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上海小南国
SHANGHAI MIN

Xiao Nan Guo Restaurants Holdings Limited
小南國餐飲控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3666)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2014	**2013**	**% Change** *increase/ (decrease)*
Revenue (RMB'000)	1,544,199	1,385,911	11.4%
Gross profit[1] (RMB'000)	1,034,927	927,155	11.6%
Gross margin[2]	67.0%	66.9%	0.1%
Profit for the year (RMB'000)	1,032	671	53.8%
Net profit margin[3]	0.07%	0.05%	0.02%
Earnings per share — Basic	RMB0.04 cents	RMB0.07 cents	
Number of restaurants[4] (as at 31 December)	103	83	

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 Number of restaurants as at 31 December 2014 includes 81 Shanghai Min restaurants, 4 Maison De L'Hui restaurants, 17 the dining room restaurants and 1 Shanghai Min's Family Dining restaurants.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Xiao Nan Guo Restaurants Holdings Limited (the "Company" or "Xiao Nan Guo") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014, together with comparative figures for the year 2013, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	**2014** *RMB'000*	**2013** *RMB'000*
REVENUE	4	1,544,199	1,385,911
Cost of sales		(509,272)	(458,756)
Gross profit		1,034,927	927,155
Other income and gains	4	46,616	40,006
Selling and distribution expenses		(931,853)	(829,998)
Administrative expenses		(127,812)	(113,005)
Other expenses		(7,746)	(10,686)
Finance costs		(6,015)	(7,671)
PROFIT BEFORE TAX	5	8,117	5,801
Income tax expense	6	(7,085)	(5,130)
PROFIT FOR THE YEAR		1,032	671
Attributable to:			
Owners of the Company		566	1,075
Non-controlling interests		466	(404)
		1,032	671
Earnings per share attributable to ordinary equity holders of the Company			
Basic	8	RMB0.04 cents	RMB0.07 cents
Diluted	8	RMB0.04 cents	RMB0.07 cents

Details of the dividends declared for the year are disclosed in note 7 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	1,032	671
OTHER COMPREHENSIVE INCOME/(LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS:		
Exchange differences on translation of foreign operations	1,001	(7,877)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	1,001	(7,877)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	2,033	(7,206)
Attributable to:		
Owners of the Company	1,567	(6,802)
Non-controlling interests	466	(404)
	2,033	(7,206)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 31 December RMB'000	2013 31 December RMB'000
NON-CURRENT ASSETS			
Property and equipment		685,999	685,506
Intangible assets		4,325	4,500
Available-for-sale investments		20,100	20,100
Long-term rental deposits		66,234	54,975
Deferred tax assets		72,611	58,869
Other long-term assets		157	369
Total non-current assets		849,426	824,319
CURRENT ASSETS			
Inventories		45,014	49,901
Trade receivables	9	18,068	16,214
Prepayments, deposits and other receivables	10	175,693	151,243
Cash and cash equivalents	11	269,305	324,499
Total current assets		508,080	541,857
CURRENT LIABILITIES			
Trade payables	12	102,458	84,808
Derivative financial instruments		—	401
Interest-bearing bank loans		236,141	203,236
Tax payable		16,240	16,715
Other payables and accruals	13	150,508	224,285
Deferred income		841	1,398
Total current liabilities		506,188	530,843
NET CURRENT ASSETS		1,892	11,014
TOTAL ASSETS LESS CURRENT LIABILITIES		851,318	835,333

	Note	2014 31 December *RMB'000*	2013 31 December *RMB'000*
NON-CURRENT LIABILITIES			
Long-term payables		61,887	51,345
Deferred tax liabilities		777	716
Total non-current liabilities		62,664	52,061
Net assets		788,654	783,272
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	12,062	12,047
Treasury shares		(2,711)	—
Reserves		772,809	766,629
		782,160	778,676
Non-controlling interests		6,494	4,596
Total equity		788,654	783,272

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

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 address 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 chain restaurants 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.

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"). These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 for the year ended 31 December 2014. 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 revised IFRSs standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in Annual Improvements 2010-2012 Cycle	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in Annual Improvements 2010-2012 Cycle	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in Annual Improvements 2010-2012 Cycle	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in Annual Improvements 2011-2013 Cycle	*Meaning of Effective IFRSs*

[1] Effective from 1 July 2014

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

2.3 NEW AND REVISED IFRSS AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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 Instruments4*
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*[2]

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 January 2018

5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge

accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

3. 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***

	For the year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Mainland China	1,279,567	1,148,571
Hong Kong	235,946	225,363
Others	28,686	11,977
	1,544,199	1,385,911

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

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

	31 December 2014	**31 December 2013**
	RMB'000	*RMB'000*
Mainland China	699,066	676,126
Hong Kong	54,659	67,877
Others	2,990	1,347
	756,715	745,350

3. OPERATING SEGMENT 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 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 2014 and 2013, no segment information about major customers as required by IFRS 8 *Operating Segments* is presented.

