examination by food and safety inspection institutions or labs, enlarged examination scope for unified acceptance and 6S management of general supplies) to ensure food safety and quality control. In the first half of 2012, no material food safety accidents occurred. Despite the continued rise in CPI, with the Group's purchasing power and continued effort in ensuring operation effectiveness, we selected a pool of strategic suppliers while also broadened new channels to ensure costs of food ingredients are effectively monitored and controlled. To that effect, the Group managed to decrease the costs of certain key food ingredients. The costs of food ingredients as a percentage of sales for the first half of 2012 decreased by 1.6% as compared to the same period last year. Furthermore, the Group also made an investment of RMB1.2 million on information technology system, in order to enhance the operation efficiency of the Group's operating of information system.

Looking ahead in the second half year, although signs of economic improvement have yet to come, the catering and restaurant industry in which the Group operates still has great development space. The Group will continue to strengthen and utilize its existing brand power, standardized management system and management team advantage and its capital raised from recent public listing. With the guidance from the board and advisory committee, the Company will periodically review its strategy and prudently adjust its strategy where necessary to respond to macro-economic and market situation. The Company will also take necessary measures to control the management fees and other costs, and will speed up the opening of stores and enhance same store growth in due course, so as to maintain steady growth of results and strengthen our leadership position in the catering and restaurant business.

Financial Review

For the six months ended 30 June 2012, the Group revenue reached RMB647.8 million, representing an increase of RMB152.1 million or 30.7% compared to RMB495.7 million for the six months ended 30 June 2011. The gross profit of the Group achieved RMB438.7 million, an increase of approximately RMB111.3 million from approximately RMB327.4 million for the same period of 2011, and profit for the six months ended 30 June 2012 increased by approximately 51.7% to approximately RMB56.2 million from approximately RMB37.0 million for the same period of 2011.

As at 30 June 2012, the Group operated the restaurant network of 58 Shanghai Xiao Nan Guo restaurants, 3 Maison De L'Hui restaurants and one "The Dining Room" restaurant, which cover some of the most affluent and fastest-growing cities in China (Note(i)) and Hong Kong. The following table sets forth revenue and the number of the restaurants in operation, by geographical region and brand, as at 30 June 2012 and 2011.

	Six months ended 30 June			
	2012		2011	
	Number of restaurants	Revenue RMB'000 (audited)	Number of restaurants	Revenue RMB'000 (unaudited)
China				
– Shanghai Xiao Nan Guo	**50**	**524,495**	37	391,836
– Maison De L'Hui	**3**	**23,392**	4	21,905
Hong Kong				
– Shanghai Xiao Nan Guo	**8**	**89,505**	7	73,990
– The Dining Room	**1**	**1,910**	—	—
Total revenue of restaurant operations	**62**	**639,302**	48	487,731
Other revenue		**8,476**		7,977
Total revenue		**647,778**		495,708

Note

(i) The People's Republic of China ("China"), which for the purpose of this report and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

Revenue

Revenue of the Group increased by RMB152.1 million, or 30.7%, from RMB495.7 million in the six months ended 30 June 2011 to RMB647.8 million in the six months ended 30 June 2012. This increase was due to an increase of RMB151.6 million in revenue from the restaurant operations and an increase of RMB0.5 million in revenue from other businesses during the period.

Revenue from restaurant operations

Revenue from restaurant operations increased by RMB151.6 million, or 31.1%, from RMB487.7 million in the six months ended 30 June 2011 to RMB639.3 million in the six months ended 30 June 2012 primarily reflecting:

- a RMB8.9 million increase from 3 Shanghai Xiao Nan Guo restaurants that were newly opened during the six months ended 30 June 2012;

- a RMB149.5 million increase from the ramp-up of the 21 Shanghai Xiao Nan Guo restaurants that were newly opened during 2011;

- a RMB15.6 million decrease, representing 3.9% decrease, in comparable restaurants sales (note (i)) from 28 Shanghai Xiao Nan Guo restaurants from the six months ended 30 June 2011 to the six months ended 30 June 2012.

- a RMB3.8 million increase from the ramp-up of one Maison De L'Hui restaurant newly opened during 2011;

- a RMB5.9 million increase, representing 46.1% increase, in comparable restaurant sales (note (i)) from 2 Maison De L'Hui restaurants from the six months ended 30 June 2011 to the six months ended 30 June 2012;

- a RMB1.9 million increase from one "The Dining Room" restaurant that was newly opened in June 2012;

- a RMB2.8 million decrease, from 6 Shanghai Xiao Nan Guo restaurants which we remodeled, changed lease space or location, or re-decorated during the six months ended 2011 and 2012.

Note (i): As a whole, our comparable restaurant sales from 30 restaurants (including Shanghai Xiao Nan Guo restaurants and Maison De L' Hui restaurants) decreased RMB9.7 million, representing 2.4% decrease from the six months ended 30 June 2011 to the six months ended 30 June 2012.

Revenue from other businesses

Revenue from other businesses increased by RMB0.5 million, or 6.3%, from RMB8.0 million in the six months ended 30 June 2011 to RMB8.5 million in the six months ended 30 June 2012, which primarily reflected the increase in sales of our branded food products.

Cost of inventories consumed

Cost of inventories consumed increased by RMB40.8 million, or 24.2%, from RMB168.3 million in the six months ended 30 June 2011 to RMB209.1 million in the six months ended 30 June 2012, which was primarily due to an increase in quantities of food and beverages consumed in our operations, in line with rising revenue in the six months ended 30 June 2012.

Cost of inventories consumed as a percentage of the revenue decreased from 33.9% in the six months ended 30 June 2011 to 32.3% in the six months ended 30 June 2012, primarily reflecting (i) the market price corrections of food and beverages in China and Hong Kong, whose price peaked during the second half of 2011, and (ii) further improvements in operating efficiency through our continuing initiatives of standardization of operations and centralization of supply purchases.

Other income and gains

Other income and gains increased by RMB10.1 million, from RMB8.8 million in the six months ended 30 June 2011 to RMB18.9 million in the six months ended 30 June 2012, primarily reflecting (i) an increase of RMB5.0 million in the government grants received, including RMB1.7 million received as incentives for the Company's inital public offering ("IPO"), in the six months ended 30 June 2012 from those received in the six months ended 30 June 2011, (ii) promotion service income of RMB2.0 million in the six months ended 30 June 2012, for providing display advertising premises at our restaurants, and (iii) compensations from certain landlords of RMB2.8 million in 2012, as incentives to invite our Shanghai Xiao Nan Guo brand restaurant into their project.

Selling and distribution costs

Selling and distribution costs increased by RMB87.3 million, or 35.7%, from RMB244.5 million in the six months ended 30 June 2011 to RMB331.8 million in the six months ended 30 June 2012, which primarily reflected an increase in all major components, reflecting the expanded operations in the six months ended 30 June 2012.

Labor costs related to the restaurants, central kitchens and central warehouses increased by RMB33.6 million, or 35.7%, from RMB94.1 million in the six months ended 30 June 2011 to RMB127.7 million in the six months ended 30 June 2012, which was in line with the expanded operations of the Group. As a percentage of our revenue, labor costs slightly increased from 19.0% in the six months ended 30 June 2011 to 19.7% in the six months ended 30 June 2012, primarily reflecting (i) a general increase of salary levels for our employees during the six months ended 30 June 2012, partially offset by (ii) our measures to improve the overall utilization of restaurant staff and control the headcount of staff per restaurant.

Occupancy costs related to restaurants, central kitchens and central warehouses increased by RMB21.1 million, or 26.5%, from RMB79.6 million in the six months ended 30 June 2011 to RMB100.7 million in the six months ended 30 June 2012. As a percentage of revenue from restaurant operations, occupancy costs decreased from 16.1% in the six months ended 30 June 2011 to 15.5% in the six months ended 30 June 2012, primarily attributed to the acceleration of our new restaurant revenue ramp-up in the six months ended 30 June 2012.

Depreciation charges related to the restaurants, central kitchens and central warehouses increased by RMB14.3 million, or 57.2%, from RMB25.0 million in the six months ended 30 June 2011 to RMB39.3 million in the six months ended 30 June 2012. As a percentage of our revenue, depreciation charges increased from 5.0% in the six months ended 30 June 2011 to 6.1% in the six months ended 30 June 2012.

General and administrative expenses

Administrative expenses increased by RMB7.9 million, or 19.3%, from RMB40.9 million in the six months ended 30 June 2011 to RMB48.8 million in the six months ended 30 June 2012, and as a percentage of revenue, administrative expenses decreased from 8.3% to 7.5% during the same periods. These decreases primarily reflected the increase of our economy scale and our control of the headcount at our headquarters in 2012.

Income tax expenses

Income tax expenses increased by RMB5.0 million, or 42.7%, from RMB11.7 million in the six months ended 30 June 2011 to RMB16.7 million in the six months ended 30 June 2012, primarily reflecting increases in profit before tax during the same periods. The overall effective tax rate decreased from 23.9% in the six months ended 30 June 2011 to 22.9% in the six months ended 30 June 2012.

Profit for the period

As a result of the foregoing, the profit for the period increased by RMB19.2 million, or 51.7%, from RMB37.0 million in the six months ended 30 June 2011 to RMB56.2 million in the six months ended 30 June 2012. The net profit margin increased from 7.5% in the six months ended 30 June 2011 to 8.7% in the six months ended 30 June 2012.

Dividends payable

For the six months ended 30 June 2012, the Group paid out dividends payable of RMB27.6 million (withholding tax on dividends) and settled dividends payable of RMB164.7 million by netting off the same amount of amounts due from the Controlling Shareholder and the companies controlled by the Controlling Shareholder. As at 30 June 2012, there was no outstanding dividends payable.

Liquidity, financial resources and cash flow

The Group has funded the liquidity and capital requirements primarily through capital contributions from shareholders, bank loans, cash inflows from the operating activities and proceeds received from the Global Offering.

As at 30 June 2012, the Group's total interest-bearing bank loans were RMB129.6 million, which were repayable within one year.

