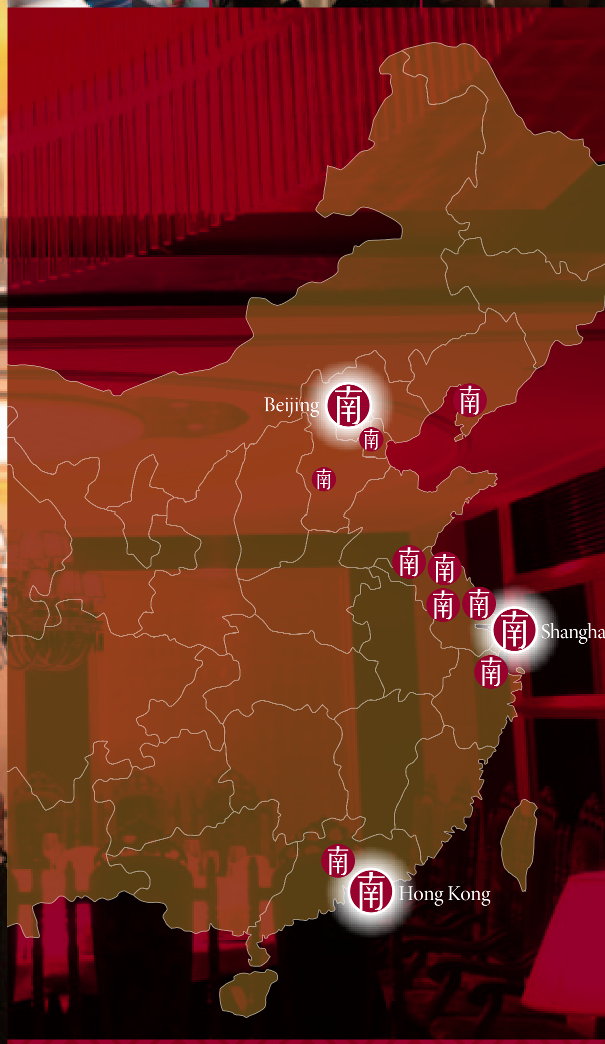
上海 小南国

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

Annual Report 2012

上海 小南国

SHANGHAI MIN

Contents

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

Suites 3201-5, Tower One
Times Square, 1 Matheson Street
Causeway Bay, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

777 Jiamusi Road
Yangpu District, Shanghai
The People's Republic of China

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:

Deacons
5/F, Alexandra House
18 Chater Road
Central, Hong Kong

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

COMPLIANCE ADVISER

Haitong International Capital Limited

AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

STOCK CODE

03666

COMPANY'S WEBSITE

www.xiaonanguo.com

INVESTOR RELATIONS

Ms. Louisa Wong
Email: ir@xiaonanguo.com

Financial Highlights

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change
	2012	2011	**increase/ (decrease)**
Revenue (RMB'000)	**1,332,298**	1,088,582	22.4%
Gross profit[1] (RMB'000)	**907,762**	727,240	24.8%
Gross margin[2]	**68.1%**	66.8%	1.3%
Profit for the year (RMB'000)	**118,530**	107,019	10.8%
Net profit margin[3]	**8.9%**	9.8%	(0.9%)
Earnings per share – Basic	**RMB9.27 cents**	RMB10.78 cents	
Interim dividend paid (HK$ cents)	**1.4**	–	
Proposed final dividend (HK$ cents)	**1.6**	–	
Proposed special dividend (HK$ cents)	**1.0**	–	
Total assets (RMB'000)	**1,318,419**	1,076,557	22.5%
Net assets (RMB'000)	**820,267**	354,260	131.5%
Cash and cash equivalents (RMB'000)	**416,797**	179,956	131.6%
Net cash[4]	**260,002**	12,490	1,981.7%
Account receivables turnover days[5] (days)	**6.4**	4.7	35.4%
Account payables turnover days[6] (days)	**77.2**	75.7	2.1%
Inventory Turnover Days[7] (days)	**45.3**	34.6	30.8%
Cash Cycle[8] (days)	**(25.5)**	(36.3)	(29.7%)
Gearing Ratio[9]	**1.4%**	45.3%	(43.9%)
ROE[10]	**20.2%**	45.1%	(25.0%)
ROA[11]	**9.9%**	12.6%	(2.7%)
Number of restaurants[12] (as at 31 December)	**72**	58	

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 year divided by revenue.

4 Net cash represents cash and cash equivalents minus interest bearing bank loans.

5 Equivalent to 365/(revenue/annual average receivables).

6 Equivalent to 365/(Cost of inventories consumed/annual average payables).

7 Equivalent to 365/(Cost of inventories consumed/annual average inventories).

8 Equivalent to AR Days + Inventory Days – AP Days.

9 Equivalent to net debts over capital and net debts.

10 Equivalent to net profit over annual average equity.

11 Equivalent to net profit over annual average total assets.

12 Number of restaurants as at 31 December 2012 includes 66 Shanghai Xiao Nan Guo restaurants, 4 Maison De L'Hui restaurants and 2 The Dining Room restaurants.

Chairlady's Statement

CHAIRLADY'S LETTER TO SHAREHOLDERS

Last year was marked by a few important milestones for Xiao Nan Guo ("XNG"). The Company celebrated its 25th anniversary, and the 10th anniversary of its first restaurant in Hong Kong. Coinciding with that, we successfully completed our initial public offering and listing on The Stock Exchange of Hong Kong Limited. We also effectively launched a third brand "the dining room", a more casual, lifestyle dining restaurant which has been very well received. Now, with a proven track record, talented management team and solid financial position, we plan to continue executing our growth strategy and providing attractive returns to our shareholders this year and beyond.

QUARTER-CENTURY TRACK RECORD

Since XNG's inception in 1987, the Company's recipe for rapid and successful growth has included a combination of entrepreneurial flair and smart business practices. Today, XNG is one of China's largest, self-owned, mid-to-high-end restaurant chains. We have carefully built a modern and standardized operation with over 70 restaurants in 12 of the most affluent and fast-growing cities in China. Throughout this period of impressive growth, we have established a loyal customer base, consistently improved the quality of our restaurant experience, and increased both our top and bottom lines.

Enduring Competitive Strengths

XNG has increased its market share by carefully developing the following competitive advantages.

- Our three core hub-and-spoke networks located in Shanghai, Beijing and Hong Kong efficiently service over 70 restaurants, and act as springboards for opening additional restaurants in the surrounding regions.

- Our solid and diverse networks are supported by six centralized kitchens and five centralized warehouses, which provide economies of scale as well as standardized operating practices that enable scalability, efficiency, food safety and profitability.

Chairlady's Statement

- Our strong brand recognition and quality cuisine cater well to our customers' preferences targeting business clientele, well-to-do individuals, families and private functions and events.

GROWTH STRATEGY

The vast Chinese market provides great potential for XNG's growth. People in China love to dine out and Asian cuisine remains their favourite choice. Euromonitor forecasts that full-service restaurant sales will increase over 10% per year between 2012 and 2016.

As China's educated middle class continues to grow, its rising disposable income is becoming a major drive of consumer spending on restaurant dining. Therefore, we intend to increase our market share through multi-brand expansion into existing and new consumer markets. We plan to geographically expand our core "Shanghai Min" brand for mid-to-high-end customers into Tier 2 cities and other urban areas.

We have created our new brand "the dining room" – to target middle-class customers, especially young, educated customers in their mid-20s to late-30s, who have discerning tastes and appreciate a mid-priced menu in a stylish dining environment. Since our launch of "the dining room" last summer in Hong Kong, it has been very successful with customers and provided attractive returns.

APPRECIATION TO OUR STAKEHOLDERS

On behalf of XNG's management team, I wish to express our sincere appreciation to our restaurant patrons for their long-time support, to our employees for their hard work and loyalty, to our investors for their trust and commitment, and to our Directors and advisory board members for their diligence and guidance. Together, we have many reasons to celebrate this exciting stage of XNG's growth, and I look forward with pride and confidence to pursuing with our valuable stakeholders a vision of becoming a leading restaurant chain in mainland China.

Wang Huimin
Chairlady and Executive Director
27 March 2013

CEO's Statement

Over the past twenty-five years, Xiao Nan Guo Restaurants Holdings Ltd. ("Xiao Nan Guo" or "XNG") has built distinctive competitive advantages: a strong track record of successful growth, a committed and forward-thinking management team, a proven operating model driven by efficient standardization and centralization, and access to capital. In 2012, we capitalized on those advantages by successfully listing the Company on The Stock Exchange of Hong Kong Limited and raising RMB400 million despite challenging market conditions.

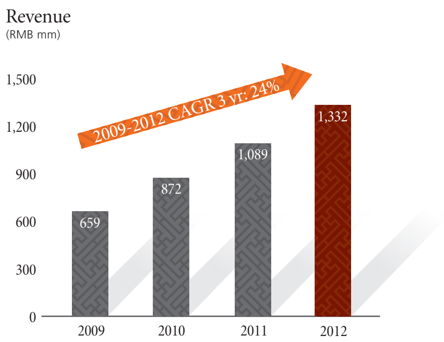
MARKET FACTORS

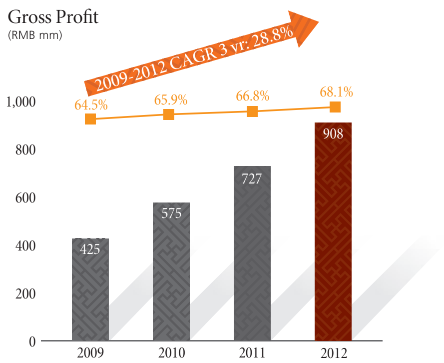
Over the past year, the restaurant sector in China has faced a number of headwinds – slower economic growth, rising raw material and labour costs, and the Central Government's curtailment of lavish spending and excessive dining, which put many restaurants out of business or facing intense operating turnover and profit decline. Nevertheless, the catering industry remains one of the sectors that drive domestic demand and consumption that is encouraged and supported by the government, and it is still a very substantial market with continuous growth. With a visionary board and management leadership, Xiao Nan Guo has managed to overcome many of those challenges and has become a more established leading position in the food and catering sector.

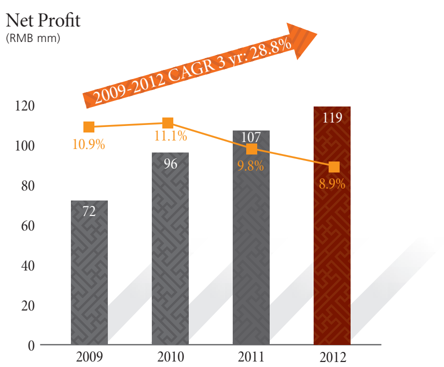
FINANCIAL PERFORMANCE

We are pleased to report positive operating and financial performance under challenging market conditions in 2012. Consolidated revenue increased 22% to RMB1.3 billion and net profit rose 11% to RMB119 million. We were able to maintain gross margin of 68% and net profit margin of 9% despite increased operating costs. With our earnings per share of RMB9.27 cents, we are delighted to recommend a final dividend of HK$0.016 per share, plus a special dividend of HK$0.01 per share as a return of surplus cash to shareholders. Including the interim dividend of HK$0.014 previously paid, total dividends for the year ended 31 December 2012 will amount to HK$0.04, which represents a payout ratio of 40.3%.

CEO's Statement







OPERATIONS REVIEW

In 2012, we opened 15 new restaurants compared to 22 in 2011. Fewer stores were opened than budgeted due to the economic slowdown and delays receiving premises from property developers. Nevertheless, our new stores performed very well – with 15 stores profitable by year end, even with three of the stores were only opened in December 2012. Those 15 new stores as a whole generated an operating profit of RMB5.2 million in 2012, compared to an operating loss of RMB8.2 million for those 22 new stores during this year which were opened in 2011. The satisfactory performance of our new stores was partly attributable to improvements in overall restaurant planning and site selection, and our ability to adjust our business strategies in a timely manner and enter into new markets despite a challenging operating environment.

We successfully created a third brand last year, "the dining room" – targeting the personal spending of the mass market segment. With its casual settings and mid-priced menu, two restaurants were opened in Hong Kong, which were profitable within the first month of operation and where we anticipate investment payback within 15 months. This exciting new brand represents significant, long-term profit and growth potential for XNG.

Another new line of business, Xiao Nan Guo branded packaged foods, has been well received and is achieving satisfactory sales growth, although its contribution to revenue remains relatively low at this stage. Our branded products enable us to broaden our brand exposure as they are sold in upscale supermarkets and other channels, in addition to our own restaurants.

CEO's Statement

Despite upward inflationary pressures on our raw material, labour and rental costs, we proudly managed to improve our operation and procurement efficiencies, by consolidating suppliers, renegotiating restaurant leases with more competitive terms, and reducing wastage.

STRATEGIC PLAN

Store additions

For 2013, we plan a net store addition of 22 new restaurants in cities where we currently operate and enter into 2-3 new tier-2 cities; leveraging on our economies of scale while increase our market share. We intended to accelerate the opening of "the dining room" as it has been very well received by our customers and received many acknowledgements. Over the past few years, we strategically decided to open restaurants in commercial centres and shopping malls, where there is a diversified mix of business and family customers, to whom we offer hundreds of healthy and delicious dishes in roomy and attractive dining rooms. And nearly a third of our sales have been from repeat patrons who are members of our customer loyalty program – this helps stabilize our traffic flow and revenue. Therefore, Xiao Nan Guo or "Shanghai Min" will remain our core brand for restaurant expansion, together with "the dining room", as personal consumer spending continues to make a larger, significant contribution to China's GDP growth.

Customer Satisfaction

Enhancing XNG's overall dining experience will remain our core focus in 2013. From quality service to product and ambiance excellence, we aim to provide customers with overall satisfactory and good value for money. And to help measure customer satisfaction, we have implemented a number of campaigns, including a "mystery shopper" program to continuously monitor how well we are doing and room for improvement. I am personally leading this focus to ensure that customer satisfaction remains a constant outcome at our restaurants.

Acquisition Opportunities

The restaurant sector in China is highly fragmented, consisting of many thousands of independent and chain operations. In this intensely competitive sector, a growing number of operators may not have sufficient human and financial resources to maintain adequate profitability. We expect this will provide us with opportunities to expand by acquiring existing restaurants and brands. The most attractive prospects will be restaurant operations with an established brand and a promising customer base, and where we could achieve operational and financial synergies.

Brand Enhancements

We will also focus on building our brands in tier-1 cities, where we will launch a series of brand building campaign that dovetails with our customer service initiative, product improvements, and upgrade dining environment and ambiance. Such plan includes renovating 3-4 stores in 2013 to improve our brand image. We are also looking at prime or distinctive premises and locations that offer high brand exposure to raise brand awareness and drive revenue.

OUTLOOK

The mid-range to high-end, full-service restaurant market is projected to grow rapidly in China with increased urbanization and discretionary spending by the country's burgeoning middle class. We will leverage our distinct competitive advantages and execute a sensible strategic plan to expand our networks of restaurants, with multiple brands, by leveraging our hub-and-spoke strategy.

