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

2013 Annual Report

上海小南国 SHANGHAI MIN

MAISON DE L'HUI 慧公館

南小館 the dining room

小小南国 Shanghai Min's Family Restaurant

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Wang Huili
Mr. Weng Xiangwei
Mr. Wang Hairong

Independent Non-executive Directors

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

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)
Ms. Wang Huimin
Mr. Tsang Henry Yuk Wong

EXECUTIVE COMMITTEE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Times Square, 1 Matheson Street
Causeway Bay, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Yangpu District, Shanghai
The People's Republic of China

REGISTERED OFFICE

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Cayman Islands

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Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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Wanchai, Hong Kong

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As to Cayman Islands law:

Conyers Dill & Pearman
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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

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COMPANY'S WEBSITE

www.xiaonanguo.com

INVESTOR RELATIONS

Ms. Leng Yijia
Email: ir@xiaonanguo.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December 2013	2012	% Change increase/(decrease)
Revenue (RMB '000)	**1,385,911**	1,332,298	4%
Gross Profit[1] (RMB '000)	**927,155**	907,762	2%
Gross Margin[2]	**66.9%**	68.1%	(1.2%) pts
Profit for the Year (RMB '000)	**671**	118,530	(99%)
Net Profit Margin[3]	**0.05%**	8.90%	(8.9%) pts
Earnings Per Share - Basic (RMB cents)	**0.07**	9.27	(100%)
Paid dividend Per Share (HK$ cents)	**0.80**	4.00	(80%)
Total Assets (RMB '000)	**1,366,176**	1,318,419	4%
Net Assets (RMB '000)	**783,272**	820,267	(5%)
Cash and Cash Equivalents (RMB '000)	**324,499**	416,797	(22%)
Net Cash[4]	**121,263**	260,002	(53%)
Account Receivables Turnover Days[5] (days)	**5.7**	6.4	(11%)
Accounts Payable Turnover Days[6] (days)	**66.5**	77.2	(14%)
Inventory Turnover Days[7] (days)	**43.2**	45.3	(5%)
Cash Cycle[8] (days)	**(17.6)**	(25.5)	(31%)
Gearing Ratio[9]	**19.40%**	1.40%	18% pts
Return on Equity[10]	**0.00%**	20.20%	(20.2%) pts
Return on Asset[11]	**0.05%**	9.90%	(9.9%) pts
Number of restaurants[12] (as at 31 December)	**83**	72	15%

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 2013 includes 72 Shanghai Min, 4 Maison De L'Hui and 7 the dining room restaurants.

CHAIRLADY'S STATEMENT

2013 was a year full of unprecedented challenges and difficulties. After two decades of rigorous bloom, the annual sales growth of China's catering industry slowed down significantly due to sluggish economy and worsening market conditions. Nevertheless, embedded with our competitive advantages as one of the largest full-service Chinese restaurant operators in the PRC, we were able to extend our portfolio of restaurants, increased our patron traffic and our revenues while maintaining a positive profit. This year and next, we expect the adverse market impacts to subside. Our determination in pursing performance won't be deterred. We take hardship as opportunity.

The most unfavourable market conditions last year were: (1) the slowest PRC economic growth since 1999; (2) a series of Central Government crackdowns on extravagant spending, including lavish banquets, receptions and official dinners; (3) the outbreak of the H7N9 avian flu and increased urban air pollution; and (4) higher costs of operations. Some of those impacts will continue to challenge us this year and beyond, but we expect the continuing growth of China's massive, educated middle class with rising discretionary spending and increase in dining out will not only ease off some of the market difficulties, but also maintain sustainable growth for the sector. Adverse market environment has forced many of our peer competitors to retrench by closing restaurants. The Group has also taken decisive step and closed 8 of its least promising restaurants last year. This will be offset by new revenue coming in from 19 stores opened in 2013, comprises of 14 Shanghai Min and 5 the dining room.

上海小南国 SHANGHAI MIN

MAISON DE L'HUI 慧公馆

南小馆 the dining room

小小南国 Shanghai Min's Family Restaurant

We opened our first restaurant with only 4 tables in 1987. Over the last 27 years the Group have gone through three "Shì " phases of change and development.

During the first 事 "shi" stage, we primarily focused on providing delicious, healthy food with fresh quality ingredients. Over the years, we receive many industry recognitions and praise from our customers. With more people dining out and growing demand for quality restaurants for business entertainment, we began to reposition ourselves. China's catering industry became robust yet highly fragmented.

The second phase of 市 "shi" involved two markets: our customers and our catering industry; and the capital market which funded our continued growth and expansion. We began to better analyze the preferences and behaviours of our target customers. We broadened our perspectives and geographically diversified our operations as China's economy boomed and consumers became more mobile and their tastes more discerning. We upgraded our restaurants with better food, service and ambiance, while building modern and standardized operations in the most affluent and fast-growing cities in China. This improved the quality of our restaurant experience and established a loyal customer base. The Group increased its market share by carefully developing the following key competitive advantages.

1) We built a hub-and-spoke network to efficiently backup clusters of restaurant, and to act as springboards for opening additional restaurants in the surrounding regions.

2) We supported those networks with 6 centralized kitchens and 5 centralized warehouses, which provide economies of scale as well as standardized operating practices that enable scalability, efficiency, food safety and profitability.

3) We leveraged our strong brand recognition and quality cuisine to further target business clienteles, discerning individuals and families for private functions and events.

On 4 July 2012, the initial public offering of Xiao Nan Guo on The Stock Exchange of Hong Kong Limited has received positive support from institutional and retail investors. We have raised over RMB400 million from the global capital market to fund our continued growth and expansion. We envisioned becoming China's leading catering company.

Now we are executing our multi-brand strategy in the third phase of "shi" 勢. China's catering industry encountered severe headwinds in 2013, causing over 2,000 medium- to high-end full-service restaurants to cease operation in Beijing alone. Industry transformation and consolidation are taking place from upstream in the value chain to new players coming in, closure of old stores or consolidation. Meanwhile, medium- and high-end catering peers were changing strategy and shifting to the mass catering market of fast-food and casual dining. The Group is strengthening its operations - improving supply chain management, optimizing operation standardization, enhancing customer value and dining experience, and reinforcing people talent, while seeking co-operation and acquisition opportunities in face of the market turbulence.

Having now established a strong strategic market position, we are pursuing new means and markets to drive future growth. The Group aim to bolster cash flow by continuing to broaden its customers base (from business entertainment to family and personal dining), to lease better locations in popular retail centres for our new restaurants, to adjust and fine-tune our marketing tactics, to expand geographically through organic growth or acquisition to new lucrative markets, and extend our sales channels online (with business-to-business platforms and online-to-offline service) to boost sales revenue. Examples of these strategies: the recent franchise management agreement to manage Uncle Tetsu Cheesecake Bakery in 7 Chinese cities; and the launch of our new Shanghai Min's Family dining brand – offering family and personal diners a more casual and intimate settings. We are expanding our scope of operations through current and new brands, and carefully steering our business toward a brighter future. This year and next, we will open at least a dozen more restaurants, primarily focusing on personal consumption, and rebuild our profitability.

Grateful for the good fortune that all three stages of "shi" have brought to the Group, I convey my deepest thanks to our patrons for their trust, to our dedicated employees for delivering the best dining experience to our customers, and to our Board of Directors and shareholders for their continuous support and confidence in the management team. I am confident that the Group will find its way through this challenging period to a future with abundant opportunities and profitable growth.

Wang Huimin
Chairlady and Executive Director

27 March 2014

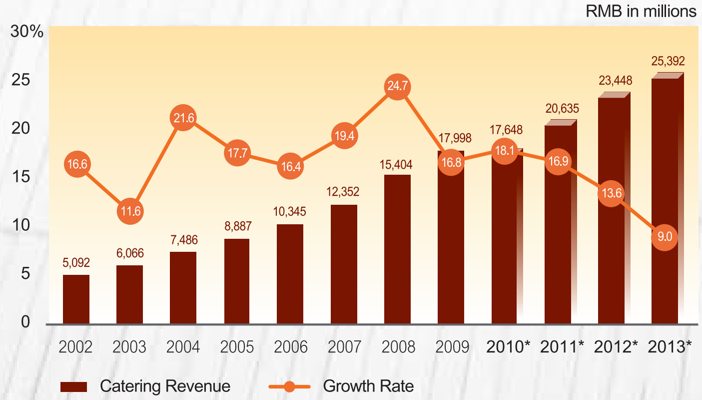
MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Factors : the catering industry faced its toughest challenges in 2013, opportunities for development remain

The PRC economy experienced its slowest growth since 1999 with gross domestic product ("GDP") increasing at 7.7% per annum in 2013. The economic slowdown has negatively affected the catering sector, which was even harder hit by the Central Government's series of austerity measures launched in December 2012 to crack down on corruption and extravagant spending of public funds. The crackdown intensified in March 2013 when the government banned lavish spending and banquets. During the same period, the outbreak of H7N9 avian flu further discouraged personal dining-out consumption. In the fourth quarter of 2013, the government bolstered its frugality policies with the "Eight Requirements" and "Six Bans" to target especially lavish public spending and banquets. According to the China Catering Trade Association, nationwide catering revenue growth slowed from about 14% in 2012 to 9% in 2013 — the slowest growth recorded over the past 21 years. Most impacted were medium- to high-end restaurants, including those of Xiao Nan Guo.

China Catering Industry Growth Retracted to Single Digit Growth in 2013



Note: Since 2010, the National Bureau of Statistics has adjusted its methodology counting revenue of accommodation and catering to catering revenue only.
Source: China Catering Trade Association

Although the restaurant industry faced numerous adverse effects, the implementation of urbanization policies, the increase in proportion of individuals dining out and the rise in personal consumption willingness were all positive factors contributing to give impetus to catering industry development going forward. In 2012, our Board of Directors reacted promptly to changing market conditions and predicted the rise in personal consumption gradually surpassing government and business entertainment spending. Bold decisions were made to focus on a "Multi-brand and Standardization" strategy in 2012. Despite the unexpected and direct impact of the Central Government's austerity measures implemented to crackdown on extravagant spending of public funds on entertainment, the Board's foresight allowed the Company to achieve stable growth and smooth business reform during such challenging conditions in 2013. We believe that, despite middle- to high-end restaurant businesses are facing difficult times, the Company will be able to increase its market share and strengthen its market leadership position through rational reform.

FINANCIAL PERFORMANCE

Xiao Nan Guo reported a revenue increase of 4.0% to RMB1,386 million in 2013, which was primarily attributable to the addition of new restaurants. Gross profit increased 2.1% to RMB927 million, however net profit dropped 99.4% to RMB0.67 million due to a 10% decline in same-store sales and one-time write-downs for store closures. Basic earnings per share for the year were RMB0.07 cents, down from RMB9.27 cents in 2012.

OPERATIONS REVIEW FOR 2013

Shanghai Min brand emerged stronger and outperformed market performance under the condition of rapid changes in market demand

The Central Government's austerity measures to prohibit use of public funds for entertainment significantly impacted the demand for our Shanghai Min restaurants. Our same-store sales declined 10% as a result of the lower demand. The chain's operating profit decreased by 46.8% during the period. We carried out timely brand repositioning of our core brand Shanghai Min by diversifying our target market to non-government funded business banquets and middle-class family spending. This succeeded with same-store customer traffic increasing 0.7%. During the four important festive seasons (namely Spring Festival, Labour Day, Mid-Autumn Festival and National Day), which represent peak family and personal consumption, the Company recorded a 1.56% increase in same-store sales and 13.8% increase in same-store customer traffic. The increase reflected the repositioning and the popularity of Shanghai Min among individual consumers. According to the China Catering Trade Association, revenue from catering enterprises above national limit[1] as a whole fell by 1.8%[2] in 2013, while those average spend of RMB200 or above, medium to high-end catering, the decline should be higher. While Shanghai Min revenue from the Mainland China dropped RMB5.9 million, a mere 0.6% decline, outperformed market.

1 Refers to catering enterprise with total annual revenue over RMB2 million.
2 Source: China Cuisine Association, "An In-depth Analysis on the Change of Restaurant Market in China 2013".

Faced with sudden changes in market conditions, the Company adjusted its positioning of Shanghai Min brand with a series of marketing and promotional initiatives, including "group buy" discounts, affordable seasonal dishes and set meals, as well as collaboration with credit card companies. Consumer demand for value-for-money was satisfied, and we successfully contained the drop in average spend to 11% at RMB201 per customer. These initiatives also increased the customer traffic on a same-store basis.

