上海小南国
SHANGHAI MIN

2015
ANNUAL REPORT

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

南小馆 the dining room
上海小南国 SHANGHAI MIN
MAISON DE CHUI 慧公馆
POKKA CAFÉ
米芝蓮 Mai Chi Ling
俺の株式会社 ORENO Corporation
WOLFGANG PUCK
THE BOATHOUSE SHANGHAI, CHINA
とん吉 TONKICHI

Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Huimin (Chairlady & Chief Executive Officer)
Ms. Wu Wen
Ms. Zhu Xiaoxia

Non-executive Directors

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

Independent Non-executive Directors

Dr. Wu Chun Wah
Mr. Lui Wai Ming
Mr. Lin Lijun

JOINT COMPANY SECRETARIES[1]

Ms. Leng Yijia
Ms. Mok Ming Wai

AUTHORIZED REPRESENTATIVES

Ms. Wang Huimin
Ms. Leng Yijia
Mr. Wang Shoudong (alternate authorized representative)

AUDIT COMMITTEE

Mr. Lui Wai Ming (Chairman)
Mr. Weng Xiangwei
Dr. Wu Chun Wah
Mr. Lin Lijun

REMUNERATION COMMITTEE

Dr. Wu Chun Wah (Chairman)
Ms. Wang Huimin
Mr. Lui Wai Ming
Mr. Lin Lijun

NOMINATION COMMITTEE

Ms. Wang Huimin (Chairlady)
Mr. Lui Wai Ming
Dr. Wu Chun Wah
Mr. Lin Lijun

RISK MANAGEMENT COMMITTEE

Ms. Wang Huimin (Chairlady)
Ms. Zhu Xiaoxia
Dr. Wu Chun Wah

EXECUTIVE COMMITTEE

Ms. Wang Huimin (Chairlady)
Ms. Zhu Xiaoxia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

[1] Mr. Wang Shoudong served as a joint company secretary of the Company from 7 July 2015 to 1 February 2016.

LEGAL ADVISERS

As to Hong Kong law:
Deacons
5/F, Alexandra House
18 Chater Road
Central, Hong Kong

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

AUDITOR

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

STOCK CODE

03666

COMPANY'S WEBSITE

www.xiaonanguo.com

INVESTOR RELATIONS

Ms. Huang Wei
Email: wei.huang@xiaonanguo.com

Financial Highlights

	For the year ended 31 December 2015	2014	% Change Increase/(decrease)
Revenue (RMB'000)	**2,035,177**	1,544,199	32%
Gross profit[1] (RMB'000)	**1,405,409**	1,034,927	36%
Gross margin[2]	**69.1%**	67.0%	2.1%pts
(Loss)/profit for the year (RMB'000)	**(98,417)**	1,032	N/A
Net profit margin[3]	**(4.84%)**	0.07%	(4.9%)pts
Earnings Per Share – Basic (RMB cents)	**(6.40)**	0.04	N/A
Total Assets (RMB'000)	**1,546,689**	1,357,506	14%
Net Assets (RMB'000)	**770,882**	788,654	(2%)
Cash and Cash Equivalents (RMB'000)	**169,024**	269,305	(37%)
Net Cash[4]	**(165,292)**	33,164	(598%)
Account Receivables Turnover Days[5] (days)	**3.9**	4.1	(5%)
Accounts Payable Turnover Days[6] (days)	**63.9**	67.1	(5%)
Inventory Turnover Days[7] (days)	**28.7**	34.0	(16%)
Cash Cycle[8] (days)	**(31.3)**	(29.0)	8%
Gearing Ratio[9]	**40.77%**	21.94%	18.8%pts
Return on Equity[10]	**(12.62%)**	0.13%	(12.8%)pts
Return on Asset[11]	**(6.78%)**	0.08%	(6.9%)pts
Number of restaurants[12] (as at 31 December)	**139**	103	35%

Notes:

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

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

3 Net profit margin is calculated as (loss)/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 sales/annual average payables).

7 Equivalent to 365/(Cost of sales/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 (loss)/profit over annual average equity.

11 Equivalent to net (loss)/profit over annual average total assets.

12 The number of restaurants as at 31 December 2015 included the 30 stores of POKKA HK acquired at the beginning of 2015 and excluded Mai Chi Ling licenced stores.

The board (the "**Board**") of directors (the "**Director(s)**") of the Xiao Nan Guo Restaurants Holdings Limited (the "**Company**")is pleased to present its report and the audited financial statements of the Group for the year ended 31 December 2015.

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 (the "**Shares**") 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 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 the year. Particulars of the companies comprising the Group at present are set out in Note 1 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2015 together with the Company's and the Group's financial conditions as of that date are set out in page 46 to page 53 and page 135 of the financial statements. The Board does not recommend the payment of a final dividend for the year ended 31 December 2015.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders of the Company (the "**Shareholders**") to attend the annual general meeting to be held on 2 June 2016, the register of members of the Company will be closed from 31 May 2016 to 2 June 2016, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend the annual general meeting, all share transfers, 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 30 May 2016.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, none of the Group's sales to the largest customers amounted to 30% or more of the Group's revenue. In 2015, total purchases attributed to the 5 largest suppliers and the largest supplier of the Group were approximately 32.6% and 7.8% of the total purchases respectively.

During the year, other than Ms. Wang who indirectly holds 50% equity interests in the fifth largest supplier Shanghai Zhongmin Supply Chain Management Co., Ltd. (approximately 4.25% of the total purchases), none of the Directors, their associates or Shareholders who to the best knowledge of the directors own 5% interest above of the issued shares of the Company has any beneficial interest in any of the Group's 5 largest suppliers or customers.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements of the Company's share capital and share options are set out in Notes 28 and 29 to the financial statements respectively. The Company currently adopted two share option schemes. The purpose of these share option schemes is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

(1) Pre-IPO Share Option Schemes

Pursuant to the written resolutions of the shareholders of the Company passed on 10 February 2010 and 15 March 2011, the rules of two Pre-IPO share option schemes (the "**Pre-IPO Share Option Schemes**") were approved and adopted, respectively. The Pre-IPO Share Option Schemes adopted on 15 March 2011 was subsequently amended on 10 August 2011 pursuant to the written resolutions of the shareholders of the Company passed on 29 July 2011. The options granted to any grantee under the Pre-IPO Share Option Scheme adopted on 15 March 2011 and amended on 10 August 2011 shall vest according to the following schedule:

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

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

(2) 12.5% shall vest if the Company's net profit for the year ended 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 ended 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 ended 31 December 2012 reaches a specified target;

(2) 12.5% shall vest if the Company's net profit for the year ended 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 ended 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 ended 31 December 2013 reaches a specified target;

(2) 12.5% shall vest if the Company's net profit for the year ended 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 ended 31 December 2013 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options; and

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

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

(2) 12.5% shall vest if the Company's net profit for the year ended 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 ended 31 December 2014 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options.

Each option granted under the Pre-IPO Share Option Scheme is exercisable within 10 years from the date on which such option becomes vested. For details of the share options, please refer to Note 29 to the financial statements.

Under the Pre-IPO Scheme Option Schemes, all the options were granted on or before 13 June 2012 as mentioned in the Prospectus. No further options will be granted under the Pre-IPO Share Option Schemes upon listing. 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. From 1 January 2015 to 31 December 2015, no share options granted under the Pre-IPO Share Option Schemes have been exercised, 9,636,260 share options granted under the Pre-IPO Share Option Schemes have been cancelled and 5,005,000 share options granted under the Pre-IPO Share Option Schemes have been lapsed. As of 31 December 2015, 30,407,250 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 at 31 December 2015 is as follows:

Name of the grantee	No. of share options outstanding as at 1 January 2015	No. of share options granted during the year ended 31 December 2015	No. of share options exercised during the year ended 31 December 2015	No. of share options cancelled during the year ended 31 December 2015	No. of share options lapsed during the year ended 31 December 2015	No. of share options outstanding as at 31 December 2015
Employees (in aggregate)	45,048,510	–	–	9,636,260	5,005,000	30,407,250

(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 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 commenced 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 period from 1 January 2015 to 31 December 2015, except 23,250,509 share options in total granted to eligible employees and Mr. Kang Jie (an executive Director and the chief executive officer of the Company from 1 January 2015 to 31 December 2015) on 1 January and Mr. Tsang Henry Yuk Wong (an independent non-executive Director of the Company from 1 January 2015 to 4 June 2015) on 30 January 2015 respectively to subscribe for ordinary shares of HK$0.01 each of the Company, no other share options were granted under the Share Option Scheme.

Details of the share options granted to employees on 1 January 2015 are as follows:

Date of grant:	1 January 2015
Exercise price per Share under the share option:	HK$1
Closing price of the Share on the date of grant:	HK$1
Number of share options granted:	13,250,000
Validity of the share options granted:	Ten (10) years since the date of grant (i.e. 31 December 2024)
Vesting date of the share options:	The vesting period of share options granted is two years. 50% of share options will be vested on 1 January 2016, 1 January 2017 respectively.

Date of grant:	1 January 2015
Exercise price per Share under the share option:	HK$1.3
Closing price of the Share on the date of grant:	HK$1
Number of share options granted:	7,930,000
Validity of the share options granted:	Ten (10) years since the date of grant (i.e. 31 December 2024)
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 January 2016, 1 January 2017, 1 January 2018 and 1 January 2019 respectively.

The details of the share options granted to Mr. Kang Jie on 1 January 2015 are as follows:

Date of grant:	1 January 2015
Exercise price per Share under the share option:	HK$1
Closing price of the Share on the date of grant:	HK$1
Number of share options granted:	1,570,509
Validity of the share options granted:	Ten (10) years since the date of grant (i.e. 31 December 2024)
Vesting date of the share options:	The vesting period of share options granted is two years. 50% of share options will be vested on 1 January 2016 and 1 January 2017 respectively.