At the same time, we will further strengthen operational infrastructure with the right combination of food safety assurance, experienced and motivated staff, efficient systems & procedures and creative product development. These improvements, along with enhanced marketing and brand recognition, will enhance our 'same-store' sales growth and profitability.

We have the resources and capabilities to achieve XNG's mission and pursue its vision. So what lies ahead, we confidently foresee, are continual dining satisfaction for our customers, and attractive returns for our shareholders.

Kang Jie
Executive Director and CEO
27 March 2013

Directors' Report

The Board of Directors (the "Board") of the Company is pleased to present its report and the audited consolidated financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

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").

PRINCIPAL ACTIVITY

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 year. Particulars of the companies now comprising the Group are set out in Note 17 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 together with the Company's and the Group's financial conditions as of that date are set out in page 47 to page 52 of the financial statements.

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).

The Board proposed to declare a final dividend of HK$0.016 per ordinary share and a special dividend of HK$0.010 per ordinary share amounting to a total sum of approximately HK$38,350,000 (approximately equivalent to RMB30,991,000). These two dividends are subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Details of the dividends for the year ended 31 December 2012 are set out in Note 12 to the financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 May 2013 to 5 June 2013 (both days inclusive), during which period no transfer of shares will be registered, for ascertaining shareholders' entitlement to attend the forthcoming Annual General Meeting to be held on 5 June 2013. In order to be eligible to attend the forthcoming Annual General Meeting, all transfer documents accompanied with the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong share registrar Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 29 May 2013.

The register of members of the Company will be closed from 12 June 2013 to 14 June 2013 (both days inclusive), during which period no transfer of shares will be registered, for ascertaining shareholders' entitlement to receive the proposed final dividend and special dividend. In order to be eligible to receive the proposed final dividend and special dividend, all transfer documents accompanied with the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong share registrar Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 11 June 2013.

USE OF PROCEEDS FROM LISTING OF THE COMPANY

As at the end of 2012, the proceeds from listing of the Company's issue of new shares under its listing on the Stock Exchange in July 2012 after deducting the relevant listing expenses were used and applied in accordance with the intended usages as set out in the prospectus of the Company published on 21 June 2012 (the "Prospectus"), and the balance of the proceeds will also be utilized in the manner consistent with that mentioned in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales attributed to the Group's 5 largest customers in aggregate were under 30%, and total purchases attributed to 5 largest suppliers and the largest supplier of the Group were 33.2% and 11.1% of the total purchases respectively.

During the year, none of the directors, their associates or shareholders who to the best knowledge of the directors own 5% interest above of the issued share capital of the Company has any beneficial interest in any of our Group's 5 largest suppliers.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements of the Company's share capital and share options are set out in Notes 28 and 29 to the financial statements respectively.

The Company currently adopted two share option schemes. The purpose of these share option schemes is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

(1) 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 Schemes 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%;

Directors' Report

(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. For details of the share options, please refer to Note 29 to the financial statements.

Under the Pre-IPO Scheme Option Schemes, all the options were granted on or before 13 June 2012 as mentioned in the Prospectus. No further options will be granted under the Pre-IPO Share Option Schemes upon listing of the Shares on the Stock Exchange. 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 or RMB1.1 or RMB1.175 by the grantee.

Since the adoption of the Pre-IPO Share Option Schemes, 101,318,199 share options have been granted under these schemes. For the year ended 31 December 2012, no share option granted under the Pre-IPO Share Option Schemes have been exercised and 11,066,250 shares options granted under the Pre-IPO Share Option Schemes have been lapsed. As of 31 December 2012, 90,251,949 share options granted under the Pre-IPO Share Option Schemes were still outstanding. The summary of the share options granted under the Pre-IPO Share Option Schemes that were still outstanding as of 31 December 2012 are as follow:

Name of the grantee	No. of share options outstanding as of 13 June 2012	No. of share options granted the period from 13 June 2012 to 31 December 2012	No. of share options exercised the period from 13 June 2012 to 31 December 2012	No. of share options lapsed the period from 13 June 2012 to 31 December 2012	No. of share options outstanding as of 31 December 2012
Employees (in aggregate)	101,318,199	–	–	11,066,250	90,251,949

Directors' Report

(2) 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 other terms under 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 when dealings of the Shares first commence on the Stock Exchange. The exercise price shall be determined and notified to the qualified participants by the Board and shall not be less than the highest of: (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant of such share option (which must be a business day); (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of such share option; and (iii) the nominal value of the Shares on the date of grant.

The total number of Shares issued and to be issued upon the exercise of the options granted 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. For the year ended 31 December 2012, no option has been granted under the Share Option Scheme.

FOUR YEAR FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the last four years is set out on page 110 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RESERVES

Movements in the reserves of the Company are set out in Note 30 to the consolidated financial statements.

As of 31 December 2012, the distributable reserves of the Company amounted to RMB508,415,000, of which RMB30,991,000 has been proposed as a divided for the year.

PROPERTY AND EQUIPMENT

Movements in the Group's properties and equipment during the year are set out in Note 14 to the financial statements.

Directors

As at the date of this Report, the Board was constituted by the following 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

Directors' Report

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors of the Company and senior management of the Group are set out on pages 40 to 44.

DIRECTORS' SERVICE CONTRACTS

Each of our Directors has entered into a service contract with the Company. The appointment of non-executive Director Mr. Wang Hairong and independent non-executive Director Mr. Chen Anjie are for a term of 3 years from 29 August 2012. Except for the two Directors abovementioned, the appointment of all other non-executive Directors and independent non-executive Directors are for a term of 3 years from 4 July 2012, and the appointment of executive Directors are for a term of 3 years from 8 June 2012. The appointment of all directors of the Company will continue in effect until any party giving at least three months prior written notice to the another party.

No director offering for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation (other than the normal statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in Note 33 to the financial statements, for the year ended 31 December 2012, none of the Directors had any direct or indirect material interest in any contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party.

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

As of 31 December 2012, 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 Securities and Futures Ordinance (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 be required to notify 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 Trustee	511,725,000(L) 299,375,000(L)	34.69% 20.30%
Wu Wen(3)	Interest in controlled corporation	97,013,750(L)	6.58%
Kang Jie(4)(5)	Interest in controlled corporation(4) Beneficiary of a trust(5)	5,000,000(L) 23,750,000(L)	0.34% 1.61%
Wang Huili(6)	Interest in controlled corporation(6)	55,173,750(L)	3.74%
Wang Hairong(7)	Interest in controlled corporation(7)	87,013,750(L)	5.90%

Directors' Report

Notes:

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

(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 The Wang Trust under the SFO. Ms. Wang is also interested in approximately 20.3% of the Company's total issued shares as a trustee. Please refer to 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 refer to 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.

(7) Wang Hairong owns the entire issued share capital of Wealth Boom Enterprises Limited, which beneficially owns 100% equity interest in Full Health Limited, which in turn owns approximately 5.90% equity interest in the Company.

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

As of 31 December 2012, 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(2)	Interest in controlled corporation(2)	511,725,000(L)	34.69%
Value Boost Limited(2)	Beneficial owner	511,725,000(L)	34.69%
Full Health Limited(3)	Beneficial owner	87,013,750(L)	5.90%
Well Reach Limited(4)	Beneficial owner	97,013,750(L)	6.58%
Sunshine Property I Limited	Beneficial owner	167,887,000(L)	11.38%
Moon Glory Enterprises Limited(5)	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.(6)	Interest in controlled corporation(6)	113,820,000(L)	7.72%
Milestone Capital Partners III Limited(7)	Interest in controlled corporation(7)	113,820,000(L)	7.72%

Directors' Report

Notes:

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

(2) 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 the settlor and the trustee on 27 August 2011. The beneficiaries of The Wang Trust are Ms. Wang and in the event of her decease her estate administrator. Ms. Wang is deemed to be interested in 511,725,000 Shares held by Value Boost Limited which is wholly-owned by the trustee.

(3) Wang Hairong owns the entire issued share capital of Wealth Boom Enterprises Limited, which beneficially owns 100% equity interest in Full Health Limited, which in turn owns approximately 5.90% equity interest in the Company.

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

(5) 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, therefore all the above entities are deemed to have interest in the shares held by Moon Glory Enterprises Limited.

(6) 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.

(7) 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.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus and the interest of Ms. Wang Huimin in the below mentioned business, none of the Directors and their respective associates (as defined in the Listing Rules) has interest in any business which competes or may compete with the business in which the Group is engaged.

The Company's Director Ms. Wang Huimin has provided an annual confirmation regarding her compliance with the deed of non-competition (as defined in the Prospectus) entered into with the Group (the "Deed of Non-competition"), and the information and the nature of involvement of her investment and participation in any food and beverage business (other than business of the Company or those that have been disclosed in the Prospectus). In 2012, a company in which Ms. Wang Huimin has a minority interest decided to engage in a new food-related business (the "New Business"). The directors, including the independent non-executive Directors, had agreed in accordance with the terms of the Deed of Non-competition dated 5 September 2011 for Ms. Wang's minority-owned company to pursue the New Business. In addition, Ms. Wang Huimin had sent the Company a comfort letter on 20 January 2012 which indicated that in the event that the Company decides to acquire the New Business within 3 years from the date of the comfort letter, she will try her best to sell her interests in the New Business to the Company at a fair market value subject to the terms of the comfort letter.

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

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following continuing connected transactions, which were subject to the reporting requirement under Chapter 14A of the Listing Rules:

Continuing Connected Transactions	Annual Cap of the Transaction (RMB)	2012 Actual Annual Transaction Amount (RMB)
1. Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. ("Shanghai Hongmei"), the Company's wholly-owned subsidiary, leased from Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("Shanghai Hongqiao") the premises with a total gross floor area of approximately 8,800 sq.m. located at Block 4, No. 3337 Hongmei Road, Shanghai (the "Hongmei Premises") for use as restaurant at fixed annual rent of RMB4 million. This agreement was signed on 25 May 2012, for a term from 1 January 2012 to 31 December 2014.	RMB4,000,000	RMB4,000,000
2. Shanghai Hongqiao has provided property management and security services to Shanghai Hongmei at the Hongmei Premises. The relevant services fee represented the actual costs incurred for the services. This agreement was signed on 1 May 2012, for a term from 1 January 2012 to 31 December 2014.	RMB600,000	RMB229,000
3. The Company's wholly-owned subsidiary Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("Shanghai Xiao Nan Guo") leased from Xiao Nan Guo (Group) Co., Ltd. the premises of a gross floor area of approximately 2,376 sq.m. located at 601 Yingkou Road, Shanghai (the "Yingkou Premises") as office. A fixed rent would be paid for leasing the office premises. The Company's wholly-owned subsidiary Shanghai Zhonghuan Huimin Restaurant Management Co., Ltd. leased from Xiao Nan Guo (Group) Co., Ltd the Yingkou Premises with a gross floor area of 3,047 sq.m. as restaurant. Rent of the restaurant premises is in the form of commission, and is charged based on 17% of the annual turnover of the restaurant, excluding the income generated from provision of restaurant premises to Xiao Nan Guo (Group) Co., Ltd. The property management fee of the office premises and the restaurant premises has been included in the rent. The agreement for restaurant lease was signed on 1 July 2012, for a term from 16 September 2012 to 31 December 2014. The agreement for office premises lease was signed on 1 July 2012, for a term from 1 July 2012 to 31 December 2014.	RMB6,600,000	Office premises, RMB1,483,000 Restaurant premises, 2012 full year rent waived (Shanghai Zhonghuan Huimin Restaurant Management Co., Ltd. entered into supplemental agreement in December 2012, waived RMB1.3 million of rent).

Directors' Report

Continuing Connected Transactions	Annual Cap of the Transaction (RMB)	2012 Actual Annual Transaction Amount (RMB)
4. The Company's wholly-owned subsidiary Shanghai Xiao Nan Guo Restaurant Co., Ltd. provided Shanghai Xiao Nan Guo Tang He Yuan SPAs Management Co., Ltd., Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd., Shanghai Xin Di Co., Ltd., Shanghai Jing'an Hai Zhi Yuan Casual Dining Management Co., Ltd. and Shanghai Wanli Hai Zhi Yuan Casual Dining Management Co., Ltd. with raw food materials procurement and processing service. The consideration represented 3.0% and 15.0% of the cost of raw food materials of raw food procurement and processing services respectively. This agreement was signed on 25 May 2012, for a term from the date of signing to 31 December 2014.	RMB1,690,000	RMB681,000
5. The Company's wholly-owned subsidiary Shanghai Xiao Nan Guo Nutritional Food Co., Ltd. appointed independent sub-contractor to procure Japanese food from WHM Japan Co.,Ltd.. This agreement was signed on 25 May 2012, for a term from the date of signing to 31 December 2014.	RMB10,000,000	Nil
6. The Company's wholly-owned subsidiary Shanghai Xiao Nan Guo Restaurant Co., Ltd. has provided management services to Xiao Nan Guo (Group) Co., Ltd. and its subsidiaries, including services in respect of administration, legal, human resources, financial management and accounting. The fee of information technology service for the enterprise resource planning system jointly used by the Group and Xiao Nan Guo (Group) Co., Ltd., and any other services in relation to the management of Xiao Nan Guo (Group) Co., Ltd. as agreed by the parties from time to time is RMB250,000 per month. This agreement was signed on 25 May 2012, for a term from 1 January 2012 to 31 December 2014.	RMB3,000,000	RMB3,000,000
7. Shanghai Xiao Nan Guo sold Xiao Nan Guo (Group) Co., Ltd. branded goods (or coupon). Price of the branded goods (or coupon) shall be determined by Shanghai Xiao Nan Guo. Xiao Nan Guo (Group) Co., Ltd. shall purchase branded goods (or coupon) in accordance with the market price to be determined by Shanghai Xiao Nan Guo. This agreement was signed on 19 December 2012, for a term from 1 August 2012 to 31 December 2014.	RMB3,000,000	RMB2,936,339

Directors' Report

Continuing Connected Transactions	Annual Cap of the Transaction (RMB)	2012 Actual Annual Transaction Amount (RMB)
8. Shanghai Xiao Nan Guo will sell the coupons of Shanghai WH Ming Hotel Co., Ltd. ("WH Ming Hotel") in the restaurant. The price of the coupons of WH Ming Hotel selling to external customers shall be determined by Shanghai Xiao Nan Guo. Shanghai Xiao Nan Guo will purchase coupons from WH Ming Hotel based on the actual amount of coupons sold at an agreed price, and guarantees the gross profit margin of Shanghai Xiao Nan Guo from selling such coupons will be no less that 25%. This agreement was signed on 19 December 2012, for a term from 19 December 2012 to 31 December 2013.	RMB3,000,000	RMB1,533,000
9. Shanghai Xiao Nan Guo will provide banquet foods to banquets held in WH Ming Hotel according to the requirements of its hotel customers. Price of the banquet foods shall be determined by Shanghai Xiao Nan Guo, and shall be no less that 75% of the menu price of Shanghai Xiao Nan Guo. This agreement was signed on 19 December 2012, for a term from 21 October 2012 to 31 December 2013.	RMB5,000,000	RMB4,063,900

The abovementioned Shanghai Hongqiao, Xiao Nan Guo (Group) Co., Ltd., Shanghai Xiao Nan Guo Tang He Yuan SPAs Management Co., Ltd., Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd., Shanghai Xin Di Co., Ltd., Shanghai Jing'an Hai Zhi Yuan Casual Dining Management Co., Ltd., Shanghai Wanli Hai Zhi Yuan Casual Dining Management Co., Ltd., WHM Japan Co.,Ltd. and WH Ming Hotel are all owned by Ms. Wang Huimin in whole or in part, the Chairlady of the Company. Therefore, all the abovementioned companies are connected persons of the Company.