We also established a social and wedding banquet concierge centre in the third quarter of 2013, so as to provide efficient, centralized and added-value services for events and banquet bookings. Despite impact from policies and cancellation of government or state-owned entities entertainment and annual parties revenue from banquet sales in 2013 increased from RMB140 million in 2012 to RMB154 million, while its proportion of total sales also increasing from 10.5% in 2012 to 11.1% in 2013.

We strive to focus on catering industry core tasks, as measured by four key customer satisfaction indicators — products, hygiene, environment and service. We focus particularly on front-line staff abilities to provide more caring service to improve customer satisfaction. During the period, we were awarded "The Catering Service Enterprise of the Year", "The Award for Outstanding Contribution in Food Safety and Public Health", "China's Most Valuable Catering Brand" by Fortune Character Magazine, and "China's Most Fashionable Restaurant", among other honors we received.

During the period, we closed 8 Shanghai Min restaurants in response to changes in demand and to mitigate further loss. Amongst those outlets closed, four were old restaurants located in old business districts, while the other four were mainly targeting state-owned or public funded banquet and had been suffering losses. The closing of these 8 stores resulted in a decrease of same-store revenue of RMB69.1 million and one-off write-downs of asset sale in RMB10.0 million.

New stores opened in 2013 achieved breakeven[3], while stores opened in 2012 outperformed existing old stores

We have further optimized our process for selecting new store sites. In 2012, we opened 15 stores; 13 were Shanghai Min, which attained an aggregated profit of RMB19.3 million during 2013 and an operating profit margin of 9.5%, which was slightly higher than the overall operating profit margin of 9% for the stores opened prior to 2012[4]. Two the dining room stores opened in 2012 produced an overall operating profit margin of 16% in 2013, and contributed an operating profit of RMB6.3 million to the Company in 2013.

We opened 19 restaurants in 2013; 14 were Shanghai Min and 5 were the dining room. As at year end 2013, certain new stores remain at ramp-up stage, but those that passed ramp-up phase achieved operating breakeven and were developing promising sales growth. The dining room[5] stores opened in 2013 recorded an overall operating profit margin of 15% and an operating profit of RMB2.84 million, a performance which met our expectations.

Multi-brand strategy and our core competitiveness of standardization for replication shows preliminary results

After a few years of rapid expansion, Xiao Nan Guo has successfully established a distinguished team in catering management, and a core competence in the standardization of Chinese restaurant chain operations. In order to cope with the change in operating environment, we accelerated the opening the dining room in 2013 that caters to individual consumer. As at end of 2013, we owned and operated a total of 7 the dining room restaurants; 3 of which were located in Hong Kong and 2 in each of Shanghai and Shenzhen.

3 Refers to the operating profit of the stores.

4 Existing stores refer to stores that commenced operation before 1 January 2012.

5 Excluding 2 the dining room opened at the end of December 2013.

Apart from delivering efficient services to existing brands, the various functions at the Company's headquarters were also instrumental in the rapid development of other catering brands. For instance, last year the Company introduced a new brand under its management — Uncle Tetsu Cheese Cake Bakery through a franchise management agreement. Founded in Hakata, Japan, this famous brand has also gained popularity in Taiwan. Xiao Nan Guo obtained the management right to operate Uncle Tetsu Bakery in 7 cities, and will receive management fees as a proportion of operating revenue. As of the date of this announcement, Xiao Nan Guo is already successfully managing 6 Uncle Tetsu Bakery outlets in the Mainland. The rapid expansion and growth of the new brand was the result of the Company's comprehensive functions at headquarters and our effective supply chain, without increasing the cost of headquarters management resources. Uncle Tetsu is a successful example of our ability to integrate and manage an external catering business.

To further strengthen our hub-and-spoke operations, we built two standalone Central Kitchens in Beijing and Shenzhen in 2013 in order to prepare for the additions of the the dining room and other brands, to be developed in the northern and southern part of China. To date, we have a total of 6 Central Kitchens with four sizable standalones located in Shanghai, Hong Kong, Beijing and Shenzhen. In addition, our comprehensive logistic chain that spans 17 cities also provides a solid foundation for our multi-brand development.

Branded products business achieved rapid growth and capitalized on our brand advantages

In addition to the traditional festive products such as moon cake, rice dumplings, Chinese New Year Eve dinner dishes and others with short shelf life, we researched and developed a range of pre-prepared products in 2013, which included our signature "sautéed prawns", "beef fillets in shanghai min style" and "braised Shanghainese stewed pork ball". These classic traditional dishes have no seasonal restrictions and a longer shelf life up to six months. We also expanded our sales to the Oriental CJ TV shopping channel, City Shop supermarkets, and collaborated a leading Japanese frozen food logistic provider to directly deliver Shanghai Min branded producsts. In 2013, the sales of our branded products as a whole increased by 21.6% to RMB54.6 million compared to 2012. Gross profit increased by 25.1% to RMB30.4 million and gross profit margin reached 55.7%. As we targeted the mass consumer market by offering the convenience of our branded products, we effectively leveraged our brand equity and achieved stable revenue growth.

STRATEGY FOR 2014

Multi-brand strategy will be our core development; capturing opportunities arising within market segments to increase turnover and profitability

Moving into 2014, the Company will continue to use its multi-brand strategy as the key to its development, particularly targeting middle-income and individual consumer segments to change the revenue composition of the Company. Apart from having the ability to replicate standardized processes, we will focus in building our core competences of brand building.

The Company's multi-brand strategy will be executed as follows:

Self-developed new brands: On March 26, 2014, we have launched our fourth brand — Shanghai Min's Family Dining (小小南國) — targeting personal and family diners. Similar to the dining room, we will focus on fine-tuning our product offering and business model in the first year, then implement standardization replication as soon as it is ready.

Introduction of premium international catering brands: We will also introduce international brands, especially those with strong growth momentum and potential for replication within a market segment. We are actively negotiating for cooperative opportunities with premium international brands, and have already entered into a letter of intent with an international renown multi-business catering & management company to jointly operate a theme restaurant in Shanghai. In 2014, we plan to innovate and break into the niche market of western casual dining that has high growth potential.

Support of home grown start-up product development with potential: Benefitting from managing experiences with the operation of Uncle Tetsu Bakery, we also seek to pursue, light-weight trendy start-up products which garnered popularity. Through headquarters functional support, we expect to capture first mover opportunities and implement standardized process replication. As of the date of this announcement, we had signed the letter of intent to provide management services for a popular milk tea project. We will charge a management fee and provide management services and support its expansion.

Acquisition Opportunities: We will actively seek appropriate acquisition opportunities to fortify and increase cuisine offering and market share within a short period.

With the previously described multi-brand strategies, we plan to open in 2014 about 10 to 12 the dining room restaurants, 2 to 3 Shanghai Min's Family Dining restaurants, and manage about 20 Uncle Tetsu Bakery outlets. The total number of formal dining restaurants under the brands of Shanghai Min and Maison De L'Hui will be maintained at the current level of approximately 76. Excluding Shanghai Min and Maison De L'Hui, we hope that by the end of 2014, the total number of self-owned and management causal dining restaurants will exceed 35% of our total number of stores.

Refinement of Shanghai Min brand positioning to achieve same-store sales turnaround

Following repositioning of our core brand in 2013, we will focus on profitability improvement in 2014. We will continue to enhance marketing and service standards, and provide value-for-money food and services to customers to improve same-store customer traffic and to turnaround same-store sales. The Company will also undertake improvement initiatives targeting various geographic markets. We will reduce the layout density of Shanghai Min restaurants in Shanghai region as appropriate, so as to further enhance the customer traffic and profitability of existing restaurants. In Hong Kong, we are adopting a series of branding exercises, and plan to open new stores at prime locations and to renovate old store in Central. All these initiatives are geared to enhance the brand awareness and reputation of Shanghai Min in Hong Kong. In Beijing and second tier cities, we will reduce pricing as appropriate so as to attract more customers.

In 2014, we will smartly utilize external resources to expand our sales channel such as "group buy" cooperation and use of internet to explore more online sales platform. In November 2013, we set up an e-shop at Tmall.com, which is a subsidiary of well known e-commerce group, selling a variety of our branded products and e-coupons covering all outlets nationwide. In 2014, Xiao Nan Guo has reached an agreement with a well-known IT enterprise group for a cross-industry and cross-sector collaboration, which includes B2C business of the Xiao Nan Guo's fresh and branded products. By cooperating with a prominent internet player, we hope to build an efficient sales channel for our branded products that will further enhance our brand influence and profitability.

Tightening cost control

In 2014, the Company will further conduct various cost control initiatives, so as to improve Xiao Nan Guo's overall profitability. We will continue to opt for survival of the fittest. Departments and positions will be rationalized and integrated, with non-critical expenditures being streamlined. We plan to increase the entire headquarters expenses by RMB12 million or 10.6% in 2014, increasing expenses at a lower rate than the Company's overall revenue growth rate. At our stores level, we continue to create a good working environment for operational staff, provide salaries at market rates and provide numerous promotional opportunities to motivate our staff. We will also provide professional training to our employees, and consolidate and optimize positions at restaurants so as to enhance their skills and efficiencies. After opening 19 new stores and 2 central kitchens in 2013, the number of operational staff only increased by 3.5% compared to 2012, thanks to efficiency initiatives. We also expect that in 2014, the increase of new staff will continue to be lower than the turnover growth rate.

Establishing a mega supply chain company to serve our multi-brand strategy, and gradually exploring multiple sales channels for food ingredients

In order to enhance the efficiency of procurement and capture the demand arising from the fast growth in the medium- to high-end fresh food market, the Company consolidated four departments, namely the procurement, logistics, quality assurance and food ingredient trading in 2013 and established a mega supply chain company. This unit will further source raw materials from origins or seek more professional distributors, and procure more ingredients of various quality and specification at better prices. Apart from supplying to the Company's own multi-brand businesses, this subsidiary will also seek to sell to other external channels.

OUTLOOK

There have been intense fluctuations in the market during 2013. By leveraging our 27 years of experience in restaurant operations, the accurate judgment of the market by the Board of Directors and the effective execution capabilities of our management team, we have managed to transform ourselves in times of adversity to cope with current challenges of government frugality measures and China's slowing economy in our markets, thereby turning crises into opportunities.

In 2014, we will implement more measures to successfully execute our strategies so as to meet our investors' expectation. Meanwhile, we will fully utilize the economies of scale provided by our business platforms to further enhance our competitiveness and to become an industry consolidator, with the aim of reinforcing our leading position in the market.

FINANCIAL REVIEW

For the year of 2013, the Group's revenue reached approximately RMB1,385.9 million, representing an increase of approximately RMB53.6 million or 4.0% compared to approximately RMB1,332.3 million for 2012. Gross profit of the Group was approximately RMB927.2 million, an increase of approximately RMB19.4 million or 2.1% compared to approximately RMB907.8 million for 2012. For the year of 2013, profit of the Group reached approximately RMB0.7 million, representing a decrease of approximately RMB117.8 million or 99.4% compared to approximately RMB118.5 million for 2012.

At 31 December 2013, the Group operated the restaurant network of 72 Shanghai Min restaurants, 4 Maison De L'Hui restaurants and 7 "the dining room" restaurants, which cover some of the most affluent and fastest-growing cities in China (Note(i)), Hong Kong and Macau. The following table sets forth revenue and the number of restaurants in operation, by geographical region and brand for the years ended 31 December 2013 and 2012.

	For the year ended 31 December			
	2013		2012	
	Number of restaurants	Revenue RMB'000	Number of restaurants	Revenue RMB'000
China (i)				
– Shanghai Min	62	1,037,917	57	1,043,862
– the dining room	4	7,033	—	—
– Maison De L'Hui	4	47,728	4	48,860
Hong Kong				
– Shanghai Min	9	173,652	9	173,070
– the dining room	3	51,711	2	20,280
Macau				
– Shanghai Min	1	11,977	—	—
Total revenue of restaurant operations (ii)	83	1,330,018	72	1,286,072
Other revenue		55,893		46,226
Total revenue		1,385,911		1,332,298

Note

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

(ii) The revenue generated in China from the brand of Shanghai Min in 2013 included 8 restaurants that have been closed because of the frugality policies by the government. In 2013, we opened 14 Shanghai Min brand restaurants, 5 the dining room brand restaurants and closed 8 Shanghai Min brand restaurants at the same time. As of the end of 2013, there were a total of 83 restaurants operating by us.

Revenue

Revenue of the Group increased by RMB53.6 million, or 4.0%, from RMB1,332.3 million in 2012 to RMB1,385.9 million in 2013. This increase was due to an increase of RMB43.9 million in revenue from the restaurant operations and an increase of RMB9.7 million in revenue from other businesses during the year.