The details of the share options granted to Mr. Tsang Henry Yuk Wong on 30 January 2015 are as follows:

Date of grant:	30 January 2015
Exercise price per Share under the share option:	HK$1
Closing price of the Share on the date of grant:	HK$0.94
Number of share options granted:	500,000
Validity of the share options granted:	Ten (10) years since the date of grant (i.e. 29 January 2025)
Vesting date of the share options:	The vesting period of share options granted is two years. 50% of share options will be vested on 1 January 2016 and 1 January 2017 respectively.

The summary of the share options granted under the Share Option Schemes that were still outstanding as at 31 December 2015 is as follows:

Name of the grantee	No. of share options outstanding as at 1 January 2015	No. of share options granted during the period ended 31 December 2015	No. of share options exercised during the period ended 31 December 2015	No. of share options cancelled during the period ended 31 December 2015	No. of share options lapsed during the period ended 31 December 2015	No. of share options granted outstanding as at 31 December 2015
Employees (in aggregate)	39,881,143	21,180,000	–	8,067,876	9,168,888	43,824,379
Mr. Kang Jie (resigned as executive Director and chief executive officer on 31 December 2015)	7,642,579	1,570,509	–	–	6,052,443	3,160,645
Mr. Tsang Henry Yuk Wong (retired as independent non-executive Director on 4 June 2015)	–	500,000	–	–	–	500,000

BUSINESS REVIEW

A business review of the Group for the year ended 31st December, 2015 and a outlook on the Group's future business development, possible risks and uncertainties that the Group may be facing are shown in "Management Discussion and Analysis" section of this annual report. The financial risk management objectives and policies of the Group are set out in notes 39 to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in "Five-Year Financial Summary" section of this annual report.

Environmental policies and performance

The Group believes that due performance of environmental responsibility would definitely improve the effectiveness of the utilisation of the Group's resources and the quality of customer service, and would raise the economic efficiency to the Group.

The Group abides by all the applicable environmental laws and regulations of the places where the Group has business operations. The Group has established the environmental protection actions that include oil-water separator setting, reasonable disposal of restaurant wastes and waste cooking oils in order to minimize the impacts to the environment.

Compliance with the relevant laws and regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees from time to time. In accordance with the requirements of the laws, regulations and related policies in Hong Kong and the PRC, the Company provides and maintains statutory benefits for its staff, including but not limited to mandatory provident fund, basic medical insurance, labour insurance, etc. Staff is entitled to statutory holidays.

Key Relationships

Employees

The Group respects its employees and endeavours to provide the better working conditions for its employees. The Group has established various policies in relation to the labour practices including the remuneration and dismissal, recruitment and promotion, working hours, holidays, disciplinary practice and other benefits and welfare so as to provide a fair, healthy and safe working environments for all employees. The Group has also established the policies for remuneration of employees so as to provide the fair and competitive remuneration packages for the employees under the systemic remuneration management. The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects in order to build up a sound career platform for employees.

Customers

The Group focuses on improving the quality of products and services to enhance customer satisfaction. Details of which are set out in the Management Discussion and Analysis section from page 22 of this annual report.

Suppliers

The Group used to work with the suppliers with the same objectives and develops mutually-successful working relationships with the key suppliers. The Group strictly follows its policy, which is constructed under the Group's corporate culture and professional standard in the selection of suppliers and purchasing process. Although the cost of purchasing is a major consideration in selecting suppliers, the Group would also consider the suppliers' corporate social responsibility performances, which include the suppliers' performances on the aspects of legal and regulatory compliance and business ethics etc.

DEBENTURES

For the year ended 31 December 2015, the Company did not issue any debentures.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Schemes and the Share Option Scheme, for the year ended 31 December 2015, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. Also, the Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against the Directors and senior management.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 2.4 of the Note to the financial statements.

FIVE YEARS FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the last five financial years is set out on page 136 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum and Articles of Association (the "**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 42 to the financial statements.

As at 31 December 2015, the distributable reserves of the Company amounted to approximately RMB464,736,000, 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 13 to the financial statements.

DIRECTORS

For the year ended 31 December 2015 and as at the date of this report, the Board was comprised of the following Directors:

Executive Directors

Ms. Wang Huimin (Chairlady and Chief Executive Officer)
Ms. Wu Wen
Ms. Zhu Xiaoxia (appointed with effect from 31 December 2015)
Mr. Kang Jie (resigned with effect from 31 December 2015)

Non-executive Directors
Ms. Wang Huili
Mr. Weng Xiangwei
Mr. Wang Hairong

Independent Non-executive Directors
Dr. Wu Chun Wah (appointed with effect from 4 June 2015)
Mr. Lui Wai Ming (appointed with effect from 18 August 2015)
Mr. Lin Lijun (appointed with effect from 23 March 2016)
Mr. Wang Chiwei (resigned with effect from 31 December 2015)
Mr. Tsang Henry Yuk Wong (retired on 4 June 2015)
Mr. Wang Yu (retired on 4 June 2015)

Mr. Tsang Henry Yuk Wong and Mr. Wang Yu did not offer themselves for re-election for independent non-executive Directors at the Company's annual general meeting held on 4 June 2015 and retired on the even date as they would like to devote more time to look after their other business commitments.

Mr. Kang Jie resigned as an executive Director and the chief executive officer of the Company with effect from 31 December 2015 in order to devote more time to his personal matters. Mr. Wang Chiwei resigned from independent non-executive Director with effect from 31 December 2015 in order to devote more time to his other business commitments.

On 4 June 2015, Dr. Wu Chun Wah was appointed as an independent non-executive Director, the chairman of the audit committee of the Company (the "**Audit Committee**") and a member of the nomination committee of the Company (the "**Nomination Committee**").

On 18 August 2015, Mr. Lui Wai Ming was appointed as an independent non-executive Director, the chairman of the audit committee and a member of the Nomination Committee. Dr. Wu was re-designated from the chairman to a member of the Audit Committee, ceased to be a member of the Nomination Committee and appointed as the chairman of the remuneration committee of the Company (the "**Remuneration Committee**").

On 31 December 2015, Ms. Zhu Xiaoxia was appointed as an executive Director, a member of the executive committee and the risk management committee. Ms. Wang Huimin was appointed as the chief executive officer and the chairlady of the risk management committee. Dr. Wu Chun Wah was appointed as a member of risk management committee.

On 23 March 2016, Mr. Lin Lijun was appointed as an independent non-executive Director, a member of the audit committee, the remuneration committee and the nomination committee.

On 23 March 2016, Dr. Wu Chun Wah has been appointed as a member of the Nomination Committee; Mr. Lui Wai Ming has been appointed as a member of the Remuneration Committee and Ms. Wu Wen ceased to be a member of the Executive Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors of the Company and the senior management of the Group are set out on pages 41 to 43.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. The appointment of independent non-executive Director Dr. Wu Chun Wah is for a term of 3 years from 4 June 2015, the appointment of independent non-executive Director Mr. Lui Wai Ming is for a term of 3 years from 18 August 2015, the appointment of non-executive Director Mr. Wang Hairong is far a term of 3 years from 29 August 2015, the appointment of executive Director Ms. Zhu Xiaoxia is for a term of 3 years from 31 December 2015 and the appointment of independent non-executive Director Mr. Lin Lijun is for a term of 3 years from 23 March 2016. Except for the five Directors abovementioned, the appointment of all other Directors and independent non-executive Directors are for a term of 3 years from 4 July 2015. The appointment of all the Directors will continue in effect until any party giving at least three months written notice to the other 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).

EMOLUMENT POLICY

The Company's emolument policy is to ensure that the remuneration offered to employees, including executive Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of independent non-executive Directors are also determined by reference to their duties and responsibilities, the recommendation made by the Remuneration Committee and the prevailing market conditions. The remuneration packages of executive Directors are also determined by reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each Director.

The emolument of the Directors and the five highest paid individuals for the year ended 31 December 2015 is set out in Note 8 and Note 9 to the financial statements.

Details of the employee retirement benefits of the Company are set out in Note 27 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for those disclosed in Note 36 to the financial statements, for the year ended 31 December 2015, none of the Directors had any direct or indirect material interest in any transactions, arrangements or contracts of significance in relation to the Group's business to which any of the Company, its holding companies, its subsidies or its fellow subsidies was a party.

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

As at 31 December 2015, 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)	34.68%
	Trustee (2)	126,661,250(L)	8.59%
Wu Wen (3)	Interest in controlled corporation (3)	58,313,750(L)	3.95%
	Beneficial owner	8,700,000(L)	0.59%
Wang Huili (4)	Interest in controlled corporation (4)	8,173,750(L)	0.55%
	Beneficial owner	9,100,000(L)	0.62%
Wang Hairong (5)	Interest in controlled corporation (5)	78,815,750(L)	5.34%
	Beneficial owner	8,198,000(L)	0.56%
Weng Xiangwei (6)	Interest in controlled corporation (6)	167,887,000(L)	11.38%

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 a trustee. Ms. 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 8.59% 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) Ms. 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 3.95% equity interest in the Company.

(4) Ms. 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 0.55% equity interest in the Company.

(5) Mr. 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 5.34% equity interest in the Company.

(6) Mr. Weng Xiangwei owns the entire issued share capital of Shining (BVI) Limited, which beneficially owns 100% equity interest in Shining Capital Management Limited, which in turn beneficially owns 100% equity interest in Shining Capital Holdings L.P., which also in turn beneficially owns 100% equity interest in Sunshine Property I Limited, which also in turn owns approximately 11.38% equity interest in the Company.