The Group had net cash inflows from operating activities of RMB74.3 million for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB83.0 million). As at 30 June 2012, the Group had RMB80.6 million in cash and cash equivalents (31 December 2011: RMB180.0 million). The following table sets the certain information regarding the consolidated cash flows for the periods ended 30 June 2012 and 2011.

	For the six months ended 30 June	
	2012	2011
	(RMB'000)	(RMB'000)
	(audited)	(unaudited)
Net cash flows from operating activities	**74,251**	83,041
Net cash flows used in investing activities	**(86,447)**	(116,392)
Net cash flows (used in)/from financing activities	**(87,235)**	2,576
Net decrease in cash and cash equivalents	**(99,431)**	(30,775)
Cash and cash equivalents at beginning of the period	**179,956**	92,661
Effect of foreign exchange rate changes, net	**92**	(125)
Cash and cash equivalents at end of the period	**80,617**	61,761

Operating activities

Net cash inflow from operating activities decreased by RMB8.7 million from RMB83.0 million in the six months ended 30 June 2011 to RMB74.3 million in the six months ended 30 June 2012, which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB122.0 million (six months ended 30 June 2011: RMB78.2 million), (ii) changes in working capital represented decrease of cash of RMB26.8 million (six months ended 30 June 2011: increase of cash of RMB22.5 million).

Investing activities

Net cash flow used in investing activities was RMB86.4 million in the six months ended 30 June 2012, representing a decrease by RMB30.0 million compared to the same period in 2011. It is mainly due to a decrease of cash outflow amounting to RMB27.8 million for purchase of leasehold improvements, furniture, fixtures and equipments and construction in progress in connection with decorating and refurbishing the existing and new restaurants and software with development of the enterprise resource planning systems.

Financing activities

Net cash flow of financing activities changed from an inflow of RMB2.6 million during the six months ended 2011 to an outflow of RMB87.2 million during the six months ended 30 June 2012, representing a decrease of RMB89.8 million, was primarily attributable to (i) proceeds from bank loans of RMB40.0 million (six months ended 30 June 2011: RMB91.6 million) (ii) payment of dividends of RMB27.6 million (six months ended 30 June 2011: 7.2 million), (iii) payment of IPO expenses of RMB17.9 million (six months ended 30 June 2011: Nil).

Foreign Currency Exposure

The Group's exposure to the risk of changes in foreign exchange rates relates preliminary to the Group's operating activities (when revenue or expenses are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: 0.8%), are denominated in currencies other than the functional currency of the relevant business. The Group has minimal exposure of foreign exchange risk.

Net Current Liabilities

The Group recorded net current liabilities of RMB145.4 million as at 30 June 2012, an increase of RMB5.5 million compared to the net current liabilities recorded as at 31 December 2011, which primarily reflects the increased capital expenditures incurred in relation to the accelerated pace of expansion in the six months ended 30 June 2012.

The Group expects to finance the working capital requirements with the following sources of funding: (i) cash inflows from operating activities (ii) proceeds from bank loans (iii) proceeds received by the Group from the Global Offering.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 30 June 2012 and 31 December 2011.

Operating Lease Arrangements

As lessee

The Group leases certain of its office and restaurant properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 5 to 10 years.

At the end of each of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 RMB'000 (audited)	31 December 2011 RMB'000 (audited)
Within one year	**183,009**	170,609
In the second to fifth years, inclusive	**706,826**	626,669
After five years	**397,260**	447,312
	1,287,095	1,244,590

Capital Commitment

Capital commitments were approximately RMB47.9 million and RMB50.3 million as at 30 June 2012 and 31 December 2011, respectively.

Human Resources

The salary level of employees in the restaurant industry has been generally increasing in recent years. Employee attrition levels tend to be higher in the food services industry than in other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 30 June 2012, the Group recruited about 4,945 employees in China and Hong Kong. During the six months ended 30 June 2012, total staff cost was RMB162.5 million, 25.1% of the revenue (six months ended 30 June 2011: RMB123.8 million, 25.0% of the revenue).

ERNST & YOUNG
安 永

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Central, Hong Kong

To the shareholders of Xiao Nan Guo Restaurants Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xiao Nan Guo Restaurants Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 15 to 84, which comprise the consolidated and company statements of financial position as at 30 June 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2012, and of the Group's profit and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw your attention to the fact that the corresponding figures set out in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows and the related notes for the six-month period ended 30 June 2011 have not been audited.

Ernst & Young
Certified Public Accountants
Hong Kong

29 August 2012

Consolidated Income Statement

Six-month period ended 30 June 2012

	Notes	Six-month period ended 30 June 2012 RMB'000	2011 RMB'000 (unaudited)
REVENUE	5	**647,778**	495,708
Cost of inventories consumed		**(209,054)**	(168,270)
Gross profit		**438,724**	327,438
Other income	5	**18,894**	8,760
Selling and distribution costs		**(331,815)**	(244,526)
Administrative expenses		**(48,821)**	(40,934)
Other expenses		**(254)**	(240)
Finance costs	7	**(3,861)**	(1,782)
PROFIT BEFORE TAX	6	**72,867**	48,716
Income tax expense	10	**(16,689)**	(11,676)
PROFIT FOR THE PERIOD		**56,178**	37,040
Attributable to:			
Owners of the Company	11	**56,178**	37,040
Earnings per share attributable to ordinary equity holders of the Company			
– Basic	13	**RMB5.1 cents**	RMB3.8 cents
– Diluted	13	**RMB5.0 cents**	RMB3.8 cents

Details of the dividends declared for the period are disclosed in Note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Six-month period ended 30 June 2012

	Notes	Six-month period ended 30 June 2012 RMB'000	2011 RMB'000 (unaudited)
PROFIT FOR THE PERIOD		**56,178**	37,040
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**376**	(718)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**56,554**	36,322
Attributable to:			
Owners of the Company	11	**56,554**	36,322

Consolidated Statement of Financial Position

30 June 2012

	Notes	30 June 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**515,308**	500,239
Intangible assets	15	**2,237**	2,448
Available-for-sale investments	18	**100**	100
Long-term rental deposits	16	**46,617**	41,541
Deferred tax assets	26	**29,380**	21,332
Other long-term assets		**687**	793
Total non-current assets		**594,329**	566,453
CURRENT ASSETS			
Inventories	19	**48,139**	46,762
Trade receivables	20	**19,287**	20,088
Prepayments, deposits and other receivables	21	**135,817**	263,298
Cash and cash equivalents	22	**80,617**	179,956
Total current assets		**283,860**	510,104
CURRENT LIABILITIES			
Trade payables	23	**101,269**	97,440
Interest-bearing bank loans	25	**129,637**	129,571
Tax payable		**23,541**	19,436
Dividends payable		**—**	192,314
Other payables and accruals	24	**173,125**	208,571
Deferred income		**1,723**	2,669
Total current liabilities		**429,295**	650,001
NET CURRENT LIABILITIES		**(145,435)**	(139,897)
TOTAL ASSETS LESS CURRENT LIABILITIES		**448,894**	426,556

	Notes	30 June 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT LIABILITIES			
Long-term payables	16	**34,941**	32,622
Interest-bearing bank loans	25	—	37,895
Deferred tax liabilities	26	**1,448**	1,779
Total non-current liabilities		**36,389**	72,296
Net assets		**412,505**	354,260
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**9,252**	9,262
Reserves	30	**403,253**	344,998
Total equity		**412,505**	354,260

Wang Huimin
Director

Kang Jie
Director

Consolidated Statement of Changes in Equity

Six-month period ended 30 June 2012

		Attributable to owners of the Company									
						Statutory	Exchange	Share			
		Issued	Share	Capital	Merger	surplus	fluctuation	option	Retained		Total
		capital	premium*	reserve*	reserve*	reserve*	reserve*	reserve*	earnings*	Total	equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 28)	(note 30 (i))	(note 30 (iii))	(note 30 (ii))	(note 30 (iv))	(note 30 (v))	(note 30 (vi))			
As of 1 January 2012		9,262	116,962	60,174	(69,246)	11,490	(7,515)	5,554	227,579	354,260	354,260
Profit for the period		—	—	—	—	—	—	—	56,178	56,178	56,178
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations		—	—	—	—	—	376	—	—	376	376
Total comprehensive income for the period		—	—	—	—	—	376	—	56,178	56,554	56,554
Equity-settled share option arrangements	29	—	—	—	—	—	—	1,691	—	1,691	1,691
Cancellation of shares	28	(10)	10	—	—	—	—	—	—	—	—
As of 30 June 2012		9,252	116,972	60,174	(69,246)	11,490	(7,139)	7,245	283,757	412,505	412,505

Consolidated Statement of Changes in Equity

Six-month period ended 30 June 2012

		Attributable to owners of the Company									
						Statutory	Exchange	Share			
		Issued	Share	Capital	Merger	surplus	fluctuation	option	Retained		Total
		capital	premium*	reserve*	reserve*	reserve*	reserve*	reserve*	earnings*	Total	equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 28)	(note 30 (i))	(note 30 (iii))	(note 30 (ii))	(note 30 (iv))	(note 30 (v))	(note 30 (vi))			
As of 1 January 2011		—	—	60,174	(69,246)	9,977	(4,668)	1,540	122,073	119,850	119,850
Profit for the period		—	—	—	—	—	—	—	37,040	37,040	37,040
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations		—	—	—	—	—	(718)	—	—	(718)	(718)
Total comprehensive income for the period		—	—	—	—	—	(718)	—	37,040	36,322	36,322
Equity-settled share option arrangements	29	—	—	—	—	—	—	2,000	—	2,000	2,000
Issue of shares	28	8	(8)	—	—	—	—	—	—	—	—
As of 30 June 2011 (unaudited)		8	(8)	60,174	(69,246)	9,977	(5,386)	3,540	159,113	158,172	158,172
Profit for the period		—	—	—	—	—	—	—	69,979	69,979	69,979
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations		—	—	—	—	—	(2,129)	—	—	(2,129)	(2,129)
Total comprehensive income for the period		—	—	—	—	—	(2,129)	—	69,979	67,850	67,850
Appropriation for reserve funds		—	—	—	—	1,513	—	—	(1,513)	—	—
Equity-settled share option arrangements		—	—	—	—	—	—	2,218	—	2,218	2,218
Issue of shares		9,254	116,970	—	—	—	—	(204)	—	126,020	126,020
As of 31 December 2011		9,262	116,962	60,174	(69,246)	11,490	(7,515)	5,554	227,579	354,260	354,260

* These reserve accounts comprise the consolidated reserves of RMB403,253,000 and RMB344,998,000 in the consolidated statement of financial position as at 30 June 2012 and 31 December 2011, respectively.