4. 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:

		For the year ended 31 December	
		2014	**2013**
		RMB'000	*RMB'000*
(a)	**Revenue**		
	Restaurant operations	1,535,342	1,383,494
	Other revenue	8,857	2,417
		1,544,199	1,385,911
(b)	**Other income**		
	Government grants	33,250	23,522
	Bank interest income	1,976	5,363
	Management service income	8,877	3,000
	Compensation income from landlords	—	2,816
	Foreign exchange differences	—	3,968
	Others	2,513	1,321
		46,616	39,990
(c)	**Gains**		
	Gain on disposal of a subsidiary	—	16
		46,616	40,006

5. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Cost of inventories consumed	509,272	458,756
Depreciation	126,184	110,002
Amortisation of intangible assets	1,294	1,176
Amortisation of other long-term assets	212	212
Minimum lease payments under operating lease on buildings	273,340	248,504
Auditors' remuneration	3,089	2,456
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	354,978	314,355
Equity-settled share option expense	3,000	3,725
Defined contribution pension scheme	100,726	88,090
	458,704	406,170
Unrealised loss on an interest rate swap	—	401
Bank interest income	(1,976)	(5,363)
Loss on disposal of items of property and equipment	6,501	9,996
Gain on disposal of a subsidiary	—	(16)

6. INCOME TAX EXPENSE

	For the year ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Group:		
Current — Mainland China charged for the year	18,368	28,069
Current — Hong Kong and elsewhere charged for the year	2,398	2,700
Deferred tax	(13,681)	(25,639)
Total tax charge for the year	7,085	5,130

6. INCOME TAX EXPENSE (CONTINUED)

Hong Kong profits tax has been provided at the rate of 16.5% (2013:16.5%) 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 Group and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	The Group	
	2014	**2013**
	RMB'000	*RMB'000*
Profit before tax	8,117	5,801
Tax at the statutory tax rate of 25% (2013: 25%)	2,029	1,450
Lower tax rate for specific provinces or enacted by local authority	(578)	(26)
Income not subject to tax	(400)	(642)
Expenses not deductible for tax	1,923	1,057
Tax losses and temporary differences not recognised during the year	4,111	3,291
	7,085	5,130

7. DIVIDENDS

	For the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Interim — Nil (2013: HK$0.008) per ordinary share	—	9,400

No interim and final dividend was declared for 2014.

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 declared for 2013.

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

The calculation of the basic earnings per share for the year ended 31 December 2014 is based on the consolidated profit attributable to the equity holders of the Company and the weighted average number of ordinary shares of 1,465,593,392 (2013: 1,458,514,307) in issue during the year.

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

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

	For the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	566	1,075

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (CONTINUED)

	For the year ended 31 December	
	2014	**2013**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	1,465,593,392	1,458,514,307
Effect of dilution — weighted average number of ordinary shares: Share options	—	953,278
Number of ordinary shares used in the diluted earnings per share calculation	1,465,593,392	1,459,467,585

* Not taking into account 11,250,000 ordinary shares issued to Affluent Harvest Limited, a wholly-owned subsidiary of the Company, and treasury share of 3,472,000 shares repurchased by the Company.

9. 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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 2014 31 December	**As at 2013 31 December**
	RMB'000	*RMB'000*
Within 1 month	12,224	9,968
1 to 2 months	2,548	2,322
2 to 3 months	1,163	1,247
Over 3 months	2,133	2,677
	18,068	16,214

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.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 2014 31 December	As at 2013 31 December
	RMB'000	*RMB'000*
Deposits and other receivables	59,108	40,722
Prepaid expense	24,852	24,399
Amount due from companies owned by the Controlling Shareholder	53,923	63,467
Amount due from a director of major subsidiaries in Hong Kong	455	131
Prepayments	37,355	22,524
	175,693	151,243

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

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

11. CASH AND CASH EQUIVALENTS

	The Group	
	31 December 2014	31 December 2013
	RMB'000	*RMB'000*
Cash and bank balances, unrestricted	264,501	320,192
Time deposits with original maturity of less than three months	4,804	4,307
Cash and cash equivalents	269,305	324,499

The cash and bank balances and time deposits of the Group's subsidiaries in Mainland China denominated in RMB amounted to RMB183,126,000 and RMB189,545,000 as at 31 December 2014 and 2013 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.

12. TRADE PAYABLES

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

	31 December 2014	31 December 2013
	RMB'000	*RMB'000*
Within 3 months	99,850	83,329
3 months to 1 year	1,112	276
Over 1 year	1,496	1,203
	102,458	84,808

The balance of trade payables is interest-free and repayable usually within 30 days after the invoices were issued.

13. OTHER PAYABLES AND ACCRUALS

	31 December 2014	31 December 2013
	RMB'000	*RMB'000*
Payroll and welfare payables	37,910	33,710
Taxes other than corporate income tax	9,238	7,388
Other payables for construction in progress	50,198	82,797
Accruals and other payables	46,165	37,256
Advances from customers	6,997	63,134
	150,508	224,285

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

14. ISSUED SHARE CAPITAL

Shares

	31 December 2014	31 December 2013
	RMB'000	*RMB'000*
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)	1,478,826,000	1,476,880,000
Equivalent to RMB'000	12,062	12,047

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	Share premium	Equivalent nominal value of ordinary shares	Equivalent share premium
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*
Balance as					
At 1 January 2013	1,475,000,000	14,750	589,328	12,032	477,424
Share options exercised	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
Share options exercised	1,946,000	19	2,844	15	2,237
At 31 December 2014	1,478,826,000	14,788	586,752	12,062	475,538

Note: The Company repurchased a total of 3,472,000 shares (of HK$0.01 each) of the Company on the Stock Exchange during the year at a total consideration of HK$3,436,000 (equivalent to RMB2,711,000). The shares repurchased were cancelled on 7 January 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2013, due to the Central Government's anti-corruption measures and the downside of the general economic growth of China, the restaurant industry in China recorded the lowest growth in 22 years. In particular, there was an acute fall in the growth of the middle- to high-end restaurants in many cities, resulting in seriously negative impacts on the industry since the coming of the new century (excluding the period during the SARS). Looking back over 2014 after the low tide period, the nationwide catering revenue amounted to RMB2,786 billion, representing a year-on-year increase of 9.7%, which ended the three consecutive years of sluggish performace. (source: National Bureau of Statistics)