Directors (including Independent Non-executive Directors) have reviewed and confirmed these agreements were:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions for the year ended 31 December 2012 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Ms. Wang Huimin has interests in the agreements, so she had abstained from voting on any such board resolution approving the agreements.

Since the Listing Date to 31 December 2012, the Company has complied with the disclosure requirements specified in Chapter 14 of the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDITORS

The financial statements were audited by Ernst & Young who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Wang Huimin
Chairlady
Shanghai, 27 March 2013

Management Discussion and Analysis

INDUSTRY OVERVIEW

Over the past year, the restaurant sector in China has faced a number of headwinds – slower economic growth, rising raw material and labour costs, and the Central Government's curtailment of lavish spending and frugality drive put many restaurants out of business or facing intense operating turnover and profit decline. Nevertheless, the catering industry remains one of the sectors that drive domestic demand and consumption that is encouraged and supported by the government, and it is still a very substantial market with continuous growth. With a visionary board and management leadership, Xiao Nan Guo has managed to overcome many of those challenges and has capitalized on the opportunities brought by such market changes, and has become a more established leading position in the food and catering sector.

FINANCIAL PERFORMANCE

We are pleased to report strong operating and financial performance in 2012. Revenue increased 22.4% to RMB1,332.3 million and net profit rose 10.8% to RMB118.5 million. We were able to maintain gross margin of 68.1% and net profit of 8.9% despite increased operating costs.

OPERATIONS REVIEW

In 2012, we opened 15 new restaurants, compared to 22 in 2011. Fewer stores were opened than budgeted was due to the economic slowdown and delays in receiving premises from property developers. Nevertheless, new stores performed very well – with 13 Shanghai Min and two "the dining room", a new brand, both recorded operating profit by year end. The satisfactory performance of our new stores was partly attributable to improvements in overall restaurant planning and site selection, and our ability to adjust our business strategies in a timely manner and enter into new markets despite a challenging operating environment.

Management Discussion and Analysis

"the dinning room"

We successfully created a third brand last year – the dining room – targeting the personal spending of the mass market segment. With its casual settings and a mid-priced menu, two restaurants were opened in Hong Kong, which were profitable within the first month of operation and we anticipate to attaining investment payback within 15 months. Within a short period of time, this exciting new brand was well received among Hong Kong consumers and also attracted local media attention. This new brand represents significant, long-term profit and growth potential for Xiao Nan Guo.

Although facing an evolving and demanding market environment since launch in 2010, our high-end catering and restaurant brand Maison De L'Hui has attained profit in 2012. Maison De L'Hui provides delicious and healthy Cantonese and Shanghainese cuisines in an elegant and stylish dining environment with quality services. With a start-up operating loss of RMB5.5 million recorded in 2011, Maison De L'Hui successfully achieved operating profit of RMB6.4 million in 2012, and earned customers recognition.

Management Discussion and Analysis




Our core brand "Shanghai Min" has been facing challenging market condition including government directives on frugality drive and anti-extravagance campaign. The negative effect has been offset to a certain extent by the success of management's foresight implemented a few years ago by establishing restaurants in local communities and shopping malls as we anticipated the growth potential of urbanization; increase in discretionary spending of the burgeoning middle income class, which was supported by the implementation of a multi-brand strategy. In addition, a series of marketing and sales promotion were launched to attract recurring and new customers, to increase table turnover and drive sales with enhanced products and service. In 2012, our Customer Relationship Management (CRM) member base has grown 95,863 significantly to 236,014 as we upgraded our system and ramped up our marketing communication campaign. Besides all these, we have won number of awards in different cities of China and in Hong Kong.

Management Discussion and Analysis

Another new line of business, Xiao Nan Guo branded packaged products, has been well received and is achieving satisfactory sales growth, although its contribution to revenue remains relatively low at this stage. Our branded products enable us to broaden our brand exposure as they are sold in upscale supermarkets and other channels, in addition to our own restaurants.

Moreover, efficient cost management were achieved in 2012 as we effectively and efficiently controlled and strengthened our procurement and supply chain management, while reducing wastage and with the help of economies of scale, our gross profit margin increased from 66.8% in the previous year to 68.1% in 2012 without sacrificing quality of food. At the same time, headquarters management expenses as a percentage of operating revenue dropped significantly compared with the previous year. This reflected economies of scale achieved by successfully growing the company's operation scale. Although our net profit margin ultimately recorded a decrease from 9.8% in 2011 to 8.9% in 2012, it was attributable to the rise in labor cost and increase in depreciation.

Management Discussion and Analysis

AWARDS AND RECOGNITION

In 2012, thanks to the efforts by all our staff, all brands under Xiao Nan Guo have very good performance, and have gained awards and recognition from our customers, media and various organizations. The table below set out some of the awards won by Xiao Nan Guo during the period.

	Award	Awarding Organization
Shanghai Xiao Nan Guo	2012 Most Favorable Chinese Cuisine Restaurant in Shanghai – Number One Restaurant (2012上海地區吃貨最喜愛的"中華料理"餐廳第一名")	CCTV (中國中央電視台), Sina Mini Blog (新浪微博)
	Best Local Shanghainese Cuisine (上海最佳本幫菜)	Shanghai Times (《申江服務導報》)
	Most Popular Restaurant (最受歡迎餐廳)	Restaurant Review (《橄欖餐廳評論》) and Italy National Wine Industry Promotion Center (意大利酒業促進中心)
	The Best Local Cuisine of the Year (年度最佳本幫菜)	Lifeweekly (《生活周刊》)
	"野生烤子魚", "老醋海蜇頭", "三文魚馬蘭頭", "飄香牛仔骨", "吉品牛肉炒明蝦球" were awarded Famous Cuisine in Shanghai ("上海名特菜點")	Shanghai Catering and Cooking Industry Association (上海市餐飲烹飪行業協會)
	Xiao Nan Guo (Kowloon Bay) – Michelin Restaurant (小南國(九龍灣) — 推介為"米芝蓮車胎人美食"餐廳)	Michelin Guide Hong Kong Macau (米芝蓮指南香港澳門)
	The Most Favorable Restaurant 2012 – The Most Favorable Provincial Cuisine (我最喜愛的食肆選舉2012 — 我最喜愛的外省菜館)	《U Magazine》
	集團安全表現獎 (中式酒樓) — 銀獎	Catering Industry Safety Award Scheme – Restaurants (飲食業安全獎勵計劃食肆組)
Maison De L'Hui	The Best Restaurant (最佳餐廳)	Modern Weekly (《周末畫報》)
	The Best Restaurant (最佳餐廳)	TATLER (《尚流》)
	Famous Restaurant (人氣餐廳)	Restaurant Review (《橄欖餐廳評論》) and Italy National Wine Industry Promotion Center (意大利酒業促進中心)
"The Dining Room"	Top Tables 2012	《HK Magazine》
	My Favorable New Restaurant (我最喜愛的新食力)	《U Magazine》

Management Discussion and Analysis

	Award	Awarding Organization
Others	2012 Shanghai Famous Brand (2012年度上海名牌)	Shanghai Municipal Commission of Commerce (上海市商務委), Shanghai Brand Office (上海市名牌辦)
	2012 Food Healthy Seven Stars Award in China (2012中國食品健康七星獎) and Trust – 100 Most Trustworthy Food Brand for Consumers (信賴 • 100最受消費者信賴的食品品牌)	CBNWeekly (第一財經)
	Ms. Wang Huimin was awarded "Outstanding Entrepreneur in China's Catering Industry" ("中國餐飲業優秀企業家")	China Cuisine Association (中國烹飪協會)
	Ms. Wang Huimin was awarded "2012 Top 10 Outstanding Businessmen in Shanghai" ("2012年上海商業十大傑出人物")	Shanghai Commerce Association (上海商業聯合會)
	Ms. Wang Huimin was awarded "Outstanding Entrepreneur in Shanghai's Catering Industry" (上海餐飲業優秀企業家)	Shanghai Catering and Cooking Industry Association (上海市餐飲烹飪行業協會)
	Mr. Kang Jie was awarded "Outstanding Manager of Shanghai's Catering Industry" (上海餐飲業優秀職業經理人)	Shanghai Catering and Cooking Industry Association (上海市餐飲烹飪行業協會)
	Outstanding Brand Enterprise in Shanghai's Catering Industry (上海餐飲業優秀品牌企業)	Shanghai Catering and Cooking Industry Association (上海市餐飲烹飪行業協會)
	2012 Top 50 High Growth Chain Stores In China (2012年中國高成長連鎖企業50強)	Entrepreneur (《創業邦》)

STRATEGIC PLAN

Store additions

For 2013, we plan a net store addition of 22 new restaurants in cities where we currently operate and 3-4 new tier-2 cities. This will increase our economies of scale and market share. Over the past few years, we strategically decided to open our restaurants in commercial centres and shopping malls, where there is a diversified mix of business and family customers, to whom we offer hundreds of healthy and delicious dishes in roomy and attractive dining rooms. And nearly a third of our sales have been from repeat patrons who are members of our customer loyalty program – this helps stabilize our traffic flow and revenue. Therefore, Xiao Nan Guo or "Shanghai Min" will remain our core brand for restaurant expansion, together with "the dining room", as personal consumer spending continues to make a larger, significant contribution to China's GDP growth.

Management Discussion and Analysis

Customer Satisfaction

Enhancing XNG's overall dining experience will remain our core focus in 2013. From quality service to product and ambiance excellence, we aim to provide customers with overall satisfactory and good value for money. And to help measure customer satisfaction, we have implemented a number of procedures, including a 'mystery shopper' program to continuously monitor how well we are doing and where there is room for improvement. The Company management will lead this focus to ensure that customer satisfaction remains a constant outcome at our restaurants.

Acquisition Opportunities

The restaurant sector in China is highly fragmented, consisting of many thousands of independent and chain operations. In this intensely competitive sector, a growing number of operators may not have sufficient human and financial resources to maintain adequate profitability. We expect this will provide us with opportunities to expand by acquiring existing restaurants and brands. The most attractive prospects will be restaurant operations with an established brand and a promising customer base, and where we could achieve operational and financial synergies.

Brand Enhancements

We will also focus on building our brands in Tier 1 cities, where we will launch a series of brand building campaign that dovetails with our customer service initiative, product improvements, and upgrades to our dining environment and ambiance. We also plan to renovate 3-4 stores in 2013 to improve our brand image. Also we are looking at unique premises and locations that offer high brand exposure to drive up revenue and raise brand awareness.

Outlook

The mid-range to high-end, full-service restaurant market is projected to grow rapidly in China with increased urbanization and discretionary spending by the country's burgeoning middle class. We will leverage our distinct competitive advantages and execute a sensible strategic plan to expand our networks of restaurants, with multiple brands, by leveraging our hub-and-spoke strategy.

At the same time, we will further strengthen operational infrastructure with the right combination of food safety assurance, experienced and motivated staff, efficient systems & procedures and creative product development. These improvements, along with enhanced marketing and brand recognition, will enhance our 'same-store' sales growth and profitability.

We have the resources and capabilities to achieve company's mission and pursue its vision. So what lies ahead, we confidently foresee, the Company are continued dining satisfaction for our customers, and attractive returns for our shareholders.

FINANCIAL REVIEW

For the year of 2012, the Group's revenue reached RMB1,332.3 million, representing an increase of RMB243.7 million or 22.4% compared to RMB1,088.6 million for 2011. Gross profit of the Group was RMB907.8 million, an increase of approximately RMB180.6 million or 24.8% compared to approximately RMB727.2 million for 2011. Profit of the Group reached RMB118.5 million, representing an increase of RMB11.5 million or 10.8% compared to RMB107.0 million for 2011.

Management Discussion and Analysis

At 31 December 2012, the Group operated the restaurant network of 66 Shanghai Xiao Nan Guo restaurants, 4 Maison De L'Hui restaurants and 2 "The Dining Room" restaurants, 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 for the years ended 31 December 2012 and 2011.

	For the year ended 31 December			
	2012		2011	
	Number of restaurants	**Revenue RMB'000**	Number of restaurants	Revenue RMB'000
China (i)				
– Shanghai Xiao Nan Guo (ii)	**57**	**1,043,862**	47	846,230
– Maison De L'Hui (ii)	**4**	**48,860**	3	44,994
Hong Kong				
– Shanghai Xiao Nan Guo	**9**	**173,070**	8	161,187
– The Dining Room	**2**	**20,280**	–	–
Total revenue of restaurant operations	**72**	**1,286,072**	58	1,052,411
Other revenue		**46,226**		36,171
Total revenue		**1,332,298**		1,088,582

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.

(ii) The revenue generated in China from the brand of Shanghai Xiao Nan Guo in 2012 included the revenue came from a restaurant that was just converted to the Maison De L'Hui brand and the revenue came from a restaurant that has been closed because of the restructuring of that property by the landlord in 2012.

Revenue

Revenue of the Group increased by RMB243.7 million, or 22.4%, from RMB1,088.6 million in 2011 to RMB1,332.3 million in 2012. This increase was due to an increase of RMB233.7 million in revenue from the restaurant operations and an increase of RMB10.0 million in revenue from other businesses during the year.

Revenue from restaurant operations

Revenue from restaurant operations increased by RMB233.7 million, or 22.2%, from RMB1,052.4 million in 2011 to RMB1,286.1 million in 2012 primarily reflecting:

- a RMB51.4 million increase in revenue from 13 Shanghai Xiao Nan Guo restaurants that were newly opened during 2012;
- a RMB205.2 million increase in revenue from the 21 Shanghai Xiao Nan Guo restaurants that were newly opened during 2011;

Management Discussion and Analysis

- the offsetting effect brought by a RMB55.8 million drop, representing 7.1% decrease in comparable restaurants sales (note (i)) from 28 Shanghai Xiao Nan Guo restaurants from 2011 to 2012 due to slowing macroeconomic growth.
- a RMB5.1 million increase from the ramp-up of one Maison De L'Hui restaurant newly opened during 2011;
- a RMB11.4 million increase, representing 40.9% increase, in comparable restaurant sales (note (i)) from 2 Maison De L'Hui restaurants from 2011 to 2012;
- a RMB20.3 million increase from two "The Dining Room" restaurants that were newly opened in 2012;
- during 2011 and 2012 we remodeled, changed lease space or location, re-branded or closed 6 Shanghai Xiao Nan Guo and Maison De L'Hui restaurants, resulted in decrease of revenue of RMB22.4 million.