Consolidated Statement of Cash Flows

Six-month period ended 30 June 2012

	Notes	Six-month period ended 30 June **2012** RMB'000	2011 RMB'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**72,867**	48,716
Adjustments for:			
Finance costs	7	**3,861**	1,782
Interest income	5	**(216)**	(186)
Depreciation	14	**40,334**	25,295
Amortisation of intangible assets	15	**211**	256
Amortisation of other long-term assets		**106**	106
Loss on disposal of items of property and equipment	6	**167**	187
IPO expense		**3,000**	—
Equity-settled share option expense		**1,691**	2,000
		122,021	78,156
Increase in inventories		**(1,377)**	(20,181)
Decrease/(increase) in trade receivables		**801**	(2,942)
(Increase)/decrease in prepayments, deposits and other receivables		**(33,951)**	4,476
Increase in trade payables		**3,829**	35,676
Increase in other payables and accruals		**7,577**	3,762
Increase in long-term rental deposits		**(5,076)**	(6,932)
Increase in long-term payables		**2,319**	8,520
(Decrease)/increase in deferred income		**(946)**	143
Cash generated from operations		**95,197**	100,678
Income tax paid		**(20,946)**	(17,637)
Net cash flows from operating activities		**74,251**	83,041

Consolidated Statement of Cash Flows

Six-month period ended 30 June 2012

	Notes	Six-month period ended 30 June 2012 RMB'000	2011 RMB'000 (unaudited)
Net cash flows from operating activities		**74,251**	83,041
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(86,663)**	(114,486)
Proceeds from disposal of items of property and equipment		—	23
Purchases of intangible assets		—	(2,115)
Interest received		**216**	186
Net cash flows used in investing activities		**(86,447)**	(116,392)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(77,819)**	(80,000)
Proceeds from new bank loans		**39,990**	91,600
Dividend paid		**(27,564)**	(7,242)
Interest paid		**(3,952)**	(1,782)
Payment of IPO expenses		**(17,890)**	—
Net cash (used in)/from financing activities		**(87,235)**	2,576
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(99,431)**	(30,775)
Cash and cash equivalents at beginning of period		**179,956**	92,661
Effect of foreign exchange rate changes, net		**92**	(125)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**80,617**	61,761

Statement of Financial Position

30 June 2012

	Notes	30 June 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Interest in subsidiaries	17	**190,234**	70,859
Total non-current assets		**190,234**	70,859
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**2,388**	—
Cash and cash equivalents	22	**1**	114,379
Total current assets		**2,389**	114,379
NET CURRENT ASSETS		**2,389**	114,379
Net assets		**192,623**	185,238
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**9,252**	9,262
Reserves	30	**183,371**	175,976
Total equity		**192,623**	185,238

Wang Huimin
Director

Kang Jie
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2012 (the "Listing").

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of Chinese restaurant chain stores in Mainland China and Hong Kong. There were no significant changes in the nature of the Group's principal activities during the period. Particulars of the companies now comprising the Group are set out in Note 17 of the financial statements below.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Through a group reorganisation (the "Reorganisation") as set out in the section headed "History and Development" in the Prospectus dated 21 June 2012 for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 10 August 2010. Before the Reorganisation and formation of the Group, the listing business was carried out by the subsidiaries now comprising the Group as set out in Note 17 of the financial statements, all of which were collectively controlled by Ms. Wang Huimin (the "Controlling Shareholder"). The acquisition of subsidiaries and business under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent over the cost of investment at the time of common control combination. The acquisition of subsidiaries other than those under common control has been accounted for using the purchase method of accounting.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted, at the beginning of the financial periods presented, all IFRSs that have been issued and effective for the financial periods presented.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS1 *First-time Adoption of International Financial Reporting Standards– Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IFRS 10, IFRS 11 And IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12: *Transition Guidance*[2]
IAS 1 Amendments	Amendments to IAS1 *Presentation of Financial Statements – Presentationof Items of Other Comprehensive Income*[1]
IAS 19 (2011)	*Employee Benefits*[2]
IAS 27 (2011)	*Separate Financial Statements*[2]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements to IFRSs 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statements in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

	Annual rate	Estimated Residual values
Software	10%-20%	—

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Annual rate	Estimated Residual values
Furniture, fixtures and equipment	19%	5%
Motor vehicles	19%	5%
Leasehold improvements	Over the shorter of lease terms and estimated useful period	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, trade receivables, deposits and other receivables, long-term rental deposits and available-for-sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integrated part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank loans and long-term payables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other pricing models.

Inventories

Inventories comprise ingredients, consumables and food and beverages and are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from restaurant operations, when catering services have been provided to customers;

(b) from the sale of foods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the foods sold;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(e) compensation income, on a time proportion basis over the compensation period; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 29 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme. Details of the central pension scheme are set out in Note 27 below.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Group's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their income statements are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing date.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has a significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases as lessee on its restaurant chain stores. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the landlords retain all the significant risks and rewards of ownership of these properties which are leased to the Group on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end 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 financial year, are described below.

Useful lives of property and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property and equipment. This estimate is based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. Management reassesses these estimates at each reporting date.

Impairment of receivables

Impairment of receivables is made based on assessment of their recoverability. The identification of impairment of receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which such an estimate has been changed.

Deferred income

The amount of revenue attributable to the credit award earned by the customers of the Groups' membership programme is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate was estimated considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to tax losses at 31 December 2011 and 30 June 2012 were RMB8,922,000 and RMB12,953,000, respectively. Further details are contained in Note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of operating Chinese restaurant chain stores. For management purposes, the Group operates in one business unit, and has one reportable segment which is the Chinese restaurant operation. No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Mainland China	**556,363**	421,906
Hong Kong	**91,415**	73,802
	647,778	495,708

The revenue information above is based on the location of the customers.

(b) Non-current assets

	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Mainland China	**498,773**	489,333
Hong Kong	**66,076**	55,688
	564,849	545,021

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about a major customer

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six-month periods ended 30 June 2012 and 2011, no major customers segment information is presented in accordance with IFRS 8 *Operating Segments.*

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges.

An analysis of revenue and other income is as follows:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Revenue		
Restaurant operations	**639,302**	487,731
Other revenue	**8,476**	7,977
Revenue, net	**647,778**	495,708
Other income		
Government grants	**10,310**	5,295
Bank interest income	**216**	186
Management fee	**1,500**	1,500
Compensation income from landlords	**2,800**	—
Promotion service income	**2,000**	—
Others	**2,068**	1,779
	18,894	8,760

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Six-month period ended 30 June 2012 RMB'000	2011 RMB'000 (unaudited)
Cost of inventories consumed		**209,054**	168,270
Depreciation	14	**40,334**	25,295
Amortisation of intangible assets	15	**211**	256
Amortisation of other long-term assets		**106**	106
Minimum lease payments under operating lease on buildings		**102,478**	79,216
Auditors' remuneration		**839**	142
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**128,216**	98,379
Equity-settled share option expense		**1,691**	2,000
Defined contribution pension scheme		**32,585**	23,409
		162,492	123,788
Bank interest income	5	**(216)**	(186)
Loss on disposal of items of property and equipment		**167**	187

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Interest on bank loans wholly repayable within five years	**4,603**	1,782
Less: Interest capitalised	**(742)**	—
	3,861	1,782

8. DIRECTORS' REMUNERATION

Directors' remuneration during the reporting period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	**828**	846
Performance related bonuses	—	—
Equity-settled share-based payment	**495**	419
Pension scheme contributions	**26**	26
	1,349	1,291
	1,349	1,291

During the year ended 31 December 2011, under the share option schemes of the Company, one of the Directors was granted share options in respect of his service to the Group, which was replaced by a modified share-based payment arrangement. Further details are set out in Note 29 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the periods ended 30 June 2012 and 2011 are included in the above Directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (Continued)

(a) Executive directors

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share-based payment RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Six-month period ended 30 June 2012				
Executive directors:				
Ms. Wang Huimin	—	—	—	—
Ms. Wu Wen	—	—	—	—
Mr. Kang Jie	**828**	**495**	**26**	**1,349**
	828	**495**	**26**	**1,349**
Six-month period ended 30 June 2011 (unaudited)				
Executive directors:				
Ms. Wang Huimin	—	—	—	—
Ms. Wu Wen	—	—	—	—
Mr. Kang Jie	846	419	26	1,291
	846	419	26	1,291

(b) Non-executive Directors

Ms. Wang Huili, Mr. Tang Donald Wei and Mr. Weng Xiangwei were appointed as non-executive Directors in 2010. There were no fees or other emoluments payable to them during the six-month periods ended 30 June 2012 and 2011.