The restaurant industry in China stably rejuvenated in 2014. In view of the strong demand and stable growth of public catering, it became the mainstay of the industry development. Along with this were the continuous urbanization progress and the explosive growth of commercial property, resulting in an intense market competition due to the increasing number of players entering into the public catering industry. Looking back over the middle- to high-end restaurant market suffering serious hit in 2013, the enterprises remained in the industry after natural evolution, upgrading and restructuring are those who are well prepared to greet the dawn. On one hand, the market has not recovered and the entry barriers are high, which restraint new players from entering into the market. On the other hand, demand for personal consumption is increasing, which reverses the declines of the medium- to high-end market.

During 2013 and 2014, the restaurant industry in China suffered serious hit, with reformation, diverse development and transformation being the theme for the industry development. Catering is a civil industry that never perishes, and it has entered into a new phase of "restarting a business venture".

FINANCIAL PERFORMANCE FOR 2014

Xiao Nan Guo reported a revenue increase of 11.4% to RMB1,544.2 million in 2014, which was primarily attributable to the contribution of new restaurants and Micheline licensing business. Gross profit for the year increased by 11.6% to RMB1,034.9 million, with net profit increasing by 53.8% to RMB1.0 million.

OPERATIONS REVIEW FOR 2014

- **Development strategies of developing multi-brand and implementing standardization replication**

  The changes of restaurant industry came along with challenges and opportunities. In 2014, according to the changes of market demand, we continued to capitalize our advantage in standardization, further improve our standardization progress and refine management, so as to strengthen the brand influence and market competitiveness of the Company's core brand, Shanghai Min, in various districts, and enhance the single store operating level and profitability.

  We commenced the multi-brand development strategy in 2014 and established "the dining room", a popular and stylish brand, in 2012 which developed rapidly after one year model adjustment and market development. The nationwide development of "Shanghai Min", the inter-regional development of "the dining room" and the standard replication has built a solid foundation for us to fully explore the market and acculumate valuable practical experiences.

  The Company success fully practised the licensing operation model, and launched "Michelin" milk tea brand. The brand developed nationwide through the way of licensing operation. Meanwhile, the Company also focused on mid-end consumer market, actively tapped on new fields, introduced premium international catering brands, sought acquisition opportunities, and developed more new brands. These brands are young and stylish, represent state-of-the-art catering format and catering culture. The brands can be replicated and are easy to be standardized. We believe that the economies of scale of mulit-brand strategy will give full play in the near furture with the strong brand influence of the Company, the comprehensive mechanism of headquarters, the leading experience in standardization replication in the industry, as well as the management systems across 21 cities.

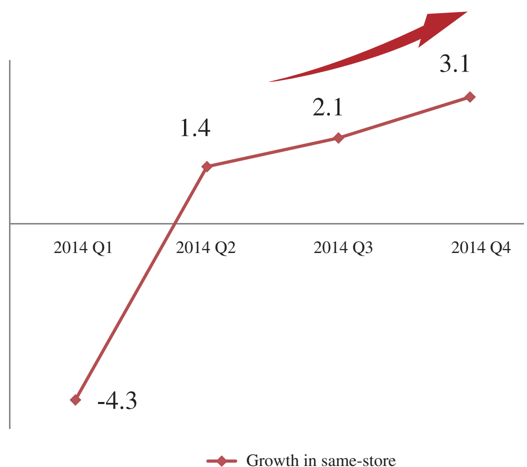
- **Performance of various brands**

  - **Shanghai Min: more accurate positioning to ensure stable growth**

    In 2014, we newly opened 11 "Shanghai Min" restaurants. As of 31 December 2014, Shanghai Min has 81 restaurants.

    Shanghai Min is the core brand representing the largest share of revenue of the Company. It is significantly affected by changes of consumption demand, and recorded a 10.2% decline in annual same-store sales in 2013. In the first quarter of 2014, the decline started to narrow and the same-store sales decreased

Continous growth in revenue of same-store form Shanghai Min



4.3%. The same-store sales rose continuously from the second quarter to the end of the year. It recorded increase in same-store sales of 1.4%, 2.1% and 3.1% in the second, third and fourth quarters respectively. It is worth mentioning that the year-on-year increase of revenue was mainly driven by the increase of customer traffic which recorded a 6.3% same store, customer traffic increase for the whole year.

The recovery of business of Shanghai Min was mainly attributable to the following factors:

1) Upon the gradual recovery of the market, the competiton edge became more apparent and the advantages from brand equity tended to be very appealing. From a market perspective, there was buoyant demand for medium- to high-end personal consumption and business consumption. The market consolidation resulted in supply reduction and weaker competition. In this market environment, Shanghai Min regulated its operating mode and changed its marketing strategy. It also strived to provide quality dishes and comfortable dining experience to consumers, instead of changing its medium- to high-end brand positioning substantially. Shanghai Min capitalized its brand advantages and won the trust of more consumers.

2) More accurate positioning to categorise stores. We divided the existing Shanghai Min restaurants in China into business banquet stores and personal consumption stores targeting different geographic districts, different business districts and different consumer groups. We differentiated the dining environment and service standard, and gradually personalized the dishes, in order to cater for specific dining requirements of different types of consumers. As for the second tier cities with lower personal consumption level, we adjusted the menu, carried out marketing activites, and sought third party promotion channels so as to attract more consumers. After a year of continued efforts, it was obvious to distinguish the development trends of business banquet stores and personal consumption stores. The expenditure of same store per capita of the former stood at RMB285, which was in par with that of last year. The expenditure per capita of the latter decreased 7.0% to RMB184. The same-store sales and customer traffic for both also increased.