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

As at 31 December 2015, the following persons (other than a director and the 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, or will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Capacity/Nature of interest	Number of Shares [(1)]	Approximate percentage of shareholding
Extensive Power Limited [(2)]	Interest in controlled corporation [(2)]	511,725,000(L)	34.68%
Value Boost Limited [(2)]	Beneficial owner	511,725,000(L)	34.68%
Full Health Limited [(3)]	Beneficial owner	78,815,750(L)	5.34%
Shining Capital Holdings L.P. [(4)]	Interest in controlled corporation [(4)]	167,887,000 (L)	11.38%
Shining Capital Management Limited [(4)]	Interest in controlled corporation [(4)]	167,887,000 (L)	11.38%
Sunshine Property I Limited [(4)]	Beneficial owner	167,887,000 (L)	11.38%
Moon Glory Enterprises Limited [(5)]	Beneficial owner	85,387,000(L)	5.79%
Milestone F&B I Limited	Beneficial owner	113,820,000(L)	7.71%
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 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) Mr. 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 5.34% equity interest in the Company.

(4) Shining Capital Management Limited beneficially owns 100% shareholding interest in Shining Capital Holdings L.P. and Shining Capital Holdings L.P. beneficially owns 100% shareholding interest in Sunshine Property I Limited. Therefore, Shining Capital Management Limited and Shining Capital Holdings L.P. are deemed to be interested in the shares held by Sunshine Property I Limited.

(5) CITIC Securities Company Limited indirectly holds 100% interests in CITIC Securities International Company Limited, which in turn indirectly holds 72% interests in CITIC Securities International Partners Limited. CITIC Securities International Partners Limited indirectly holds 100% interests in CSI Capital GP Company, Ltd, which in turn indirectly holds 100% interests in CSI Capital GP, L.P. which also in turn indirectly holds 100% interests in CSI Capital L.P. CSI Capital L.P. directly holds 100% interests in Moon Glory Enterprises Limited, therefore all the above entities are deemed to have interest in the shares held by Moon Glory Enterprises Limited.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Upon cessation of the New Business (as defined in the 2014 annual report of the Company) in which Ms. Wang Huimin had a minority interest, save as disclosed in the Prospectus, each of the Group's Directors has confirmed that none of them is engaged in, or interested in any business which, directly or indirectly, competes or may compete with the business of the Group.

DONATIONS

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

PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES

The Company repurchased 3,472,000 shares of its stock on the Stock Exchange at an aggregate consideration of HK$3,436,000 (equivalent to RMB2,711,000) in 2014. These shares were cancelled by the Company on 7 January 2015. For the year ended 31 December 2015, neither the Company nor any of its subsidiaries 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.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this Report on pages 16 to 20, none of the Company or any of its subsidiaries entered into any contracts of significance with the Controlling Shareholder or any of its subsidiaries other than the Group, nor was there any contracts of significance between the Group and the Controlling Shareholder or any of its subsidiaries other than the Group in relation to provision of services.

CONNECTED TRANSACTIONS

One-off Connected Transactions

During the year ended 31 December 2015 , the Group entered into the following one-off connected transactions, which were subject to the reporting requirement under Chapter 14A of the Listing Rules:

Connected Transactions	Total Transaction Amount
1. On 8 June 2015, Ms. Wang Huimin transfers 20% equity interest held in 上海眾横快建品牌管理有限公司 to 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) (an indirect wholly-owned subsidiary of the Company) ("**Shanghai Xiao Nan Guo**").	RMB4,000,000
2. On 18 December 2015, the Group has entered into an Asset Disposal Agreement with Xiao Nan Guo (Group) Co., Ltd., pursuant to which Xiao Nan Guo (Group) Co., Ltd agreed to sell and the Group agreed to acquire the decorative renovation work, kitchen facilities and related assets used for operation ("**the Asset**") in the restaurant located at 601 Yingkou Road, Shanghai, for a total consideration of RMB30,306,100. The total consideration is determined in accordance with the appraisal value of the Asset in the restaurant as at 18 December 2015.	RMB30,306,100
3. On 8 January 2016 (with retrospective effect from 31 December 2015), Shanghai Xiao Nan Guo, Zhongmin GP (each of Ms. Wang Huimin and Ms. Zhu Xiaoxia holds 50% equity interests in Zhongmin GP's controlling shareholder Shanghai Zhongmin Investment Development Group Co., Ltd.) and the Other Zhongju Investors entered into the Zhongju LP Agreement for the establishment of the Zhongju Limited Partnership Enterprise ("Zhongju LPE"), and pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agrees to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total registered capital).	RMB3,168,000

Continuing Connected Transactions

During the year ended 31 December 2015, the Group entered into the following continuing connected transactions, which were subject to the reporting requirement under Chapter 14A of the Listing Rules:

Continuing Connected Transactions	2015 Annual Cap of the Transaction	2015 Actual Annual Transaction Amount
1. Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("**Shanghai Hongqiao**") had agreed to lease the premise (the "**Hongmei Premises**") of a total gross floor area of approximately 8,800 sq.m located at Block 4, No.3777, Hongmei Road, Shanghai, the PRC to Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. ("**Shanghai Hongmei**") for use as a restaurant for the period from 1 January 2015 to 31 December 2017. The annual rental amount is RMB4,000,000.	RMB4,000,000	RMB4,000,000
2. Shanghai Hongqiao had agreed to provide property management and security services to Shanghai Hongmei at Hongmei Premises for the period from 1 January 2015 to 31 December 2017.	RMB600,000	Shanghai Hongqiao voluntarily waived the Shanghai Hongmei's property management and security services fee for the year 2015. (Shanghai Hongmei and Shanghai Hongqiao entered into a supplemental agreement in December 2015. Due to the banquet hall in first floor of Hongmei Premises cannot be used for the year, Shanghai Hongqiao voluntarily waived the property management and security services fee of Shanghai Hongmei for the year 2015. The total amount is RMB229,000.)
3. Xiao Nan Guo (Group) Company Ltd. ("**Xiao Nan Guo Group**") has agreed to lease the premises (the "**Yingkou Premises**") located at 601 Yingkou Road, Shanghai, the PRC to Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd ("**Shanghai Xiao Nan Guo**"), of which approximately 2,500 sq.m would be used as office premises. A fixed rent would be paid for leasing the office premises. In addition, Xiao Nan Guo Group has agreed to provide property management and security services to Shanghai Xiao Nan Guo at the Yingkou Premises. Period for each is from 1 January 2015 to 31 December 2017.	RMB10,130,000	Rental for office premises, RMB2,887,285; Property management and security services fee, RMB168,000

Continuing Connected Transactions	2015 Annual Cap of the Transaction	2015 Actual Annual Transaction Amount
Xiao Nan Guo Group has agreed to lease the premises (the "**Yingkou Premises**") to Shanghai Xiao Nan Guo, of which approximately 3,700 sq.m would be used as restaurants. A contingent rent would be paid for leasing the restaurant premises, calculated as 17% of the revenue income of the restaurant at the Yingkou Premises, excluding income from banquet service. On 18 December 2015, Xiao Nan Guo Group and Shanghai Xiao Nan Guo entered into the supplemental lease agreement in relation to the renewed Yingkou lease agreement to downward adjust the rates for determining the rent payable by Shanghai Xiao Nan Guo for the restaurant lease. The rent payable by Shanghai Xiao Nan Guo to Xiao Nan Guo Group under the restaurant lease is reduced from 17% to 12% of the annual turnover of Shanghai Xiao Nan Guo.		Rental for restaurants premises, RMB6,471,366
4. Xiao Nan Guo Restaurants Holdings Limited ("**the Company**") and Xiao Nan Guo (Group) Company Ltd. ("**Xiao Nan Guo Group**") entered into integrated service agreement, pursuant to which the Company agreed to provide Xiao Nan Guo Group with the integrated management services, including human resources, legal, IT services, financial services, those ERP system and services shared by the Company and its subsidiaries and other services agreed by both sides untimely for the period from 1 January 2015 to 31 December 2017. The services each month is RMB250,000.	RMB3,000,000	RMB3,000,000
5. From 1 January 2014, shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") and Shanghai Huimei Restaurant Management Co., Ltd. ("**Shanghai Huimei**") entered into the management service agreement, pursuant to which Shanghai Xiao Nan Guo agreed to provide Shanghai Huimei with the comprehensive management services, including human resources, legal, IT and financial services. The services fee charged by Shanghai Xiao Nan Guo was based on 3% of the revenue of Shanghai Huimei. From 1 July 2015, Shanghai Huimei was disposed by Wang Huimin and was not identified as related party since then.	RMB10,000,000	RMB829,044
6. Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") has agreed to sell "Xiao Nan Guo" branded food products (or coupons) to Xiao Nan Guo (Group) Company Ltd. ("**Xiao Nan Guo Group**") and its subsidiaries. The price of "Xiao Nan Guo" branded food products (or coupons) should be determined by Shanghai Xiao Nan Guo and are based on the amounts paid by independent third parties for such similar arrangement for the period from 1 January 2015 to 31 December 2017.	RMB3,000,000	RMB699,138