Revenue from restaurant operations

Revenue from restaurant operations increased by RMB43.9 million, or 3.4%, from RMB1,286.1 million in 2012 to RMB1,330.0 million in 2013 primarily reflecting:

- A RMB66.5 million increase in revenue from 14 Shanghai Min restaurants that were newly opened during 2013;

- A RMB152.9 million increase in revenue from the 13 Shanghai Min restaurants that were newly opened during 2012;

- Under the offsetting effect brought by austerity policies imposed by the government and avian influenza, a RMB91.9 million decrease, representing 10.2% decrease, in comparable restaurant sales from 43 Shanghai Min restaurants during 2013, as compared to 2012.

- A RMB4.1 million decrease from the ramp-up of 1 Maison De L'Hui restaurant during 2012 (Note (i));

- A RMB4.1 million decrease, representing 8.5% decrease, in comparable restaurant sales from 3 Maison De L'Hui restaurants during 2013, as compared to 2012;
- A RMB19.7 million increase in revenue from 5 "the dining room" restaurants that were newly opened in 2013;
- A RMB18.8 million increase in revenue from 2 "the dining room" restaurants that were newly opened in 2012;
- In 2013, we closed 8 Shanghai Min restaurants, which resulted in a decrease of revenue by RMB69.1 million;
- In 2013, we renovated, changed leased space or location for 2 Shanghai Min restaurants, which resulted in a decrease of revenue by RMB44.7 million.

Note(i): In 2012, the store at Ningbo Merchants Association changed from Shanghai Min to Maison De L' Hui

Revenue from other businesses

Revenue from other businesses increased by RMB9.7 million, or 21.0%, from RMB 46.2 million in 2012 to RMB55.9 million in 2013, which primarily reflected the increase in sales of our branded food products.

Cost of inventories consumed

Cost of inventories consumed increased by RMB34.3 million, or 8.1%, from RMB424.5 million in 2012 to RMB458.8 million in 2013, which was primarily due to an increase in quantities of food and beverages consumed in our operations, in line with rising revenue in 2013.

Cost of inventories consumed as a percentage of the revenue increased from 31.9% in 2012 to 33.1% in 2013, primarily reflecting (i) the market price of food ingredients in China increased, and (ii) the percentage of the cost of inventories consumed increased as a result of reinforeing various channels to promote operation.

Other income and gains

Other income and gains decreased by RMB6 million, from RMB46.0 million in 2012 to RMB40.0 million in 2013, primarily reflecting (i) a decrease of RMB2.0 million of exchange gain in 2013 when compared to 2012; (ii) interest income earned from bank increased by RMB1.0 million in 2013 when compared to 2012; (iii) a decrease of RMB2 million in promotion service income from our restaurant's advertising service in 2013 when compared to 2012; and (iv) a decrease of RMB2.1 million in compensation from certain landlords in 2013 when compared to 2012.

Selling and distribution costs

Selling and distribution costs increased by RMB140.8 million, or 20.4%, from RMB689.2 million in 2012 to RMB830.0 million in 2013, which primarily reflected an increase in all our major cost components, as a result of the expansion of our operations in 2013 and rise in labor cost.

Labor costs related to the restaurants, Central Kitchens and central warehouses increased by RMB65.7 million, or 24.9%, from RMB263.6 million in 2012 to RMB329.3 million in 2013. Labour costs as a percentage of our revenue increased from 19.8% in 2012 to 23.8% in 2013, primarily attributable to a general increase of salary levels for our employees during 2013 and the sales of comparable restaurants dropped in 2013 as a result of slow down in macroeconomic growth.

Occupancy costs related to restaurants, Central Kitchens and central warehouses increased by RMB34.4 million, or 16.6%, from RMB207.5 million in 2012 to RMB241.9 million in 2013. Occupancy costs as a percentage of our revenue up from 15.6% in 2012 to 17.5% in 2013, primarily attributed to the sales of comparable restaurants dropped in 2013 as a result of slow down in macroeconomic growth and the number of our new restaurants continued to rise.

Depreciation and amortisation charges related to the restaurants, Central Kitchens and central warehouses increased by RMB22.1 million, or 27.1%, from RMB81.7 million in 2012 to RMB103.8 million in 2013. Depreciation and amortisation charges as a percentage of our revenue increased from 6.1% in 2012 to 7.5% in 2013, primarily attributed to the sales of comparable restaurants dropped in 2013 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 RMB7 million, or 6.6%, from RMB106.0 million in 2012 to RMB113.0 million in 2013. Such increase primarily reflected the increase in the major components in our expenses.

Labour cost of headquarter and management staff increased RMB6.6 million from RMB70.3 million in 2012 to RMB76.9 million in 2013, representing an increase of 9.4%. Such decline mainly reflected the expansion of our economies of scale and supported more branding operations.

Other administrative expenses increased RMB0.4 million from RMB35.7 million in 2012 to RMB36.1 million in 2013, representing an increase of 1.1%. Such increase mainly attributable to the expansion of our economies of scale and the control of expenses from headquarter during 2013.

Income tax expense

Income tax expense decreased by RMB28.4 million, or 84.8%, from RMB33.5 million in 2012 to RMB5.1 million in 2013.

Profit for the year

As a result of the foregoing, the profit for the year decreased by RMB117.8 million, or 99.4%, from RMB118.5 million in 2012 to RMB0.7 million in 2013. The net profit margin decreased from 8.9% in 2012 to 0.05% in 2013.

Dividends payable

In 2013, the Group paid out dividends of RMB40.4 million (including the final dividend for the year of 2012 and the interim dividend for the year of 2013). As at 31 December 2013, there was no outstanding dividends payable.

Liquidity, financial resources and cash flow

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

As at 31 December 2013, the Group's total interest-bearing bank loans were RMB203.2 million.

In 2013, the Group had net cash inflows from operating activities of RMB112.0 million (2012: RMB171.2 million). As at 31 December 2013, the Group had RMB324.5 million in cash and cash equivalents (31 December 2012: RMB416.8 million). The following table sets the certain information regarding the consolidated cash flows for the years ended 31 December 2013 and 2012.

	As at ended 31 December	
	2013	2012
	RMB'000	RMB'000
Net cash flows from operating activities	**112,002**	171,226
Net cash flows used in investing activities	**(202,532)**	(228,971)
Net cash flows from financing activities	**4,250**	296,531
Net (decrease)/increase in cash and cash equivalents	**(86,280)**	238,786
Cash and cash equivalents at beginning of the year	**416,797**	179,956
Effect of foreign exchange rate, net	**(6,018)**	(1,945)
Cash and cash equivalents at end of the year	**324,499**	416,797

Operating activities

Net cash inflow from operating activities decreased by RMB59.2 million from RMB171.2 million in 2012 to RMB112.0 million in 2013, which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB133.2 million (2012: RMB238.9 million), (ii) Through oprimizing inventory managment and receivables management, operating cash inflow from operating capital change was RMB20.9 million (2012: outflow of RMB29.8 million).

Investing activities

Net cash flow used in investing activities was RMB202.5 million in 2013, representing a decrease of RMB26.4 million compared to 2012. It is mainly due to the investment scale of new "the dining room" was relatively small, resulting a decrease of cash outflow amounting to RMB42.9 million for purchase of leasehold improvements, furniture, fixtures and equipment, and an increase of RMB20 million in available-for-sale investment and investment in an associate.

Financing activities

Net cash flow of financing activities changed from an inflow of RMB296.5 million during 2012 to an inflow of RMB4.3 million during 2013, representing a decrease of RMB292.2 million, which was primarily attributable to (i) no proceeds deducted from IPO expenditure in 2013 (2012: RMB360.6 million); (ii) net inflow from bank loan (received proceeds minus paid loan) of RMB46.4 million (2012: net outflow of RMB10.7 million); (iii) dividends declared of RMB40.4 million (2012: RMB44.4 million); (iv) payment to interest expenses of RMB6.8 million (2012: RMB9.0 million); and capital contribution from the non-controlling interests of RMB5 million.

Foreign Currency Exposure

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.

None of the Group's sales or purchases for the year ended 31 December 2013 (2012: Nil) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's loans when they are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group.

Net Current Assets

The Group recorded net current assets of RMB11.0 million as at 31 December 2013, a decrease of RMB144.9 million compared to the net current assets recorded as at 31 December 2012, which was primarily used in the capital expenditure as the number of new restaurants increased in 2013.

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

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2013 and 31 December 2012.

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 12 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 2013 RMB'000	31 December 2012 RMB'000
Within one year	**244,530**	202,115
In the second to fifth years, inclusive	**814,450**	741,388
After five years	**410,458**	422,117
	1,469,438	1,365,620

Capital Commitment

Capital commitments were approximately RMB51.4 million and RMB41.5 million as at 31 December 2013 and 31 December 2012, 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 31December 2013, the Group recruited about 5,458 employees in China, Hong Kong and Macau. During 2013, total staff cost was RMB406.2 million, representing 29.3% of the revenue (2012: RMB333.9 million, 25.1% of the revenue).

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 2013.

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 (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2012 (the "Listing Date ").

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 other regions. 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 2013 together with the Company's and the Group's financial conditions as of that date are set out in page 45 to page 53 of the financial statements.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 30 May 2014 to 5 June 2014 (both days inclusive), during which period no transfers of shares will be registered, for ascertaining shareholders' entitlement to attend the forthcoming Annual General Meeting to be held on 5 June 2014. In order to be eligible to attend the forthcoming Annual General Meeting, all transfer documents of the Company accompanied by 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 2014.

USE OF PROCEEDS FROM LISTING OF THE COMPANY

As at the end of 2013, 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 2013, 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 32.0% and 9.4% 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 30 and 31 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%;

(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;

(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 31 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 2013, 1,880,000 share options granted under the Pre-IPO Share Option Schemes have been exercised and 26,616,679 shares options granted under the Pre-IPO Share Option Schemes have been lapsed. As of 31 December 2013, 61,755,270 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 2013 are as follow:

Name of the grantee	No. of share options outstanding as of 1 January 2013	No. of share options granted during the year ended 31 December 2013	No. of share options exercised during the year ended 31 December 2013	No. of share options lapsed during the year ended 31 December 2013	No. of share options outstanding as of 31 December 2013
Employees (in aggregate)	90,251,949	–	1,880,000	26,616,679	61,755,270

(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 2013, except 32,517,600 share options in total granted to eligible employees and Kang Jie (an Executive Director and CEO) on 12 April 2013 and 23 August 2013 respectively to subscribe for ordinary shares of HK$0.01 of the Company, no other share option was granted under the Share Option Scheme.

Details of the share options granted on 12 April 2013 were as follows:

Date of grant:	12 April 2013
Exercise price per Share under the share option:	HK $1.3
Closing price of the Share immediately preceding to the date granting the option:	HK$1.3
Closing price of the Share on the date of grant:	HK$1.3
Number of share options granted:	3,000,000
Validity of the share options granted:	Ten(10) years since the date of grant (i.e. 12 April 2023)
Vesting date of the share options:	The vesting period of share options granted is four years. 25% of share options will be vested on 1 July 2013, 1 July 2014, 1 July 2015 and 1 July 2016 respectively.

Details of the share options granted on 23 August 2013 were as follows:

Date of grant:	23 August 2013
Exercise price per Share under the share option:	HK $1.5
Closing price of the Share immediately preceding to the date granting the option:	HK$1.26
Closing price of the Share on the date of grant:	HK$1.25
Number of share options granted:	29,517,600
Validity of the share options granted:	Ten(10) years since the date of grant (i.e. 23 August 2023)
Vesting date of the share options:	The vesting period of share options granted is four years. 25% of share options will be vested on 1 July 2014, 1 July 2015, 1 July 2016 and 1 July 2017 respectively.

The summary of the share options granted under the Share Option Schemes that were still outstanding as of 31 December 2013 are as follow:

Name of the grantee	No. of share options granted during the year ended 31 December 2013	No. of share options exercised during the year ended 31 December 2013	No. of share options lapsed during the year ended 31 December 2013	No. of share options outstanding as of 31 December 2013
Employees (in aggregate)	27,517,600	–	1,432,700	26,084,900
Kang Jie (Executive Director and CEO)	5,000,000	–	–	5,000,000

FIVE YEARS FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the last five years is set out on page 122 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 32 to the consolidated financial statements.

As of 31 December 2013, the distributable reserves of the Company amounted to RMB474,493,000, while no amount was proposed as a final dividend 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

Throughout the financial year ended 31 December 2013, 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 (resigned on 5 June 2013 as the Non-executive Director)

Mr. Weng Xiangwei

Mr. Wang Hairong

Independent Non-executive Directors

Mr. Tsang Henry Yuk Wong

Mr. Wang Chiwei

Mr. Wang Yu

Mr. Chen Anjie (resigned on 14 January 2014 as the Independent Non-executive Director)

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 39 to 42.