3) The Company widened the operating dimensions and broadened the income stream. We strived to improve the operation of existing stores, and actively explored operating opportunities such as banquets, branded merchandises and catering, so as to increase the income stream for limited space of stores.

4) The Company adjusted its stores actively. In 2014, 2 Shanghai Min restaurants were closed , and suspended 4 loss-making outlets to stop losing proactively. With respect to these closed or suspended stores, we will implement different adjustment measures to these outlets according to different situations, such as negotiating with owners for rent reduction, subcontracting or suspension pending the rejuvenation of business districts. The Company has basically closed or discontinued the operation of substantial loss-making outlets in 2013 and 2014.

We believe that the potential of medium- to high-end consumer market will be further explored with the continuous economic growth and the increasing personal consumption demand. Shanghai Min will leverage its brand, product and operation advantages accumulated for 28 years, to strengthen its market position and enhance its profitability.

- **the dining room: standardization replication has entered rapid growth phase**

In 2014, we had a net increase of 11 stores. As of 31 December 2014, there were altogether 17 restaurants. In addition to the continuous business expansion in existing cities such as Shanghai and Shenzhen, we also opened the dining room restaurants at Beijing, Tianjin, Shenyang and Macau.

The rapid replication of the dining room was attributable to its efficient and simple business mode, and the well-established headquarter functions, standardized system, centralized kitchen system and warehouse logistics system of Shanghai Min, so that the brand could expand to different districts in cost-effective ways. The sales revenue ratio of the dining room restaurants was taking shape and increased from 4.2% in 2013 to 8.3% in 2014. In 2014, the same-store sales of the dining room restaurants increased by 1.4%, and the dining room in Hong Kong continued to expand stably. The dining room in the PRC does not have same-store data for comparison. As at the end of 2014, based on the data from the well-established stores that had opened for over one year, the average table-turn rate was 4.3 times and the operating profit margin of the stores ware 13.1%.

During the process of standardization replication, we adjusted the products and price of the dining room restaurants so as to adapt to the consumption requirement in different districts. For example, we increased the variety of dishes and adjusted the volume of certain dishes for consumers in Northern China; we reduced the price of certain dishes for second tier cities to adapt to local spending power. The Company will continue to optimize the cost structure of the dining room in order to adapt to further rapid expansion.

- **Maison De L' Hui: experienced growth in time of adversity and established industry benchmark**

  Maison De L' Hui, our high-end brand, was the brand that recorded the fastest recovery among all brands of the Company in 2014. Although the expenditure per capita reduced 21.9%, it achieved an outstanding performance of annual same-store sales increase of 12.7% and customer traffic growth of 44.3%. The Maison De L' Hui recorded positive same-store sales for four quarters, of which, the same-store revenue increase for the fourth quarter reached 26.6%.

  By leveraging on the sophisticated proliferation of the brand of the operators, Maison De L' Hui developed rapidly in the restaurant market of China, in particular under the adverse market environment of high-end restaurants. Facing with the sudden changes in the industry, Maison De L' Hui adjusted its operating strategies and consistently improved its products and services, so as to cater for the demand of high-end business banquet and high-end household consumption in the new market environment. It also increased income stream by adding afternoon tea, strengthening marketing efforts and cooperation with third parties and developing catering, which helped to realize growth in time of adversity and establish industry benchmark.

- **Licensing operation model of low risks and rapid development**

  In order to make full use of the existing headquarter functions (such as development, operation and logistics) of the Company, leverage our advantages in inter-regional operation and management and realize economies of scale, the Company successfully achieved licensing operation model. As the products are trendy, value for money, simple and easy to replicate, the business is full of potential. On the other hand, the business encounters the pressure of a shorter product life cycle and being prone to imitation. As a result, the Company utilised the functions of our headquarters to provide management services for third parties, and conducted licensed operation on trial basis via this platform to reduce risks.

We started to manage the "Uncle Tetsu" Cheese Cake brand at the end of 2013, and acted as the licensor in seven cities in China. The management service income of RMB5.0 million was contributed to the net profit of the Company for the year of 2014. In the second half of 2014, we established the "Michelin" milk tea brand with a third party entrepreneur based on the experience of managing "Uncle Tetsu". Both parties have 50% interests in the brand company. It operates in the form of licenses for nationwide development. The brand company will receive one-off store operation premium and management service income of at least 4% of turnover from the franchisees. As of the end of 2014, the brand had granted 106 licenses and received store operation premium of RMB6.5 million had already accounted into other income of the Company.

- **Acquisition: developing western cuisine and cafe business, and upgrading development platform**

The Company completed the acquisition of 65% equity interest of Pokka HK that signed contract at the end of 2014 at a consideration of HK$195 million. The Company will jointly develop Japanese and western restaurant and cafe business in Mainland China, Hong Kong and Macau with the original management team of Pokka HK in the future. The Company completed the transaction in early 2015. Pokka HK has over 20 years of history with 32 restaurants and 10 brands. It mainly offers popular western and Japanese casual catering.

There were five reasons for the Company to acquire Pokka HK:

1) A very reasonable Enterprise value/EBITDA ("EV/EBITDA[1]") ratio: EV/EBITDA for the previous three financial years ranged from 4.6 times to 5.4 times; EV/EBITDA ratio significantly reduced after deducting the realized value of the property of Pokka HK.