Continuing Connected Transactions	2015 Annual Cap of the Transaction	2015 Actual Annual Transaction Amount
7. Shanghai Xiao Nan Guo and WH Ming Hotel entered into the hotel coupon purchase agreement, pursuant to which, Shanghai Xiao Nan Guo agreed to purchase the coupons from WH Ming Hotel at a discounted price from WH Ming Hotel (i.e. each Coupon will be sold to Shanghai Xiao Nan Guo at a price lower than its actual par value) in accordance with the terms and conditions stipulated in the hotel coupon purchase agreement for the period from 1 January 2014 to 31 December 2016.	RMB1,000,000	Nil
8. Shanghai Xiao Nan Guo agreed to provide the Banquet Food to WH Ming Hotel upon request for banquet arrangements at the Hotel premises for the customers of WH Ming Hotel. The price of Banquet Food provided to WH Ming Hotel shall be decided by Shanghai Xiao Nan Guo, and shall not be lower than 75% of the selling price of the food in the menu of Shanghai Xiao Nan Guo for the period from 1 January 2014 to 31 December 2016.	RMB30,000,000	RMB22,434,724
9. Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") and Shanghai Xiao Nan Guo Enterprise Service Information Development Limited ("**XNG Information Development**") entered into the framework agreement for the period from 1 April 2014 to 31 December 2016, pursuant to which, XNG Information Development agreed to issue the Pre-paid Cards which can be used at the Shanghai Min Restaurants, the WH Ming Hotel as well as other businesses operated by Wang Huimin. 70% of the Pre-paid Card holders' certain discount shall be borne by Shanghai Xiao Nan Guo while the remaining 30% shall be borne by XNG Information Development. The Commission payable to XNG Information Development is 1% of the actual dining expenses of a Pre-paid Card holder for every bill (before discount (if any)) at Shanghai Min Restaurant.	RMB250,000,000 (annual transaction amount is calculated by: actual amount spend by Pre-paid Card Holders at the Shanghai Min Restaurant via Pre-paid Cards, minus certain discount obtained by holders multiply by ratio borne by Shanghai Xiao Nan Guo, plus commissions to XNG Information Development)	Pre-paid Card spending amount (net of discount) RMB120,621,498 Commission borne by Shanghai Xiao Nan Guo RMB1,286,674
10. For the period from 1 July 2015 to 30 June 2016, shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") and Shanghai Zhongmin Supply Chain Management Co., Ltd. ("**Zhongmin Supply Chain**") entered into the procurement framework agreement, pursuant to which, Shanghai Xiao Nan Guo agreed to procure the raw ingredients used for restaurant operation from Zhongmin Supply Chain. The pricing of such raw materials shall be determined with reference to the costs for such raw materials and the prevailing market price and procurement quantity of similar raw materials.	RMB40,000,000	RMB25,732,137

As mentioned above, Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd., Xiao Nan Guo (Group) Company Ltd., WH Ming Hotel, Shanghai Huimei Restaurant Management Co., Ltd. (it was not identified as related party since 1 July 2015), Shanghai Zhongmin Supply Chain Management Co., Ltd. are directly or indirectly hold by Wang Huimin. XNG Information Development is indirectly wholly-owned by Ms. Wang Bai Xuan Tiffany who is the daughter of Ms. Wang Huimin.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions during the year and confirmed that the transactions have been entered into:

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

(ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

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

The auditors of the Company have performed certain pre-determined procedures and reported their findings regarding the continuing connected transactions entered into by the Group set out above for the year ended 31 December 2015 and state that:

(1) the transactions have received the approval of the Company's Board of Directors;

(2) the transactions, in all material respects, have been entered into in accordance with the pricing policies of the Group;

(3) the transactions have been entered into, in all material respects, in accordance with the relevant agreement governing the transactions;

(4) the aggregate amounts of the transactions have not exceeded the relevant annual cap amounts as disclosed in the announcements of the Company published on 10 January 2014, 22 April 2014, 29 May 2014, 7 November 2014 and 20 November 2015, and the Company's circular issued on 4 July 2014 respectively.

The related party transactions with companies owned by the Controlling Shareholder except the transaction disclosed in note 36(a) to the financial statements also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, and have complied with the disclosure requirements in accordance with Chapter 14A 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 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.

SUBSEQUENT EVENTS

Since 31 December 2015 to the date of this report, there were no important events affecting the Group.

On behalf of the Board
Wang Huimin
Chairlady

Shanghai, 23 March 2016

INDUSTRY REVIEW OF 2015

The catering industry experienced significant changes in 2015. On the one hand, the catering industry gradually bottomed out after the sluggish performance over the preceding two years. According to statistics issued by the National Bureau of Statistics of China, revenue of the catering industry in the PRC reached RMB3,231 billion for the year, representing a year-on-year increase of 11.7%, which was 1 percentage point higher than the growth rate of total retail sales of social consumer goods. The growth rate returned to double digits following dropping to single digit in 2013 and 2014. Again, the growth rate was higher than that of total retail sales of social consumer goods for the first time in five years since 2009. Revenue from catering sales enterprises above limit amounted to RMB866.7 billion in 2015, representing a year on year increase of 7% compared to the same period of last year and a rise of 3.8 percentage points over the previous year, which also marked a new three-year peak. On the other hand, we have seen tens of thousands of entrepreneurs ventured into the catering industry. According to the data of Dian Ping, in 2015, there were more than 50,000 restaurants newly opened in Beijing, Shanghai, Guangzhou and Shenzhen, which were the first-tier cities in the PRC. The figure represented an increase of more than 50%. The sharp increase in supply had led to a growing concern on the risks of closure of both traditional and new players in the catering industry in 2015.

As one of the largest multi-brand restaurant groups in the PRC and under the market conditions presenting challenges as well as opportunities, the Company will maintain its proactive and aggressive approach and adjust the strategic direction as appropriate, while focusing on the allocation of appropriate tactical resources. In 2016, in addition to the endeavour to improve income and earnings, the Company will also strive for becoming the leading industry player.

FINANCIAL PERFORMANCE FOR 2015

The Company's revenue for the year 2015 increased by 31.8% to RMB2,035.2 million from that of the same period last year, which was mainly attributable to the revenue from the new brand and restaurants newly opened and same-store revenue growth as well as the consolidation of revenue from POKKA HK acquired at the beginning of 2015. Gross profit for the year increased by 35.8% to RMB1,405.4 million, and the loss for the year was RMB98.4 million. The company shifted the strategy to the market trend, including reorganizing the stores in remote area and flattening management hierarchy, to optimise the resources allocation and improve operation and management efficiency, which also led to one-off expense of RMB100.3 million.

OPERATIONS REVIEW FOR 2015

Robust growth of principal business

During the year 2015, our principal OBM business (including the three brands, i.e. "Maison De L'Hui" restaurants, "Shanghai Min" restaurants and "the dining room" restaurants) recorded robust growth, with total sales increased by 9.3%, same-store sales increased by 1.9%, and the operating profit margin of the stores reaching 8.5% (2014: 6.7%), which was a testimony of the Company's operation and management ability under volatile market conditions.

These achievements were built on our pursuit of excellent quality and satisfaction from our customers. In the second half of 2015, the three brands launched the new menu with the aim of meeting the needs of various types of customers through more precise positioning. Meanwhile, we made great efforts to ensure the quality of our services. Deliberate training plans and index for assessment of customer satisfaction were developed, while feedbacks from customers were closely monitored. Day-to-day operation was adjusted in a timely manner to satisfy the demand of our customers. In addition, the Company launched the comprehensive reform on the incentive mechanism in the second half of 2015. Through the mechanism of sharing risks and rewards, the initiatives, creativities and sense of responsibility of the store management and staff were mobilised, which brought positive effects to product innovation, service improvement cost saving and quality assurance.

Mature of the layout under the multi-brand strategy

Since the launch of the multi-brand strategy in 2013, the Company has been dedicated to fostering and introducing various new catering concepts, which have gradually delivered results in 2015.

- **Japanese-styled western cuisines**: the Company entered into cooperation with Oreno Corporation (俺の株式會社), a renowned restaurant group from Japan, for the promotion of Japanese-styled western cuisines business. During the year 2015, a Japanese styled restaurant and a French- Italian fusion restaurant were opened at Lan Kwai Fong, Hong Kong and Xintiandi, Shanghai, respectively. These Oreno (俺の) restaurants have become the hot spots of the town for their star-rating and value-for-money offerings since grand opening, and were popular among the consumers and the media.

- **American-styled western cuisines**: the Company also introduced a western restaurant, named after its legendary founder, Oscar Chef, aka "First Chef of California", Mr. Wolfgang Puck. The first restaurant was opened at Xintiandi, Shanghai in the second half of 2015. The restaurant brand also obtained the appreciation from a theme park with international reputation, which will open later in Shanghai, and was granted the prime location in the small town, as the second restaurant in Mainland China operated by the Company.

- **American-styled theme restaurant**: the Company also entered into a joint venture with The BOATHOUSE, a renowned food and beverage company in the United States, for the establishment of a theme restaurant. The preparation for the internationally renowned theme park which is scheduled to open in 2016 is now being conducted in full swing.

- **Mini-store brands**: in the second half of 2014, the Company began to enter into cooperation with third-party entrepreneurs for the operation of the tea house brand "Mai Chi Ling" which recorded rapid growth in 2015. As at 31 December 2015, 253 stores were granted licenses (of which 153 has commenced operation), covering 78 cities nationwide. All of these stores were extremely popular among consumers.

- **Acquired brand**: the Company completed the acquisition of 65% equity interest in POKKA HK at the beginning of 2015. The headquarter of the Company have preliminarily completed the connection with the system and management of POKKA HK. Now the Company is currently preparing for the development of coffee casual dining business in Mainland China.

Attached: main brands of the Company

OBM	上海小南国 SHANGHAI MIN	慧公馆	南小馆 the dining room
Introduced Brands	俺の株式会社 ORENO Corporation	WOLFGANG PUCK	THE BOATHOUSE SHANGHAI, CHINA
	米芝蓮 Mai Chi Ling	POKKA CAFÉ	とん吉 TONKICHI

The Company's founder led the team to initiate a second entrepreneurial plan

As at 31 December 2015, Ms. Wang Huimin, the Chairlady of the Board, assumed the office of Chief Executive Officer, leading the team to initiate a second entrepreneurial plan, and invited Ms. Zhu Xiaoxia to assume the office of Executive Director of the Company. Ms. Zhu Xiaoxia has made distinguished accomplishments in respect of chain catering group management and connection of catering industry with the Internet. In addition to further strategic development planning, under the leadership of Ms. Wang Huimin, the Company has also taken the following measures to improve its operations:

- **Focusing on core cities**: in order to fully utilize the Company's operation capabilities in core cities and improve the marginal efficiency of city management, the Company planned to strip away radius far stores, and reduce city under management from 22 to 16 at the end of 2015, and to improve operation and supply chain efficiency while optimizing the asset allocation, thus to realize the development of the Company in a way of more health and sustainable in a long term.