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 is for a term of 3 years from 29 August 2012. Except for the Director 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 36 to the financial statements, for the year ended 31 December 2013, 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 2013, 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	511,725,000(L)	34.65%
	Trustee	192,361,250(L)	13.02%
Wu Wen (3)	Interest in controlled corporation	77,013,750(L)	5.21%
Kang Jie (4)(5)	Interest in controlled corporation (4)	5,000,000(L)	0.34%
	Beneficiary of a trust (5)	23,750,000(L)	1.61%
	Beneficial owner	5,000,000(L)	0.34%
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)	5.89%

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 13.02% 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 ("Brilliant South"), which beneficially owns 100% equity interest in Well Reach Limited, which in turn owns approximately 5.21% equity interest in the Company.

(4) Kang Jie owns the entire issued share capital of Victor Merit Limited ("Victor Merit"), 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 5.89% equity interest in the Company.

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

As of 31 December 2013, 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)	34.65%
Value Boost Limited(2)	Beneficial owner	511,725,000(L)	34.65%
Full Health Limited(3)	Beneficial owner	87,013,750(L)	5.89%
Well Reach Limited(4)	Beneficial owner	77,013,750(L)	5.21%
Sunshine Property I Limited	Beneficial owner	167,887,000(L)	11.37%
Moon Glory Enterprises Limited(5)	Beneficial owner	85,387,000(L)	5.78%
Milestone F&B I Limited	Beneficial owner	113,820,000(L)	7.71%
Milestone China Opportunities Fund III, L.P.(6)	Interest in controlled corporation(6)	113,820,000(L)	7.71%
Milestone Capital Partners III Limited(7)	Interest in controlled corporation(7)	113,820,000(L)	7.71%

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 5.89% equity interest in the Company.

(4) Ms. Wang holds on trust for Brilliant South Limited the entire issued share capital of Well Reach Limited ("Well Reach"), which owns 77,013,750 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 ChinaOpportunities Fund III, L.P. and is therefore deemed to be interested in the Shares held by Milestone F&B I Limited.

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 2013 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.

DONATIONS

The Company did not contribute any charitable and other donations during this financial year.

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

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

Connected Transactions		Total Consideration Amount (RMB)
1.	Changning Xiao Nan Guo Restaurant Co., Ltd., an indirect wholly-owned subsidiary of the Company disposed of the Restaurant Facilities to Xiao Nan Guo (Group) Company Ltd. at a consideration of RMB5,583,590. The agreement was entered into on 6 February 2013 and was retroative to the closing date.	RMB5,583,590

Continuing Connected Transactions	Annual Cap of the Transaction (RMB)	2013 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	Full year rent for 2013 waived (Shanghai Hongmei entered into a supplementary agreement in December 2013, which waived the rent of 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	Full year management fee and security services fee for 2013 wavied (Shanghai Hongmei entered into a supplementary agreement in December 2013, which waived the management fee and security services fee of RMB229,000)
3. The Company's wholly-owned subsidiary Shanghai Min Hai Zhi Yuan Restaurant Management Co., Ltd. ("Shanghai Min") 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.	RMB13,300,000	Office premises, RMB2,971,000 Restaurant premises, Full year rent for 2013 waived (Shanghai Zhonghuan Huimin entered into a supplementary agreement in December 2013, which waived the rent of RMB5,341,350)

Continuing Connected Transactions	Annual Cap of the Transaction (RMB)	2013 Actual Annual Transaction Amount (RMB)
4. The Company's wholly-owned subsidiary Shanghai Min Restaurant Co., Ltd. provided Shanghai Min 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.	RMB4,340,000	RMB537,920
5. The Company's wholly-owned subsidiary Shanghai Min 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.	RMB13,100,000	Nil
6. The Company's wholly-owned subsidiary Shanghai Min 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

Continuing Connected Transactions		Annual Cap of the Transaction (RMB)	2012 Actual Annual Transaction Amount (RMB)
7.	Shanghai Min sold Xiao Nan Guo (Group) Co., Ltd. branded goods (or coupon). Price of the branded goods (or coupon) shall be determined by Shanghai Min. Xiao Nan Guo (Group) Co., Ltd. shall purchase branded goods (or coupon) in accordance with the market price to be determined by Shanghai Min. This agreement was signed on 19 December 2012, for a term from 1 August 2012 to 31 December 2014.	RMB3,000,000	RMB1,150,502
8.	Certain subsidiaries of the Company in Mainland will sell the coupons of Shanghai WH Ming Hotel Co., Ltd. ("WH Ming Hotel") in the restaurants. The price of the coupons of WH Ming Hotel selling to external customers shall be determined by certain subsidiaries. The above subsidiaries 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 Min 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	RMB43,500
9.	Certain subsidiaries of the Company 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 certain subsidiaries, and shall be no less that 75% of the menu price of the subsidiaries. This agreement was signed on 19 December 2012, for a term from 21 October 2012 to 31 December 2013.	RMB38,000,00	RMB24,397,740

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, the Chairlady of the Company, in whole or in part. 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 2013 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 2013, 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 2014

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. During the year ended 31 December 2013, 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, for the year ended 31 December 2013, 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.

During the year, the Board has reviewed the corporate governance practice and policy, as well as the Company's compliance with the CG Code.

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. Weng Xiangwei
Mr. Wang Hairong

Independent Non-executive Directors

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

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. The Board adopted and approved its diversity policy on the composition of board members during the year of 2013. The appointments of board members shall take into account the diversity policy on the composition of board members, including, but not limited to, sex, age, cultural and educational background, race, professional experiences, skills, expertise, and terms of services.

During the year ended 31 December 2013, the composition of the Board of the Company is in compliance with the requirement of the Listing Rules. One-third of the members of the Board are independent non-executive Directors. There are three 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.

All Directors have already entered into service contract with the Company. The appointment of non-executive Director Mr. Wang Hairong is for a term of three years from 29 August 2012. Other than the director 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 were four full Board meetings held for the year ended 31 December 2013. Attendance of each director is set out as below:

Directors	Board mettings attended/Eligible to attend
Ms. Wang Huimin	4/4
Ms. Wu Wen	4/4
Mr. Kang Jie	4/4
Ms. Wang Huili	3/4
Mr. Tang Donald Wei (resigned on 5 June 2013 as the Non-executive Director)	2/4
Mr. Weng Xiangwei	4/4
Mr. Wang Hairong	3/4
Mr. Tsang Henry Yuk Wong	4/4
Mr. Wang Chiwei	3/4
Mr. Wang Yu	4/4
Mr. Chen Anjie (resigned on 14 January 2014 as the Independent Non-executive Director)	1/4

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 2013, 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 onethird) 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 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 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.

Ms. Wang Huili, Mr. Weng Xiangwei and Mr. Wang Chiwei 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.

Each of our directors have attended training sessions arranged by our Company on the continuing obligations of listed companies and its directors as well as disclosed obligations of listed companies.

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 while, 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 complaint 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 year ended 31 December 2013, the Audit Committee has held four meetings to review the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2013 and annual results and financial statements of the Company and its subsidiaries for the year ended 31 December 2013. 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	4/4
Mr. Weng Xiangwei	4/4
Mr. Wang Yu	4/4

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 year ended 31 December 2013, 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	0/1

Nomination Committee

The Nomination Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. Prior to 5 June 2013, 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. On 5 June 2013, Mr. Tang Donald Wei resigned for personal reasons. The Board appointed Ms. Wang Huimin as a member of the Nomination Committee. 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.

For the year ended 31 December 2013, the Nomination Committee has held one meeting to make recommendations to the Board with regard to the retirement by rotation with respect to Ms. Wang Huimin, Ms. Wu Wen and Mr. Kang Jie. 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 (resigned on 5 June 2013)	1/1
Mr. Tsang Henry Yuk Wong	1/1
Ms. Wang Huimin (appointed on 5 June 2013)	0/0

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 2013, 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 appointed as the Joint Company 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 2013, 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 2013, 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	4
HK$1,500,001 to HK$2,000,000	0

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 year ended 31 December 2013, the amount of fee payable to the Group's external auditor was RMB2.002 million.

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. During the 2013 Annual General Meeting of the Company, the Board established a sound platform for direct communication with the shareholders. The Board as well as the chairmen or members of the committees and the external auditor attended the 2013 Annual General Meeting of the Company held on 5 June 2013 and addressed the questions raised by the shareholders. The Company also recognizes the importance of nonselective 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 restated) were adopted by the Company on 8 June 2012 and came into effect from the Listing Date. During the reporting period, there is no change in the memorandum and articles of association of the Company.

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 HKExnews website of the Stock Exchange www.hkexnews.hk after the general meeting.

EXECUTIVE DIRECTORS

Ms. WANG Huimin, aged 59, 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 27 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 45, 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 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 39, 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 56, 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 25 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.

Mr. WENG Xiangwei, aged 47, 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 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 51, 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 an independent non-executive Director of the Company, from the Listing Date. Mr. Tsang is director of corporate development of Bio-Cancer Treatment International Limited, a drug development company, from December 2013. 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. From December 2007 to April 2013, Mr. Tsang served as managing director of Jigs Limited, a furniture design and manufacturing company, of which he was a co-founder. Previously, Mr. Tsang has accumulated extensive experience in investment banking, through his working experience at Bear Stearns & Co. Inc. (where he last served as president of Bear Stearns Asia Limited), BOC International and Merrill Lynch & Co. He was also a partner of Search Asian Mezzanine Capital Ltd., a private equity firm sponsored by Search Investment Group. During his nearly 28 years as an investment banker and private equity professional, Mr. Tsang actively participated in equity and bond offerings, including a number of initial public offerings on the Stock Exchange, mergers and acquisitions and private equity investment transactions. 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.

Mr. WANG Chiwei, aged 58, 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 Sumitomo Metal Mining Management (Shanghai) Co., Ltd. since October 2013 and retired from Jiangxi Copper Company Limited (stock code: 0358) in September 2013, a company listed on the Stock Exchange with which Mr. Wang has served various positions, including executive director and deputy general manager from 1998 to 2013, 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 (上海黃金交易所交易委員會), 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 43, 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.

SENIOR MANAGEMENT

Mr. KANG Jie, aged 39, 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".

Mr. ZHANG Jun, aged 38, is our vice president responsible of Strategy and Supply Chain. Mr. Zhang joined the Group in 2007 as vice president – Finance and was responsible for the Group's finance and information technology related matters. In 2012, the Group consolidated its procurement, supply chain and trading divisions to a mega Supply Chain Company (大供應鏈公司), with an aim to source quality and safe raw materials from original sources, optimize costs and improve overall supply chain efficiencies, while build strategic partnership with conglomerates. Prior to joining the Group, Mr. Zhang 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-Mei Beverage & Food Co., Ltd. (上海申美飲料食品有限公司), a subsidiary of The Coca-Cola Company. 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.

Ms. WEN Yuping, aged 41, is a vice president of the Company. Ms. Wen joined our Group in December 2013 and is primarily responsible for the finance, legal and compliance department, and the information technology department. Ms. Wen accumulated 18 years of working experience at a number of Fortune 500 Companies, including Procter & Gamble ("P&G"), General Electric ("GE") and Danone. She joined P&G in 1996 as management trainee immediately after her graduated from university. During the tenure at P&G, Ms. Wen's scope of professionalism comprises of Financial Planning & Brand Analysis, Sarbanes-Oxley Act development, Audit/Controls, Accounting, Budgeting and Reporting. Ms Wen was also one of the members fully involved in the P&G and Gillette Integration project. She joined GE in 2007, and was Head of Finance of General Electric Energy (Hangzhou) Co., Ltd. and GE Senior Controller CS Asia. During the period, she attended GE Global Leadership program (EFLP). Ms. Wen joined Danone in 2010 as Financial Controller of Baby Nutrition Danone China. That business division was the largest business division of Danone in Asia. Ms. Wen obtained her degree in foreign trade and economics from the China Shantou University.

Mr. SUN Yong, aged 42, 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.

Mr. PAN Qin, aged 58, 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.

Ms. LENG Yijia, aged 39, is a vice president, secretary of the Board and a joint company secretary of our Company. She is primarily responsible for the group's investor relations, public affairs and corporate affairs. Ms Leng also involves in the group's mergers & acquisition opportunities and operational matters in certain regions. She joined our Group in July 2010. Ms. Leng has over 15 years of experience in legal and management areas. Prior to joining us, she served as the senior director of legal affairs of Carrefour (China) Managing & Consulting Services Co., Ltd. (家樂福(中國)管理諮詢服務有限公司) where she served 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.

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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 45 to 121, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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.