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 RMB44.4 million, representing 5.4% decrease from 2011 to 2012.

Revenue from other businesses

Revenue from other businesses increased by RMB10.0 million, or 27.6%, from RMB36.2 million in 2011 to RMB46.2 million in 2012, which primarily reflected the increase in sales of our branded food products.

Cost of inventories consumed

Cost of inventories consumed increased by RMB63.2 million, or 17.5%, from RMB361.3 million in 2011 to RMB424.5 million in 2012, which was primarily due to an increase in quantities of food and beverages consumed in our operations, in line with rising revenue in 2012.

Cost of inventories consumed as a percentage of the revenue decreased from 33.2% in 2011 to 31.9% in 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 operation and centralization of supply purchases.

Other income

Other income increased by RMB15.9 million, from RMB30.1 million in the 2011 to RMB46.0 million in 2012, primarily reflecting (i) an increase of RMB11.4 million in the government grants received in 2012 when compared with 2011, including an one-off subsidy of RMB3.65 million received as incentives for the Company's listing and relocation of our headquarter in the PRC; (ii) an increase of RMB5.0 million of exchange gain generated from the remittance arrangement of the funds raised from the Listing in 2012 when compared to 2011; (iii) interest income earned from bank deposit from the proceeds of our listing increased by RMB4.0 million in 2012 when compared to 2011; (iv) a decrease of RMB3.0 million in compensation from certain landlords in 2012 when compared to 2011; and (v) a decrease of RMB1.7 million in promotion service income from our restaurant's advertising service in 2012 when compared to 2011.

Selling and distribution costs

Selling and distribution costs increased by RMB164.1 million, or 31.3%, from RMB525.1 million in 2011 to RMB689.2 million in 2012, which primarily reflected an increase in all our major cost components, as a result of the expansion of our operations in 2012 and rise in labor cost.

Management Discussion and Analysis

Labor costs related to the restaurants, central kitchens and central warehouses increased by RMB60.4 million, or 29.7%, from RMB203.2 million in 2011 to RMB263.6 million in 2012. Labor costs as a percentage of our revenue increased from 18.7% in 2011 to 19.8% in 2012, primarily reflecting (i) a general increase of salary levels for our employees during 2012, partially offset by (ii) our measures to improve the overall efficiency of restaurant staff and control the headcount of staff per restaurant.

Occupancy costs related to restaurants, central kitchens and central warehouses increased by RMB46.4 million, or 28.8%, from RMB161.1 million in 2011 to RMB207.5 million in 2012. Occupancy costs as a percentage of our revenue up from 14.8% in 2011 to 15.6% in 2012, primarily attributed to the sales of comparable restaurants dropped in 2012 as a result of slow down in macroeconomic growth and the number of our new restaurants continued to rise.

Depreciation charges related to the restaurants, central kitchens and central warehouses increased by RMB25.6 million, or 45.6%, from RMB56.1 million in 2011 to RMB81.7 million in 2012. Depreciation charges as a percentage of our revenue increased from 5.2% in 2011 to 6.1% in 2012, primarily attributed to the sales of comparable restaurants dropped in 2012 as a result of slow down in macroeconomic growth and the number of our new restaurants continued to rise.

General and administrative expenses

Administrative expenses increased by RMB20.7 million, or 24.3%, from RMB85.3 million in 2011 to RMB106.0 million in 2012. Such increase primarily reflected the increase in the major components in our expenses.

Labor cost of headquarter and management staff increased RMB7.7 million from RMB62.6 million in 2011 to RMB70.3 million in 2012, representing an increase of 12.3%. Labor costs of headquarter and management staff as a percentage of our revenue declined from 5.8% in 2011 to 5.3% in 2012. Such decline mainly reflecting the expansion of our economies of scale and we controlled the headcounts of our headquarter in 2012.

Other administrative expenses increased RMB13.0 million from RMB22.7 million in 2011 to RMB35.7 million in 2012, representing an increase of 57.3%. Other administration expenses as a percentage of our revenue increased from 2.1% in 2011 to 2.7% in 2012. Such increase mainly attributable to the listing and the relevant expenses recorded in 2012.

Income tax expenses

Income tax expenses decreased by RMB0.8 million, or 2.3%, from RMB34.3 million in 2011 to RMB33.5 million in 2012, primarily reflecting the overall effective tax rate decreased from 24.3% in 2011 to 22.0% in 2012. Decrease in the overall effective tax rate was mainly due to an increase in non-taxable income and expenses of oversea's share options that can be used to deduct income tax.

Profit for the year

As a result of the foregoing, the profit for the year increased by RMB11.5 million, or 10.7%, from RMB107.0 million in 2011 to RMB118.5 million in 2012. The net profit margin decreased from 9.8% in 2011 to 8.9% in 2012.

Dividends payable

In 2012, the Group paid out dividends of RMB44.4 million (withholding tax on dividends and interim dividends) and settled dividends payable of RMB164.7 million by netting off the same amount in the amounts due from the Controlling Shareholder and the companies controlled by the Controlling Shareholder. As at 31 December 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.

Management Discussion and Analysis

As at 31 December 2012, the Group's total interest-bearing bank loans were RMB156.8 million, which were repayable within one year.

In 2012, the Group had net cash inflows from operating activities of RMB171.2 million (2011: RMB145.9 million). As at 31 December 2012, the Group had RMB416.8 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 years ended 31 December 2012 and 2011.

	As at ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net cash flows from operating activities	**171,226**	145,912
Net cash flows used in investing activities	**(228,971)**	(250,234)
Net cash flows from financing activities	**296,531**	192,728
Net increase in cash and cash equivalents	**238,786**	88,406
Cash and cash equivalents at beginning of the year	**179,956**	92,661
Effect of foreign exchange rate, net	**(1,945)**	(1,111)
Cash and cash equivalents at end of the year	**416,797**	179,956

Operating activities

Net cash inflow from operating activities increased by RMB25.3 million from RMB145.9 million in 2011 to RMB171.2 million in 2012, which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB238.9 million (2011: RMB208.4 million), (ii) changes in working capital resulting a decrease in cash of RMB29.8 million (2011: decrease in cash of RMB29.3 million).

Investing activities

Net cash flow used in investing activities was RMB229.0 million in 2012, representing a decrease of RMB21.3 million compared to 2011. It is mainly due to a decrease of cash outflow amounting to RMB17.0 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 for development of the enterprise resource planning systems.

Financing activities

Net cash flow of financing activities changed from an inflow of RMB192.7 million during 2011 to an inflow of RMB296.5 million during 2012, representing a increase of RMB103.8 million, which was primarily attributable to (i) proceeds from IPO of RMB417.1 million (2011 proceeds from private fund raising activities: RMB129.8 million) (ii) proceeds from bank loans of RMB158.9 million (2011: RMB213.8 million); (iii) payment of dividends of RMB44.4 million (2011: RMB11.8 million); and (iv) payment of IPO expenses of RMB56.5 million (2011: 10.3 million).

Foreign Currency Exposure

The Group's exposure to the risk of changes in foreign exchange rates relates preliminary to the Group's operating activities (to the extent that revenue or expenses are denominated in a currency that is different from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for 2012 (2011: 0.3%), were denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure of foreign exchange risk.

Management Discussion and Analysis

Net Current Assets/Liabilities

The Group recorded net current assets of RMB155.9 million as at 31 December 2012, an increase of RMB295.8 million compared to the net current liabilities recorded as at 31 December 2011, which primarily reflected the effect brought by the fund raising completed in 2012.

The gearing ratio (defined as net debt divided by equity attributable to owners of the Company plus net debt) as at 31 December 2012 was 1.4%.

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.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 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:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Within one year	**202,115**	170,609
In the second to fifth years, inclusive	**741,388**	626,669
After five years	**422,117**	447,312
	1,365,620	1,244,590

Capital Commitment

Capital commitments were approximately RMB41.5 million and RMB50.3 million as at 31 December 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 31 December 2012, the Group recruited about 5,203 employees in China and Hong Kong. During 2012, total staff cost was RMB333.9 million, representing 25.1% of the revenue (2011: RMB265.8 million, 24.4% of the revenue).

Corporate Governance Report

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own corporate governance code. Since 4 July 2012 (the "Listing Date") to 31 December 2012, the Company has complied with all applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard (the "Required Standard") of the model code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to all Directors, and all Directors have confirmed that, throughout the period from the Listing Date to 31 December 2012, they were in compliance with the Required Standard.

BOARD OF DIRECTORS

The Board is the governing body of the Company. It is responsible for the efficient management of the catering business of the Group, formulating and reviewing the corporate governance policies of the Company, reviewing and monitoring the policies and practices with regard to the Company's compliance with statutory requirements, and the Company's observance of the CG Code. The Board is fully aware of its principal responsibilities to the Company and its duties to protect and enhance the interests of the shareholders of the Company.

The Company's management implemented the relevant strategies and handled the Group's operation under the authorization and power of the Board.

As at the date of this report, the Board consists of the following 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

All Directors have appropriate professional qualification or substantive experience and industry knowledge. Except for Ms. Wang Huili is the sister of Ms. Wang Huimin and Mr. Wang Hairong is the brother of both Ms. Wang Huimin and Ms. Wang Huili, there is no other relationship among members of the Board.

During the year ended 31 December 2012, the composition of the Board of the Company is in compliance with the requirement of the Listing Rules. More than one-third of the members of the Board are independent non-executive Directors. There are four independent non-executive Directors and one of them has accounting and financial related professional qualification. The independent non-executive Directors provided independent opinion on the Company's connected transactions, and participated in the Company's various committees including Audit Committee, Remuneration Committee, Nomination Committee and Advisory Committee, to advise strategically the development of the Company.

Corporate Governance Report

All Directors have already entered into service contract with the Company. The appointment of non-executive Director Mr. Wang Hairong and independent non-executive Director Mr. Chen Anjie are for a term of three years from 29 August 2012. Other than the two directors above, the appointment of all other non-executive Directors and independent non-executive directors are for a term of three years from 4 July 2012, and the appointment of executive Directors are for a term of three years from 8 June 2012. The appointment of all Directors of the Company will terminate until a party giving at least three months prior notice to the another party.

The Company has received the yearly confirmation from each of the independent non-executive Directors about his independence in accordance with Rule 3.13 of the Listing Rules and considers each of them to be independent.

BOARD MEETINGS

The Company adopts the practice of regular board meetings and notices of regular Board Meetings are served to all Directors no less than 14 days before the meetings. All of the Directors have chance to attend the regular meetings and discuss issues on agenda. For all other Board and Committee meetings, reasonable notice is generally given. The final versions of the minutes of all Board meetings and respective Committees meetings are normally circulated to Directors for comment within a reasonable time after each meeting is held.

There was one full Board Meeting held since the Listing Date up to the year ended 31 December 2012. Attendance of each director is set out as below:

Directors	Number of meetings attended/ Total number of meetings
Ms. Wang Huimin	1/1
Ms. Wu Wen	1/1
Mr. Kang Jie	1/1
Ms. Wang Huili	1/1
Mr. Tang Donald Wei	1/1
Mr. Weng Xiangwei	1/1
Mr. Wang Hairong	1/1
Mr. Tsang Henry Yuk Wong	1/1
Mr. Wang Chiwei	1/1
Mr. Wang Yu	1/1
Mr. Chen Anjie	1/1

CHAIRLADY AND CHIEF EXECUTIVE OFFICER (“CEO”)

Under the code provision A.2.1 of the CG Code, the roles of Chairlady and CEO should be separate and should not be performed by the same individual. For the year ended 31 December 2012, Ms. Wang Huimin was the Chairlady of the Board and Mr. Kang Jie was the CEO, of which the roles are separate and not performed by the same individual.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Further, according to Article 84 of the Company’s Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. The retiring Directors are to be those longest in office since their last election or re-appointment, but will be eligible for re-election. At the same time, the Articles of Association of the Company granted the right to the

Corporate Governance Report

Board to appoint any person as a Director either to fill a vacancy on the Board or join the Board. Any Director appointed to fill the vacancy shall hold office until the Company's first general meeting after the appointment and will be eligible for re-election at that general meeting. Any newly appointed Directors joining the Board shall hold office until the Company's first annual general meeting after the appointment and will be eligible for re-election at that general meeting. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, and to recommend individuals suitably qualified to become members of the Board to the shareholders at the annual general meeting for the election.

Mr. Wang Hairong and Mr. Chen Anjie were being appointed as new Directors by the Board during the year. Ms. Wang Huimin, Ms. Wu Wen and Ms. Wang Huili being the three directors who are subject to retirement by rotation. All of them have to comply with the requirement provided for Directors' retirement by rotation and re-election by the shareholders.

INDUCTION AND CONTINUOUS DEVELOPMENT

Every new director will be given formal, comprehensive and necessary induction information, to ensure a reasonable understanding of the Company's business and operation, and to fully understand the directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors will be updated as regard to the latest development of the relevant laws and regulatory systems so as to assist them in performing their duties.

BOARD COMMITTEE

Audit Committee

The Audit Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the Listing Rules and the CG Code. The Audit Committee comprised of three members, namely independent non-executive Directors Mr. Tsang Henry Yuk Wong, Mr. Weng Xiangwei and Mr. Wang Yu. Mr. Tsang Henry Yuk Wong is Chairman of the Audit Committee. The principal duties of the Audit Committee include:

- responsible for the appointment, re-appointment and removal of the independent auditor and provide recommendations to the Board; approving the remuneration of the independent auditor, monitoring the duties of the independent auditor and implementing the policy of the Company for engaging of independent auditor for provision of non-audit services;

- reviewing the annual and interim financial statements, monitoring the Company's financial control, internal control and risk management and the Company's financial and accounting policies, to ensure the execution of the above policies are in place;

- reviewing the compliant process of the Company dealing with financial reporting, internal control or other violations of laws and regulations; and

- reviewing the arrangement of the Company and pursuant to which employees of the Group can secretly raise concerns about any possible misconducts arising from financial reporting, internal control or other matters. To ensure proper arrangement is in place and a fair and independent investigation of such matters and appropriate follow-up actions will be taken by the Company.

For the period from the Listing Date to the year ended 31 December 2012, the Audit Committee has held one meeting to review the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2012. The attendance record of the members of the Audit Committee are set out in the table below:

Directors	Number of meetings attended/ Total number of meetings
Mr. Tsang Henry Yuk Wong	1/1
Mr. Weng Xiangwei	1/1
Mr. Wang Yu	1/1

Remuneration Committee

The Remuneration Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. During the period under review, the Remuneration Committee comprised of three members, namely Mr. Wang Yu, Ms. Wang Huimin and Mr. Wang Chiwei, majority of whom are independent non-executive Directors. Mr. Wang Yu is chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include formulating human resources management policies, reviewing the Company's compensation policies, and determining the remuneration package for the Company's executive Directors and senior management and advise the remuneration of non-executive Directors to the board.