- **Promoting Structure adjustment of the Company**: the Company took an active approach of flattening and market-oriented reform for the management function of the headquarter, and confer more functions of the headquarters on the subsidiaries and stores, enabling the latter make faster response to the market demands and improving the satisfaction from clients according to the local condition, so as to enhance the profitability of the frontline operation units.

- **Promoting internal "entrepreneurial culture"**: the Company actively promoted the "entrepreneurial culture" and spun off some functions of the headquarters and provided support to talents to start up new business, with the aim of marketising and outsourcing the functions of the headquarters. This initiative not only alleviated the financial burden of the headquarters but also improved efficiency and boosted the potential of talents to acquire more external business.

STRATEGIC OUTLOOK FOR 2016

Looking ahead to 2016, under the leadership of Ms. Wang Huimin, the Company will be committed to the five major strategic frameworks, namely further focusing on the vertical penetration into the industry chain of the catering industry, deploying products at the terminal sales level, offline stores, integrating the platform resources in the industry chain, establishing comprehensive service platform for brand development of the industry and accomplishing the transformation to a group engaging in industry brand investment and operation. The Group proposed the following strategic pattern oriented with the above strategy:

- **Multi-brand Strategy**: in 2016, we continued to operate the existing business of each brand and enhance overall operational efficiency. Meanwhile, we will focus on brand investment, joint operation of brands, exploration of business opportunities and establishment of publication platform, for the purpose of increasing our brand influence and expanding the stores through cooperation in the industry.

- **Asset optimization strategy**: the Company will gradually dispose of conventional fixed assets with low competitive advantage; introduce in dynamic asset light model to optimize Company's balance sheet. And integrate strategic resources of the Company and the industry; further focus on brands/products that are lighter, with more technology/platform advantage and higher value-add. This can strengthen so as to strengthen Company's core competitive advantage in internet+ era. Besides, the Company will build up a comprehensive service platform for brand development.

- **Cost efficiency strategy**: we will fully utilize B2B supply chain platform in the industry to achieve direct procurement, reduce layers of distribution and to enhance food tracking system for safety purposes. These measures will help to reduce supply chain cost and improve product competitiveness. And we will continue to deepen company organization reform; reduce management layers to improve efficiency and optimize cost structure through market approach.

- **Human resources capitalization strategy**: we will continue to develop incentive system and introduce partnership mechanism to encourage value creation of talents. Promote a culture of internal entrepreneurship, establish different entrepreneur programs and empower talents by allowing more flexible corporate structure.

- **Product commercialization strategy**: we will develop multiple branded products leveraging on the Company's R&D capability and brand strength so as to improve monetization of the brands. Develop different channels including stores, hypermarkets as well as B2C, B2B channels by utilizing internet as a tool.

FINANCIAL REVIEW

For the year of 2015, the Group's revenue reached RMB2,035.2 million, representing an increase of RMB491.0 million or 31.8% compared to RMB1,544.2 million in 2014. Gross profit of the Group was RMB1,405.4 million, an increase of RMB370.5 million or 35.8% compared to approximately RMB1,034.9 million in 2014. For the year of 2015, loss of the Group amounted to RMB98.4 million, which was mainly due to the one-off expense arose from store re-organization and company restructure.

As at 31 December 2015, the Group operated the restaurant network of 81 Shanghai Min restaurants, 3 Maison De L'Hui restaurants, 22 the dining room restaurants, 2 restaurants under new-brand "Oreno", 1 Wolfgang Puck restaurant as well as 30 newly acquired restaurants under POKKA HK brands, which cover some of the most affluent and fastest-growing cities in China[1], Hong Kong and other region. The following table sets forth revenue and the number of restaurants in operation, by geographical region and brand for the years ended 31 December 2015 and 2014.

	31 December 2015		31 December 2014	
	Number of Restaurants[3]	**Revenue RMB'000 (audited)**	Number of Restaurants	Revenue RMB'000 (audited)
China[1]				
– Shanghai Min	**72**	**1,230,460**	72	1,150,412
– Maison De L'Hui	**3**	**60,075**	4	50,270
– the dining room	**16**	**113,687**	13	70,028
– Oreno	**1**	**11,668**	–	–
– Wolfgang Puck	**1**	**8,936**	–	–
Hong Kong				
– Shanghai Min	**8**	**172,829**	9	177,888
– the dining room	**5**	**72,884**	3	58,058
– Oreno	**1**	**25,878**	–	–
– Brands under POKKA HK[4]	**29**	**283,250**	–	–
Macau				
– Shanghai Min	**1**	**22,823**	1	27,872
– the dining room	**1**	**4,654**	1	814
– Brands under POKKA HK	**1**	**13,971**	–	–
Total revenue of restaurant[2]	**139**	**2,021,115**	103	1,535,342
Other revenue		**14,062**		8,857
Total revenue		**2,035,177**		1,544,199

Notes

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. Total revenue of restaurant operations included revenue of restaurant operations and packaging products of restaurants.

3. The number of restaurants did not include "Mai Chi Ling" licensed stores.

4. POKKA HK brands included 30 stores under 10 brands such as Pokka Café and Tonkichi, etc., in Hong Kong and Macau.

REVENUE

Revenue of the Group increased by RMB491.0 million, or 31.8% from RMB1,544.2 million in 2014 to RMB2,035.2 million in 2015. This increase was contributed by an increase of RMB485.8 million in revenue from the restaurant operations and an increase of RMB5.2 million in other income.

Revenue from restaurant operations

Revenue from restaurant operations increased by RMB485.8 million, or 31.6%, from RMB1,535.3 million in 2014 to RMB2,021.1 million in 2015, among which:

An increase of RMB297.2 million in revenue was contributed by 30 restaurants under POKKA HK Brands acquired at the beginning of 2015;

An increase of RMB23.4 million, representing an increase of 1.9%, in comparable restaurants during 2015, as compared to 2014;

An increase of RMB208.7 million in revenue from new brands and restaurants (other than POKKA HK) that were newly opened in 2014 and 2015.

The closure, renovation, suspension of stores in 2014 and 2015 resulted in a decrease of RMB43.5 million in revenue.

Other revenue

Other revenue increased by RMB5.2 million from RMB8.9 million in 2014 to RMB14.1 million in 2015, which primarily reflected an increase of RMB2.2 million in Mai Chi Ling Licensing business during 2015.

COST OF SALES

Cost of sales increased by RMB120.5 million, or 23.7%, from RMB509.3 million in 2014 to RMB629.8 million in 2015, which was primarily due to an increase in quantities of food and beverages consumed in our operations.

Cost of sales as a percentage of the revenue decreased by 2.1%, from 33.0% in 2014 to 30.9% in 2015.

OTHER INCOME

Other income decreased by RMB2.6 million, from RMB46.6 million in 2014 to RMB44.0 million in 2015, primarily reflecting (i) a decrease of RMB9.2 million of government grants received in the year 2015 compared to 2014; (ii) a decrease of RMB4.0 million in management service fee income in 2015 as compared to 2014; (iii) an increase of RMB0.6 million in bank interest income and others in 2015 as compared to 2014; and (iv) an increase of RMB10.0 million in dividend income, membership fee income and service fee income newly added in 2015.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by RMB324.4 million, or 34.8%, from RMB931.9 million in 2014 to RMB1,256.3 million in 2015, of which the newly acquired POKKA HK incurred selling and distribution expenses of RMB203.0 million in 2015

Labor costs relating to the restaurants, central kitchens and central warehouses increased by RMB136.8 million, or 36.6%, from RMB373.6 million in 2014 to RMB510.4 million in 2015. Percentage of Labor cost to revenue increased from 24.2% in 2014 to 25.1% in 2015, which primarily reflected the higher Labor costs of the newly acquired POKKA HK.

Occupancy costs relating to restaurants, central kitchens and central warehouses increased by RMB91.9 million, or 34.4%, from RMB267.2 million in 2014 to RMB359.1 million in 2015. Occupancy costs as a percentage of revenue increased from 17.3% in 2014 to 17.6% in 2015, primarily reflected the higher occupancy costs in the newly acquired POKKA HK.

Depreciation and amortisation expenses relating to the restaurants, central kitchens and central warehouses increased by RMB34.7 million, or 28.6%, from RMB121.0 million in 2014 to RMB155.7 million in 2015. Depreciation and amortisation expenses as a percentage of revenue decreased from 7.8% in 2014 to 7.7% in 2015.

GENERAL AND ADMINISTRATIVE EXPENSES

Administrative expenses increased by RMB55.5 million, from RMB127.8 million in 2014 to RMB183.3 million in 2015, as a combined result of additional general and administration expenses of RMB29.0 million from newly acquired POKKA HK and the one-off expense of RMB8.2 million arising from company restructure.

INCOME TAX EXPENSE

Income tax expense decreased by RMB2.6 million, or 36.6%, from RMB7.1 million in 2014 to RMB4.5 million in 2015.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year decreased by RMB99.4 million from the profit of RMB1.0 million in 2014 to the loss of RMB98.4 million in 2015. Among which, an one-off expense of RMB100.3 million was arising from store re-organisation and company restructure.

DIVIDENDS PAYABLE

For the year ended 31 December 2015, the Group did not have any dividends payable. As at 31 December 2015, 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 and cash inflows from the operating activities.

As at 31 December 2015, the Group's total interest-bearing bank loans were RMB334.3 million.