(c) Independent Non-executive Directors

Mr. Wang Yu, Mr. Wang Chiwei and Mr. Tsang Henry Yuk Wong were appointed as independent non-executive Directors in 2011. There were no fees or other emoluments payable to them during the six-month periods ended 30 June 2012 and 2011.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the six-month periods ended 30 June 2012 and 2011.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees include 1 Director for the six-month periods ended 30 June 2012 and 2011, and details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining 4 non-Directors, highest paid employees for both the six-month periods ended 30 June 2012 and 2011 are as follows:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Salaries, allowances and benefits in kind	**2,863**	2,725
Equity-settled share-based payment	**824**	892
Pension scheme contributions	**164**	164
	3,851	3,781

The number of non-Director, highest paid employees whose remuneration fell within the following band is as follows:

	Six-month period ended 30 June	
	2012	2011
Nil to HK$1,000,000	**4**	4

During the six-month periods ended 30 June 2012 and 2011, share options were granted to a non-Director, highest paid employee in respect of his services to the Group, further details of which are set out in Note 29 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the six-month periods ended 30 June 2012 and 2011 are included in the above non-Director, highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Group:		
Current - Mainland China charged for the period	**23,903**	17,069
Current - Hong Kong charged for the period	**1,148**	1,272
Deferred tax (note 26)	**(8,362)**	(6,665)
Total tax charge for the period	**16,689**	11,676

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-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

Pursuant to the International Business Companies Act, 1984 (the "IBC Act") of the BVI, international business companies incorporated pursuant to the IBC Act enjoy a complete exemption from income tax. This includes an exemption from capital gains tax and all forms of withholding tax. Accordingly, the subsidiaries incorporated in the BVI are not subject to tax.

According to the PRC Corporate Income Tax Law ("PRC CIT Law"), the applicable income tax rates for both domestic and foreign investment enterprises in the People's Republic of China (the "PRC") are unified at 25%.

Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. and Shanghai Xinqu Xiao Nan Guo Restaurant Management Co., Ltd., which are subsidiaries of the Group located in Shanghai Pudong New Area, enjoyed preferential CIT rates of 24% for the six-month period ended 30 June 2011, according to the preferential CIT policy in the PRC. These companies are subject to a normal income tax rate of 25% commencing year 2012.

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – Six-month period ended 30 June 2012

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	**68,621**		**4,246**		**72,867**	
Tax at the statutory tax rate	**17,155**	**25.0**	**701**	**16.5**	**17,856**	**24.5**
Income not subject to tax	—	—	**(16)**	**(0.4)**	**(16)**	**(0.0)**
Additional deduction for share option expenses	**(1,862)**	**(2.7)**	—	—	**(1,862)**	**(2.6)**
Expenses not deductible for tax	**617**	**0.9**	**94**	**2.2**	**711**	**1.0**
Tax charge at the Group's effective rate	**15,910**	**23.2**	**779**	**18.3**	**16,689**	**22.9**

Group – Six-month period ended 30 June 2011 (unaudited)

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	41,203		7,513		48,716	
Tax at the statutory tax rate	10,301	25.0	1,240	16.5	11,541	23.7
Tax concession or lower tax rate enacted by local authority	(278)	(0.7)	—	—	(278)	(0.6)
Income not subject to tax	—	—	(188)	(2.5)	(188)	(0.4)
Expenses not deductible for tax	643	1.6	—	—	643	1.3
Effect for different tax rates used for the recognition of deferred tax	(42)	(0.1)	—	—	(42)	(0.1)
Tax charge at the Group's effective rate	10,624	25.8	1,052	14.0	11,676	23.9

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the six-month periods ended 30 June 2012 and 2011 include gains of RMB 5,568,000 and losses of RMB2,000,000, respectively, which have been dealt with in the financial statements of the Company (Note 30).

12. DIVIDENDS

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Interim – HK$0.014 (2011: Nil) per ordinary share	**16,834**	—

On 29 August 2012, the Company declared an interim dividend for the six months ended 30 June 2012, at HK$0.014 per Share, amounting to a total sum of approximately HK$20,650,000 (approximately equivalent to RMB16,834,000).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the six-month period ended 30 June 2012 is based on the consolidated profit attributable to the equity holders of the Company and 1,110,000,000 ordinary shares in issue throughout the period. The calculation of basic earnings per share for the six-month period ended 30 June 2011 is based on the consolidated profit attributable to the equity holders of the Company and 976,259,000 shares which is arrived (i) on the assumption that the 1,000,000 ordinary shares under the capitalization issue were in issue throughout the period and (ii) taking into account the rights issue of 1,109,000,000 ordinary shares.

The calculation of diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company. The number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation and the number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (Continued)

The calculations of basic and diluted earnings per share are based on:

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**56,178**	37,040

	Six-month period ended 30 June	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,110,000,000**	976,259,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,651,000**	2,238,000
Number of ordinary shares used in the diluted earnings per share calculation	**1,113,651,000**	978,497,000

14. PROPERTY AND EQUIPMENT

Group

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
30 June 2012					
At 31 December 2011 and 1 January 2012:					
Cost	521,934	106,144	5,492	26,252	659,822
Accumulated depreciation and impairment	(111,332)	(44,464)	(3,787)	—	(159,583)
Net carrying amount	410,602	61,680	1,705	26,252	500,239
At 1 January 2012, net of accumulated depreciation	410,602	61,680	1,705	26,252	500,239
Additions	17,612	5,064	398	36,457	59,531
Depreciation provided during the period	(31,094)	(8,700)	(540)	—	(40,334)
Disposal	(4,230)	(158)	(9)	—	(4,397)
Transfers	23,618	7,471	—	(31,089)	—
Exchange realignment	228	41	—	—	269
At 30 June 2012, net of accumulated depreciation	416,736	65,398	1,554	31,620	515,308
At 30 June 2012:					
Cost	554,814	117,317	5,708	31,620	709,459
Accumulated depreciation and impairment	(138,078)	(51,919)	(4,154)	—	(194,151)
Net carrying amount	416,736	65,398	1,554	31,620	515,308

14. PROPERTY AND EQUIPMENT (Continued)

Group

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011					
At 31 December 2010 and 1 January 2011:					
Cost	261,846	66,016	5,843	37,521	371,226
Accumulated depreciation and impairment	(78,908)	(34,688)	(3,309)	—	(116,905)
Net carrying amount	182,938	31,328	2,534	37,521	254,321
At 1 January 2011, net of accumulated depreciation	182,938	31,328	2,534	37,521	254,321
Additions	86,384	21,810	—	43,463	151,657
Depreciation provided during the period	(19,784)	(5,165)	(346)	—	(25,295)
Disposal	(183)	(27)	—	—	(210)
Transfers	61,464	1,383	—	(62,847)	—
Exchange realignment	(395)	(126)	—	—	(521)
At 30 June 2011, net of accumulated depreciation	310,424	49,203	2,188	18,137	379,952
At 30 June 2011 (unaudited):					
Cost	404,990	88,832	5,844	18,137	517,803
Accumulated depreciation and impairment	(94,566)	(39,629)	(3,656)	—	(137,851)
Net carrying amount	310,424	49,203	2,188	18,137	379,952
Additions	30,334	4,437	—	123,798	158,569
Depreciation provided during the period	(25,201)	(6,429)	(465)	—	(32,095)
Disposal	(4,248)	(844)	(18)	—	(5,110)
Transfers	100,200	15,483	—	(115,683)	—
Exchange realignment	(907)	(170)	—	—	(1,077)
At 31 December 2011, net of accumulated depreciation	410,602	61,680	1,705	26,252	500,239
At 31 December 2011:					
Cost	521,934	106,144	5,492	26,252	659,822
Accumulated depreciation and impairment	(111,332)	(44,464)	(3,787)	—	(159,583)
Net carrying amount	410,602	61,680	1,705	26,252	500,239

15. INTANGIBLE ASSETS

Group

	Software RMB'000
30 June 2012	
At 1 January 2012, net of accumulated amortisation	**2,448**
Amortisation provided during the period	**(211)**
At 30 June 2012, net of amortisation	**2,237**
At 30 June 2012:	
Cost	**2,915**
Accumulated amortisation	**(678)**
Net carrying amount	**2,237**
31 December 2011	
At 1 January 2011, net of accumulated amortisation	—
Additions	2,115
Amortisation provided during the period	(256)
At 30 June 2011, net of amortisation	1,859
At 30 June 2011 (unaudited):	
Cost	2,115
Accumulated amortisation	(256)
Net carrying amount	1,859
Additions	800
Amortisation provided during the period	(211)
At 31 December 2011, net of amortisation	2,448
At 31 December 2011:	
Cost	2,915
Accumulated amortisation	(467)
Net carrying amount	2,448

16. LONG-TERM RENTAL DEPOSITS AND LONG-TERM PAYABLES

The long-term rental deposits represent the rental deposits paid to the various landlords with lease terms that will expire more than one year after the end of the reporting period.

The long-term payables represent the long-term portion of accrued rental expenses.

17. INTERESTS IN SUBSIDIARIES

	Company	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Unlisted shares, at cost	**59,312**	59,312
Due from subsidiaries	**130,922**	11,547
	190,234	70,859

The amounts advanced to the subsidiaries included in the interest in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. 上海浦東小南國餐飲有限公司	PRC	RMB5,000	100	(i)
Shanghai Xiao Nan Guo Restaurant Co., Ltd. 上海小南國餐飲有限公司	PRC	RMB30,000	100	(ii)
Shanghai Xinqu Xiao Nan Guo Restaurant Management Co., Ltd. 上海新區小南國餐飲管理有限公司	PRC	RMB500	100	(i)
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. 上海小南國海之源餐飲管理有限公司	PRC	RMB100,000	100	(xi)
Shanghai Jing'an Xiao Nan Guo Restaurant Co., Ltd. 上海靜安小南國餐飲有限公司	PRC	RMB2,000	100	(i)
Shanghai Zhonghuan Huimin Restaurant Management Co., Ltd. 上海中環滙珉管理有限公司	PRC	RMB1,000	100	(i)
Shanghai Xiao Nan Guo Nutritional Food Co., Ltd. 上海小南國營養餐食品有限公司	PRC	RMB3,000	100	(iv)
Shanghai Xuhui Xiao Nan Guo Restaurant Management Co., Ltd. 上海徐滙小南國餐飲管理有限公司	PRC	RMB500	100	(i)
Beijing Xiao Nan Guo Restaurant Management Co., Ltd. 北京小南國餐飲管理有限公司	PRC	RMB2,000	100	(vi)
Shanghai Jinshan Xiao Nan Guo Restaurant Co., Ltd. 上海金山小南國餐飲有限公司	PRC	RMB500	100	(i)
Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. 上海虹梅小南國餐飲有限公司	PRC	RMB5,000	100	(i)
Shanghai Changning Xiao Nan Guo Restaurant Co., Ltd. 上海長寧小南國餐飲有限公司	PRC	RMB500	100	(i)
Shanghai Hongkou Xiao Nan Guo Restaurant Co., Ltd. 上海虹口小南國餐飲有限公司	PRC	RMB500	100	(i)