2) A good strategic fit: the branding strategy of Pokka HK coincided with that of Xiao Nan Guo, which has outstanding competence in multi-brand operation and acts as a supplement to the Company's western cuisine segment that the Company has not get provided.

3) Enhancing the Group's development platform in Hong Kong: Pokka HK has established its restaurant business in Hong Kong for over 20 years. It has strong local resources and will bring synergistic effect after integrating with the Company's Hong Kong business.

4) Casual western cuisine has great potential in China: Pokka has established a mature cafe business in Hong Kong, and casual catering business has great potential in China.

5) The Company achieved business growth via the acquisition.

Note:

1 EV/EDITDA: Enterprise value/Earnings before Interest, Taxes, Depreciation and Amortization, which is usually used as a model for the valuation of an acquisition

- **Multi brand development: major brands were obtained through introduced and acquisition**

Under the multi-brand strategy and the guidance of favouring the prospect of casual western restaurants in China, the Company actively introduced overseas premium brands and integrated the international state-of-the-art catering business segment with the catering environment in China, so as to bring new trend for the restaurant industry and explore new area of growth for the industry.

In the first half of the year, the Company entered into a joint venture agreement with Oreno Corporation (俺の株式會社), a well-known restaurant group in Japan, with a shareholding of 68% by the Company and 32% by the Japanese company. The joint venture will develop an "俺の" restaurant brand providing Japanese and western cuisine in the Greater China region. The selling point of "俺の" brand is high-end Michelin star chef. It overturns the cost structure of the restaurant industry and provides premium cuisine of high value for money. It realizes profitability via high table turnover rate and a wide selection of highly competitive wine and beverages. The first restaurant under the brand commenced operation in Lan Kwai Fong, Hong Kong in February 2015. The second restaurant in is under renovation and is expected to open in the second quarter of 2015.

In the meantime, the Company signed a letter of intent with Wolfgang Puck, well-known multi-business restaurant companies in the USA.

Overseas premium brands provide us not only products tested by the market, but also mature experience of western cuisine management, which lay solid foundation for the Company to develop business in new area.

- **Further developing the CRM system and stored value cards business, and enhancing consumer loyalty**

  According to the CRM data analysis of the Company, the expenditure per capita and consumption frequency of members were higher than those of non-members. In 2014, the Company continued to put more efforts in recruiting new members and retaining existing members. In the second half of 2014, the Company upgraded the CRM membership system, provided card-free services and enhanced customer satisfaction. As of 31 December 2014, all brands of the Company had a total of over 600,000 members.

  In addition, the Company launched stored value membership cards on 1 April 2014. The cards can be used across all stores in Mainland China, which help to promote consumer loyalty and achieve synergistic effect of multi-brand operation. In 2014, the expenditure of stored value membership cards accounted for 8.6% of total revenue.

- **Improving headquarter functions to reach economies of scale; advancement of eight business units**

  Under the advancement of multi-brands and the deepening of inter-regional development, the Company continued to improve headquarter functions and establish a tougher process and business service system to adapt to the new stage of development and maximize the economies of scale. In this regard, the Company commences to replace the IT system, so as to remove the barriers of various systems, simplify the process and enhance efficiency.

  Meanwhile, our management structure underwent a major reorganization and eight business units were established according to the brands and business segments in mid 2014, in order to ensure effective implementation of the Company's strategies, enlarge the authorization and enhance the management effeciency. After the continued efforts for half a year, the reorganization shows preliminary results. The business units engaged in different consumer markets are able to react to the market demand more accurately and swiftly.

Strategic outlook for 2015:

With respect to the multi brand operation that Company has been conducting since 2014, it will further demonstrate its driving force to the development of the Company in 2015. The Company will also continue to capitalize on the advantages from standardization replication, and utilize the headquarter function in intra-region management to facilitate the rapid development of various brands.

- As to the main brand "Shanghai Min", we will use our best endeavours to increase its profitability. We will initiate the reform of roles at the stores, so as to reduce the proportion of labour cost to revenue. On the basis of standardization, we will promote the improvement of skills and expertise of basic staff at the stores, and link their personal interests with the Group, so as to increase customer satisfaction.

- As to "the dining room", we will optimize its business model to speed up the development. Efficiency was improved through detailed scheduling in order to optimize human resources allocation. With an emphasis in the difference of cuisine style between Northern and Southern China, the dining room modified the menu regarding the food for Northern China so as to increase their attractiveness to the local consumers. In 2015, apart from optimizing the structure, we will continue to maintain the rapid rate of development. It is expected that 15 new stores will be opened (11 new stores were opened in 2014).

- To further promote the multi brand development and achieve a multi-farcet development model. The preparation work for each new brand shall be launched through the business divisions or project teams so as to ensure the successful rate. According to the different features of each brand, we will invest to export our business model through the grant of license on trial basis in order to achieve growth in various way. We will continue to promote the licensing operation of Michelin. In addition, we will continue to promote the licencing operation of Michelin and further explore the management and synergy of our investment in Pokka after its acquisition.

- As to the control from the headquarter, we will devote additional efforts to control the increase of expenses at the headquarter and promote the culture of cost saving. The management will lead as a role model in this regard. We will also proactively create the right corporate culture, enhance our remuneration motivation mechanisms to attract various kinds of talents. Through acquiring a pool of talents, we shall preserve our leading position in the industry.

- As to the establishment of the brands, we will focus on the integrated promotion of our multi brands so as to establish their leading position in the industry. We will also enhance the attractiveness of the Shanghai Min brand to the consumers.