In 2015, the Group had net cash inflows from operating activities of RMB199.9 million (2014: RMB78.8 million). As at 31 December 2015, the Group had RMB169.0 million in cash and cash equivalents (31 December 2014: RMB269.3 million). The following table sets the certain information regarding the consolidated cash flows for the years ended 31 December 2015 and 2014:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net cash flows generated from operating activities	**199,917**	78,814
Net cash flows used in investing activities	**(286,955)**	(164,729)
Net cash flows (used in)/generated from financing activities	**(4,638)**	29,911
Net decrease in cash and cash equivalents	**(91,676)**	(56,004)
Cash and cash equivalents at the beginning of the year	**269,305**	324,499
Effect of foreign exchange rate, net	**(8,605)**	810
Cash and cash equivalents at the end of the year	**169,024**	269,305

OPERATING ACTIVITIES

In 2015, net cash inflow generated from operating activities was RMB199.9 million, representing an increase of RMB121.1 million from RMB78.8 million in 2014, which was primarily attributable to (i) the operating cash inflows before changes in working capital of RMB182.0 million (2014: RMB149.3 million); (ii) the operating cash inflow resulting from change of working capital of RMB38.0 million (2014: outflow of RMB49.3 million).

INVESTING ACTIVITIES

Net cash outflow used in investing activities was RMB287.0 million in 2015, representing an increase of RMB122.2 million compared to 2014. It was mainly due to the investment of RMB125.4 million for the acquisition of POKKA HK at the beginning of 2015.

FINANCING ACTIVITIES

In 2015, net cash outflow used in financing activities was RMB4.6 million, representing a decrease of RMB34.5 million as compared to cash inflow of RMB29.9 million in 2014.

The gearing ratio of the Group and the basis of calculation are set out in Note 39.

FOREIGN CURRENCY EXPOSURE

The Group's exposure to the risk of changes in foreign exchange rates relates primarily 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 2015 was denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to foreign exchange risk.

CONTINGENT LIABILITIES

There were no significant contingent liabilities for the Group as at 31 December 2015 and 31 December 2014.

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 3 to 12 years.

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

	31 December 2015 *RMB'000*	31 December 2014 *RMB'000*
Within one year	**261,650**	247,237
In the second to fifth years, both inclusive	**668,904**	694,581
After five years	**202,524**	283,368
	1,133,078	1,225,186

CAPITAL COMMITMENT

Capital commitments were approximately RMB76.5 million and RMB247.5 million as at 31 December 2015 and 31 December 2014, respectively.

HUMAN RESOURCES

The salary level of employees in the restaurant industry has been generally increasing in recent years. Employee attrition levels tend to be higher in the food services industry than in other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 31 December 2015, the Group recruited about 5,302 employees in China, Hong Kong and Macau. During 2015, total staff cost was RMB620.3 million, representing 30.5% of the revenue (2014: RMB458.7 million, 29.7% of the revenue).

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own corporate governance code. For the year ended 31 December 2015, save as disclosed in this report, the Company has complied with all applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors have confirmed that, they had complied with the required standard as set out in the Model code throughout the year ended 31 December 2015.

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 Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

The Company's management implemented the relevant strategies and handled the Group's operation under the authorization and power of the Board. As at the date of this report, the Board consists of the following Directors:

Executive Directors
Ms. Wang Huimin (Chairlady & Chief Executive Officer)
Ms. Wu Wen
Ms. Zhu XiaoXia

Non-executive Directors
Ms. Wang Huili
Mr. Weng Xiangwei
Mr. Wang Hairong

Independent Non-executive Directors
Dr. Wu Chun Wah
Mr. Lui Wai Ming
Mr. Lin Lijun

All Directors have appropriate professional qualification or substantive experience and industry knowledge. Except that 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. Below is the summary of the Board diversity policy of the Company:

The Company recognizes and embraces the benefits of having a diverse Board to enhance the overall quality of its performance.

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the aforesaid mentioned aspects. In terms of diversification, the Company will also be based on its own business model and the specific needs of the times to take various factors into account.

The Nomination Committee has the primary duty of identifying qualified individuals to act as the Board members, and the Board will review this policy at an appropriate time to ensure the effectiveness of the policy.

As at 4 June 2015, following the retirements of Mr. Tsang Henry Yuk Wong and Mr. Wang Yu as independent non-executive Directors, the Company was unable to fulfil (i) Rule 3.10(1) of the Listing Rules which requires the Board to have at least three independent non-executive directors; (ii) Rule 3.10A which requires the number of independent non-executive directors to be at least one-third of the Board; (iii) Rule 3.21 which requires the Audit Committee to have at least one member to be an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10(2); and (iv) Rule 3.25 which requires the majority of the Remuneration Committee to be independent non-executive directors. Following the appointment of Dr. Wu Chun Wah as an independent non-executive Director on 4 June 2015 and chairman of the Remuneration Committee on 18 August 2015, and Mr. Lui Wai Ming as an independent non-executive Director and the chairman of the Audit Committee on 18 August 2015, the Company has re-complied with the above Listing Rules.

As at 31 December 2015, following the resignation of Mr. Wang Chiwei, one of the independent non-executive Directors, the Company was unable to fulfill (i) Rule 3.10(1) of the Listing Rules which requires the Board to have at least three independent non-executive Directors; (ii) Rule 3.10A which requires the number of independent non-executive Directors to be at least one-third of the Board; (iii) Rule 3.25 which requires the majority of the Remuneration Committee to be independent non-executive Directors; and (iv) code provision A.5.1 of the CG Code which requires the majority of the Nomination Committee to be independent non-executive Directors. Following the appointment of Mr. Lin Lijun as an independent non-executive of Director, and a member of the Remuneration Committee and the Nomination Committee of the Company on 23 March 2016, the Company has re-complied with the above Listing Rules and CG Code.

All Directors have already entered into service contracts with the Company. The appointment of independent non-executive Director Dr. Wu Chun Wah is for a term of three years commencing from 4 June 2015, the emolument of Dr. Wu has been increased from USD30,000 to HKD288,000 effective from 29 December 2015, the appointment of independent non-executive Director Mr. Lui Wai Ming is for a term of three years commencing from 18 August 2015, the emolument of Mr. Lui has been increased from USD30,000 to HKD288,000 effective from 29 December 2015, the appointment of non-executive Director Mr. Wang Hairong is for a term of three years commencing from 29 August 2015, the appointment of executive Director Ms. Zhu Xiaoxia is for a term of three years commencing from 31 December 2015 and the appointment of independent non-executive Director Mr. Lin Lijun is for a term of three years commencing from 23 March 2016. Other than the five directors above, the appointment of all other Directors is for a term of three years from 4 July 2015. The appointment of all Directors will terminate until a party giving at least three months prior notice to the another party.

The Company has received the annual 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.

Eleven full Board meetings and two general meetings held during the year ended 31 December 2015. Attendance of each Director is set out as below:

Directors	Number of meetings attended/Eligible to attend	General meetings attended/Eligible to attend
Ms. Wang Huimin[1]	11/11	1/2
Ms. Wu Wen	7/11	0/2
Ms. Zhu Xiaoxia[2]	0/0	0/0
Ms. Wang Huili	6/11	0/2
Mr. Weng Xiangwei	10/11	1/2
Mr. Wang Hairong	6/11	0/2
Dr. Wu Chun Wah[3]	8/8	1/1
Mr. Lui Wai Ming[4]	5/5	0/1
Mr. Kang Jie	10/11	1/2
Mr. Tsang Henry Yuk Wong[5]	3/3	1/2
Mr. Wang Chiwei	9/11	0/2
Mr. Wang Yu[6]	3/3	0/2

Note:

1 Ms. Wang Huimin abstained from voting for her interests in the matters to be approved at three of the Board meetings.

2 Ms. Zhu Xiaoxia was appointed as the executive Director on 31 December 2015, and accordingly did not attend the Board meeting or general meetings held in 2015.

3 Dr. Wu Chun Wah was appointed as the independent non-executive Director on 4 June 2015, and accordingly attended the Board meeting held after 4 June 2015.

4 Mr. Lui Wai Ming was appointed as the independent non-executive Director on 18 August 2015, and accordingly attended the Board meeting held after 18 August 2015.

5 Mr. Tsang Henry Yuk Wong retired as an independent non-executive Director of the Company on 4 June 2015.

6 Mr. Wang Yu retired as an independent non-executive Director of the Company on 4 June 2015.

Pursuant to Code Provision A.6.7 of Corporate Governance Code, all non-executive Directors of the Company should attend general meetings of the Company. Other than Ms. Wang Huili, Mr. Wang Hairong, Mr. Wang Chiwei and Mr. Wang Yu who did not attend the annual general meeting of the Company held on 6 January 2015 ("**EGM**") and 4 June 2015 ("**AGM**") due to other business engagements arranged in advance, other non-executive Directors (including independent non-executive Directors) of the Company attended the EGM or AGM.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER ("CEO")

Pursuant to code provision A.2.1 of the CG Code, the roles of chairlady and chief executive officer should be separated and should not be performed by the same individual. At present, the roles of the chairlady and the chief executive officer of the Company are performed by Ms. Wang Huimin as a result of the change of management members. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high-quality individuals and meets regularly to discuss issues relating to the operations of the Company. The Board has full confidence in Ms. Wang Huimin and believes that having Ms. Wang Huimin performing the roles of the chairman and the chief executive officer enables the Group to make and implement decisions promptly and efficiently which is beneficial to the Company as a whole. The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the chief executive officer in the future.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Further, according to Article 84 of the Company's Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. The retiring Directors are to be those longest in office since their last election or reappointment, 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. Zhu Xiaoxia, Mr. Lui Wai Ming and Mr. Lin Lijun are the three new Directors of the company, Ms. Wu Wen and Mr. Wang Hairong are the two rotating retired Directors.

INDUCTION AND CONTINUOUS DEVELOPMENT FOR DIRECTORS

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.