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (countinued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
Nanjing Xiao Nan Guo Huimin Restaurant Co., Ltd. 南京小南國滙珉餐飲有限公司	PRC	RMB500	100	(vii)
Suzhou Ligongdi Xiao Nan Guo Restaurant Co., Ltd. 蘇州李公堤小南國餐飲有限公司	PRC	RMB500	100	(vii)
Dalian Shidai Xiao Nan Guo Restaurant Co., Ltd. 大連時代小南國餐飲有限公司	PRC	RMB500	100	(viii)
Shanghai Maison de L'Hui Restaurant Management Co., Ltd. 上海慧公館餐飲管理有限公司	PRC	RMB1,000	100	(i)
Ningbo Haishu Xiao Nan Guo Restaurant Management Co., Ltd. 寧波市海曙小南國餐飲管理有限公司	PRC	RMB500	100	(ix)
Nanjing Jiangning Xiao Nan Guo Restaurant Co., Ltd. 南京市江寧區小南國餐飲有限公司	PRC	RMB1,000	100	(vii)
Shanghai Songjiang Xiao Nan Guo Restaurant Co., Ltd. 上海松江小南國餐飲有限公司	PRC	RMB500	100	(i)
Shanghai Xinyi Xiao Nan Guo Restaurant Management Co., Ltd 上海昕怡小南國餐飲管理有限公司	PRC	RMB500	100	(i)
Shanghai Baoshan Xiao Nan Guo Restaurant Co., Ltd. 上海寶山小南國餐飲有限公司	PRC	RMB500	100	(i)
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd 深圳市小南國餐飲管理有限公司	PRC	RMB500	100	(x)
Shanghai Zhabei Xiao Nan Guo Restaurant Co., Ltd. 上海閘北小南國餐飲有限公司	PRC	RMB500	100	(i)
Tianjin Hui Zhi Nan Restaurant Management Co., Ltd. 天津慧之南餐飲管理有限公司	PRC	RMB500	100	(iii)
Shanghai Yimin Commercial Development Co., Ltd. 上海翼珉商貿發展有限公司	PRC	RMB1,000	100	(v)
Wuxi Hui Zhi Nan Restaurant Co., Ltd. 無錫慧之南餐飲有限公司	PRC	RMB500	100	(vii)
Shanghai Huimin Xiao Nan Guo Restaurant Co., Ltd. 上海慧珉小南國餐飲有限公司	PRC	RMB500	100	(i)

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows (countinued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
Shanghai Putuo Xiao Nan Guo Restaurant Management Co., Ltd. 上海普陀小南國餐飲管理有限公司	PRC	RMB500	100	(i)
Xiao Nan Guo Management Co., Ltd. 小南國管理有限公司	Hong Kong	HK$0.2	100	(xii)
Wisecorp Worldwide Development Limited 協和環球發展有限公司	Hong Kong	HK$5,000	100	(xiii)
Xiao Nan Guo Management (Kowloon) Limited 小南國管理（九龍）有限公司	Hong Kong	HK$10	100	(xii)
Xiao Nan Guo Holding Limited 小南國控股有限公司	Hong Kong	HK$330.2	100	(xiii)
Xiao Nan Guo (Causeway Bay) Management Limited 小南國（銅鑼灣）管理有限公司	Hong Kong	HK$300	100	(xii)
Xiao Nan Guo (Kowloon Bay) Management Limited 小南國（九龍灣）管理有限公司	Hong Kong	HK$10	100	(xii)
Xiao Nan Guo (Shatin) Management Limited 小南國（沙田）管理有限公司	Hong Kong	HK$10	100	(xii)
Xiao Nan Guo (One Peking) Management Limited 小南國（北京道）管理有限公司	Hong Kong	HK$0.001	100	(xii)
Xiao Nan Guo Holding Limited	BVI	US$10	100	(xiii)
Xiao Nan Guo (Hong Kong) Restaurant Group Limited	BVI	US$0.00001	100	(xiii)
Affluent Harvest Limited	BVI	US$1	100	(xiii)

Notes of the principal activities

(i) Operation of Chinese restaurant chain stores in Shanghai, the PRC;

(ii) Operation of Chinese restaurant chain stores in Mainland China;

(iii) Operation of Chinese restaurant chain stores in Tianjin, the PRC;

(iv) Operation of food processing in Shanghai, the PRC;

(v) Trading company to sell value-added products in the PRC;

17. INTERESTS IN SUBSIDIARIES (Continued)

Notes of the principal activities (Continued)

(vi) Operation of Chinese restaurant chain stores in Beijing, the PRC;

(vii) Operation of Chinese restaurant chain stores in Jiangsu, the PRC;

(viii) Operation of Chinese restaurant chain stores in Liaoning, the PRC;

(ix) Operation of Chinese restaurant chain stores in Zhejiang, the PRC;

(x) Operation of Chinese restaurant chain stores in Shenzhen, the PRC;

(xi) Operation of restaurant management in Mainland China;

(xii) Operation of Chinese restaurant chain stores in Hong Kong; and

(xiii) Investment holding.

18. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments are unlisted equity investments in a few domestic companies in the PRC. The available-for-sale investments were stated at cost less impairment because the investments do not have a quoted market price in an active market and the Directors are of the opinion that their fair value cannot be measured reliably. The Group does not have intention to dispose of them in the near future.

19. INVENTORIES

	Group	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Food and beverages, and other operating items for restaurant operations	**48,139**	46,762

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 1 month	**13,427**	14,966
1 to 2 months	**1,904**	2,097
2 to 3 months	**732**	1,186
Over 3 months	**3,224**	1,839
	19,287	20,088

All of the receivables were neither past due nor impaired and mainly relate to corporate customers and receivables from banks for credit cards settlement for whom there was no recent history of default.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	30 June 2012 RMB'000	31 December 2011 RMB'000	**30 June 2012 RMB'000**	31 December 2011 RMB'000
Deposits and other receivables	**53,741**	28,535	**2,388**	—
Prepaid expense	**26,807**	26,358	—	—
Amount due from the Controlling Shareholder	—	56,258	—	—
Amount due from companies owned by the Controlling Shareholder	**16,844**	126,540	—	—
Amount due from a Director of major subsidiaries in Hong Kong	**236**	354	—	—
Prepayments	**38,189**	25,253	—	—
	135,817	263,298	**2,388**	—

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Amounts due from the Controlling Shareholder and companies owned by the Controlling Shareholder are unsecured, interest-free and repayable on demand.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	30 June 2012 RMB'000	31 December 2011 RMB'000	**30 June 2012 RMB'000**	31 December 2011 RMB'000
Cash and bank balances, unrestricted	**78,382**	177,700	**1**	114,379
Time deposits with original maturity of less than three months	**2,235**	2,256	**—**	—
Cash and cash equivalents	**80,617**	179,956	**1**	114,379

The cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB66,036,000 and RMB159,173,000 as at 30 June 2012 and 31 December 2011, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and short-term deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Within 3 months	**95,720**	95,318
3 months to 1 year	**5,172**	1,672
Over 1 year	**377**	450
	101,269	97,440

Included in the trade payables balance as at 31 December 2011 and 30 June 2012, there were payable balances due to WHM Japan Co., Ltd. of RMB445,000 and RMB444,000, respectively. WHM Japan Co., Ltd. is a company owned by the Controlling Shareholder and supplies Japanese food materials to the Group. The trade payables are non-interest-bearing and normally settled within 30 days after invoice received.

24. OTHER PAYABLES AND ACCRUALS

	Group	
	30 June 2012 RMB'000	31 December 2011 RMB'000
Payroll and welfare payables	**28,168**	26,334
Tax payables	**5,923**	7,173
Other payables for construction in progress	**54,548**	92,411
Accruals and other payables	**32,950**	19,560
Advance from customers	**51,536**	58,023
Amounts due to companies owned by the Controlling Shareholder	**—**	5,070
	173,125	208,571

Amounts due to companies owned by the Controlling Shareholder are unsecured, interest-free and repayable on demand.

25. INTEREST-BEARING BANK LOANS

Group

		30 June 2012			31 December 2011		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans – secured	(a)	**6.71**	**2013**	**39,990**	6.71	2012	40,000
Bank loans – secured	(b)	**2.30**	**2012**	**13,858**	2.30	2012	13,782
Current portion of long term bank loans – secured	(a)	**6.65**	**2013**	**75,789**	6.65	2012	75,789
				129,637			129,571
Non-current							
Bank loans – secured	(a)	—	—	—	6.65	2013	37,895
				129,637			167,466
Analysed into:							
Bank loans repayable:							
Within one year or on demand				**129,637**			129,571
In the second year				—			37,895
				129,637			167,466

(a) Shanghai Xiao Nan Guo Restaurant Co., Ltd., a subsidiary of the Group located in the PRC, entered into an agreement with Standard Chartered Bank (China) Limited, the lender, and Standard Chartered Bank (Hong Kong) Limited, the escrow account bank, in March 2011 for:

— a 12-month revolving credit facility of up to RMB40 million; and

— a 24-month term loan of RMB120 million.

The loans were guaranteed by Hai Zhi Yuan and the Company.

(b) Xiao Nan Guo Holdings Limited, a subsidiary of the Group, located in Hong Kong, entered into a HK$17 million term loan facility agreement with Standard Chartered Bank (Hong Kong) Limited in May 2011. The loan facility was guaranteed by the Company's parent company and secured by 80% equity interest in the Company.