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 2013, 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 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
REVENUE	5	**1,385,911**	1,332,298
Cost of inventories consumed		**(458,756)**	(424,536)
Gross profit		**927,155**	907,762
Other income and gains	5	**40,006**	45,966
Selling and distribution expenses		**(829,998)**	(689,186)
Administrative expenses		**(113,005)**	(106,006)
Other expenses		**(10,686)**	(397)
Finance costs	7	**(7,671)**	(6,125)
PROFIT BEFORE TAX	6	**5,801**	152,014
Income tax expense	10	**(5,130)**	(33,484)
PROFIT FOR THE YEAR		**671**	118,530
Attributable to:			
Owners of the Company	11	**1,075**	118,530
Non-controlling interests		**(404)**	—
		671	118,530
Earnings per share attributable to ordinary equity holders of the Company			
– Basic	13	**RMB0.07 cents**	RMB9.27 cents
– Diluted	13	**RMB0.07 cents**	RMB9.27 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
PROFIT FOR THE YEAR		**671**	118,530
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(7,877)**	(1,938)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(7,877)**	(1,938)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(7,206)**	116,592
Attributable to:			
Owners of the Company	11	**(6,802)**	116,592
Non-controlling interests	17	**(404)**	—
		(7,206)	116,592

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**685,506**	614,806
Intangible assets	15	**4,500**	4,636
Investment in an associate	18	**10,000**	—
Available-for-sale investments	19	**10,100**	100
Long-term rental deposits	16	**54,975**	50,390
Deferred tax assets	28	**58,869**	33,873
Other long-term assets		**369**	581
Total non-current assets		**824,319**	704,386
CURRENT ASSETS			
Inventories	20	**49,901**	58,613
Trade receivables	21	**16,214**	26,829
Prepayments, deposits and other receivables	22	**151,243**	111,794
Cash and cash equivalents	23	**324,499**	416,797
Total current assets		**541,857**	614,033
CURRENT LIABILITIES			
Trade payables	24	**84,808**	82,238
Derivative financial instruments	26	**401**	—
Interest-bearing bank loans	27	**203,236**	156,795
Tax payable		**16,715**	28,012
Other payables and accruals	25	**224,285**	189,108
Deferred income		**1,398**	1,981
Total current liabilities		**530,843**	458,134
NET CURRENT ASSETS		**11,014**	155,899
TOTAL ASSETS LESS CURRENT LIABILITIES		**835,333**	860,285

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000
NON-CURRENT LIABILITIES			
Long-term payables	16	**51,345**	38,659
Deferred tax liabilities	28	**716**	1,359
Total non-current liabilities		**52,061**	40,018
Net assets		**783,272**	820,267
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**12,047**	12,032
Reserves	32	**766,629**	777,244
Proposed final dividend	12	**—**	30,991
		778,676	820,267
Non-controlling interests	17	**4,596**	—
Total equity		**783,272**	820,267

Wang Huimin
Director

Kang Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Notes	Attributable to owners of the Company											
		Issued capital RMB'000 (note 30)	Share premium* RMB'000 (note 32 (i))	Capital reserve* RMB'000 (note 32 (iii))	Merger reserve* RMB'000 (note 32 (ii))	Statutory surplus reserve* RMB'000 (note 32 (iv))	Exchange fluctuation reserve* RMB'000 (note 32 (v))	Share option reserve* RMB'000 (note 32 (vi))	Retained earnings* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of 1 January 2013		12,032	477,424	60,174	(69,246)	12,812	(9,453)	8,205	297,328	30,991	820,267	—	820,267
Profit for the year		—	—	—	—	—	—	—	1,075	—	1,075	(404)	671
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		—	—	—	—	—	(7,877)	—	—	—	(7,877)	—	(7,877)
Total comprehensive income for the year		—	—	—	—	—	(7,877)	—	1,075	—	(6,802)	(404)	(7,206)
Final 2012 dividend declared		—	—	—	—	—	—	—	—	(30,991)	(30,991)	—	(30,991)
Issue of shares	30	15	2,067	—	—	—	—	(205)	—	—	1,877	—	1,877
Appropriation for reserve funds		—	—	—	—	86	—	—	(86)	—		—	—
Capital contribution from the non-controlling interests		—	—	—	—	—	—	—	—	—	—	5,000	5,000
Equity-settled share option arrangements	31	—	—	—	—	—	—	3,725	—	—	3,725	—	3,725
Interim 2013 dividend	12	—	(6,190)	—	—	—	—	—	(3,210)	—	(9,400)	—	(9,400)
As of 31 December 2013		12,047	473,301	60,174	(69,246)	12,898	(17,330)	11,725	295,107	—	778,676	4,596	783,272

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

		Attributable to owners of the Company										
	Notes	Issued capital RMB'000 (note 30)	Share premium* RMB'000 (note 32 (i))	Capital reserve* RMB'000 (note 32 (iii))	Merger reserve* RMB'000 (note 32 (ii))	Statutory surplus reserve* RMB'000 (note 32 (iv))	Exchange fluctuation reserve* RMB'000 (note 32 (v))	Share option reserve* RMB'000 (note 32 (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	30	2,780	414,346	–	–	–	–	–	–	–	417,126	417,126
Share issue expenses	30	–	(53,528)	–	–	–	–	–	–	–	(53,528)	(53,528)
Appropriation for reserve funds		–	–	–	–	1,322	–	–	(1,322)	–	–	–
Equity-settled share option arrangements	31	–	–	–	–	–	–	2,651	–	–	2,651	2,651
Cancellation of shares	30	(10)	10	–	–	–	–	–	–	–	–	–
Interim 2012 dividend	12	–	–	–	–	–	–	–	(16,834)	–	(16,834)	(16,834)
Proposed final 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

* These reserve accounts comprise the consolidated reserves of RMB766,629,000 and RMB777,244,000 in the consolidated statements of financial position as at 31 December 2013 and 2012, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	Year ended 31 December 2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**5,801**	152,014
Adjustments for:			
Finance costs	7	**7,671**	6,125
Interest income	5	**(5,363)**	(4,368)
Depreciation	14	**110,002**	81,466
Amortisation of intangible assets	15	**1,176**	585
Amortisation of other long-term assets	6	**212**	212
Loss on disposal of items of property and equipment	6	**9,996**	258
Gain on disposal of a subsidiary	33	**(16)**	—
Equity-settled share option expense	6	**3,725**	2,651
		133,204	238,943
Decrease/(increase) in inventories		**8,712**	(11,851)
Decrease/(increase) in trade receivables		**10,615**	(6,741)
Increase in prepayments, deposits and other receivables		**(30,261)**	(10,240)
Increase/(decrease) in trade payables		**2,570**	(15,202)
Increase in other payables and accruals		**16,321**	17,686
Increase in long-term rental deposits		**(4,585)**	(8,849)
Increase in long-term payables		**18,075**	6,037
Decrease in deferred income		**(583)**	(688)
Cash generated from operations		**154,068**	209,095
Income tax paid		**(42,066)**	(37,869)
Net cash flows from operating activities		**112,002**	171,226
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(187,855)**	(230,801)
Proceeds from disposal of items of property and equipment		**—**	235
Purchases of intangible assets		**(1,040)**	(2,773)
Disposal of a subsidiary	33	**1,000**	—
Purchase of available-for-sale investments		**(10,000)**	—
Purchase of investments in an associate		**(10,000)**	—
Interest received		**5,363**	4,368
Net cash flows used in investing activities		**(202,532)**	(228,971)

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	Year ended 31 December 2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	417,126
Share issue expenses		—	(56,534)
Repayment of bank loans		**(281,546)**	(169,560)
Proceeds from new bank loans		**327,987**	158,889
Capital contribution from the non-controlling interests		**5,000**	—
Dividends paid		**(40,391)**	(44,398)
Interest paid		**(6,800)**	(8,992)
Net cash flows from financing activities		**4,250**	296,531
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(86,280)**	238,786
Cash and cash equivalents at beginning of year		**416,797**	179,956
Effect of foreign exchange rate changes, net		**(6,018)**	(1,945)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**324,499**	416,797
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**320,192**	221,026
Time deposits with original maturity of less than three months	23	**4,307**	195,771
Cash and cash equivalents as stated in the statement of cash flows		**324,499**	416,797

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**542,716**	391,826
Total non-current assets		**542,716**	391,826
CURRENT ASSETS			
Cash and cash equivalents	23	**1,788**	192,822
Deposits and other receivables	22	**1,877**	—
Total current assets		**3,665**	192,822
NET CURRENT ASSETS		**3,665**	192,822
Net assets		**546,381**	584,648
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**12,047**	12,032
Reserves	32	**534,334**	541,625
Proposed final dividend	32	—	30,991
Total equity		**546,381**	584,648

Wang Huimin
Director

Kang Jie
Director

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of Chinese restaurant chain stores in Mainland China, Hong Kong and other regions. 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 to 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 except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12: T*ransition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 (2011)	Amendments to IAS 19 *Employee Benefits*
IAS 27 (2011)	*Separate Financial Statements*
IAS 28 (2011)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

The adoption of the new and revised IFRSs has had no significant financial effect on the financial statements.

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 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7* and IAS 39[4]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits - Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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 (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Subsidiaries *(continued)*

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss 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 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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 measure 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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.

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 of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 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 of disposal, 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 statement of profit or loss 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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

	Annual rate	Estimated residual values rate
Software	10%-20%	0%

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 statement of profit or loss 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 rate
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 statement of profit or loss 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 are stated at cost less any impairment losses, and are 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 statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of the profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 statement of profit or loss. 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 as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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 as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss 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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss 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 as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss 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 statement of profit or loss in other gains or losses. 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 statement of profit or loss 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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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

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 statement of profit or loss.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

If there is objective evidence of any impairment loss, the amount of 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).

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 statement of profit or loss. 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 statement of profit or loss.

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 statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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. "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 statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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 statement of profit or loss. 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 statement of profit or loss, if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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, derivative financial instruments, interest-bearing bank loans and long-term payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss.

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.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

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.

Deferred income

A liability is recognised based on the fair value of credit awards earned by the customers in accordance with the Group's membership programme and the Group's past experience on the level of redemption of credit awards and are recorded in deferred income. The revenue of the Group is deducted when the credit awards are recognised.

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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 31 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 in employee benefit expense. 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 statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to statement of profit or loss 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 a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss 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 29 below.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of profit or loss 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 statement of profit or loss. 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 measured. 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 difference 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 the 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 statements of profit or loss 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 statement of profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and 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.

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 values of deferred tax assets relating to tax losses at 31 December 2013 and 2012 were RMB34,523,000 and RMB14,790,000, respectively. Further details are contained in note 28 to the financial statements.

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 a 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.

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 exchange rate. The expected exchange rate was estimated considering the number of the credits that will be available for exchange in the future after allowing for credits which are not expected to be redeemed.

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	
	2013	2012
	RMB'000	RMB'000
Mainland China	**1,148,571**	1,138,948
Hong Kong	**225,363**	193,350
Others	**11,977**	—
	1,385,911	1,332,298

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

(b) Non-current assets

	31 December 2013	31 December 2012
	RMB'000	RMB'000
Mainland China	**676,126**	589,570
Hong Kong	**67,877**	80,843
Others	**1,347**	—
	745,350	670,413

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information *(continued)*

(b) Non-current assets *(continued)*

The non-current asset information above is based on the locations of the assets and excludes financial instruments, investment in an associate and deferred tax assets.

Information about major customers

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 2013 and 2012, no segment information about major customers as required by IFRS 8 *Operating Segments* is presented.

5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

		Notes	Year ended 31 December	
			2013	2012
			RMB'000	RMB'000
(a)	**Revenue**			
	Restaurant operations		**1,330,018**	1,286,072
	Other revenue		**55,893**	46,226
			1,385,911	1,332,298
(b)	**Other income**			
	Government grants		**23,522**	23,282
	Bank interest income		**5,363**	4,368
	Management fee		**3,000**	3,000
	Compensation income from landlords		**2,816**	4,867
	Service income		—	2,000
	Foreign exchange differences		**3,968**	5,996
	Others		**1,321**	2,453
			39,990	45,966
(c)	**Other gains**			
	Gain on disposal of a subsidiary	33	**16**	—
			40,006	45,966

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December	
		2013	2012
		RMB'000	RMB'000
Cost of inventories consumed		**458,756**	424,536
Depreciation	14	**110,002**	81,466
Amortisation of intangible assets	15	**1,176**	585
Amortisation of other long-term assets		**212**	212
Minimum lease payments under operating leases on buildings		**248,504**	212,946
Auditors' remuneration		**2,456**	2,639
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**314,355**	262,290
Equity-settled share option expense		**3,725**	2,651
Defined contribution pension scheme		**88,090**	68,939
		406,170	333,880
Unrealised loss on an interest rate swap	7	**401**	—
Bank interest income	5	**(5,363)**	(4,368)
Loss on disposal of items of property and equipment		**9,996**	258
Gain on disposal of a subsidiary		**(16)**	—

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**8,917**	8,251
Less: Interest capitalised	**(1,647)**	(2,126)
	7,270	6,125
Unrealised loss on an interest rate swap	**401**	—
	7,671	6,125

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Fees	**417**	312
Other emoluments:		
Salaries, allowances and benefits in kind	**1,987**	1,746
Equity-settled share-based payment	**1,444**	840
Pension scheme contributions	**90**	69
	3,521	2,655
	3,938	2,967

During the year, a director of the Company was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year is 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 and subsequently resigned on 17 January 2014.