For the period from the Listing Date to the year ended 31 December 2012, the Remuneration Committee held one meeting to recommend the Board on the compensation policies and structure for all directors and senior management as well as other relevant matters. The attendance record of the members of the Remuneration Committee are set out in the table below:

Directors	Number of meetings attended/ Total number of meetings
Mr. Wang Yu	1/1
Ms. Wang Huimin	1/1
Mr. Wang Chiwei	1/1

Nomination Committee

The Nomination Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. During the period under review, the Nomination Committee comprised of three members namely Mr. Wang Chiwei, Mr. Tang Donald Wei and Mr. Tsang Henry Yuk Wong, majority of whom are independent non-executive Directors. Mr. Wang Chiwei is the Chairman of the Nomination Committee. The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board, and making recommendations to the Board on the selection of individuals to fill in vacancy on the Board.

Corporate Governance Report

For the period from the Listing Date to the year ended 31 December 2012, the Nomination Committee has held one meeting to make recommendations to the Board with regard to the appointment of Mr. Wang Hairong and Mr. Chen Anjie as new directors to the Board. The attendance records of the Nomination Committee are set out in the table below:

Directors	Number of meetings attended/ Total number of meetings
Mr. Wang Chiwei	1/1
Mr. Tang Donald Wei	1/1
Mr. Tsang Henry Yuk Wong	1/1

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2012, and they have to give true and fair opinion on the Group's affairs as well as the Group's results and cash flow. The Directors, after making all reasonable enquiries, confirmed that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board has overall responsibility for maintaining sound and effective internal control systems to safeguard the Company's assets and the Shareholders' interests and to conduct annual review of the effectiveness of the system. The Group's internal audit department plays a key role in monitoring of the Company's internal governance. The Board, through the Audit Committee, had reviewed the effectiveness and adequacy of the control system of the Group's internal control.

COMPANY SECRETARY

Ms. Leng Yijia has been the Company's Secretary since 4 July 2012. Ms. Leng is a full time staff and is familiar with the Company's daily operation. She reports duty to the Chairlady and/or the CEO. The Company also engaged Ms. Mok Ming Wai, Director of KCS Hong Kong Limited as the Joint Company Secretary, who will be responsible for assisting Ms. Leng in performing her duties as the Company Secretary. Ms. Leng Yijia is the principal contact person of the Company. For the year ended 31 December 2012, Ms. Leng Yijia and Ms. Mok Ming Wai have received not less than 15 hours of relevant professional training to update their knowledge and skill.

REMUNERATION OF THE SENIOR MANAGEMENT

For the year ended 31 December 2012, the remuneration of senior management, other than CEO, is listed as below by band:

Band of remuneration (HKD)	No. of person
HK$1,000,000 and below	2
HK$1,000,001 to HK$1,500,000	5
HK$1,500,001 to HK$2,000,000	1

Further details of the remuneration of Directors and the 5 highest paid employees required to be disclosed under Appendix 16 of the Listing Rules have been set out in Notes 8 and 9 to the financial statements.

AUDITOR'S REMUNERATION

During the period from July 2012 in which the Company was listed to 31 December 2012, the amount of fee payable to the Group's external auditor was RMB2.2 million, included RMB0.5 million for audit on the interim results for the six-month period ended 30 June 2012, and RMB1.7 million for audit on the final results for the year ended 31 December 2012.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders are most important to improve investor relations and understanding of the Group's business, performance as well as strategy. The Company also recognizes the importance of non-selective and timely disclosure of information, which will enable shareholders and investors to make informed investment decisions.

To promote effective communication, the Company maintains a website at www.xiaonanguo.com where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for shareholders' and public access.

CONVENING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Any one or more shareholder holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings can convene extraordinary general meetings by depositing or sending a written requisition addressed to the Board or Company Secretary for the transaction of any business specified in such requisition. All such requisition should be sent to headquarter and principal place of business in the People's Republic of China at 777 Jiamusi Road, Yangpu District, Shanghai, The People's Republic of China, attention to the Company Secretary Ms. Leng Yijia.

Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within 21 days of the deposit of the requisition, the requisitionist(s) himself/themselves may convene the meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene the meeting will be reimbursed to the requisitionist(s) by the Company.

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

Shareholders can make enquiries to the Board by way of emails to: ir@xiaonanguo.com.

CHANGES OF CONSTITUTIONAL DOCUMENT

The Company's Memorandum and Articles of Association (as restate) were adopted by the Company on 8 June 2012 and came into effect from the Listing Date.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at shareholder meetings, including the election of individual Directors. All resolutions proposed at the shareholders' meeting will be voted by poll in accordance with the Listing Rules. The result of the poll voting will be duly published on the Company's website www.xiaonanguo.com and the website of the Stock Exchange www.hkex.com.hk after the general meeting.

Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. WANG Huimin, aged 58, is the chairlady and an executive Director of the Company. Ms. Wang is the founder of the Company and primarily responsible for the overall corporate strategies and management of the Group. Ms. Wang has over 26 years of experience in the restaurant industry since commencement of business of the first Xiao Nan Guo restaurant at Chang Sha Road, Huangpu District, Shanghai in 1987 where she served as the general manager responsible for its overall operation until 1999. Ms. Wang also serves as the executive director of Xiao Nan Guo (Group) Co., Ltd. and assumes the directorships in some of the Excluded Businesses or their shareholders, including Shanghai Xin Di Restaurant Co., Ltd., An Heng (Shanghai) Restaurant Management Co., Ltd. (安恒(上海)餐飲管理有限公司), spa business, Shanghai WH Ming Hotel Co., Ltd. (上海小南國花園酒店有限公司), Allied First (H.K.) Limited (合豐(香港)有限公司) and Multi Concepts Link Restaurant Management Limited (無限創意餐飲管理有限公司). Ms. Wang Huimin is the sister of Ms. Wang Huili and Mr. Wang Hairong.

Ms. WU Wen, aged 44, is an executive Director of the Company and is primarily responsible for construction and decoration work of all the Group's restaurants and other work required by the Board. Ms. Wu started her career with Xiao Nan Guo restaurants since her joining of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1993 where she was responsible for customer services related matters until 2008. During the over 19 years with Xiao Nan Guo restaurants, Ms. Wu served various positions at the Company's wholly-owned subsidiaries which primarily focus on our restaurant business in Shanghai, including executive directors of Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. (上海浦東小南國餐飲有限公司) from 1997 to 2011 and Shanghai Jing'an Xiao Nan Guo Co., Ltd. (上海靜安小南國餐飲有限公司) from 2004 to 2008, respectively.

Mr. KANG Jie, aged 38, is an executive Director and the chief executive officer of the Company. He joined our Group in 2008 as the chief executive officer of Shanghai Xiao Nan Guo Restaurant Co., Ltd. as well as Xiao Nan Guo Holdings Limited, the Company's wholly-owned subsidiaries which operate the Group's restaurant business in the PRC and Hong Kong, respectively. Mr. Kang is primarily responsible for overseeing the overall daily operations of the Group's business. Prior to joining our Group, Mr. Kang worked at Bear Stearns & Co. Inc. from 2004 to 2008, during which period he served various positions including associate, vice president and managing director in the investment banking division responsible for the investment banking activities in the firm's Shanghai and Beijing offices. He was also appointed as the chief representative of the Shanghai representative office of Bear Stearns & Co. Inc. in 2005. From 1998 to 2000. Mr. Kang served as an auditor at the Shanghai Office of Arthur Anderson LLP and obtained the certificate of registered investment representative of BNP Paribas Peregrine Capital Limited in April 2001.

NON-EXECUTIVE DIRECTORS

Ms. WANG Huili, aged 55, has been appointed as a non-executive Director of the Company, effective from the Listing Date. Ms. Wang Huili is a co-founder of the Group and has worked for Xiao Nan Guo restaurants for over 24 years since commencement of business of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1987 where she served as the manager in charge of its daily management until 2008. Ms. Wang Huili was an executive director of Shanghai Xiao Nan Guo Restaurant Co., Ltd. from January 2002 to July 2010 and was appointed as the supervisor of that company in July 2010. She also currently holds the directorship of WHM Japan Co., Ltd. and Shanghai Wen Hui Huju Opera Troupe (上海文慧滬劇團). Ms. Wang Huili is the sister of Ms. Wang Huimin and Mr. Wang Hairong.

Directors and Senior Management

Mr. TANG Donald Wei, aged 50, has been appointed as a non-executive Director of the Company, effective from the Listing Date. Mr. Tang has been serving as the director of CSI Capital GP Company, Ltd. since March 2009. Prior to that, Mr. Tang served various positions at Bear Stearns & Co. Inc. and its affiliated entities, including global vice chairman and member of the board of directors of Bear Stearns & Co. Inc. as well as chairman and managing director in charge of the company's overall international and U.S. western coast business. In addition, Mr. Tang has been working for Rand Corporation since 2006 and is a global director until May 2013, as well as a member of the board of directors of the California Institute of Technology since 2005. In 2010, Mr. Tang was appointed as a member of the Harvard Asia Center Advisory Committee. Mr. Tang received his bachelor's degree in chemical engineering from California State Polytechnic University in 1986.

Mr. WENG Xiangwei, aged 46, has been appointed as a non-executive Director of the Company, effective from the Listing Date. Mr. Weng is the founder of Shining Capital Management Limited and has extensive experience in investment banking and private equity investment. Prior to that, Mr. Weng was an executive director at the corporate finance department and "Head of Mergers and Acquisitions, China" of Goldman Sachs (Asia) L.L.C. From January 2005 to January 2007, Mr. Weng served as the general manager in charge of corporate operations at Gome Electrical Appliances Holding Limited (stock code: 0493), a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Mr. Weng also worked at Morgan Stanley group of companies from June 1998 to January 2005. Mr. Weng received his bachelor's degree in physics from Peking University in 1989 and his Ph.D. degree in biophysics from University of California at Berkeley in 1996.

Mr. WANG Hairong, aged 50, non-executive director of the Company. He was working at a number of the Group's restaurants in Shanghai, including Shanghai Xiao Nan Guo Restaurant (Hongqiao) (上海小南國大酒店虹橋店), Shanghai Xiao Nan Guo Restaurant (Huangpu) (黃埔區小南國大酒店) and Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. (上海浦東小南國餐飲有限公司). Mr. Wang is the younger brother of Ms. Wang Huimin and Ms. Wang Huili.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TSANG Henry Yuk Wong, aged 59, has been appointed as an independent non-executive Director of the Company, effective from the Listing Date. Mr. Tsang retired in April 2013 from Jigs Limited, a furniture design and manufacturing company, of which he was a co-founder. He has been serving as the managing director of that company since December 2007. He is also currently holding the position of non-executive director at Horizon Asia Fund Ltd., an Asia focused investment fund and its investment adviser, Horizon Capital Management and Research Ltd. Mr. Tsang has accumulated extensive experience in the investment banking area, through his working experience at Bear Stearns & Co. Inc. (including president of Bear Stearns Asia Limited), BOC International and Merrill Lynch. During his nearly 28 years as an investment banker, Mr. Tsang actively participated in equity offerings, bond offerings and mergers and acquisitions transactions, including a number of initial public offerings on the Stock Exchange. Having been an experienced corporate finance professional, Mr. Tsang is experienced in performing functions such as reviewing management accounts, analyzing audited financial statements and assisting clients in the preparation of profit forecast and financial model. He was also a partner of Search Asian Mezzanine Capital Ltd., a private equity firm sponsored by Search Investment Group. Mr. Tsang has been active in public services, including serving as a member of the Hong Kong Broadcasting Authority from September 2005 to March 2012, and as a director of Hong Kong Applied Science and Technology Research Institute Company Limited from October 2002 to September 2008. Mr. Tsang received his bachelor's degree in chemical engineering (magna cum laude) from University of Houston in 1978 and his MBA degree from Rice University in 1980.

Directors and Senior Management

Mr. WANG Chiwei, aged 57, has been appointed as an independent non-executive Director of the Company, effective from the Listing Date. Mr. Wang is also currently holding the position as a deputy general manager at Jiangxi Copper Company Limited (stock code: 0358), a company listed on the Stock Exchange, and has served various positions with that company, including executive director and deputy general manager from 1998 to 2009, deputy director of the sales and transportation department, deputy chief economist as well as director of the planning department of the Guixi Smelter from 1980 to 1992. Mr. Wang is also a membership director of Shanghai Futures Exchange (上海期貨交易所), a chairman of Shanghai Gold Exchange Committee (上海黃金交易所委員會), a vice chairman of China Gold Association (中國黃金協會), a vice president of China Sulphuric Acid Industry Association (中國硫酸協會) as well as a vice chairman of China Chemical Mining Association (中國化學礦業協會). Mr. Wang obtained a certificate of senior economist in June 2002.

Mr. WANG Yu, aged 42, has been appointed as an independent non-executive Director of the Company, effective from the Listing Date. Mr. Wang joined Grace Semiconductor Co., Ltd. (上海宏力半導體有限公司) as an executive vice president in March 2010 and is currently holding the position of president at that company. Prior to that, Mr. Wang held various positions at Shanghai Huahong NEC Electronic Co., Ltd. (上海華虹NEC電子有限公司), including financial director, head of financial department, vice president and chief financial officer, during the period from March 1998 to March 2010. Mr. Wang was appointed as a member of Shanghai Municipal Pudong New Area 1st China People's National Political Consultative Conference (上海市浦東新區第一屆政協委員) and Shanghai Municipal 10th National Congress of the All-China Youth Federation in 2000 and 2008, respectively. Mr. Wang received his bachelor 's degree in foreign trade and his postgraduate degree in international finance from Shanghai University of Finance and Economics in 1994 and 1997, respectively.

Mr. CHEN Anjie, aged 64, was the deputy director and deputy party secretary of the Liaison Bureau of Shanghai World Expo (上海世博會事務協調局).

SENIOR MANAGEMENT

Mr. KANG Jie, aged 38, is an executive Director and the chief executive officer of the Company. His biographical details are set out above under the section headed "– Executive Directors".

Ms. SHAO Shan, aged 44, is a vice president of the Company and is responsible for the Group's operation and human resources related matters. Ms. Shao has over 18 years of experience in operation and training. Prior to joining the Company in June 2009, Ms. Shao served as the national training director of McDonald's (China) Co., Ltd. (麥當勞(中國)有限公司) from April 2006 to May 2009 and the senior franchise manager from April 2004 to April 2006. Before that, she was the senior manager for the operation department of Guangdong Sanyuan McDonald's Food Co., Ltd. (廣東三元麥當勞有限公司) from April 2002 to March 2004 and a professor and training manager at McDonald's Hong Kong Hamburger University from December 1999 to March 2002. From October 1992 to December 1999, she held various positions including franchise manager and operation manager of Guangdong Sanyuan McDonald's Food Co., Ltd. Ms. Shao graduated from Guangzhou University in the major of hotel management in 1992 and completed an applied psychology master program at East China Normal University in July 2010.