26. DEFERRED TAX

The movements in deferred tax liabilities and assets during the period are as follows:

Deferred tax liabilities

Group

30 June 2012

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Total RMB'000
At 1 January 2012	374	1,405	1,779
Deferred tax charged/(credited) to the income statement (note 10)	45	(381)	(336)
Exchange realignment	—	5	5
Gross deferred tax liabilities at 30 June 2012	419	1,029	1,448

Deferred tax assets

Group

30 June 2012

	Impairment of fixed assets RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2012	119	1,801	3,050	7,440	8,922	21,332
Deferred tax (charged)/credited to the income statement (note 10)	(18)	151	377	3,494	4,022	8,026
Exchange realignment	—	9	4	—	9	22
Gross deferred tax assets at 30 June 2012	101	1,961	3,431	10,934	12,953	29,380

26. DEFERRED TAX (Continued)

Deferred tax liabilities

Group

31 December 2011

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Total RMB'000
At 1 January 2011	853	601	1,454
Deferred tax charged/(credited) to the income statement (note 10)	(327)	(121)	(448)
Exchange realignment	10	(31)	(21)
Gross deferred tax liabilities at 30 June 2011 (unaudited)	536	449	985
Deferred tax charged/(credited) to the income statement	(235)	1,050	815
Exchange realignment	73	(94)	(21)
Gross deferred tax liabilities at 31 December 2011	374	1,405	1,779

26. DEFERRED TAX (Continued)

Deferred tax assets

Group

31 December 2011

	Impairment of fixed assets RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2011	165	1,615	1,893	6,278	6,292	16,243
Deferred tax (charged)/credited to the income statement (note 10)	(22)	58	2,201	3,045	935	6,217
Exchange realignment	—	(8)	(38)	—	(44)	(90)
Gross deferred tax assets at 30 June 2011 (unaudited)	143	1,665	4,056	9,323	7,183	22,370
Deferred tax (charged)/credited to the income statement	(24)	147	(1,102)	(1,883)	1,915	(947)
Exchange realignment	—	(11)	96	—	(176)	(91)
Gross deferred tax assets at 31 December 2011	119	1,801	3,050	7,440	8,922	21,332

26. DEFERRED TAX (Continued)

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB175,522,000 and RMB228,233,000 at 31 December 2011 and 30 June 2012, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the state regulations of the PRC, the subsidiaries in Mainland China participate in a defined contribution pension scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries are required to make contributions to the local social security bureau at 10% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), the subsidiaries in Hong Kong have participated in a MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to their Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

28. SHARE CAPITAL

Shares

	30 June 2012	31 December 2011
Authorised:		
Ordinary shares (of HK$0.01 each)	**10,000,000,000**	10,000,000,000
Issued and fully paid:		
Ordinary shares (of HK$0.01 each)	**1,133,750,000**	1,135,000,000
Equivalent to RMB'000	**9,252**	9,262

A summary of transactions during the period with reference to the above movement in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares HK$'000	Share premium HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium RMB'000
Balance as at 29 June 2011 (note (a))	1,000,000	10	(10)	8	(8)
Issue of new shares (note(b))	1,109,000,000	11,090	147,941	9,050	120,790
Share issue expense	—	—	(4,659)	—	(3,820)
Issue of new shares (note (c))	25,000,000	250	—	204	—
At 31 December 2011	1,135,000,000	11,350	143,272	9,262	116,962
Cancellation of shares (note (d))	(1,250,000)	(13)	13	(10)	10
At 30 June 2012	**1,133,750,000**	**11,337**	**143,285**	**9,252**	**116,972**

28. SHARE CAPITAL (Continued)

Notes:

(a) 1,000,000 ordinary shares of HK$0.01 each were allotted and issued and converted as fully paid at par value on 29 June 2011, by way of capitalisation of the sum of HK$10,000 (equivalent to approximately RMB8,000) standing to the credit of the share premium account.

(b) Pursuant to the resolution of board of directors of the Company on 18 November 2011, 1,109,000,000 ordinary shares of HK$0.01 each were allotted and issued for a total consideration of HK$159,031,000 (equivalent to approximately RMB129,840,000).

(c) Pursuant to the resolution of board of directors of the Company on 18 November 2011, the Company issued 25,000,000 ordinary shares of HK$0.01 each to Affluent Harvest Limited, a wholly-owned subsidiary, to be used to settle share-based payment arrangement with a Director upon the exercise. No consideration was received by the Company for this issuance of ordinary shares. These ordinary shares are legally issued and outstanding but are treated as escrowed shares for accounting purpose. Any ordinary shares not used in the settlement of the share-based payment arrangement with the Director will be returned to the Company.

(d) On 8 June 2012, pursuant to the resolution of board of directors of the Company, the Company repurchased 1,250,000 ordinary shares, being the shares forfeited under the share-based payment arrangement with a Director, from Affluent Harvest Limited, a wholly-owned subsidiary, at par value and cancelled the 1,250,000 shares so purchased.

(e) Subsequent to 30 June 2012, the Listing has been completed on 4 July 2012 and the ordinary share capital of the Company was enlarged from 1,133,750,000 ordinary shares to 1,475,000,000 ordinary shares by way of new issue of 341,250,000 ordinary shares.

29. SHARE-BASED PAYMENTS

Two share option schemes (the "Schemes") were approved pursuant to the resolutions passed by the Company's board on 10 February 2010 and 15 March 2011 (subsequently amended on 10 August 2011), respectively. According to the Schemes, the Directors may invite Directors of the Group companies, senior management and other eligible participants to take up share options of the Company. The Schemes became effective on 10 February 2010 and 15 March 2011, respectively. Options granted become vested after certain employment periods ranging from one to four years, while the grantees are required to complete the service till the vesting date. Some batches of share options were also conditional upon the achievement of performance condition. The exercise price of share options is determinable by the Directors.

The maximum number currently permitted to be granted under the Schemes is 100,000,000, or a limitation subject to the further approval of the board of the Company, but limited to 10% of the shares of the Company in issue at any time. Option lapsed in accordance with the terms of the option schemes shall not be counted for the purpose of calculating the 10% limit.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of RMB1 in total by the grantee. The exercise period of the share options granted commences after a vesting period of one to four years and ends on a date which is 10 years from the date of offer of the share options or the expiry dates of the Schemes, if earlier.

29. SHARE-BASED PAYMENTS (Continued)

The following share options were outstanding under the Schemes during the year ended 31 December 2011 and the six-month period ended 30 June 2012:

	Year ended 31 December 2011 Weighted average exercise price per share RMB	Number of options '000
At 1 January 2011		32,750
Granted during the year	1.1	81,065
Forfeited during the year	1-1.1	(29,152)
At 31 December 2011		84,663

	Six-month period ended 30 June 2012 Weighted average exercise price per share RMB	**Number of options '000**
At 1 January 2012		**84,663**
Granted during the year	**1.175**	**17,975**
Forfeited during the year	**1-1.175**	**(2,080)**
At 30 June 2012		**100,558**

29. SHARE-BASED PAYMENTS (Continued)

No share options were exercised during the year ended 31 December 2011 and the six-month period ended 30 June 2012.

The exercise prices and exercise periods of the share options outstanding as at 30 June 2012 are as follows:

Number of options '000	Exercise price RMB per share	Exercise period
19,250	1	1 January 2012 to 11 February 2020
600	1	1 January 2012 to 21 June 2020
3,385	1	1 January 2012 to 1 September 2020
2,490	1.1	1 January 2012 to 15 December 2020
408	1.1	1 January 2012 to 26 January 2021
5,775	1.1	1 January 2012 to 22 March 2021
33,770	1.1	1 January 2012 to 22 March 2021
5,320	1.1	1 July 2012 to 1 July 2021
3,700	1.1	1 July 2012 to 1 July 2021
4,315	1.1	1 July 2012 to 12 August 2021
4,090	1.1	1 July 2012 to 12 August 2021
3,185	1.175	1 January 2013 to 15 January 2022
2,430	1.175	1 July 2013 to 15 January 2022
6,500	1.175	1 January 2013 to 15 May 2022
5,340	1.175	1 July 2013 to 15 May 2022
100,558		

During the year ended 31 December 2011, a Director of the Company agreed to replace 15,797,820 share options (the "Original Share Options") granted to him under the Schemes by that, the Company issued 25,000,000 ordinary shares (the "Compensation Shares") to Affluent Harvest Limited, a wholly-owned subsidiary, which will transfer the Compensation Shares to the Director at a consideration of RMB1.175 per share in the following manner:

i. Conditional upon the initial public offering and listing of the Company's shares on the Stock Exchange (the "Listing"), 15,000,000 shares will be transferred from the investment holding company to the Director in four equal installments as at 1 July 2012, 2013, 2014 and 2015, respectively.

ii. Conditional upon the Listing and the achievement of certain performance condition for each of the four years ending 31 December 2014, 10,000,000 shares will be transferred to the Director in four equal installments as at 1 July 2012, 2013, 2014 and 2015, respectively. Subsequently, 1,250,000 shares have been repurchased and cancelled by the Company on 8 June 2012, pursuant to the resolution of board of directors of the Company.

The incremental fair value of the replacement share-based payment arrangement for the Director is recognised as share option expenses over the vesting period.

29. SHARE-BASED PAYMENTS (Continued)

The fair value of the share options granted during the six-month period ended 30 June 2012 were RMB5,997,000. The Group recognised share option expenses of RMB1,691,000 during the six-month period ended 30 June 2012.

The fair value of all equity-settled share options granted during the year ended 31 December 2011 and the six-month period ended 30 June 2012 was estimated as at the date of grant using a binomial model, taking into account:

	Six-month period ended 30 June 2012	Year ended 31 December 2011
Dividend yield (%)	**2.50%**	2.50%
Expected volatility (%)	**37.92%-38.28%**	38.9%-43.8%
Risk-free interest rate (%)	**3.35%-3.40%**	2.82%-4.09%
Maturity date	**15 January 2022 – 15 May 2022**	26 January 2021 – 21 August 2021
Weighted average exercise price (RMB per share)	**1.175**	1.1

As at 30 June 2012, the Company had 100,558,199 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 100,558,199 additional ordinary shares of the Company and additional share capital of 819,769 and share premium of RMB108,779,656 (before issue expenses).