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

	2013	2012
	RMB'000	RMB'000
Mr. Wang Yu	**122**	78
Mr. Tsang Henry Yuk Wong	**122**	78
Mr. Chen Anjie	**122**	78
Mr. Wang Chiwei	**122**	78
	488	312

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

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 2013				
Executive directors:				
Ms. Wang Huimin	—	—	—	—
Ms. Wu Wen	—	—	—	—
Mr. Kang Jie	**1,987**	**1,444**	**90**	**3,521**
	1,987	**1,444**	**90**	**3,521**
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

Mr. Kang Jie is also the chief executive of the Group and his remuneration disclosed above includes the remuneration 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. Mr.Tang Donald Wei resigned as a non-executive director on 5 June 2013. There were no fees or other emoluments payable to them during the years ended 31 December 2013 and 2012.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included the chief executive for the years ended 31 December 2013 and 2012, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2012: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,513**	3,638
Equity-settled share-based payment	**227**	469
Pension scheme contributions	**392**	297
	4,132	4,404

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	
	2013	2012
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**4**	3
HK$1,500,001 to HK$2,000,000	**—**	1
	4	4

During the years ended 31 December 2013 and 2012, share options were granted to the 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 31 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year is included in the above non-director and non-chief executive, highest paid employees' remuneration disclosures.

10. INCOME TAX

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Group:		
Current - Mainland China charged for the year	**28,069**	44,853
Current - Hong Kong and elsewhere charged for the year	**2,700**	1,592
Deferred tax (note 28)	**(25,639)**	(12,961)
Total tax charge for the year	**5,130**	33,484

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%.

According to the Macau Complementary Tax ("MCT") Law, taxable profits below MOP200,000 are exempted from tax, taxable profits between MOP200,001 to MOP300,000 are subject to the rate of 9% and taxable profits over MOP300,000 are subject to the rate of 12%.

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	
	2013	2012
	RMB'000	RMB'000
Profit before tax	**5,801**	152,014
Tax at the statutory tax rate of 25% (2012: 25%)	**1,450**	38,004
Lower tax rate for specific provinces or enacted by local authority	**(26)**	(2,012)
Income not subject to tax	**(642)**	(2,999)
Expenses not deductible for tax	**1,057**	491
Tax losses and temporary differences not recognised during the year	**3,291**	—
	5,130	33,484

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the years ended 31 December 2013 and 2012 include gains of RMB4,402,000 and RMB4,765,000, respectively, which have been dealt with in the financial statements of the Company (note 32).

12. DIVIDENDS

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Interim – HK$0.008 (2012: HK$0.014) per ordinary share	**9,400**	16,834
Proposed final – Nil (2012: HK$0.016) per ordinary share	—	19,071
Proposed special – Nil (2012: HK$0.010) per ordinary share	—	11,920
	—	30,991
	9,400	47,825

On 22 August 2013, the Company declared an interim dividend for the six months ended 30 June 2013, at HK$0.008 per ordinary share, amounting to a total sum of approximately HK$11,800,000 (approximately equivalent to RMB9,400,000).

No final dividend was proposed for the year (2012: final dividend of HK$0.016 per ordinary share and special dividend of HK$0.010 per ordinary share).

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 2013 is based on the consolidated profit attributable to the equity holders of the Company and the weighted average number of ordinary shares of 1,475,373,896 (2012: 1,278,287,671) in issue during the year.

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.

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

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

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**1,075**	118,530

	Year ended 31 December	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,475,373,896**	1,278,287,671
Effect of dilution – weighted average number of ordinary shares:		
Share options	**953,278**	738,740
Number of ordinary shares used in the diluted earnings per share calculation	**1,476,327,174**	1,279,026,411

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 2013					
At 31 December 2012 and 1 January 2013:					
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
At 1 January 2013, net of accumulated depreciation	480,998	77,912	1,733	54,163	614,806
Additions	89,219	24,781	611	90,225	204,836
Depreciation provided during the year	(85,724)	(23,759)	(519)	—	(110,002)
Disposals	(20,020)	(2,255)	—	—	(22,275)
Transfers	97,843	17,993	—	(115,836)	—
Exchange realignment	(1,614)	(245)	—	—	(1,859)
At 31 December 2013, net of accumulated depreciation	560,702	94,427	1,825	28,552	685,506
At 31 December 2013:					
Cost	780,951	168,529	6,460	28,552	984,492
Accumulated depreciation and impairment	(220,249)	(74,102)	(4,635)	—	(298,986)
Net carrying amount	560,702	94,427	1,825	28,552	685,506

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 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

15. INTANGIBLE ASSETS

Group

	Software RMB'000
31 December 2013	
Cost at 1 January 2013, net of accumulated amortisation	**4,636**
Additions	**1,040**
Amortisation provided during the year	**(1,176)**
At 31 December 2013	**4,500**
At 31 December 2013:	
Cost	**6,728**
Accumulated amortisation	**(2,228)**
Net carrying amount	**4,500**

Group

	Software RMB'000
31 December 2012	
Cost at 1 January 2012, net of accumulated amortisation	2,448
Additions	2,773
Amortisation provided during the year	(585)
At 31 December 2012	4,636
At 31 December 2012:	
Cost	5,688
Accumulated amortisation	(1,052)
Net carrying amount	4,636

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 mainly represent the long-term portion of accrued rental expenses.

17. INTERESTS IN SUBSIDIARIES

	Company	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Unlisted shares, at cost	**57,512**	59,312
Due from subsidiaries	**485,204**	332,514
	542,716	391,826

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	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	(1)
Shanghai Xiao Nan Guo Restaurant Co., Ltd. 上海小南國餐飲有限公司	PRC	RMB30,000	100	(1)
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	(1)
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	RMB450,000	100	(3)

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and business	Paid-up/ registered capital' 000	Percentage of equity attributable to the Company	Notes
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	(1)
Shanghai Zhonghuan Huimin Restaurant Management Co., Ltd. 上海中環匯珉餐飲管理有限公司	PRC	RMB1,000	100	(1)
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	(1)
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	(1)
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	(1)
Shanghai Jinshan Xiao Nan Guo Restaurant Co., Ltd. 上海金山小南國餐飲有限公司	PRC	RMB500	100	(1)
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	(1)
Shanghai Changning Xiao Nan Guo Restaurant Co., Ltd. 上海長寧小南國餐飲有限公司	PRC	RMB500	100	(1)
Shanghai Hongkou Xiao Nan Guo Restaurant Co., Ltd. 上海虹口小南國餐飲有限公司	PRC	RMB500	100	(1)

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and business	Paid-up/ registered capital' 000	Percentage of equity attributable to the Company	Notes
Nanjing Xiao Nan Guo Huimin Restaurant Co., Ltd. 南京小南國匯珉餐飲有限公司	PRC	RMB500	100	(1)
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	(1)
Dalian Shidai Xiao Nan Guo Restaurant Co., Ltd. 大連時代小南國餐飲有限公司	PRC	RMB500	100	(1)
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	(1)
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	(1)
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	(1)
Shanghai Songjiang Xiao Nan Guo Restaurant Co., Ltd. 上海松江小南國餐飲有限公司	PRC	RMB500	100	(1)
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	(1)
Shanghai Baoshan Xiao Nan Guo Restaurant Co., Ltd. 上海寶山小南國餐飲有限公司	PRC	RMB500	100	(1)

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and business	Paid-up/ registered capital' 000	Percentage of equity attributable to the Company	Notes
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	(1)
Shanghai Zhabei Xiao Nan Guo Restaurant Co., Ltd. 上海閘北小南國餐飲有限公司	PRC	RMB500	100	(1)
Tianjin Hui Zhi Nan Restaurant Management Co., Ltd. 天津慧之南餐飲管理有限公司	PRC	RMB500	100	(1)
Wuxi Hui Zhi Nan Restaurant Co., Ltd. 無錫慧之南餐飲有限公司	PRC	RMB500	100	(1)
Shanghai Huimin Xiao Nan Guo Restaurant Co., Ltd. 上海慧珉小南國餐飲有限公司	PRC	RMB500	100	(1)
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	(1)
Shanghai Xiao Nan Guo King Merit Restaurants Management Co., Ltd.* 上海小南國煌智餐飲管理有限公司	PRC	RMB2,000	90	(1)
Shanghai Xiao Nan Guo Zunshi Food Trade Co., Ltd.* 上海小南國尊食食品貿易有限公司	PRC	RMB10,000	100	(2)
Shanghai Xiao Nan Guo Huajing Food Science and Technology Development Co., Ltd.* 上海小南國華晶食品科技發展有限公司	PRC	RMB8,160	51	(6)
Xiao Nan Guo Management Co., Ltd. 小南國管理有限公司	Hong Kong	HK$0.2	100	(4)

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration and business	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	(7)
Xiao Nan Guo Management (Kowloon) Limited 小南國管理(九龍)有限公司	Hong Kong	HK$10	100	(4)
Xiao Nan Guo Holding Limited 小南國控股有限公司	Hong Kong	HK$330.2	100	(7)
Xiao Nan Guo (Causeway Bay) Management Limited 小南國(銅鑼灣)管理有限公司	Hong Kong	HK$300	100	(4)
Xiao Nan Guo (Kowloon Bay) Management Limited 小南國(九龍灣)管理有限公司	Hong Kong	HK$10	100	(4)
Xiao Nan Guo (Shatin) Management Limited 小南國(沙田)管理有限公司	Hong Kong	HK$10	100	(4)
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	(4)
Xiao Nan Guo Holding Limited	BVI	US$10	100	(7)
Xiao Nan Guo (Hong Kong) Restaurant Group Limited	BVI	US$0.00001	100	(7)
Affluent Harvest Limited	BVI	US$1	100	(7)
King Merit (Macau) Limited* 煌智(澳門)一人有限公司	Macau	MOP3,500	90	(5)
King Merit Corporation Limited* 煌智有限公司	Hong Kong	RMB10,000	90	(7)

17. INTERESTS IN SUBSIDIARIES *(continued)*

Notes of the principal activities

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

(2) Trading company to sell pre-packaged food in the PRC;

(3) Restaurant management and operation of Chinese restaurant chain stores in Mainland China;

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

(5) Operation of Chinese restaurant chain stores in Macau;

(6) Production and selling of micro-freezing liquid and micro-freezing machines, and provision of related services; and

(7) Investment holding.

* Newly set up during the year of 2013.

Details of the Group's subsidiaries that have non-controlling interests are set out below:

	2013
Percentage of equity interest held by non-controlling interests:	
King Merit Corporation Limited**	**10%**
Shanghai Xiao Nan Guo Huajing	
Food Technology Development Co., Ltd.	**49%**

	2013 **RMB'000**
Loss for the year allocated to non-controlling interests:	
King Merit Corporation Limited	**(403)**
Shanghai Xiao Nan Guo Huajing	
Food Technology Development Co., Ltd.	**(1)**
	(404)
Accumulated balances of non-controlling interests at the reporting date:	
King Merit Corporation Limited	**597**
Shanghai Xiao Nan Guo Huajing	
Food Technology Development Co., Ltd.	**3,999**
	4,596

17. INTERESTS IN SUBSIDIARIES *(continued)*

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2013	King Merit Corporation Limited RMB'000	Shanghai Xiao Nan Guo Huajing Food Technology Development Co., Ltd. RMB'000
Revenue	11,977	—
Total expenses	(16,005)	(2)
Loss for the year	(4,028)	(2)
Total comprehensive income for the year	(4,112)	(2)
Current assets	8,368	8,163
Non-current assets	1,347	1
Current liabilities	3,827	2
Cash and cash equivalents	6,487	8,163

** Shanghai Xiao Nan Guo King Merit Restaurant Management Co., Ltd. and King Merit (Macau) Limited are wholly-owned subsidiaries of King Merit Corporation Limited, whose consolidated financial information has been included in above tables.