Mr. ZHANG Jun, aged 37, is a vice president of the Company. With over 14 years of experience in accounting and finance, Mr. Zhang is mainly responsible for the Group's finance and information technology as well as internal control related matters. Mr. Zhang joined our Group in 2007 and has served as the chief financial officer of Shanghai Xiao Nan Guo Restaurant since 2009. Prior to joining the Company, he was the chief accounting officer of Home Inns & Hotels Management Inc., a company listed on NASDAQ from October 2006 to August 2007. He also worked as the financial manager at Shanghai Shen-

Directors and Senior Management

Mei Beverage & Food Co., Ltd. (上海申美飲料食品有限公司), a subsidiary of The Coca-Cola Company, a company listed on the New York Stock Exchange, from August 2005 to October 2006. From July 2002 to July 2005, Mr. Zhang was a senior auditor and manager of PricewaterhouseCoopers Zhong Tian CPAs Limited Company. Before that, he worked as an auditor at the Shanghai office of Arthur Andersen LLP. Mr. Zhang obtained his dual-bachelor's degrees in accounting and applied mathematics, respectively, in July 1998 from Shanghai Jiao Tong University. He obtained the qualification of certified public accountant from The Chinese Institute of Certified Public Accountants in 2001 and the certificate of medium-level accountant in the same year.

Mr. PAN Qin, aged 57, is the Company's vice president and chief chef and is primarily responsible for the Group's production and the overall kitchen management. He has been with Xiao Nan Guo restaurants for over 25 years since his joining of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1987. He has been a vice president of the Group since 2009. Mr. Pan is a member of the Master Chef Club of Shanghai Cuisine Association (上海市烹飪協會總廚俱樂部). He was awarded the prizes of China Golden Chef (中華金廚獎) in 2008 by China Cuisine Association (中國烹飪協會), China Well-renowned Chef (中國烹飪名廚) in 2002 by China Central Chamber of Commerce (中國商業聯合會) and China Cuisine Association and the Best Design Award of the Fourth World Competition of Chinese Cuisine (中國烹飪世界大賽) in 2002 by The Organizing Committee of the Fourth World Championship of Chinese Cuisine (第四屆中國烹飪世界大賽組織委員會), respectively. Mr. Pan was also appraised by the Chief Chef Club of Shanghai Restaurants Association (上海餐飲行業協會總廚俱樂部) for his active participation in industry events in 2006 and obtained the championship for Shanghai Elite Youth Cooking Selection Event (上海市中青年烹飪協會) held by Shanghai Cuisine Association (上海烹飪協會), Shanghai Commercial Commission (上海市商業委員會), Shanghai Food and Beverage Industry Association (上海飲食業行業協會), Shanghai Tourism Administrative Commission (上海旅遊事業管理委員會) and Shanghai Tourism Association Hotel Industry Branch (上海市旅遊協會飯店業分會) in 2003.

Mr. ZHOU Bin, aged 38, is vice president of the Company who is taking charge of banquet sales and marketing related matters. Mr. Zhou joined the Group in November 2008. Prior to joining the Company, he served as a deputy director from February 2006 to October 2008 and a consultant from April 2000 to April 2005 at Shanghai Ogilvy Commercial Consulting Co., Ltd. (上海奧美商務咨詢有限公司). From July 1998 to March 2000, he worked at Dun & Bradstreet (Shanghai) Consulting Co., Ltd. (鄧白氏(上海)諮詢有限公司). Mr. Zhou received his bachelor's degree in international enterprise management from Shanghai University of Finance and Economics in 1998.

Mr. SUN Yong, aged 41, is the Company's vice president primarily responsible for development and construction related matters. Mr. Sun joined the Group in August 2011. Prior to that, he was a vice president at Shanghai Kungfu Fast Food Management Co., Ltd. (上海真功夫快餐管理有限公司) taking charge of construction and development from January 2008 to August 2011. From March 2001 to January 2008, Mr. Sun served various positions at Yum! Brands Inc. China Division, including development manager and development senior manager. Mr. Sun received his bachelor's degree in economics from Shanghai International Studies University in June 1995 and a diploma in management from China Europe International Business School in December 2005.

Directors and Senior Management

Ms. LENG Yijia, aged 38, is a vice president, secretary of the Board and a joint company secretary of the Company taking charge of legal and compliance and investor relations matters. She joined the Group in July 2010. Ms. Leng has over 13 years of experience in legal and management areas. Prior to joining the Company, she served as a legal manager, senior legal manger and legal director of Carrefour (China) Managing & Consulting Services Co., Ltd. (家樂福(中國)管理咨詢服務有限公司), from October 2003 to June 2010, and worked as a legal consultant at Coudert Brothers LLP from August 2000 to September 2003. From September 1998 to August 1999, she was an associate at the Shanghai office of Kang Da Law Firm (康達律師事務所). Ms. Leng received her L.L.B degree from East China University of Political Science and Law in 1998, her L.L.M degree from Temple University in 2001 and her MBA degree from the program jointly sponsored by Tong Ji University and École Nationale des Ponts et Chaussées (ENPC) in 2006. Ms. Leng holds the PRC lawyer qualification certificate.

Mr. DU Yu, aged 43, is a vice president of the Company. Mr. Du joined the Group in April 2011 and is primarily responsible for the Company's supply chain related matters including procurement, logistics, storage and quality control. Mr. Du has over 14 years' experience in the food and beverage industry. From 2008 to 2011, Mr. Du served as the purchasing director and general manager of eastern China logistic center & purchasing system at Shanghai Kungfu Fast Food Management Co., Ltd. (上海真功夫快餐管理有限公司). Prior to that, he worked at Yum! Consulting (Shanghai) Co., Ltd.(百勝諮詢(上海)有限公司) as a purchasing manager from 1997 to 2008. Mr. Du graduated from Shanghai Industry University in the major of material engineering in 1993 and received an MBA degree from Donghua University in 2006. He also attended executive education courses at China Europe International Business School from 2008 to 2010.

Mr. GUAN Zhenyu, aged 39, joined our Group in 2009 and is the Company's senior director taking charge of products development and strategic analysis related matters. He is primarily responsible for research, planning and development of the Company's products as well as management of menus of the Company's restaurants. Prior to joining the Group, from 2000 to 2003, Mr. Guan was a key client manager responsible for marketing and sales in Shanxi, Tianjin and Liaoning at Shanghai Siemens Mobile Co., Ltd.(上海西門子移動通信有限公司), and from 2004 to 2008, a senior manager responsible for marketing and sales for Shanghai Municipality and Zhejiang Province at Siemens Ltd. China (西門子中國有限公司). Mr. Guan was granted "Award of Outstanding Contribution" by Siemens Ltd. China in 2005. He was also an auditor at the Shanghai office of Arthur Andersen LLP. Mr. Guan received his bachelor's degree in economics from University of International Business and Economics in 1998.

Independent Auditors' Report

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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 47 to 109, which comprise the consolidated and company statements of financial position as at 31 December 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 year 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.

Independent Auditors' Report

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 31 December 2012, and of the Group's profit and cash flows for the year 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.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	Year ended 31 December **2012** **RMB'000**	 2011 RMB'000
REVENUE	5(a)	**1,332,298**	1,088,582
Cost of inventories consumed		**(424,536)**	(361,342)
Gross profit		**907,762**	727,240
Other income	5(b)	**45,966**	30,086
Selling and distribution expense		**(689,186)**	(525,135)
Administrative expenses		**(106,006)**	(85,252)
Other expenses		**(397)**	(2,364)
Finance costs	7	**(6,125)**	(3,287)
PROFIT BEFORE TAX	6	**152,014**	141,288
Income tax expense	10	**(33,484)**	(34,269)
PROFIT FOR THE YEAR		**118,530**	107,019
Attributable to:			
Owners of the Company	11	**118,530**	107,019
Earnings per share attributable to ordinary equity holders of the Company			
– Basic	13	**9.27 cents**	10.78 cents
– Diluted	13	**9.27 cents**	10.75 cents

Details of the dividends declared for the year are disclosed in note 12 of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR		**118,530**	107,019
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(1,938)**	(2,847)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**116,592**	104,172
Attributable to:			
Owners of the Company	11	**116,592**	104,172

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	31 December 2012 RMB'000	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**614,806**	500,239
Intangible assets	15	**4,636**	2,448
Available-for-sale investments	18	**100**	100
Long-term rental deposits	16	**50,390**	41,541
Deferred tax assets	26	**33,873**	21,332
Other long-term assets		**581**	793
Total non-current assets		**704,386**	566,453
CURRENT ASSETS			
Inventories	19	**58,613**	46,762
Trade receivables	20	**26,829**	20,088
Prepayments, deposits and other receivables	21	**111,794**	263,298
Cash and cash equivalents	22	**416,797**	179,956
Total current assets		**614,033**	510,104
CURRENT LIABILITIES			
Trade payables	23	**82,238**	97,440
Interest-bearing bank loans	25	**156,795**	129,571
Tax payable		**28,012**	19,436
Dividends payable	12	**–**	192,314
Other payables and accruals	24	**189,108**	208,571
Deferred income		**1,981**	2,669
Total current liabilities		**458,134**	650,001
NET CURRENT ASSETS/(LIABILITIES)		**155,899**	(139,897)
TOTAL ASSETS LESS CURRENT LIABILITIES		**860,285**	426,556
NON-CURRENT LIABILITIES			
Long-term payables	16	**38,659**	32,622
Interest-bearing bank loans	25	**–**	37,895
Deferred tax liabilities	26	**1,359**	1,779
Total non-current liabilities		**40,018**	72,296
Net assets		**820,267**	354,260
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	28	**12,032**	9,262
Reserves	30	**777,244**	344,998
Proposed dividend	12	**30,991**	–
Total equity		**820,267**	354,260

Wang Huimin
Director

Kang Jie
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to owners of the Company										
	Notes	Issued capital RMB'000 (note 28)	Share premium* RMB'000 (note 30 (i))	Capital reserve* RMB'000 (note 30 (iii))	Merger reserve* RMB'000 (note 30 (ii))	Statutory surplus reserve* RMB'000 (note 30 (iv))	Exchange fluctuation reserve* RMB'000 (note 30 (v))	Share option reserve* RMB'000 (note 30 (vi))	Retained earnings* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Total equity RMB'000
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 year		–	–	–	–	–	–	–	118,530	–	118,530	118,530
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	(1,938)	–	–	–	(1,938)	(1,938)
Total comprehensive income for the year		–	–	–	–	–	(1,938)	–	118,530	–	116,592	116,592
Issue of shares	28	2,780	414,346	–	–	–	–	–	–	–	417,126	417,126
Share issue expenses	28	–	(53,528)	–	–	–	–	–	–	–	(53,528)	(53,528)
Appropriation for reserve funds		–	–	–	–	1,322	–	–	(1,322)	–	–	–
Equity-settled share option arrangements	29	–	–	–	–	–	–	2,651	–	–	2,651	2,651
Cancellation of shares	28	(10)	10	–	–	–	–	–	–	–	–	–
Interim 2012 dividend	12	–	–	–	–	–	–	–	(16,834)	–	(16,834)	(16,834)
Proposed 2012 dividend	12	–	(366)	–	–	–	–	–	(30,625)	30,991	–	–
As of 31 December 2012		12,032	477,424	60,174	(69,246)	12,812	(9,453)	8,205	297,328	30,991	820,267	820,267

		Attributable to owners of the Company									
	Notes	Issued capital RMB'000 (note 28)	Share premium* RMB'000 (note 30 (i))	Capital reserve* RMB'000 (note 30 (iii))	Merger reserve* RMB'000 (note 30 (ii))	Statutory surplus reserve* RMB'000 (note 30 (iv))	Exchange fluctuation reserve* RMB'000 (note 30 (v))	Share option reserve* RMB'000 (note 30 (vi))	Retained earnings* RMB'000	Total RMB'000	Total equity RMB'000
As of 1 January 2011		–	–	60,174	(69,246)	9,977	(4,668)	1,540	122,073	119,850	119,850
Profit for the year		–	–	–	–	–	–	–	107,019	107,019	107,019
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	(2,847)	–	–	(2,847)	(2,847)
Total comprehensive income for the year		–	–	–	–	–	(2,847)	–	107,019	104,172	104,172
Appropriation for reserve funds		–	–	–	–	1,513	–	–	(1,513)	–	–
Equity-settled share option arrangements	29	–	–	–	–	–	–	4,218	–	4,218	4,218
Issue of shares	28	9,262	116,962	–	–	–	–	(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 RMB777,244,000 and RMB344,998,000 in the consolidated statement of financial position as at 31 December 2012 and 2011, respectively.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	Year ended 31 December 2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**152,014**	141,288
Adjustments for:			
Finance costs	7	**6,125**	3,287
Interest income	5	**(4,368)**	(374)
Depreciation	14	**81,466**	57,390
Amortisation of intangible assets	15	**585**	467
Amortisation of other long-term assets		**212**	212
Loss on disposal of items of property and equipment	6	**258**	1,954
Equity-settled share option expense		**2,651**	4,218
		238,943	208,442
Increase in inventories		**(11,851)**	(24,961)
Increase in trade receivables		**(6,741)**	(11,855)
Increase in prepayments, deposits and other receivables		**(10,240)**	(57,791)
(Decrease)/increase in trade payables		**(15,202)**	45,027
Increase in other payables and accruals		**17,686**	14,997
Increase in long-term rental deposits		**(8,849)**	(11,034)
Increase in long-term payables		**6,037**	15,296
(Decrease)/increase in deferred income		**(688)**	1,015
Cash generated from operations		**209,095**	179,136
Income tax paid		**(37,869)**	(33,224)
Net cash flows from operating activities		**171,226**	145,912
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(230,801)**	(247,693)
Proceeds from disposal of items of property and equipment		**235**	–
Purchases of intangible assets		**(2,773)**	(2,915)
Interest received		**4,368**	374
Net cash flows used in investing activities		**(228,971)**	(250,234)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**417,126**	129,840
Share issue expense paid		**(56,534)**	(10,263)
Repayment of bank loans		**(169,560)**	(126,316)
Proceeds from new bank loans		**158,889**	213,782
Dividends paid		**(44,398)**	(11,755)
Interest paid		**(8,992)**	(2,560)
Net cash flows from financing activities		**296,531**	192,728
NET INCREASE IN CASH AND CASH EQUIVALENTS		**238,786**	88,406
Cash and cash equivalents at beginning of year		**179,956**	92,661
Effect of foreign exchange rate changes, net		**(1,945)**	(1,111)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**416,797**	179,956

Statement of Financial Position of the Company

31 December 2012

	Notes	**31 December 2012 RMB'000**	31 December 2011 RMB'000
NON-CURRENT ASSETS			
Interest in subsidiaries	17	**391,826**	70,859
Total non-current assets		**391,826**	70,859
CURRENT ASSETS			
Cash and cash equivalents	22	**192,822**	114,379
Total current assets		**192,822**	114,379
NET CURRENT ASSETS		**192,822**	114,379
Net assets		**584,648**	185,238
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**12,032**	9,262
Reserves	30	**541,625**	175,976
Proposed dividend	30	**30,991**	–
Total equity		**584,648**	185,238

Wang Huimin
Director

Kang Jie
Director

Notes to Financial Statements

For the year ended 31 December 2012

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 this year. 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.