DIRECTORS' CONTINUOUS TRAINING

Pursuant to Code Provision A.6.5 of Corporate Governance Code, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. For the year ended 31 December 2015, all Directors of the Company received regular updates on the Listing Rules and corporate governance matters, and Directors who newly appointed has received the trainings on corporate governance from the professionals.

BOARD COMMITTEES

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. As at the date of this report, the Audit Committee comprised three independent non-executive Directors and one non-executive Director, Mr. Lui Wai Ming, Dr. Wu Chun Wah, Mr. Lin Lijun and Mr. Weng Xiangwei. Mr. Lui Wai Ming 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 2015, the Audit Committee has held two meetings to review the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2015 and the annual results and the financial statements for the year ended 31 December 2014. The attendance record of the members of the Audit Committee is set out in the table below:

Directors	Number of meetings attended/Eligible to attend
Mr. Lui Wai Ming	1/1
Dr. Wu Chun Wah	1/1
Mr. Weng Xiangwei	1/2
Mr. Wang Yu	1/1
Mr. Tsang Henry Yuk Wong	1/1

The following was a summary of the primary work performed by the Audit Committee in 2015:

1. reviewed the Group's consolidated financial statements for the year ended 31 December 2014 and the annual results announcement with a recommendation to the Board for approval;

2. reviewed the Group's annual report for the year ended 31 December 2014 with a recommendation to the Board for approval;

3. reviewed the continuing connected transactions for the year ended 31 December 2014;

4. reviewed the Group's consolidated financial statements for the six months period ended 30 June 2015 and the interim results announcement with a recommendation to the Board for approval;

5. reviewed the Group's interim report for the six months period ended 30 June 2015 with a recommendation to the Board for approval; and

6. reviewed the annual and interim internal audit report submitted by the Group's Internal Audit Department.

Remuneration Committee

The Remuneration Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. As at the date of this report, the Remuneration Committee comprised three independent non-executive Directors and one executive Director, Dr. Wu Chua Wah, Mr. Lui Wai Ming, Mr. Lin Lijun and Ms. Wang Huimin. Dr. Wu Chun Wah 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 2015, the Remuneration Committee held six meetings 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 is set out in the table below:

Directors	Number of meetings attended/Eligible to attend
Mr. Wang Yu	3/3
Ms. Wang Huimin	6/6
Mr. Wang Chiwei	6/6
Dr. Wu Chun Wah	2/2

The following was a summary of the primary work performed by the Remuneration Committee in 2015:

1. reviewed the remuneration of chief executive officer and Directors which from the year of 2015 to 2017 with a recommendation to the Board for approval; and

2. reviewed the remuneration of newly appointed Directors Dr. Wu Chun Wah, Mr. Lui Wai Ming and Ms. Zhu Xiaoxia during the year of 2015 respectively.

Nomination Committee

The Nomination Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. As at the date of this report, the Nomination Committee comprised one executive Director and three independent non-executive Directors, namely Ms. Wang Huimin, Mr. Lui Wai Ming, Dr. Wu Chun Wah and Mr. Lin Lijun. Ms. Wang Huimin is the chairlady 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 2015, the Nomination Committee has held four meetings. The attendance record of the Nomination Committee is set out in the table below:

Directors	Number of meetings attended/Eligible to attend
Mr. Wang Chiwei	4/4
Ms. Wang Huimin	4/4
Mr. Tsang Henry Yuk Wong	2/2
Dr. Wu Chun Wah [1]	1/1
Mr. Lui Wai Ming	1/1

Note:

1 Dr. Wu Chun Wah was appointed as the member of Nomination Committee during 4 June to 18 August 2015.

The following was a summary of the primary work performed by the Nomination Committee in 2015:

1. reviewed the structure, size and composition of the Board;

2. reviewed the diversity of the Board. The Nomination Committee endorsed that the Board possessed a diversity of skills, expertise, experience and qualifications and believed that the Board performed its duties competently;

3. advise on the issue of re-election of retiring Directors;

4. nominated Dr. Wu Chun Wah, Mr. Lui Wai Ming and Ms. Zhu Xiaoxia to act as the Directors of the Board; and

5. assessed the independence of the independent non-executive Directors.

Risk Management Committee

The Risk Management Committee was established on 31 December 2015 with relevant authorities developed pursuant to the Listing Rules. The Risk Management Committee was composed of two executive Directors and one independent non-executive Director: Ms. Wang Huimin, Ms. Zhu Xiaoxia, and Dr. Wu Chun Wah. Ms. Wang Huimin acted as the chairlady of the Risk Management Committee. The major duties of the Risk Management Committee shall include: oversighting the risk management system and risk tolerance capability of the Company, ensuring that the management has performed its duties to establish an effective internal control system, and considering major investigation findings on relevant risk management matters as delegated by the Board or on its own initiative and management's response to these findings. The Risk Management Committee will designate the senior management or the internal audit function team to identify the risks according to the risk management plan, and will hold meetings no less than twice a year to perform their duties.

Executive Committee

The Executive Committee was established on 30 August 2011. The Executive Committee comprised of two executive Directors, Ms. Wang Huimin and Ms. Zhu Xiaoxia, Ms. Wang Huimin is chairlady of the Executive Committee. The Principal duties of the Executive Committee include approving new Chinese cuisine brands of the Group, approving to add or change the general business projects within the scope of Chinese cuisine business, approving the connected transactions which meet the exemptions of de minimis transactions pursuant to the Listing Rules and other approval matters authorized by the Board.

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 2015, 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 and Risk Management Committee, had reviewed the effectiveness and adequacy of the risk management and internal control system of the Group.

COMPANY SECRETARY

Ms. Leng Yijia, the current joint company secretary of the Company, she has served as the secretary of the Board and a joint company secretary of the Company since 4 July 2012 (except for the period from 7 July 2015 to 1 February 2016). Mr. Wang Shoudong, served as joint company secretary of the Company from 7 July 2015 to 1 February 2016. Each of Ms. Leng and Mr. Wang is familiar with the Company's daily operation. They report duty to the Chairlady and/or the CEO.

The Company also engaged Ms. Mok Ming Wai, Director of KCS Hong Kong Limited and the head of listing services department, as the joint company secretary, who will be responsible for assisting Ms. Leng and Mr. Wang in performing their duties as the company secretary during the year ended 31 December 2015. Ms. Leng Yijia and Mr. Wang Shoudong are the principal contact person of the Company. For the year ended 31 December 2015, 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 2015, 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	–
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	1

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2015, the annual audit fees paid to the external auditors of the Company amounted to RMB2.662 million. The Company did not pay the external auditors any non-audit fees.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is most important to improve investor relations and understanding of the Group's business, performance as well as strategy. The Company also recognizes the importance of 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.

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law. However, shareholders who wish to propose resolutions may follow Article 58 of the Articles of Association for requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures are set out as above.

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 date on which the Shares were listed on the Stock Exchange. During the year ended 31 December 2015, the Company has not made any changes to its Memorandum and Articles of Association.

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 at www.xiaonanguo.com and the HKEx website at www.hkex.com.hk after the general meeting.

EXECUTIVE DIRECTORS

Ms. WANG Huimin, aged 61, is the chairlady of the Board, CEO 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 29 years of experience in the restaurant industry, and is currently the vice president of the China Cuisine Association and the China Hotel Association. Ms. Wang is one of the founders of Join Me Group (HK) Investment Company Limited and has been acting as an Director of JM WOWO (a company listed on the NASDAQ Stock Market with stock code WOWO) since June 2015. Ms. Wang Huimin is the sister of Ms. Wang Huili and Mr. Wang Hairong.

Ms. WU Wen, aged 47, 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 20 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.

Ms. ZHU Xiaoxia, aged 45, is an executive Director of the Company. She has been acting as the vice president of the China Hotel Association since March 2006, and the Co-Chairperson of JM WOWO (a company listed on the NASDAQ Stock Market with stock code WOWO and is mainly engaged in the operation of B2B e-commerce platform that provides food and other commodity supply chain services in the catering and hotel industry) since June 2015. Ms. Zhu has extensive experience in restaurant industry for around 21 years. She is one of the founders of Join Me Group (HK) Investment Company Limited and has been its chairlady since 2013. She has also been the chairlady of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. (浙江向陽漁港集團股份有限公司) since June 1998.

NON-EXECUTIVE DIRECTORS

Ms. WANG Huili, aged 58, is a non-executive Director of the Company. Ms. Wang Huili is a co-founder of the Group and has worked for Xiao Nan Guo restaurants for over 29 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 49, is a non-executive Director of the Company. Mr. Weng is the founder of Shining Capital Management Limited and has extensive experience in investment banking and private equity investment. Prior to that, Mr. Weng was an executive director at the corporate finance department and "Head of Mergers and Acquisitions, China" of Goldman Sachs (Asia) L.L.C. from January 2005 to January 2007, Mr. Weng served as the general manager in charge of corporate operations at Gome Electrical Appliances Holding Limited (stock code: 0493), a company listed on the Stock Exchange of Hong Kong. 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 53, is a 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

Dr. WU Chun Wah, aged 51, is an independent non-executive Director of the Company. Dr. Wu has extensive experience in financial investment and corporate finance. He was the executive director and chief executive officer of Creative Energy Solutions Holdings Limited (科瑞控股有限公司, stock code: 8109), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, from July 2010 to December 2014. He was also the executive director of Incutech Investments Limited (now known as DT Capital Limited 鼎立資本有限公司, stock code: 356), a company listed on the main board of The Stock Exchange of Hong Kong Limited, from November 2007 to July 2014. Dr. Wu holds a doctor degree in business administration and a master degree in corporate governance from the Hong Kong Polytechnic University. He also holds a master degree in business administration from Northeast Louisiana University, a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. He is a fellow member of the Hong Kong Institute of Directors, member of the Hong Kong Securities Institute, associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