- Better utilize new channels such as Internet. Through exploring multi channels, our channels of operation become more diversified. The communication of our brands will become more economically effectively and can communicate more closely with the consumers so as to enhance their satisfaction. At present, the Company had already opened its official account with WeChat. The consumers are offered more convenience and have increased frequency in consumption. The Company shall also receive the feedbacks from the consumers more directly and provide a more direct basis for the decision making.

List of Multi-brand Developments

Type of brand	Name of brand	No. of stores as at 31 December 2013	No. of stores at 31 December 2014	No. of stores expected to open in 2015
Middle-to-high end Chinese food	Shanghai Min[1]	72	81	Not more than 5
	Maison De L'Hui	4	4	0
Western food	Oreno	/	/	4
	Pokka HK[2]	/	32	3
	Boat House	/	/	1
	Wolfgang Puck	/	/	1
Catering for mass public	the dining room	7	17	About 15
	Shanghai Min's Family Restaurant	/	1	0
	Beijing Hotpot	/	/	3

Type of brand	Name of brand	No. of stores as at 31 December 2013	No. of stores at 31 December 2014	No. of stores expected to open in 2015
Take-away food and delivery services	Michelin	/	32	58
	Uncle Tetsu	/	16	/
Total		83	183	90

Notes:

1 The brand of Shanghai Min includes 3 stores that the Company provides management services.

2 The contract for the acquisition of Pokka café was entered into in 2014, and the acquisition was completed on 7 January 2015. There are 32 stores under 10 brands in Pokka Café series such as Pokka Café and Tonkichi.

3 There are 32 "Michelin" stores operating through licensing operations.

4 The Company provides management services to 16 stores of "Uncle Tetsu".

FINANCIAL REVIEW

For the year of 2014, the Group's revenue reached approximately RMB1,544.2 million, representing an increase of approximately RMB158.3 million or 11.4% compared to approximately RMB1,385.9 million for 2013. Gross profit of the Group was approximately RMB1,034.9 million, an increase of approximately RMB107.7 million or 11.6% compared to approximately RMB927.2 million for 2013. For the year of 2014, profit of the Group reached approximately RMB1.03 million, representing an increase of approximately RMB0.36 million or 53.8% compared to approximately RMB0.67 million for 2013.

At 31 December 2014, the Group operated the restaurant network of 81 Shanghai Min restaurants, 4 Maison De L'Hui restaurants, 17 the dining room restaurants, and 1 Shanghai Min's Family Restaurants which cover some of the most affluent and fastest-growing cities in China[1], 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 2014 and 2013.

	For the year ended 31 December			
	2014		**2013**	
	Number of Restaurants[3]	*Revenue RMB'000 (audited)*	*Number of Restaurants*	*Revenue RMB'000 (audited)*
China[1]				
- Shanghai Min	71	1,144,338	62	1,091,277
- The Dining Room	4	50,270	4	47,844
- Maison De L'Hui	13	70,028	4	7,033
- Shanghai Min's Family Restaurant	1	6,074	—	—
Hong Kong				
- Shanghai Min	9	177,888	9	173,652
- The Dining Room	3	58,058	3	51,711
Macau				
- Shanghai Min	1	27,872	1	11,977
- The Dining Room	1	814	—	—
Total revenue of restaurant[2]	103	1,535,342	83	1,383,494
Other revenue		8,857		2,417
Total revenue[2]		**1,544,199**		**1,385,911**

Note

1 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.

2 In 2014, we opened 11 Shanghai Min restaurants, 11 "the dining room" restaurants, and 1 Shanghai Min's Family Restaurant. At the same time, 2 Shanghai Min restaurants and 1 "the dining room" restaurant were closed. As at the end of 2014, we operated 103 restaurants.

3 The number of restaurants does not include the series of 32 Pokka café stores that completed acquisition in 2015, 32 Michelin licensed stores and 16 stores of "Uncle Tetsu" that we provide management services.

REVENUE

Revenue of the Group increased by RMB158.3 million, or 11.4%, from RMB1,385.9 million in 2013 to RMB1,544.2 million in 2014. This increase was due to an increase of RMB151.8 million in revenue from the restaurant operations and revenue from Michelin store operation premium of RMB6.5 million newly added during the year.

REVENUE FROM RESTAURANT BUSINESSES

Revenue from restaurant operations increased by RMB151.8 million, or 11.0%, from RMB1,383.5 million in 2013 to RMB1,535.3 million in 2014 primarily reflecting our comparable restaurant sales from 51 restaurants (including Shanghai Min restaurants, the dining room restaurants and Maison De L' Hui restaurants) increased by RMB10.0 million, representing an increase of 1.0% from the 2013 to 2014.

Revenue from Shanghai Min restaurants increased by RMB 73.2 million as compared to 2013, of which comparable restaurant sales increased by RMB 3.8 million, representing 0.4%, as compared with 2013. A RMB 168.7 million increase in revenue from Shanghai Min restaurants that were newly opened in 2013. A RMB 44.3 million increase in revenue from Shanghai Min restaurants that were newly opened in 2014. Other stores[1] decreased by RMB 143.6 million as compared with 2013.

Revenue from Maison De L' Hui increased by RMB 2.4 million as compared to 2013, of which comparable restaurant sales increased by RMB 5.7 million, representing 12.7%, as compared with 2013. Other stores[1] decreased by RMB 3.2 million as compared with 2013.