Notes to Financial Statements

For the year ended 31 December 2012

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 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12: *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (Amendments)	*Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*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 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 to 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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 an 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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

(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 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%	–

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property 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 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 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 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.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property 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 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 and equipment including 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 restaurant decoration 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 and equipment when completed and ready for use.

2.4 Summary of Significant Accounting Policies *(Continued)*

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.

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.

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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as 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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss *(Continued)*

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 them. 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.

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 other income and gains 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 other income and gains 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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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.

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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Derecognition of financial assets *(Continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

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 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.

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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

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, 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. These 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.

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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

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.

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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Notes to Financial Statements

For the year ended 31 December 2012

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 over 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 payments

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 payments, 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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Share-based payments *(Continued)*

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 payments transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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.

Notes to Financial Statements

For the year ended 31 December 2012

2.4 Summary of Significant Accounting Policies *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 other comprehensive income.

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 measured at fair value 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 the 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 prevailing 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.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies *(Continued)*

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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.

Notes to Financial Statements

For the year ended 31 December 2012

3. Significant Accounting Judgements and Estimates *(Continued)*

Estimation uncertainty *(Continued)*

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, the differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which the 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 2012 and 2011 were RMB14,790,000 and RMB8,922,000, respectively. Further details are contained in note 26 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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Mainland China	**1,138,948**	927,395
Hong Kong	**193,350**	161,187
	1,332,298	1,088,582

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

4. Operating Segment Information *(Continued)*

Geographical information *(Continued)*

(b) Non-current assets

	31 December 2012 RMB'000	31 December 2011 RMB'000
Mainland China	**589,570**	489,333
Hong Kong	**80,843**	55,688
	670,413	545,021

The non-current asset information above is based on the locations of the 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 years ended 31 December 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:

		Year ended 31 December	
		2012 RMB'000	2011 RMB'000
(a)	**Revenue**		
	Restaurant operations	**1,286,072**	1,052,411
	Other revenue	**46,226**	36,171
	Revenue, net	**1,332,298**	1,088,582
(b)	**Other income**		
	Government grants	**23,282**	11,914
	Bank interest income	**4,368**	374
	Management fee	**3,000**	3,000
	Compensation income from landlords	**4,867**	7,883
	Service income	**2,000**	3,743
	Foreign exchange differences	**5,996**	982
	Others	**2,453**	2,190
		45,966	30,086

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For the year ended 31 December 2012

6. Profit Before Tax

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

	Notes	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cost of inventories consumed		**424,536**	361,342
Depreciation	14	**81,466**	57,390
Amortisation of intangible assets	15	**585**	467
Amortisation of other long-term assets		**212**	212
Minimum lease payments under operating lease on buildings		**212,946**	164,450
Auditors' remuneration		**2,639**	323
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**262,290**	210,917
Equity-settled share option expense		**2,651**	4,218
Defined contribution pension scheme		**68,939**	50,704
		333,880	265,839
Bank interest income	5(b)	**(4,368)**	(374)
Loss on disposal of items of property and equipment		**258**	1,954

7. Finance Costs

An analysis of finance costs is as follows:

	Year ended 31 December 2012 RMB'000	2011 RMB'000
Interest on bank loans wholly repayable within five years	**8,251**	7,339
Less: Interest capitalised	**(2,126)**	(4,052)
	6,125	3,287

Notes to Financial Statements

For the year ended 31 December 2012

8. Directors' and Chief Executive's Remuneration

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Fees	**312**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,746**	1,728
Performance-related bonuses	**–**	–
Equity-settled share-based payment	**840**	1,046
Pension scheme contributions	**69**	40
	2,655	2,814
	2,967	2,814

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 were replaced by a modified share-based payment arrangement. Further details are set out in note 29 to the financial statements. The fair value of these 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 year ended 31 December 2012 and 2011 are included in the above directors' and chief executive's remuneration disclosures.

(a) 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. Mr. Chen Anjie was appointed as an independent non-executive director in 2012.

The fees paid to independent non-executive directors during the year were as follows:

	2012	2011
	RMB'000	RMB'000
Mr. Wang Yu	**78**	–
Mr. Tsang Henry Yuk Wong	**78**	–
Mr. Chen Anjie	**78**	–
Mr. Wang Chiwei	**78**	–
	312	–

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

Notes to Financial Statements

For the year ended 31 December 2012

8. Directors' and Chief Executive's Remuneration *(Continued)*

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share-based payment RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2012				
Executive directors:				
Ms. Wang Huimin	**–**	**–**	**–**	**–**
Ms. Wu Wen	**–**	**–**	**–**	**–**
Mr. Kang Jie	**1,746**	**840**	**69**	**2,655**
	1,746	**840**	**69**	**2,655**
Year ended 31 December 2011				
Executive directors:				
Ms. Wang Huimin	–	–	–	–
Ms. Wu Wen	–	–	–	–
Mr. Kang Jie	1,728	1,046	40	2,814
	1,728	1,046	40	2,814

Mr. Kang Jie is also the chief executive of the Group and his remuneration disclosed above include those for services rendered by him as the chief executive.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(c) Non-executive directors

Ms. Wang Huili, Mr. Tang Donald Wei and Mr. Weng Xiangwei were appointed as non-executive directors in 2010. Mr. Wang Hairong was appointed as a non-executive director in 2012. There were no fees or other emoluments payable to them during the years ended 31 December 2012 and 2011.

9. Five Highest Paid Employees

The five highest paid employees include the chief executive for the year ended 31 December 2012 and 2011, and details of whose remuneration is set out in note 8 above. Details of the remuneration for the year of the remaining four highest paid employees who are neither a director nor chief executive for both the year ended 31 December 2012 and 2011 are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**5,384**	4,948
Equity-settled share-based payment	**1,309**	1,958
Pension scheme contributions	**366**	228
	7,059	7,134

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December	
	2012	2011
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	3
HK$1,500,001 to HK$2,000,000	**1**	–
	4	4

During the years ended 31 December 2012 and 2011, share options were granted to four non-director and non-chief executive, highest paid employees in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. The fair value of these 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 years ended 31 December 2012 and 2011 are included in the above non-director and non-chief executive, highest paid employees' remuneration disclosures.

10. Income Tax

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Group:		
Current – Mainland China charged for the year	**44,853**	36,822
Current – Hong Kong charged for the year	**1,592**	2,350
Deferred tax (note 26)	**(12,961)**	(4,903)
Total tax charge for the year	**33,484**	34,269

Notes to Financial Statements

For the year ended 31 December 2012

10. Income Tax *(Continued)*

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

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 ("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 year ended 31 December 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.

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 – Year ended 31 December 2012

	Mainland China		Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	136,754		15,260		152,014	
Tax at the statutory tax rate	34,189	25.0	2,518	16.5	36,707	24.2
Income not subject to tax	–	–	(1,612)	(10.6)	(1,612)	(1.1)
Oversea's share option expenses deductable for tax	(2,102)	(1.5)	–	–	(2,102)	(1.4)
Expenses not deductible for tax	396	0.3	95	0.6	491	0.3
Tax charge at the Group's effective rate	32,483	23.8	1,001	6.5	33,484	22.0

10. Income Tax *(Continued)*

Group – Year ended 31 December 2011

	Mainland China RMB'000	%	Hong Kong RMB'000	%	Total RMB'000	%
Profit before tax	124,642		16,646		141,288	
Tax at the statutory tax rate	31,161	25.0	2,747	16.5	33,908	24.0
Tax concession or lower tax rate enacted by local authority	(570)	(0.5)	–	–	(570)	(0.4)
Income not subject to tax	–	–	(346)	(2.1)	(346)	(0.2)
Expenses not deductible for tax	1,330	1.1	–	–	1,330	0.9
Effect of different tax rates used for the recognition of deferred tax	(53)	(0.0)	–	–	(53)	(0.0)
Tax charge at the Group's effective rate	31,868	25.6	2,401	14.4	34,269	24.3

11. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the years ended 31 December 2012 and 2011 include gains of RMB4,765,000 and losses of RMB3,236,000, respectively, which have been dealt with in the financial statements of the Company (note 30).

12. Dividends

	Year ended 31 December **2012** **RMB'000**	2011 RMB'000
Interim – HK$0.014 (2011: Nil) per ordinary share	**16,834**	–
Proposed final – HK$0.016 (2011: Nil) per ordinary share	**19,071**	–
Proposed special – HK$0.010 (2011: Nil) per ordinary share	**11,920**	–
	30,991	–
	47,825	–

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

The proposed final dividend of HK$0.016 per ordinary share (2011: Nil) and proposed special dividend of HK$0.010 per ordinary share (2011: Nil), amounting to a total sum of approximately HK$38,350,000 (approximately equivalent to RMB30,991,000), for the year has been proposed by the directors and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Dividends payable as at 31 December 2011 represented the outstanding dividends payable to the then shareholders of the Company, which were paid or offset amount due from Controlling Shareholder during the year ended 31 December 2012.

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For the year ended 31 December 2012

13. Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the consolidated profit attributable to the equity holders of the Company and the weighted average number of ordinary shares of 1,278,287,671 (2011: 992,380,948) in issue during the year. The calculation of basic earnings per share for the year ended 31 December 2011 is based on the consolidated profit attributable to the equity holders of the Company and 992,380,948 shares which is arrived (i) on the assumption that the 1,000,000 ordinary shares under the capitalisation issue were in issue throughout the period and (ii) taking into account the rights issue of 1,109,000,000 ordinary shares and (iii) not taking into account 25,000,000 ordinary shares issued to Affluent Harvest Limited, a wholly-owned subsidiary of the Company.

The calculation of diluted earnings per share is based on the profit for the year 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.

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**118,530**	107,019

	Year ended 31 December	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,278,287,671**	992,380,948
Effect of dilution – weighted average number of ordinary shares:		
Share options	**738,740**	3,231,190
Number of ordinary shares used in the diluted earnings per share calculation	**1,279,026,411**	995,612,138

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For the year ended 31 December 2012

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
31 December 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	45,666	17,115	402	143,149	206,332
Depreciation provided during the year	(61,833)	(19,288)	(345)	–	(81,466)
Disposals	(8,956)	(1,321)	(29)	–	(10,306)
Transfers	95,513	19,725	–	(115,238)	–
Exchange realignment	6	1	–	–	7
At 31 December 2012, net of accumulated depreciation	480,998	77,912	1,733	54,163	614,806
At 31 December 2012:					
Cost	646,381	137,664	5,852	54,163	844,060
Accumulated depreciation and impairment	(165,383)	(59,752)	(4,119)	–	(229,254)
Net carrying amount	480,998	77,912	1,733	54,163	614,806

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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	116,718	26,247	–	167,261	310,226
Depreciation provided during the year	(44,985)	(11,594)	(811)	–	(57,390)
Disposals	(4,431)	(871)	(18)	–	(5,320)
Transfers	161,664	16,866	–	(178,530)	–
Exchange realignment	(1,302)	(296)	–	–	(1,598)
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
31 December 2012	
At 1 January 2012, net of accumulated amortisation	**2,448**
Additions	**2,773**
Amortisation provided during the year	**(585)**
At 31 December 2012, net of amortisation	**4,636**
At 31 December 2012:	
Cost	**5,688**
Accumulated amortisation	**(1,052)**
Net carrying amount	**4,636**

15. Intangible Assets *(Continued)*

Group

	Software RMB'000
31 December 2011	
At 1 January 2011, net of accumulated amortisation	–
Additions	2,915
Amortisation provided during the year	(467)
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 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	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Unlisted shares, at cost	**59,312**	59,312
Due from subsidiaries	**332,514**	11,547
	391,826	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.

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For the year ended 31 December 2012

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	RMB240,000	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. 上海中環匯珉管理有限公司	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. 上海徐匯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)

Notes to Financial Statements

For the year ended 31 December 2012

17. Interests in Subsidiaries *(Continued)*

Particulars of the subsidiaries are as follows *(Continued)*:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
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)
Nanjing Xiao Nan Guo Huimin Restaurant Co., Ltd. 南京小南國匯珉餐飲有限公司	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)

Notes to Financial Statements

For the year ended 31 December 2012

17. Interests in Subsidiaries *(Continued)*

Particulars of the subsidiaries are as follows *(Continued)*:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
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)
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)

Notes to Financial Statements

For the year ended 31 December 2012

17. Interests in Subsidiaries *(Continued)*

Particulars of the subsidiaries are as follows *(Continued)*:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital '000	Percentage of equity attributable to the Company	Notes
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 to Financial Statements

For the year ended 31 December 2012

17. Interests in Subsidiaries *(Continued)*

Particulars of the subsidiaries are as follows *(Continued)*:

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;

(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 and Chinese restaurant chain stores 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 several 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 intend to dispose of them in the near future.

19. Inventories

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Food and beverages, and other operating items for restaurant operations	**58,613**	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	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 1 month	**18,988**	14,966
1 to 2 months	**2,620**	2,097
2 to 3 months	**751**	1,186
Over 3 months	**4,470**	1,839
	26,829	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	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Deposits and other receivables	**29,975**	28,535
Prepaid expense	**27,097**	26,358
Amount due from the Controlling Shareholder	**–**	56,258
Amount due from companies owned by the Controlling Shareholder	**29,506**	126,540
Amount due from a director of major subsidiaries in Hong Kong	**365**	354
Prepayments	**24,851**	25,253
	111,794	263,298

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.

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For the year ended 31 December 2012

22. Cash and Cash Equivalents

	Group		Company	
	31 December 2012 RMB'000	31 December 2011 RMB'000	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Cash and bank balances, unrestricted	**221,026**	177,700	**368**	114,379
Time deposits with original maturity of less than three months	**195,771**	2,256	**192,454**	–
Cash and cash equivalents	**416,797**	179,956	**192,822**	114,379

The cash and bank balances and time deposits of the Group's subsidiaries in mainland China denominated in RMB amounted to RMB203,766,000 and RMB159,173,000 as at 31 December 2012 and 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 is as follows:

	Group	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Within 3 months	**76,528**	95,318
3 months to 1 year	**4,721**	1,672
Over 1 year	**989**	450
	82,238	97,440

Included in the trade payables balance as at 31 December 2011, there were payable balances due to WHM Japan Co., Ltd. of RMB445,000. 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 of receiving the invoice.