At the date of approval of these financial statements, the Company had 100,558,199 share options outstanding under the Schemes, which represented approximately 6.82% of the Company's shares in issue as at that date.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and the prior year are presented in the consolidated statement of changes in equity of the financial statements.

(i) Share premium

Share premium account represented the amount paid by shareholders for capital injection in excess of its nominal value.

(ii) Merger reserve

Merger reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the Reorganisation over the carrying amount of the investments in these subsidiaries.

(iii) Capital reserve

The Group's capital reserve mainly represents the fair value of the equity interest in Xiao Nan Guo Holdings Limited transferred to the Company from its holding company with no consideration as part of the Reorganisation.

(iv) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the Group companies, companies that are domiciled in the PRC are required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until such reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

Statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in Note 2.4 to the financial statements.

(vi) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in Note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

30. RESERVES (Continued)

(b) Company

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated loss)/ Retained earnings RMB'000	Total RMB'000
At 1 January 2012	**116,962**	**59,312**	**5,554**	**(1,076)**	**(4,776)**	**175,976**
Total comprehensive income for the period	—	—	—	**126**	**5,568**	**5,694**
Repurchase of shares	**10**	—	—	—	—	**10**
Equity-settled share option arrangements	—	—	**1,691**	—	—	**1,691**
At 30 June 2012	**116,972**	**59,312**	**7,245**	**(950)**	**792**	**183,371**
At 1 January 2011	—	59,312	1,540	—	(1,540)	59,312
Total comprehensive income for the period	—	—	—	—	(2,000)	(2,000)
Issue of shares	(8)	—	—	—	—	(8)
Equity-settled share option arrangements	—	—	2,000	—	—	2,000
At 30 June 2011 (unaudited)	(8)	59,312	3,540	—	(3,540)	59,304
Total comprehensive income for the period	—	—	—	(1,076)	(1,236)	(2,312)
Issue of shares	116,970	—	(204)	—	—	116,766
Equity-settled share option arrangements	—	—	2,218	—	—	2,218
At 31 December 2011	116,962	59,312	5,554	(1,076)	(4,776)	175,976

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office and restaurant properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 5 to 10 years.

At the end of each reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	30 June 2012	31 December 2011
	RMB'000	RMB'000
Within one year	**183,009**	170,609
In the second to fifth years, inclusive	**706,826**	626,669
After five years	**397,260**	447,312
	1,287,095	1,244,590

32. COMMITMENTS

In addition to the operating lease commitments detailed in Note 31, the Group had the following capital commitments at the end of the reporting period:

	Group	
	30 June 2012	31 December 2011
	RMB'000	RMB'000
Contracted, but not provided for:		
Leasehold improvements	**47,871**	50,326

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Notes	Six-month period ended 30 June 2012 RMB'000	2011 RMB'000 (unaudited)
Fee income from provision of food processing service	(i)	**375**	543
Management fee income	(ii)	**1,500**	1,500
Property rental expense	(iii)	**2,000**	2,000
Integrated property management expense	(iv)	—	229
Purchase of goods	(v)	—	1,199
Sales of goods	(vi)	**168**	530

Notes:

(i) The Group made purchases on behalf of certain related companies and charged processing fee based on a pre-determined flat rate mutually agreed by both parties.

(ii) The Group entered into integrated management service agreements with Xiao Nan Guo (Group) Co., Ltd. pursuant to which the Group has agreed to provide integrated management services to Xiao Nan Guo (Group) Co., Ltd. for the period commencing from 1 July 2010 to 31 December 2014 for a monthly service fee of RMB250,000.

(iii) Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd., a company owned by the Controlling Shareholder, leases a restaurant premise to the Group at an annual rental fee of RMB4 million, which was determined with reference to the market rental rate, for a period of 5 years commencing 1 July 2008.

(iv) The Group entered into a service agreement with Hongqiao XNG pursuant to which Hongqiao XNG has agreed to provide property management service to the Group for a period of one year commencing 1 July 2010.

(v) The Group entered into a purchase agreement with WHM Japan Co., Ltd. for a term of three years (the "Purchase Agreement"). Pursuant to the Purchase Agreement, the Group agreed to purchase and WHM Japan Co., Ltd. agreed to supply Japanese food materials at cost.

(vi) The Group sold gift boxes to Xiao Nan Guo (Group) Co., Ltd. based on market price.

33. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties

(i) The ending balance of interest-bearing bank loan as at 31 December 2011 and 30 June 2012 were all guaranteed by the the companies owned by the Controlling Shareholder. Further details of the transaction are included in Note 25 to the financial statements.

(ii) The Group entered into a trademark licensing agreement with Xiao Nan Guo (Group) Co., Ltd., pursuant to which Xiao Nan Guo (Group) Co., Ltd. had granted the Group an exclusive license to use its registered trademarks for no consideration.

(iii) During the six-month period ended 30 June 2012, the Group disposed of its leasehold improvement and equipment for a restaurant to a company owned by the Controlling Shareholder with a total consideration of RMB4,230,000 at carrying value.

(c) Outstanding balances with related parties

The amounts due from the Controlling Shareholder and companies owned by the Controlling Shareholder are disclosed in Notes 21, 23 and 24 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Six-month period ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(unaudited)
Short-term employee benefits	**4,007**	3,679
Equity-settled share-based payment	**951**	1,020
Total compensation paid to key management personnel	**4,958**	4,699

Further details of Directors' emoluments are included in Note 8 to the financial statements.

The related party transactions with the Controlling Shareholder and companies owned by the Controlling Shareholder also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group - 30 June 2012

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	100	100
Long-term rental deposits	46,617	—	46,617
Trade receivables	19,287	—	19,287
Financial assets included in prepayments, deposits and other receivables	62,327	—	62,327
Cash and cash equivalents	80,617	—	80,617
	208,848	100	208,948

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term payables	34,941
Trade payables	101,269
Financial liabilities included in other payables and accruals	108,917
Interest-bearing bank loans	129,637
	374,764

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Group - 31 December 2011

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	100	100
Long-term rental deposits	41,541	—	41,541
Trade receivables	20,088	—	20,088
Financial assets included in prepayments, deposits and other receivables	195,697	—	195,697
Cash and cash equivalents	179,956	—	179,956
	437,282	100	437,382

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term payables	32,622
Trade payables	97,440
Dividends payable	192,314
Financial liabilities included in other payables and accruals	141,334
Interest-bearing bank loans	167,466
	631,176

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Company - 30 June 2012

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	2,388	—	2,388
Cash and cash equivalents	1	—	1
	2,389	—	2,389

35. FAIR VALUE

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, dividends payable, interest-bearing bank loans, long-term rental deposits and long-term payables approximate to their carrying amounts.

Unlisted available-for-sale equity investments are stated at cost less impairment because the investments do not have a quoted market price in an active market and in the opinion of the directors, the fair value cannot be measured reliably.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the reporting period, the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group).

None of the Group's purchases for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: 0.8%) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure of foreign exchange risk.

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings outside of the PRC are subject to the availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchases of imported materials and remittance of earnings. While conversion of RMB to Hong Kong dollars or other foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from interest-bearing financial assets and liabilities. The Group's interest-bearing financial assets and liabilities comprised primarily of cash at bank and interest-bearing bank borrowings, which are predominantly denominated in RMB. Management monitors the interest rate exposure and assesses its impact on the Group's performance on a closely basis.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. The following table demonstrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Group	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Six-month period ended 30 June 2012		
Renminbi	**50**	**(374)**
Renminbi	**(50)**	**374**
Six-month period ended 30 June 2011		
Renminbi	50	(458)
Renminbi	(50)	458

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades with a large number of diversified customers and trading terms are mainly on cash and credit card settlement, hence, there is no significant concentration of credit risk.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, deposits and prepayments and long-term rental deposits included in the consolidated financial statements arise from default of counterparty with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2011 and 30 June 2012, all bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. As at 31 December 2011 and 30 June 2012, the Group had bank loans of RMB129,571,000 and RMB129,637,000, respectively which are mature within 12 months. The Directors review the Group's working capital and capital expenditure requirements and consider the liquidity risk is manageable.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

30 June 2012

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	—	74,647	58,357	—	133,004
Trade payables	5,549	95,720	—	—	101,269
Financial liabilities included in other payables and accruals	108,917	—	—	—	108,917
Long-term payables	—	—	—	34,941	34,941
	114,466	170,367	58,357	34,941	378,131

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows (continued):

31 December 2011

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	—	61,482	74,196	38,620	174,298
Trade payables	2,122	95,318	—	—	97,440
Dividends payable	192,314	—	—	—	192,314
Financial liabilities included in other payables and accruals	141,334	—	—	—	141,334
Long-term payables	—	—	—	32,622	32,622
	335,770	156,800	74,196	71,242	638,008

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during this reporting period.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 70%. Net debt includes interest-bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of each of the reporting periods were as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Interest-bearing bank borrowings	**129,637**	167,466
Trade payables	**101,269**	97,440
Other payables and accruals	**173,125**	208,571
Less: Cash and cash equivalents	**(80,617)**	(179,956)
Net debt	**323,414**	293,521
Equity attributable to owners of the Company	**412,505**	354,260
Capital and net debt	**735,919**	647,781
Gearing ratio	**43.9%**	45.3%

37. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events detailed elsewhere in the financial statements, the shares of the Company were listed on the Main Board of the Stock Exchange on 4 July 2012.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 August 2012.

INTERIM DIVIDENDS

The board of directors (the "Board") has resolved to declare an interim dividend of HK$1.4 cents per share, totalling HK$20,650,000 (approximately RMB16,834,000) for the six months ended 30 June 2012. The interim dividend will be paid on or about 28 September 2012 to the members whose names appear on the register of members of the Company on 19 September 2012.