18. INVESTMENT IN AN ASSOCIATE

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Share of net assets	**9,996**	—
Goodwill on acquisition	**4**	—
	10,000	—

The Group's prepayments and trade payable balances with the associate are disclosed in note 22 and 24 to the financial statements, respectively.

18. INVESTMENT IN AN ASSOCIATE *(continued)*

Particulars of the associate are as follows:

Name	Paid-up Capital RMB'000	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principle activities
Yancheng Guanhua Aquatic Products Co., Ltd.	13,160	PRC	24.01%	Aquatic food processing

The associate is not audited by Ernst & Young Hong Kong or another member firms of Ernst & Young global network.

The Group's shareholdings in the associate all comprise equity shares held by Shanghai Xiao Nan Guo Restaurant Co., Ltd., a wholly-owned subsidiary of the Company. The investment was completed on 29 June 2013. Yancheng Guanhua Aquatic Products Co., Ltd., the associate of the Group, is a supplier of shelled fresh river shrimps to the Group and is accounted for using the equity method.

The Company's voting power held and profit sharing arrangement is equal to the ownership interest held.

The following table illustrates the summarised financial information of Yancheng Guanhua Aquatic Products Co., Ltd.. with no differences in the accounting policies need to be adjusted.

	2013 RMB'000
Net assets	**41,632**
Net assets, excluding goodwill	**41,632**
Adjustment to the Group's interest in the associate:	
Proportion of the Group's ownership	**24.01%**
Group's share of net assets of the associate, excluding goodwill	**9,996**
Goodwill on acquisition (less cumulative impairment)	**4**
Carrying amount of the investment	**10,000**
Revenues	**69,917**
Profit for the year	**2,013**
Total comprehensive income for the year	**2,013**

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd.	**100**	100
Shanghai Huajing Agriculture Biotechnology Co., Ltd.	**10,000**	—
	10,100	100

The investment to Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd. represents 10% ownership interest held by the Group. In July 2013, the Company acquired 8% ownership interest of Shanghai Huajing Agriculture Biotechnology Co., Ltd. with a consideration of RMB10,000,000.

The Company's voting power held and profit sharing arrangement is equal to the ownership interest held for these two equity investments.

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.

20. INVENTORIES

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Food and beverages, and other operating items for restaurant operations	**49,901**	58,613

21. 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 2013 RMB'000	31 December 2012 RMB'000
Within 1 month	**9,968**	18,988
1 to 2 months	**2,322**	2,620
2 to 3 months	**1,247**	751
Over 3 months	**2,677**	4,470
	16,214	26,829

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Deposits and other receivables	**40,722**	29,975
Prepaid expense	**24,399**	27,097
Amounts due from companies owned by the Controlling Shareholder	**63,467**	29,506
Amount due from a director of major subsidiaries in Hong Kong	**131**	365
Prepayments	**22,524**	24,851
	151,243	111,794

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

The prepayments balance as at 31 December 2013 included RMB3,300,000 prepaid to the associate of the Group, Yancheng Guanhua Aquatic Products Co., Ltd.

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

	Company	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Deposits and other receivables	**1,877**	—

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.

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	31 December 2013 RMB'000	31 December 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Cash and bank balances, unrestricted	**320,192**	221,026	**1,788**	368
Time deposits with original maturity of less than three months	**4,307**	195,771	**—**	192,454
Cash and cash equivalents	**324,499**	416,797	**1,788**	192,822

The cash and bank balances and time deposits of the Group's subsidiaries in Mainland China denominated in RMB amounted to RMB189,545,000 and RMB203,766,000 as at 31 December 2013 and 2012, 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.

24. TRADE PAYABLES

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

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Within 3 months	**83,329**	76,528
3 months to 1 year	**276**	4,721
Over 1 year	**1,203**	989
	84,808	82,238

The trade payables balance as at 31 December 2013 included RMB1,301,000 of amount due to Yancheng Guanhua Aquatic Products Co., Ltd., the associate of the Group (2012: RMB1,102,000).

The trade payables are non-interest-bearing and normally settled within 30 days of receiving the invoice.

25. OTHER PAYABLES AND ACCRUALS

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Payroll and welfare payables	**33,710**	29,786
Taxes other than corporate income tax	**7,388**	7,378
Other payables for construction in progress	**82,797**	65,816
Accruals and other payables	**37,256**	27,294
Advances from customers	**63,134**	58,369
Amounts due to companies owned by the Controlling Shareholder	**—**	465
	224,285	189,108

The balance of other payables and accruals is unsecured, interest-free and repayable on demand.

26. DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2013 Liabilities RMB'000**
Interest rate swaps	**401**

27. INTEREST-BEARING BANK LOANS

Group

		31 December 2013			31 December 2012		
		Effective interest rate (%)	Effective interest Maturity	RMB'000	rate (%)	Maturity	RMB'000
Current							
Bank loans – unsecured		6.00%	2014	80,000	5.60	2013	80,000
Bank loans – unsecured		—	—	—	6.16	2013	38,900
Bank loans – unsecured	(a)	Libor+2.50%	2014	47,172	—	—	—
Bank loans – unsecured	(b)	Libor+3.14%	2014	39,630	—	—	—
Bank loans – unsecured	(b)	Libor+3.14%	2014	31,229	—	—	—
Bank loans – unsecured*	(b)	Libor+3.14%	2015	5,205	—	—	—
Current portion of long term bank loans – unsecured	(c)	—	—	—	6.16	2013	37,895
				203,236			156,795
Analysed into:							
Bank loans repayable:							
Within one year or on demand				203,236			156,795

(a) Xiao Nan Guo Holdings Limited, a wholly-owned subsidiary of the Group and located in Hong Kong, entered into a HK$60 million revolving loan facility agreement with Hang Seng Bank (Hong Kong) Limited in December 2013, which was guaranteed by the Company.

(b) Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd., a wholly-owned subsidiary of the Company and located in Mainland China, entered into an agreement with Standard Chartered Bank (Hong Kong) Limited, the lender, in February 2013 for:

– a 12-month revolving credit facility of up to US$6.5 million; and

– a 24-month term loan of US$19 million.

The loans were guaranteed by the Company.

The loans include the effects of related interest rate swaps as further detailed in note 26 to the financial statements.

* Included in current liabilities as the bank has an overriding right to call for cash cover on demand at any time without further reference to the Group and to demand settlement of any balance owing by the Group to the bank.

(c) Shanghai Xiao Nan Guo Restaurant Co., Ltd., a wholly-owned subsidiary of the Group and located in Mainland China, 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.

28. DEFERRED TAX

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

Deferred tax liabilities

Group

31 December 2013

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Total RMB'000
At 1 January 2013	396	963	1,359
Deferred tax credited to the statement of profit or loss during the year (note 10)	(239)	(404)	(643)
Gross deferred tax liabilities at 31 December 2013	157	559	716

Deferred tax assets

Group

31 December 2013

	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	Fair value change of derivative financial instruments RMB'000	Total RMB'000
At 1 January 2013	83	2,364	5,392	11,244	14,790	—	33,873
Deferred tax (charged)/ credited to the statement of profit or loss (note 10)	(23)	1,779	296	3,111	19,733	100	24,996
Gross deferred tax assets at 31 December 2013	60	4,143	5,688	14,355	34,523	100	58,869

28. DEFERRED TAX *(continued)*

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 statement of profit or loss during the year (note 10)	22	(442)	(420)
Gross deferred tax liabilities at 31 December 2012	396	963	1,359

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 credited to the statement of profit or loss (note 10)	(36)	563	2,342	3,804	5,868	12,541
Gross deferred tax assets at 31 December 2012	83	2,364	5,392	11,244	14,790	33,873

The Group has tax losses and temporary differences arising in Mainland China of RMB3,291,000 (2012: Nil) that will expire in one to five years for offsetting against future taxable profits for which no deferred tax assets have been recognised, as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

28. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

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

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB257,388,000 and RMB287,586,000 at 31 December 2013 and 2012, respectively.

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

29. 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 13% 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 statement of profit or loss 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.

30. SHARE CAPITAL

Shares

	31 December 2013	31 December 2012
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)	**1,476,880,000**	1,475,000,000
Equivalent to RMB'000	**12,047**	12,032

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 of ordinary shares RMB'000	Equivalent share premium RMB'000
Balance as at 1 January 2012	1,135,000,000	11,350	143,272	9,262	116,962
Cancellation of shares (note (a))	(1,250,000)	(13)	13	(10)	10
Issue of new shares (note (b))	341,250,000	3,413	508,462	2,780	414,346
Share issue expense	—	—	(61,966)	—	(53,528)
Proposed final 2012 dividend	—	—	(453)	—	(366)
At 31 December 2012	1,475,000,000	14,750	589,328	12,032	477,424
Share options exercised (note (c))	1,880,000	19	2,350	15	2,067
Interim 2013 dividend	—	—	(7,770)	—	(6,190)
At 31 December 2013	**1,476,880,000**	**14,769**	**583,908**	**12,047**	**473,301**

Notes:

(a) 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.

(b) 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.

(c) Details of the Company's share option schemes and the share options issued under the schemes are included in note 31 to the financial statements.

31. SHARE-BASED PAYMENTS

(1) Pre-IPO Share Option Schemes

Two 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, 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 2013 and 2012:

	Year ended 31 December 2013	
	Weighted average exercise price per share RMB	**Number of options '000**
At 1 January 2013		**90,252**
Forfeited during the year	**1.098**	**(26,617)**
Exercised during the year	**1.050**	**(1,880)**
At 31 December 2013		**61,755**

	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	1.100	(12,386)
At 31 December 2012		90,252

The weighted average share price at the date of exercise for share options under the Pre-IPO Schemes exercised during the year was RMB1.226 per share (2012: No share options were exercised).

31. SHARE-BASED PAYMENTS *(continued)*

(1) Pre-IPO Share Option Schemes *(continued)*

The exercise prices and exercise periods of the share options under the Pre-IPO Scheme outstanding as at 31 December 2013 are as follows:

Number of options '000	Exercise price RMB per share	Exercise period
13,281	1	1 January 2012 to 11 February 2020
330	1	1 January 2012 to 21 June 2020
2,653	1	1 January 2012 to 1 September 2020
2,160	1.1	1 January 2012 to 15 December 2020
127	1.1	1 January 2012 to 26 January 2021
4,940	1.1	1 January 2012 to 22 March 2021
15,398	1.1	1 January 2012 to 22 March 2021
3,325	1.1	1 July 2012 to 1 July 2021
1,345	1.1	1 July 2012 to 1 July 2021
3,885	1.1	1 July 2012 to 12 August 2021
2,375	1.175	1 July 2012 to 12 August 2021
2,615	1.175	1 January 2013 to 15 January 2022
1,314	1.175	1 July 2013 to 15 January 2022
4,878	1.175	1 January 2013 to 15 May 2022
3,129	1.175	1 July 2013 to 15 May 2022
61,755	1.09	

There was no share options granted under Pre-IPO Share Scheme after 4 July 2012, the Company's listing date. The Group recognised a share option expense of RMB2,485,000 under the Pre-IPO Share Scheme during the year ended 31 December 2013 (31 December 2012: RMB2,651,000).

31. SHARE-BASED PAYMENTS *(continued)*

(1) Pre-IPO Share Option Schemes *(continued)*

The fair value of all equity-settled share options granted before 4 July 2012, the Company's listing date, was estimated as at the date of grant using a binomial model, taking into account:

	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012
Dividend yield (%)	2.50%	2.50%	2.50%
Expected volatility (%)	41.8%-47.4%	38.9%-43.8%	37.92%-38.28%
Risk-free interest rate (%)	1.92%-2.94%	2.82%-4.09%	3.35%-3.40%
Maturity date	11 February 2020-15 December 2020	26 January 2021-12 August 2021	15 January 2022-15 May 2022
Weighted average exercise price (RMB per share)	1.012	1.106	1.175

The 1,880,000 share options exercised during the year resulted in the issue of 1,880,000 ordinary shares of the Company and new share capital of HK$19,000 and share premium of HK$2,350,000, as further detailed in note 30 to the financial statements.

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 by 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 by 1 July 2012, 2013, 2014 and 2015, respectively. Subsequently, 1,250,000 shares have been repurchased and cancelled by the Company on June 2012, pursuant to the resolution of the board of directors of the Company. During the year ended 31 December 2013, the transfer of 2,500,000 shares has been cancelled by the Company, pursuant to the resolution of the 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.

31. SHARE-BASED PAYMENTS *(continued)*

(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 the 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, being 10% of the total number of the Shares in issue at the time when dealings of the Shares first commence on the Stock Exchange.

The total number of the 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.