24. Other Payables and Accruals

	Group 31 December 2012 RMB'000	31 December 2011 RMB'000
Payroll and welfare payables	**29,786**	26,334
Taxes other than CIT	**7,378**	7,173
Other payables for construction in progress	**65,816**	92,411
Accruals and other payables	**27,294**	19,560
Advances from customers	**58,369**	58,023
Amounts due to companies owned by the Controlling Shareholder	**465**	5,070
	189,108	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

		31 December 2012			31 December 2011		
		Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans – unsecured		**6.16**	**2013**	**38,900**	–	–	–
Bank loans – secured	(a)	**–**	**–**	**–**	2.30	2012	13,782
Bank loans – secured	(b)	**–**	**–**	**–**	6.71	2012	40,000
Bank loans – unsecured		**5.60**	**2013**	**80,000**	–	–	–
Current portion of long term bank loans – secured	(b)	**6.16**	**2013**	**37,895**	6.65	2012	75,789
				156,795			129,571
Non-current							
Bank loans – secured	(b)	**–**	**–**	**–**	6.65	2013	37,895
				156,795			167,466
Analysed into:							
Bank loans repayable:							
Within one year or on demand				**156,795**			129,571
In the second year				**–**			37,895
				156,795			167,466

Notes to Financial Statements

For the year ended 31 December 2012

25. Interest-Bearing Bank Loans *(Continued)*

Group *(Continued)*

(a) 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 an 80% equity interest in the Company.

(b) 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 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 Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd., a wholly-owned subsidiary of the Company.

26. Deferred Tax

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

Deferred tax liabilities

Group

31 December 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)	**22**	**(442)**	**(420)**
Exchange realignment	**–**	**–**	**–**
Gross deferred tax liabilities at 31 December 2012	**396**	**963**	**1,359**

Notes to Financial Statements

For the year ended 31 December 2012

26. Deferred Tax *(Continued)*

Deferred tax assets

Group

31 December 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)	(36)	563	2,342	3,804	5,868	12,541
Exchange realignment	–	–	–	–	–	–
Gross deferred tax assets at 31 December 2012	83	2,364	5,392	11,244	14,790	33,873

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)	(562)	929	367
Exchange realignment	83	(125)	(42)
Gross deferred tax liabilities at 31 December 2011	374	1,405	1,779

Notes to Financial Statements

For the year ended 31 December 2012

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)	(46)	205	1,099	1,162	2,850	5,270
Exchange realignment	–	(19)	58	–	(220)	(181)
Gross deferred tax assets at 31 December 2011	119	1,801	3,050	7,440	8,922	21,332

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 RMB278,586,000 and RMB175,522,000 at 31 December 2012 and 2011, 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 11% 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

	31 December 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)	**1,475,000,000**	1,135,000,000
Equivalent to RMB'000	**12,032**	9,262

Notes to Financial Statements

For the year ended 31 December 2012

28. Share Capital *(Continued)*

Shares *(Continued)*

A summary of transactions during the year 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 ordinary of 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
Issue of new shares (note (e))	341,250,000	3,413	508,461	2,780	414,346
Share issue expense	–	–	(61,965)	–	(53,528)
At 31 December 2012	1,475,000,000	14,750	589,781	12,032	477,790

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 purposes. 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 the 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) In connection with the Company's initial public offering, 341,250,000 ordinary shares of HK$0.01 each were issued at a price of HK$1.50 per share, for a total cash consideration, before share issue expenses, of approximately HK$511,875,000 (equivalent to approximately RMB417,126,000). Dealings in these shares on the Stock Exchange commenced on 4 July 2012.

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29. Share-based Payments

Two Pre-IPO share option schemes (the "Pre-IPO Schemes") were approved pursuant to the resolutions passed by the Company's board of directors on 10 February 2010 and 15 March 2011 (subsequently amended on 10 August 2011), respectively. According to the Pre-IPO 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 Pre-IPO 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 conditions. The exercise price of share options is determinable by the directors.

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 or RMB1.1 or RMB1.175 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 Pre-IPO Schemes, if earlier.

The following share options were outstanding under the Pre-IPO Schemes during the years ended 31 December 2012 and 2011:

	Year ended 31 December 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**	**(12,386)**
At 31 December 2012		**90,252**

	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

Notes to Financial Statements

For the year ended 31 December 2012

29. Share-based Payments *(Continued)*

No share options were exercised during the years ended 31 December 2012 and 2011.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2012 are as follows:

Number of options '000	Exercise price RMB per share	Exercise period
17,965	1	1 January 2012 to 11 February 2020
570	1	1 January 2012 to 21 June 2020
3,273	1	1 January 2012 to 1 September 2020
2,355	1.1	1 January 2012 to 15 December 2020
208	1.1	1 January 2012 to 26 January 2021
5,775	1.1	1 January 2012 to 22 March 2021
27,828	1.1	1 January 2012 to 22 March 2021
5,175	1.1	1 July 2012 to 1 July 2021
3,165	1.1	1 July 2012 to 1 July 2021
4,210	1.1	1 July 2012 to 12 August 2021
3,519	1.1	1 July 2012 to 12 August 2021
2,735	1.175	1 January 2013 to 15 January 2022
2,030	1.175	1 July 2013 to 15 January 2022
6,268	1.175	1 January 2013 to 15 May 2022
5,176	1.175	1 July 2013 to 15 May 2022
90,252		

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 Pre-IPO Schemes, and 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 instalments as at 1 July 2012, 2013, 2014 and 2015, respectively.

ii. Conditional upon the Listing and the achievement of certain performance conditions for each of the four years ending 31 December 2014, 10,000,000 shares will be transferred to the director in four equal instalments 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.

Notes to Financial Statements

For the year ended 31 December 2012

29. Share-based Payments *(Continued)*

The fair value of the share options granted during the year ended 31 December 2012 were RMB5,997,000. The Group recognised share option expenses of RMB2,651,000 during the year ended 31 December 2012.

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

	Year ended 31 December 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 – 12 August 2021
Weighted average exercise price (RMB per share)	**1.175**	1.1

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 other terms under 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 when dealings of the Shares first commence on the Stock Exchange. The exercise price shall be determined and notified to the qualified participants by the Board and shall not be less than the highest of: (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant of such share option (which must be a business day); (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of such share option; and (iii) the nominal value of the Shares on the date of grant.

The total number of Shares issued and to be issued upon the exercise of the options granted 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. For the year ended 31 December 2012, no option has been granted under the Share Option Scheme.

As at 31 December 2012, the Company had 90,251,949 share options outstanding under the Pre-IPO Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 90,251,949 additional ordinary shares of the Company and additional share capital of RMB730,000 and share premium of RMB97,582,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 90,251,949 share options outstanding under the Pre-IPO Schemes, which represented approximately 6.1% of the Company's shares in issue as at that date.

Notes to Financial Statements

For the year ended 31 December 2012

30. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and 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 the 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.

Notes to Financial Statements

For the year ended 31 December 2012

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 year	**–**	**–**	**–**	**(2,240)**	**52,235**	**49,995**
Issue of shares	**414,356**	**–**	**–**	**–**	**–**	**414,356**
Share issue expenses	**(53,528)**	**–**	**–**	**–**	**–**	**(53,528)**
Equity-settled share option arrangements	**–**	**–**	**2,651**	**–**	**–**	**2,651**
Interim dividend	**–**	**–**	**–**	**–**	**(16,834)**	**(16,834)**
Proposed dividends	**(366)**	**–**	**–**	**–**	**(30,625)**	**(30,991)**
At 31 December 2012	**477,424**	**59,312**	**8,205**	**(3,316)**	**–**	**541,625**
At 1 January 2011	–	59,312	1,540	–	(1,540)	59,312
Total comprehensive income for the year	–	–	–	(1,076)	(3,236)	(4,312)
Issue of shares	116,962	–	(204)	–	–	116,758
Equity-settled share option arrangements	–	–	4,218	–	–	4,218
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	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Within one year	**202,115**	170,609
In the second to fifth years, inclusive	**741,388**	626,669
After five years	**422,117**	447,312
	1,365,620	1,244,590

Notes to Financial Statements

For the year ended 31 December 2012

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	
	31 December 2012 RMB'000	31 December 2011 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**41,509**	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 year:

		Year ended 31 December	
	Notes	**2012 RMB'000**	2011 RMB'000
Fee income from provision of food processing service	(i)	**681**	911
Management fee income	(ii)	**3,000**	3,000
Property rental expense	(iii)	**5,483**	4,000
Integrated property management expense	(iv)	**229**	229
Purchases of goods and service	(v)	**1,533**	1,199
Sales of goods and service	(vi)	**7,000**	1,805

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., a company owned by the Controlling Shareholder, 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. ("Hongqiao XNG"), a company owned by the Controlling Shareholder, leases a restaurant premises 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 five years commencing 1 July 2008.

The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd. to lease office premises for the period commencing from 1 July 2012 to 31 December 2014, at a rental fee of RMB2,700,000 and with 2% growth each year. The actual fee charged during the year ended 31 December 2012 was RMB1,483,000, with service fee included.

The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd. to lease a banquet hall as a restaurant for the period commencing from 16 September 2012 to 31 December 2014, at a rental fee based on 17% of the gross revenue of the restaurant. During the year ended 31 December 2012, no rental was charged by Xiao Nan Guo (Group) Co., Ltd. pursuant to a supplemental agreement.

33. Related Party Transactions *(Continued)*

Notes: *(continued)*

(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.

(v) The Group entered into a purchase agreement with WHM Japan Co., Ltd. for a term of three years commencing from 1 January 2009 to 31 December 2011 (the "Purchase Agreement") and renewed for three years in 2012. Pursuant to the Purchase Agreement, the Group agreed to purchase and WHM Japan Co., Ltd. agreed to supply Japanese food materials at cost. The transaction incurred in 2011 amounted to RMB1,199,000 (2012:Nil).

The Group entered into a hotel coupon purchase agreement with WH Ming Hotel, a hotel owned by the Controlling Shareholder, for a term of one year (the "Coupon Purchase Agreement"). Pursuant to the Coupon Purchase Agreement, the Group agreed to purchase the framework hotel coupon at an agreed price to ensure that the Group attains a gross margin rate no lower than 25% of its selling price. The transaction incurred in 2012 amounted to RMB1,533,000 (2011:Nil).

(vi) The Group sold gift boxes to Xiao Nan Guo (Group) Co., Ltd. amounted to RMB2,936,000 based on market price.

The Group provided banquet food to WH Ming Hotel, a hotel owned by the Controlling Shareholder, upon request for banquet arrangements at the Hotel premises for the customers of WH Ming Hotel. The price of banquet food sold to WH Ming Hotel shall be decided by the Group, and shall not be lower than 75% of the selling price of the food in the menu of the Group. The income generated from banquet food provided to WH Ming Hotel amounted to RMB4,064,000 during the year ended 31 December 2012 (2011: Nil).

(b) Other transactions with related parties

(i) 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.

(ii) During the year ended 31 December 2012, the Group disposed of its leasehold improvement and equipment of two restaurants to a company owned by the Controlling Shareholder with the consideration at fair value as RMB4,230,000 and RMB5,583,000, respectively.

(iii) The ending balance of interest-bearing bank loans as at 31 December 2011 were all guaranteed by the companies owned by the Controlling Shareholder.

(c) Outstanding balances with related parties

The amounts due from/to 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.

Notes to Financial Statements

For the year ended 31 December 2012

33. Related Party Transactions *(Continued)*

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**8,434**	7,593
Equity-settled share-based payment	**1,585**	2,757
Total compensation paid to key management personnel	**10,019**	10,350

Further details of directors' and the chief executive's 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 – 31 December 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	50,390	–	50,390
Trade receivables	26,829	–	26,829
Financial assets included in prepayments, deposits and other receivables	44,630	–	44,630
Cash and cash equivalents	416,797	–	416,797
	538,646	100	538,746

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term payables	38,659
Trade payables	82,238
Financial liabilities included in other payables and accruals	118,502
Interest-bearing bank loans	156,795
	396,194

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

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.

Notes to Financial Statements

For the year ended 31 December 2012

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.

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 year ended 31 December 2012 (2011: 0.3%) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to 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 banks and interest-bearing bank borrowings, which are predominantly denominated in RMB. Management closely monitors the interest rate exposure and assesses its impact on the Group's performance.

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).

36. Financial Risk Management Objectives and Policies *(Continued)*

Interest rate risk *(Continued)*

Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2012		
Renminbi	**50**	**1,190**
Renminbi	**(50)**	**(1,190)**
Year ended 31 December 2011		
Renminbi	50	(858)
Renminbi	(50)	858

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 2012 and 2011, all bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Notes to Financial Statements

For the year ended 31 December 2012

36. Financial Risk Management Objectives and Policies *(Continued)*

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 2012 and 2011, the Group had bank loans of RMB156,795,000 and RMB129,571,000, 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

31 December 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	–	119,667	39,227	–	158,894
Trade payables	5,710	76,528	–	–	82,238
Financial liabilities included in other payables and accruals	118,502	–	–	–	118,502
Long-term payables	–	–	–	38,659	38,659
	124,212	196,195	39,227	38,659	398,293

Group

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

Notes to Financial Statements

For the year ended 31 December 2012

36. Financial Risk Management Objectives and Policies *(Continued)*

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 the reporting periods.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to owners of the Company plus net debt. The Group's policy is to maintain the gearing ratio below 50%. 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:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Interest-bearing bank borrowings	**156,795**	167,466
Trade payables	**82,238**	97,440
Other payables and accruals	**189,108**	208,571
Less: Cash and cash equivalents	**(416,797)**	(179,956)
Net debt	**11,344**	293,521
Equity attributable to owners of the Company	**820,267**	354,260
Capital and net debt	**831,611**	647,781
Gearing ratio	**1.4%**	45.3%

37. Contingent Liabilities

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities (31 December 2011: Nil).

38. Events After the Reporting Period

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2012.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

Four Year Financial Summary

RMB'000	2009	2010	2011	**2012**
Revenue	658,971	872,477	1,088,582	**1,332,298**
Cost of inventories consumed	(233,671)	(297,325)	(361,342)	**(424,536)**
Gross profit	425,300	575,152	727,240	**907,762**
Other income	10,548	23,109	30,086	**45,966**
Selling and distribution costs	(295,503)	(401,148)	(525,135)	**(689,186)**
Administrative expenses	(44,657)	(67,255)	(85,252)	**(106,006)**
Other expenses	(159)	(386)	(2,364)	**(397)**
Finance costs	(2,206)	(3,446)	(3,287)	**(6,125)**
PROFIT BEFORE TAX	93,323	126,026	141,288	**152,014**
Income tax expense	(21,247)	(29,940)	(34,269)	**(33,484)**
PROFIT FOR THE YEAR FROM THE CONTINUING BUSINESS	72,076	96,086	107,019	**118,530**
Profit from non-continuing business	(349)	386	–	**–**
Profit for the Year	71,727	96,472	107,019	**118,530**
Attributable to:				
Owners of the Company	71,727	96,472	107,019	**118,530**
Total non-current assets	211,578	302,176	566,453	**704,386**
Total current assets	321,998	321,759	510,104	**614,033**
Total current liabilities	286,378	485,305	650,001	**458,134**
Total assets net of current liabilities	247,198	138,630	426,556	**860,285**
Total non-current liabilities	14,556	18,780	72,296	**40,018**
Net assets	232,642	119,850	354,260	**820,267**