PURCHASE, SALE OR REPURCHASE OF THE COMPANY'S LISTED SECURITIES

As the Company's shares had yet to be listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as at 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

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

As the Company was not listed on the Stock Exchange as at 30 June 2012, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and section 352 of the SFO was not applicable to the directors of the Company as at 30 June 2012.

As at 4 July 2012 (being the listing date of the Company), the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are set out as follows:

Name of Director	Nature of Interest	Number of Shares(1)	Approximate percentage of shareholding
Wang Huimin(2)	Interest in controlled corporation	509,851,000(L)	34.57%
	Trustee	299,375,000(L)	20.30%
Wu Wen(3)	Interest in controlled corporation	97,013,750(L)	6.58%
Kang Jie(4) (5)	Interest in controlled corporation(4)	5,000,000(L)	0.34%
	Beneficial interest(5)	23,750,000(L)	1.61%
Wang Huili(6)	Interest in controlled corporation(6)	55,173,750(L)	3.74%

Notes:

(1) The letter "L" denotes long position of the directors in the shares.

(2) The entire issued share capital of Value Boost Limited is held by the trustee. Wang Huimin ("Ms. Wang") is the settlor and the beneficiary of The Wang Trust, and is deemed to be interested in the shares held by it under the SFO. Ms. Wang is also interested in approximately 20.30% of the Company's total issued shares as a trustee. Please see the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" for details.

(3) Wu Wen owns the entire issued share capital of Brilliant South Limited, which beneficially owns 100% equity interest in Well Reach Limited, which in turn owns approximately 6.58% equity interest in the Company.

(4) Kang Jie owns the entire issued share capital of Victor Merit Limited, which beneficially owns 100% equity interest in Fast Glow Limited, which in turn owns approximately 0.34% equity interest in the Company.

(5) Kang Jie is entitled to certain beneficial interest in the Company under the Employee Trust, for details of which please see the section headed "Further Information about Directors, Management and Staff — Terms of the Employee Trust" in the Prospectus.

(6) Wang Huili owns the entire issued share capital of Ever Project Investments Limited, which beneficially owns 100% equity interest in Fast Thinker Limited, which in turn owns approximately 3.74% equity interest in the Company.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") which became effective on 4 July 2012. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participants to subscribe for the shares of the Company (the "Shares") at an exercise price and subject to the other terms of the Share Option Scheme. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 147,500,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Group (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 4 July 2012. Under the Share Option Scheme, each option has a 10-year exercise period. As at the date of this interim report, no option has been granted under the Share Option Scheme.

PRE-IPO SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company passed on 10 February 2010 and 15 March 2011, the rules of two Pre-IPO share option schemes (the "Pre-IPO Share Option Schemes") were approved and adopted, respectively. The Pre-IPO Share Option Scheme adopted on 15 March 2011 was subsequently amended on 10 August 2011 pursuant to the written resolutions of the shareholders of the Company passed on 29 July 2011.

The options granted to any grantee under the Pre-IPO Share Option Scheme adopted on 15 March 2011 and amended on 10 August 2011 shall vest according to the following schedule:-

(a) from 1 July 2012 to 10 years from the date of grant:

 (1) 25% shall vest if the Company's net profit for the year ending 31 December 2011 reaches a specified target;

 (2) 12.5% shall vest if the Company's net profit for the year ending 31 December 2011 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

 (3) if the Company's net profit for the year ending 31 December 2011 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options;

(b) from 1 July 2013 to 10 years from the date of grant:-

 (1) 25% shall vest if the Company's net profit for the year ending 31 December 2012 reaches a specified target;

 (2) 12.5% shall vest if the Company's net profit for the year ending 31 December 2012 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

 (3) if the Company's net profit for the year ending 31 December 2012 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options;

(c) from 1 July 2014 to 10 years from the date of grant:-

 (1) 25% shall vest if the Company's net profit for the year ending 31 December 2013 reaches a specified target;

 (2) 12.5% shall vest if the Company's net profit for the year ending 31 December 2013 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

 (3) if the Company's net profit for the year ending 31 December 2013 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options; and

(d) from 1 July 2015 to 10 years from the date of grant:-

 (1) 25% shall vest if the Company's net profit for the year ending 31 December 2014 reaches a specified target;

 (2) 12.5% shall vest if the Company's net profit for the year ending 31 December 2014 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

 (3) if the Company's net profit for the year ending 31 December 2014 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options.

Each option granted under the Pre-IPO Share Option Scheme is exercisable within 10 years from the date on which such option becomes vested.

Outstanding options under the Pre-IPO Scheme Option Schemes

All the options under the Pre-IPO Share Option Schemes were granted on or before 13 June 2012 and no further options will be granted under the Pre-IPO Share Option Schemes upon listing of the Shares on the Stock Exchange.

During the six months ended 30 June 2012, 2,080,000 share options under the Pre-IPO Share Option Schemes had been lapsed due to the resignations of certain grantees and no share options under the Pre-IPO Share Option Schemes had been exercised or cancelled. As at 30 June 2012, 100,558,199 share options under the Pre-IPO Share Option Schemes were still outstanding. For details of the outstanding options under the Pre-IPO Scheme Option Schemes, please refer to note 29 to the audited consolidated financial statements of the Group for the six months ended 30 June 2012 as disclosed in this report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company was not listed on the Stock Exchange as at 30 June 2012. Accordingly, no disclosure of interest or short positions in any shares or underlying shares of the Company was required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2012.

As at 4 July 2012 (being the listing date of the Company), the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Extensive Power Limited(1)	Trustee(1)	509,851,000(L)	34.57%
Value Boost Limited(1)	Beneficial owner	509,851,000(L)	34.57%
Full Health Limited(2)	Beneficial owner	87,013,750(L)	5.90%
Well Reach Limited(3)	Beneficial owner	97,013,750(L)	6.58%
Sunshine Property I Limited	Beneficial owner	167,887,000(L)	11.38%
Moon Glory Enterprises Limited(4)	Beneficial owner	85,387,000(L)	5.79%
Milestone F&B I Limited	Beneficial owner	113,820,000(L)	7.72%
Milestone China Opportunities Fund III, L.P.(5)	Interest in controlled corporation(5)	113,820,000(L)	7.72%
Milestone Capital Partners III Limited (6)	Interest in controlled corporation(6)	113,820,000(L)	7.72%

Notes:

The letter "L" denotes long position in the shares.

(1) The entire issued share capital of Value Boost Limited is held by Extensive Power Limited (the "Trustee") as the trustee of The Wang Trust. The Wang Trust is a trust established by Wang Huimin ("Ms. Wang") as settlor and the Trustee as trustee on 27 August 2011. The beneficiaries of The Wang Trust are Ms. Wang and in the event of her decease her personal representatives. Ms. Wang is deemed to be interested in 509,851,000 Shares held by Value Boost Limited which is wholly-owned by the Trustee.

(2) Ms. Wang holds on trust for Wealth Boom Enterprises Limited the entire issued share capital of Full Health Limited, which owns 87,013,750 Shares.

(3) Ms. Wang holds on trust for Brilliant South Limited the entire issued share capital of Well Reach Limited, which owns 97,013,750 Shares.

(4) CITIC Securities Company Limited indirectly holds 100% interests in CITIC Securities International Company Limited, which in turn indirectly holds 72% interests in CITIC Securities International Partners Limited. CITIC Securities International Partners Limited indirectly holds 100% interests in CSI Capital GP Company, Ltd, which in turn indirectly holds 100% interests in CSI Capital GP, L.P. which also in turn indirectly holds 100% interests in CSI Capital L.P. CSI Capital L.P. directly holds 100% interests in Moon Glory Enterprises Limited.

(5) Milestone China Opportunities Fund III, L.P. holds 100% shareholding interest in Milestone F&B I Limited and is therefore deemed to be interested in the Shares held by Milestone F&B I Limited.

(6) James Christopher Kralik indirectly holds 50% interests in Linden Street Capital Limited, which in turn indirectly holds 100% in MCP China Investment Holdings Limited. MCP China Investment Holdings Limited indirectly holds 85% interests in Milestone Capital Investment Holdings Limited, which in turn indirectly holds 100% interests in Milestone Capital Partners III Limited. Milestone Capital Partners III Limited is the general partner of Milestone China Opportunities Fund III, L.P. and is therefore deemed to be interested in the Shares held by Milestone F&B I Limited.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company regarding directors' transactions of the listed securities of the Company.

As at 30 June 2012, the shares of the Company had yet to be listed on the Stock Exchange, the directors of the Company were not aware of any issues of directors and relevant employees not in compliance with the Model Code.

CORPORATE GOVERNANCE CODE

As the Company's shares had yet to be listed on the Stock Exchange as at 30 June 2012, the Company has not adopted the principles and code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2012. The Company has adopted the Corporate Governance Code upon the listing on the Stock Exchange and is in compliance with all the code provisions in the Corporate Governance Code since the listing of the Company on 4 July 2012 up to the date of this report.

CHANGE OF THE BOARD OF DIRECTORS

On 29 August 2012, the Board had approved the appointments of:

(a) Mr. Wang Hairong (王海鎔) as a non-executive director of the Company with effect from 29 August 2012, and

(b) Mr. Chen Anjie (陳安杰) as an independent non-executive director of the Company with effect from 29 August 2012.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established an audit committee (the "Audit Committee") on 8 June 2012 with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise our internal control and financial reporting process and to maintain an appropriate relationship with our independent auditors.

The Audit Committee comprises Mr. Tsang Henry Yuk Wong, Mr. Weng Xiangwei and Mr. Wang Yu. Mr. Tsang Henry Yuk Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has discussed with the Company's management and external auditors, the accounting principles and practices adopted by the Company and has reviewed of the audited consolidated financial statements of the Group for the six months ended 30 June 2012.

By order of the Board
Xiao Nan Guo Restaurants Holdings Limited
WANG Huimin
Chairlady

Shanghai, the People's Republic of China, 29 August 2012