Revenue from the dining room increased by RMB 70.2 million as compared to 2013, of which comparable restaurant sales increased by RMB 0.5 million, representing 1.4%, as compared with 2013. A RMB 40.8 million increase in revenue from the dining room restaurants that were newly opened in 2013. A RMB 28.9 million increase in revenue from the dining room restaurants that were newly opened in 2014.

A RMB6.1 million increase in revenue from 1 Shanghai Min's Family Restaurant that was newly opened in 2014.

Note 1: Other stores refer to the non-comparable stores other than the comparable stores, newly opened stores in 2013 and 2014 including those we renovated , changed, leased space, suspended operation of stores or location for or closed.

OTHER REVENUE

Other revenue increased from RMB2.4 million in 2013 to RMB8.8 million in 2014 by RMB6.4 million, of which revenue from Michelin store operation premium newly added in 2014 amounted to RMB6.5 million.

COST OF SALES

Cost of inventories consumed increased by RMB50.5 million, or 11.0%, from RMB458.8 million in 2013 to RMB509.3 million in 2014, which was primarily due to an increase in quantities of food and beverages consumed in our operations.

Cost of inventories consumed as a percentage of the revenue decreased by 0.1%, from 33.1% in 2013 to 33.0% in 2014.

OTHER INCOME

Other income increased by RMB6.6 million, from RMB40.0 million in 2013 to RMB46.6 million in 2014, primarily reflecting (i) Government grants received in the year 2014 compared with the year 2013 increased by RMB9.7 million; (ii) RMB5.9 million in management service fee income in 2014; (iii) a decrease of RMB4.0 million of exchange gain in 2014 when compared to 2013; (iv) interest income earned from bank decreased by RMB3.4 million in 2014 as compared to 2013; and (v) a decrease of RMB1.6 million in compensation from certain landlords and others in 2014 as compared to 2013.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by RMB101.9 million, or 12.3% efficiencies of the stores were enhanced and the number of staff at stores decreased, from RMB830.0 million in 2013 to RMB931.9 million in 2014, which primarily reflected the expansion of our operations in 2014 and rise in labor cost.

Labor costs related to the restaurants, central kitchens and central warehouses increased by RMB44.3 million, or 13.5%, from RMB329.3 million in 2013 to RMB373.6 million in 2014. Benefitted from the optimization of the stores process by the Company, efficiencies of the stores were enhanced and the number of staff at a single store decreased. Upon the increase in the standard of national social security, labour cost as a percentage of our revenue increased slightly by 0.4% from 23.8% in 2013 to 24.2% in 2014.

Rental costs related to restaurants, central kitchens and central warehouses increased by RMB25.3 million, or 10.5%, from RMB241.9 million in 2013 to RMB267.2 million in 2014. Rental costs as a percentage of our revenue decreased from 17.5% in 2013 to 17.3% in 2014, primarily attributable to the negotiation by the Company with certain landlords and achieved short term rental reduction.

Depreciation and amortisation charges related to the restaurants, central kitchens and central warehouses increased by RMB17.2 million, or 16.6%, from RMB103.8 million in 2013 to RMB121.0 million in 2014. Depreciation and amortisation charges as a percentage of our revenue increased from 7.5% in 2013 to 7.8% in 2014, primarily attributed to the depreciation of central kitchen in 2014 at Northern and Southern China that commenced operation at the end of 2013 and the operation of certain restaurants continued to generate depreciation charges.

GENERAL AND ADMINISTRATIVE EXPENSES

Administrative expenses increased by RMB14.8 million, or 13.1%, from RMB113..0 million in 2013 to RMB127.8 million in 2014. Such increase primarily reflected the expansion of scale of operation of the Company, the expansion of new brands and one-off expenses in acquisitions.

Labour cost of headquarter and management staff increased RMB8.2 million from RMB76.9 million in 2013 to RMB85.1 million in 2014, reflecting the expansion in the scale of the Company's operation. The proportion of labour cost to our revenue was 5.5% and remained the same as 2013.

Other administrative expenses increased RMB6.6 million from RMB36.1 million in 2013 to RMB42.7 million in 2014. Other administrative expenses as a percentage to our revenue increased from 2.7% in 2013 to 2.8% in 2014, was mainly attributable to our one-off investment in the expansion and acquisitons of new brands for the multi-brand operation.

INCOME TAX EXPENSE

Income tax expense increased by RMB2.0 million, or 39.2%, from RMB5.1 million in 2013 to RMB7.1 million in 2014, which was mainly attributable to a higher proportion of earnings shared by the Mainland region that has a higher tax burden compared with other regions.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year increased by RMB0.3 million, or 53.8%, from RMB0.7 million in 2013 to RMB1.0 million in 2014.

DIVIDENDS PAYABLE

In 2014, the Group did not have any dividends payable. As at 31 December 2014, there is no dividend payable outstanding.

LIQUIDITY, FINANCIAL RESOURCES AND CASH FLOW

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

As at 31 December 2014, the Group's total interest-bearing bank loans were RMB236.1 million.

In 2014, the Group had net cash inflows from operating activities of RMB78.8 million (2013: RMB112.0 million). As at 31 December 2014, the Group had RMB269.3 million in cash and cash equivalents (31 December 2013: RMB324.5 million). The following table sets the certain information regarding the consolidated cash flows for the years ended 31 December 2014 and 2013:

	As at ended 31 December	
	2014	**2013**
	RMB'000	*RMB'000*
Net cash flows from operating activities	78,814	112,002
Net cash flows used in investing activities	(164,729)	(202,532)
Net cash flows from financing activities	29,911	4,250
Net decrease in cash and cash equivalents	(56,004)	(86,280)
Cash and cash equivalents at beginning of the year	324,499	416,797
Effect of foreign exchange rate, net	810	(6,018)
Cash and cash equivalents at end of the year	269,305	324,499

OPERATING ACTIVITIES

Net cash inflow from operating activities decreased by RMB33.2 million from RMB112.0 million in 2013 to RMB78.8 million in 2014, which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB149.3 million (2013: RMB133.2 million), (ii) the operating cash outflow resulting from change of working capital of RMB 49.3 million (2013: inflow of RMB 20.9 million).