The following share options were outstanding under the Share Option Scheme during the year ended 31 December 2013:

	Year ended 31 December 2013	
	Weighted average exercise price per share HK$	Number of options '000
At 1 January 2013		—
Granted during the year	1.48	32,518
Forfeited during the year	1.50	1,433
At 31 December 2013		31,085

There were no share options granted under the Share Option Scheme in 2012. No share options under the Share Option Scheme were exercised during the years ended 31 December 2013.

The exercise period of the share options granted commences after a vesting period of 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 Share Option Scheme, if earlier.

31. SHARE-BASED PAYMENTS *(continued)*

(2) Share Option Scheme *(continued)*

The exercise prices and exercise periods of the share options under the Share Option Scheme outstanding as at 31 December 2013 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
3,000	1.30	12 April 2013 to 11 April 2023
28,085	1.50	23 August 2013 to 22 August 2023
31,085	1.48	

The fair value of the share options under Share Option Scheme granted during the year ended 31 December 2013 was RMB4,480,000, of which the Group recognised a share option expense of RMB1,240,000 during the year ended 31 December 2013.

The fair value of all equity-settled share options under the Share Option Scheme granted during the year ended 31 December 2013 was estimated as at the date of grant using a binomial model, taking into account:

	12 April 2013	**23 August 2013**
Dividend yield (%)	**2.28%**	**1.92%**
Expected volatility (%)	**32.8%**	**32.8%**
Risk-free interest rate (%)	**0.98%**	**2.49%**
Maturity date	**11 April 2023**	**22 August 2023**
Weighted average exercise price (HK$ per share)	**1.30**	**1.50**

As at 31 December 2013, the Company had 61,755,000 and 31,085,000 share options outstanding under the Pre-IPO Schemes and the Share Option Scheme, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 92,840,000 additional ordinary shares of the Company and additional share capital of RMB730,000 and share premium of RMB102,834,000(before issue expenses).

At the date of approval of these financial statements, the Company had totally 92,840,000 share options outstanding under the Pre-IPO Schemes and the Share Option Scheme, which represented approximately 6.3% of the Company's shares in issue as at that date.

32. RESERVES

(a) Group

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

(i) Share premium

Share premium account represents 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.

32. RESERVES *(continued)*

(b) Company

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses) /Retained earnings RMB'000	Total RMB'000
At 1 January 2013	**477,424**	**59,312**	**8,205**	**(3,316)**	**—**	**541,625**
Total comprehensive income for the year	**—**	**—**	**—**	**(7,880)**	**4,402**	**(3,478)**
Issue of shares	**2,067**	**—**	**(205)**	**—**	**—**	**1,862**
Equity-settled share option arrangements	**—**	**—**	**3,725**	**—**	**—**	**3,725**
Interim dividend	**(6,190)**	**—**	**—**	**—**	**(3,210)**	**(9,400)**
At 31 December 2013	**473,301**	**59,312**	**11,725**	**(11,196)**	**1,192**	**534,334**
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 final dividend	(366)	—	—	—	(30,625)	(30,991)
At 31 December 2012	477,424	59,312	8,205	(3,316)	—	541,625

33. DISPOSAL OF A SUBSIDIARY

	Note	2013 RMB'000
Net assets disposed of:		
Property, plant and equipment		7
Prepayments and other receivables		977
		984
Gain on disposal of a subsidiary	5	16
		1,000
Satisfied by:		
Cash		1,000

On 8 December 2013, the Group disposed Shanghai Yimin Commercial Development Co., Ltd., an indirectly wholly-owned subsidiary of the Company, to a company controlled by two key management staff of the Group. Shanghai Yimin Commercial Development Co., Ltd. was set up on 1 November 2011 and planned to be a trading company engaged in sales of value-added products in Mainland China, while it still has not started its operation. Total consideration was RMB1,000,000 which was equal to the paid-in capital of Shanghai Yimin Commercial Development Co., Ltd.

34. 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 12 years.

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

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Within one year	**244,530**	202,115
In the second to fifth years, inclusive	**814,450**	741,388
After five years	**410,458**	422,117
	1,469,438	1,365,620

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34, the Group had the following capital commitments at the end of the reporting period:

	Group	
	31 December 2013 RMB'000	31 December 2012 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**51,381**	41,509

36. 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:

	Notes	Year ended 31 December 2013 RMB'000	2012 RMB'000
Fee income from provision of food processing service	(i)	**538**	681
Management fee income	(ii)	**3,000**	3,000
Property rental expense	(iii)	**2,971**	5,483
Integrated property management expense	(iv)	**—**	229
Purchases of goods and service	(v)	**41,870**	1,533
Sales of goods and service	(vi)	**25,548**	7,000

Notes:

(i) The Group made purchases on behalf of certain related companies and charged a 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 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 and extended the lease period to 31 December 2014 in 2012. During the year ended 31 December 2013, no rental was charged by Hongqiao XNG pursuant to a supplemental agreement signed in 2013 (2012: RMB4,000,000).

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 RMB2.7 million and with 2% growth each year. The actual fee charged during the year ended 31 December 2013 was RMB 2,971,000, with a service fee included (2012: RMB1,483,000).

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 2013, no rental was charged by Xiao Nan Guo (Group) Co., Ltd. pursuant to a supplemental agreement signed in 2013 (2012: Nil).

(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. The service fee was charged based on actual costs incurred. During the year ended 31 December 2013, no service fee was charged by Hongqiao XNG pursuant to a supplemental agreement signed in 2013 (2012: RMB229,000).

(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 the Purchase Agreement was 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. There was no transaction conducted in 2013 (2012: Nil).

36. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

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") and should be reviewed annually. 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 conducted in 2013 amounted to RMB44,000 (2012: RMB1,533,000).

The Group entered into a shrimp purchase agreement with Yan Cheng Guan Hua Seafood Production Co., Ltd, which became an associate of the Group in 2013. The purchase price was mutually agreed based on the market price. The transaction incurred in 2013 amounted to RMB41,826,000 (2012: RMB30,351,000).

(vi) The Group sold gift boxes to Xiao Nan Guo (Group) Co., Ltd. amounting to RMB1,150,000 based on market price (2012: RMB2,936,000).

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 RMB24,398,000 during the year ended 31 December 2013 (2012: RMB4,064,000).

(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 2013, the Group disposed its leasehold improvement and equipment of closed restaurants to a company owned by the Controlling Shareholder, with total consideration as RMB16,297,000, which was the net book value of these assets as at related restaurant closure dates (2012: RMB9,813,000).

(iii) On 8 December 2013, the Group disposed Shanghai Yimin Commercial Development Co., Ltd., an indirectly wholly-owned subsidiary of the Group, to a company controlled by two key management staffs of the Group. Total consideration was RMB1,000,000 which was equal to the paid-in capital of Shanghai Yimin Commercial Development Co., Ltd..

(c) Outstanding balances with related parties

(i) The amounts due from/to companies owned by the Controlling Shareholder are disclosed in notes 22, 24 and 25 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

(ii) The amounts due from/to the associate are disclosed in note 22 and 24 to the financial statements. These balances are unsecured, interest-free and repayable within 30 days after receiving the invoice.

36. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**6,177**	8,434
Equity-settled share-based payment	**1,726**	1,585
Total compensation paid to key management personnel	**7,903**	10,019

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

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

37. 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 2013

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	10,100	10,100
Long-term rental deposits	54,975	—	54,975
Trade receivables	16,214	—	16,214
Financial assets included in prepayments, deposits and other receivables	84,085	—	84,085
Cash and cash equivalents	324,499	—	324,499
	479,773	10,100	489,873

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group - 31 December 2013 *(continued)*

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Long-term payables	—	51,345	51,345
Trade payables	—	84,808	84,808
Financial liabilities included in other payables and accruals	—	135,374	135,374
Derivative financial instruments	401	—	401
Interest-bearing bank loans	—	203,236	203,236
	401	474,763	475,164

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

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group - 31 December 2012 *(continued)*

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

Company - 31 December 2013

Financial assets

	Loans and receivables RMB'000
Due from subsidiaries	**485,204**
Deposit and other receivables	**1,877**
Cash and cash equivalents	**1,788**
	488,869

Company - 31 December 2012

Financial assets

	Loans and receivables RMB'000
Due from subsidiaries	332,514
Cash and cash equivalents	192,822
	525,336

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, long-term rental deposits, long-term payables, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank loans 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.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including interest rate swaps, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	401	—	401

The Group did not have any financial liabilities measured at fair value as at 31 December 2012.

During the year, there were no transfers of financial instruments measured at fair value between Level 1 and Level 2 and no transfers of financial instruments measured at fair value into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, 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.

The Group also enters into derivative transactions, including principally interest rate swaps contracts. The purpose is to manage the interest rate arising from the Group's operations and its sources of finance. .

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. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

None of the Group's sales or purchases for the year ended 31 December 2013 (2012: Nil) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's loans when they are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the U.S. dollar exchange rate with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in U.S. dollar rate %	Increase/ (decrease) in profit before tax RMB'000
2013		
If RMB strengthens against US$	5	3,796
If RMB weakens against US$	(5)	(3,796)

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

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. Management closely monitors the interest rate exposure and assesses its impact on the Group's performance.

The Group does not have material exposure to interest rate risk as the Group does not have long-term debt obligations with a floating interest rate as at 31 December 2013.

Credit risk

The Group trades with a large number of diversified customers and trading terms are mainly on cash and credit card settlement, and 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 2013 and 2012, all bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. As at 31 December 2013 and 2012, the Group had bank loans of RMB203,236,000 and RMB156,795,000, respectively. All of the borrowings would be mature or repaid on demand in less than one year as at 31 December 2013 and 2012 based on the carrying value of borrowings reflected in the financial statements. The directors review the Group's working capital and capital expenditure requirements and consider the liquidity risk is manageable.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

Group

31 December 2013

	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	5,224	49,415	153,919	—	208,355
Trade payables	1,479	83,329	—	—	84,808
Financial liabilities included in other payables and accruals	135,374	—	—	—	135,374
Derivate financial instruments	—	204	197	—	401
Long-term payables	—	—	—	51,345	51,345
	136,853	132,948	159,137	51,345	480,283

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

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 period.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 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:

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management *(continued)*

	31 December 2013 RMB'000	31 December 2012 RMB'000
Interest-bearing bank loans	**203,236**	156,795
Trade payables	**84,808**	82,238
Other payables and accruals	**224,285**	189,108
Less: Cash and cash equivalents	**(324,499)**	(416,797)
Net debt	**187,830**	11,344
Equity attributable to owners of the Company	**778,676**	820,267
Capital and net debt	**966,506**	831,611
Gearing ratio	**19.4%**	1.4%

40. CONTINGENT LIABILITIES

As at 31 December 2013, neither the Group nor the Company had any significant contingent liabilities (31 December 2012: Nil).

41. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Company or by the Group after 31 December 2013.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2014.

FIVE YEARS FINANCIAL SUMMARY

RMB'000	2009	2010	2011	2012	**2013**
Revenue	658,971	872,477	1,088,582	1,332,298	**1,385,911**
Cost of inventories consumed	(233,671)	(297,325)	(361,342)	(424,536)	**(458,756)**
Gross profit	425,300	575,152	727,240	907,762	**927,155**
Other income	10,548	23,109	30,086	45,966	**40,006**
Selling and distribution costs	(295,503)	(401,148)	(525,135)	(689,186)	**(829,998)**
Administrative expenses	(44,657)	(67,255)	(85,252)	(106,006)	**(113,005)**
Other expenses	(159)	(386)	(2,364)	(397)	**(10,686)**
Finance costs	(2,206)	(3,446)	(3,287)	(6,125)	**(7,671)**
PROFIT BEFORE TAX	93,323	126,026	141,288	152,014	**5,801**
Income tax expense	(21,247)	(29,940)	(34,269)	(33,484)	**(5,130)**
PROFIT FOR THE YEAR FROM THE CONTINUING BUSINESS	72,076	96,086	107,019	118,530	**671**
Profit from non-continuing business	(349)	386	–	–	**–**
Profit for the Year	71,727	96,472	107,019	118,530	**671**
Attributable to:					
Owners of the Company	71,727	96,472	107,019	118,530	**1,075**
Non-controlling interests	–	–	–	–	**(404)**
Total non-current assets	211,578	302,176	566,453	704,386	**824,319**
Total current assets	321,998	321,759	510,104	614,033	**541,857**
Total current liabilities	286,378	485,305	650,001	458,134	**530,843**
Total assets net of current liabilities	247,198	138,630	426,556	860,285	**835,333**
Total non-current liabilities	14,556	18,780	72,296	40,018	**52,061**
Net assets	232,642	119,850	354,260	820,267	**783,272**