INVESTING ACTIVITIES

Net cash flow used in investing activities was RMB164.7 million in 2014, representing a decrease of RMB37.8 million as compared to 2013. It is mainly due to the opening of 11 new the dining room restaurants with an average investment of RMB3.0 million in a single restaurant in 2014, which was RMB7.0 million lower than the investment for a single store of Shanghai Min at around RMB10.0 million.

FINANCING ACTIVITIES

Net cash flow from financing activities changed from an inflow of RMB4.3 million during 2013 to an inflow of RMB29.9 million during 2014, representing an increase of RMB25.6 million, which was primarily attributable to (i) outstanding dividends payable in 2014 (2013: outflow of RMB40.4 million); (ii) net inflow from bank loan (proceeds received less loan repaid) of RMB32.9 million (2013: net inflow RMB46.4 million); and (iii) proceeds from acquisition of non-controlling interests of RMB2.0 million (2013: RMB5.0 million).

FOREIGN CURRENCY EXPOSURE

The Group's exposure to the risk of changes in foreign exchange rates relates preliminary to the Group's operating activities (to the extent that revenue or expenses are denominated in a currency that is different from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase during the year 2014 was denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure of foreign exchange risk.

NET CURRENT ASSETS/LIABILITIES

The Group recorded net current assets of RMB1.9 million as at 31 December 2014, a decrease of RMB9.1 million compared to the net current assets recorded as at 31 December 2013, which was primarily used in the capital expenditure as the number of new restaurants increased in 2014.

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

CONTINGENT LIABILITIES

There were no significant contingent liabilities for the Group as at 31 December 2014 and 31 December 2013.

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 2014	31 December 2013
	RMB'000	*RMB'000*
Within one year	247,237	244,530
In the second to fifth years, inclusive	694,581	814,450
After five years	283,368	410,458
	1,225,186	1,469,438

CAPITAL COMMITMENT

Capital commitments were approximately RMB247.5 million and RMB51.4 million as at 31 December 2014 and 31 December 2013, 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 2014, the Group recruited about 5,965 employees in China, Hong Kong and Macau. During 2014, total staff cost was RMB458.7 million, representing 29.7% of the revenue (2013: RMB406.2 million, 29.3% of the revenue).

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders to attend the annual general meeting to be held on 4 June 2015, the register of members of the Company will be closed between 2 June 2015 and 4 June 2015, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend the annual general meeting, all share transfers, being accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 1 June 2015.

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 2014, save as disclosed in this announcement, the Company has complied with all applicable code provisions under the CG Code.

Pursuant to Code Provision A.6.7 of Corporate Governance Code, it was recommended that all non-executive directors of the Company should attend general meetings of the Company. Other than Ms. Wu Wen, Ms. Wang Huili, Mr. Wang Hairong, Mr. Wang Chiwei and Mr. Wang Yu who did not attend the annual general meeting ("AGM") of the Company held on 5 June 2014 due to other business engagements arranged in advance, other non-executive directors (including independent non-executive directors) of the Company attended the AGM. In addition, other than Mr. Tsang Henry Yuk Wong who attended the extraordinary general meeting of the Company held on 24 July 2014, other directors were absent from that general meeting due to other business engagements arranged in advance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard of dealings set out in the Model Code throughour the year ended 31 December 2014.

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

During the year ended 31 December 2014, the Company repurchased a total of 3,472,000 shares on the Stock Exchange. The details of the repurchases were disclosed as follows:

Date of Purchase	Number of shares repurchased	Price per share *(HK$)*	Total consideration paid *(HK$)*
16 December 2014	858,000	0.962727	826,020
18 December 2014	254,000	0.987874	250,920
23 December 2014	370,000	0.998973	369,620
24 December 2014	1,000,000	1.0002	1,000,200
31 December 2014	990,000	0.9995	989,505
	3,472,000		3,436,265

The shares repurchased above were cancelled on 7 January 2015.

Other than those disclosed above, the Company or any of its subsidiaries did not purchase, sell or redeem any of its listed securities during the year ended 31 December 2014.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "Audit Committee") on 30 August 2011 with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code. The Audit Committee comprises Mr. Tsang Henry Yuk Wong, Mr. Weng Xiangwei and Mr. Wang Yu. Mr. Tsang Henry Yuk Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2014. The Audit Committee is of the view that these financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory provisions, and sufficient disclosures have already been made.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND THE 2014 ANNUAL REPORT ON THE STOCK EXCHANGE'S AND THE COMPANY'S WEBSITE

The annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiaonanguo.com), and the Company's 2014 Annual Report which contains all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Shanghai, China, 26 March 2015

As at the date of this announcement, the executive directors of the Company are Ms. WANG Huimin, Ms. WU Wen and Mr. KANG Jie; the non-executive directors of the Company are Ms. WANG Huili, Mr. WENG Xiangwei and Mr. WANG Hairong; and the independent non-executive directors of the Company are Mr. TSANG Henry Yuk Wong, Mr. WANG Chiwei and Mr. WANG Yu.