Mr. LUI Wai Ming, aged 46, is an independent non-executive Director of the Company. Mr. Lui has extensive experience in auditing, accounting, investment, financial and corporate management for over 20 years. Mr. Lui is the chief financial officer of Hosa International Limited (stock code: 2200), a company listed on the main board of the Stock Exchange, since August 2015. He was an independent non-executive director of Tai Shing International (Holdings) Limited (stock code: 8103), a company listed on the Growth Enterprise Market of the Stock Exchange, from May 2014 to January 2016, and was an independent non-executive director of Golden Shield Holdings (Industrial) Limited (in liquidation) (stock code: 2123), a company listed on the main board of the Stock Exchange, from January 2015 to May 2015, during the period he focused on investigation into the outstanding audit issues and the legal proceedings, and the company is currently under liquidation. Mr. Lui holds an Executive Master Degree in Business Administration from Cheung Kong Graduate School of Business in the People's Republic of China. Mr. Lui is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. LIN Lijun, aged 42, is an independent non-executive Director of the Company. Mr. Lin is the founder of China Universal Asset Management Co, Ltd (匯添富基金管理有限公司), an award-winning and diverse asset management company at which he had served as the chief executive officer until April 2015. Mr. Lin has extensive experience in investment management as well risk management. Mr. Lin is currently an independent non-executive director of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (stock code: 600649), a company listed on the Shanghai Stock Exchange, and an independent non-executive director of Reorient Group Limited (stock code: 376), a company listed on the main board of the Stock Exchange. In the past three years, he was also an independent director of Shanda Games Limited (盛大遊戲有限公司), a company with its American depositary shares used to be listed on NASDAQ (symbol: GAME). Mr. Lin holds a master's degree in business administration from Harvard University, a bachelor's degree and a master's degree in economics from Fudan University respectively.

SENIOR MANAGEMENT

Ms. XU Dongsheng, aged 40, is a vice president of the Company. She joined the Group in December 2015 and primarily takes charge of the operation and management of Chinese cuisine and western food business group. Ms. Xu has over 15 years of experience in catering and integrated hotel management areas. Prior to joining the Company, she was a president of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. (浙江向陽漁港集團股份有限公司) and also a president of Shanghai Dingyi Hotel Management Co., Ltd (上海小南國鼎怡酒店管理有限公司).

Mr. SUN Yong, aged 44, is the Company's vice president primarily responsible for mini-store brand business as well as 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. WANG Shoudong, aged 39, is the chief financial officer of the Company and is primarily responsible for the finance department. He also served as secretary of the Board and joint company secretary from 7 June 2015 to 1 February 2016. He joined our Group in June 2011. Prior to joining the Group, Mr. Wang served various positions at Best Buy China where he served from January 2007 to May 2011, including Sr. Finance Operation Manager and Finance Manager . From July 1999 to January 2007, Mr. Wang served for finance department of Dazhong Transportation (Group) CO., LTD, a company listed on Shanghai Stock Exchange (Stock code: 600611). Mr. Wang obtained his bachelor's degrees in economics from Fudan University in July 1999, and his MBA degree from Fudan University in July 2007.

Independent Auditors' Report

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

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 set out on pages 46 to 135, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

23 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	Year ended 31 December 2015 RMB'000	2014 RMB'000
REVENUE	5	**2,035,177**	1,544,199
Cost of sales		**(629,768)**	(509,272)
Gross profit		**1,405,409**	1,034,927
Other income and gain	5	**44,041**	46,616
Selling and distribution expenses		**(1,256,272)**	(931,853)
Administrative expenses		**(183,312)**	(127,812)
Other expenses		**(91,468)**	(7,746)
Finance costs	7	**(12,357)**	(6,015)
(LOSS)/PROFIT BEFORE TAX	6	**(93,959)**	8,117
Income tax expense	10	**(4,458)**	(7,085)
(LOSS)/PROFIT FOR THE YEAR		**(98,417)**	1,032
Attributable to:			
Owners of the Company		**(93,242)**	566
Non-controlling interests		**(5,175)**	466
		(98,417)	1,032
Earnings/(loss) per share attributable to ordinary equity holders of the Company			
– Basic	12	**RMB(6.4) cents**	RMB0.04 cents
– Diluted	12	**RMB(6.4) cents**	RMB0.04 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(98,417)**	1,032
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**2,042**	–
Exchange differences on translation of foreign operations	**3,732**	1,001
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**5,774**	1,001
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(92,643)**	2,033
Attributable to:		
Owners of the Company	**(87,468)**	1,567
Non-controlling interests	**(5,175)**	466
	(92,643)	2,033

Consolidated Statement of Financial Position

31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**721,712**	685,999
Goodwill	14	**12,674**	–
Intangible assets	15	**35,468**	4,325
Available-for-sale investments	17	**19,990**	20,100
Long-term rental deposits	16	**98,518**	66,234
Deferred tax assets	26	**84,526**	72,611
Pledged deposits	22	**60,000**	–
Loan to a non-controlling shareholder	32/a.2	**44,487**	–
Other long-term receivables	32/b	**31,836**	–
Other long-term assets		**–**	157
Total non-current assets		**1,109,211**	849,426
CURRENT ASSETS			
Inventories	18	**54,116**	45,014
Trade receivables	19	**25,677**	18,068
Prepayments, deposits and other receivables	20	**168,434**	175,693
Financial asset at fair value through profit or loss	21	**227**	–
Pledged deposits	22	**20,000**	–
Cash and cash equivalents	22	**169,024**	269,305
Total current assets		**437,478**	508,080
CURRENT LIABILITIES			
Trade payables	23	**117,889**	102,458
Interest-bearing bank loans	25	**291,099**	236,141
Tax payable		**15,963**	16,240
Other payables and accruals	24	**198,503**	150,508
Deferred income		**5,221**	841
Total current liabilities		**628,675**	506,188
NET CURRENT (LIABILITIES)/ASSETS		**(191,197)**	1,892
TOTAL ASSETS LESS CURRENT LIABILITIES		**918,014**	851,318

31 December 2015

	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000
NON-CURRENT LIABILITIES			
Long-term defer payment	32/b	**31,836**	–
Long-term payables	16	**71,371**	61,887
Interest-bearing bank loans	25	**43,217**	–
Deferred tax liabilities	26	**708**	777
Total non-current liabilities		**147,132**	62,664
Net assets		**770,882**	788,654
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**12,035**	12,062
Treasury shares	28/b	**–**	(2,711)
Reserves	30	**687,864**	772,809
		699,899	782,160
Non-controlling interests		**70,983**	6,494
Total equity		**770,882**	788,654

Wang Huimin
Director

Zhu Xiaoxia
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

		Attributable to owners of the Company													
	Notes	Issued capital RMB'000	Share premium* RMB'000	Treasury shares RMB'000	Capital redemption reserve* RMB'000	Capital reserve* RMB'000	Merger reserve* RMB'000	Available-for-sale investment revaluation reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Share option reserve* RMB'000	Retained earnings* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of 1 January 2015		12,062	475,538	(2,711)	–	59,771	(69,246)	–	13,238	(16,329)	14,504	295,333	782,160	6,494	788,654
Loss for the year		–	–	–	–	–	–	–	–	–	–	(93,242)	(93,242)	(5,175)	(98,417)
Other comprehensive income for the year:															
Changes in fair value of available-for-sale investments, net of tax		–	–	–	–	–	–	2,042	–	–	–	–	2,042	–	2,042
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	3,732	–	–	3,732	–	3,732
Total comprehensive income for the year		–	–	–	–	–	–	2,042	–	3,732	–	(93,242)	(87,468)	(5,175)	(92,643)
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	82,803	82,803
Acquisition of non-controlling interests		–	–	–	–	(2,598)	–	–	–	–	–	–	(2,598)	–	(2,598)
Disposal of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	(3,998)	(3,998)
Appropriation for reserve funds		–	–	–	–	–	–	–	598	–	–	(598)	–	–	–
Cancellation of shares	28(b)	(27)	(2,711)	2,711	27	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling shareholders		–	–	–	–	2,305	–	–	–	–	–	–	2,305	243	2,548
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(9,384)	(9,384)
Equity-settled share option arrangements	29	–	–	–	–	–	–	–	–	–	5,500	–	5,500	–	5,500
As of 31 December 2015		12,035	472,827	–	27	59,478	(69,246)	2,042	13,836	(12,597)	20,004	201,493	699,899	70,983	770,882

Year ended 31 December 2015

		Attributable to owners of the Company											
	Notes	Issued capital RMB'000	Share premium* RMB'000	Treasury shares RMB'000	Capital reserve* RMB'000	Merger reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Share option reserve* RMB'000	Retained earnings* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of 1 January 2014		12,047	473,301	–	60,174	(69,246)	12,898	(17,330)	11,725	295,107	778,676	4,596	783,272
Profit for the year		–	–	–	–	–	–	–	–	566	566	466	1,032
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations		–	–	–	–	–	–	1,001	–	–	1,001	–	1,001
Total comprehensive income for the year		–	–	–	–	–	–	1,001	–	566	1,567	466	2,033
Acquisition of non-controlling interests		–	–	–	(403)	–	–	–	–	–	(403)	(597)	(1,000)
Issue of shares	28	15	2,237	–	–	–	–	–	(221)	–	2,031	–	2,031
Capital contribution from non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	2,029	2,029
Appropriation for reserve funds		–	–	–	–	–	340	–	–	(340)	–	–	–
Repurchase of shares	28(b)	–	–	(2,711)	–	–	–	–	–	–	(2,711)	–	(2,711)
Equity-settled share option arrangements	29	–	–	–	–	–	–	–	3,000	–	3,000	–	3,000
As of 31 December 2014		12,062	475,538	(2,711)	59,771	(69,246)	13,238	(16,329)	14,504	295,333	782,160	6,494	788,654

* These reserve accounts comprise the consolidated reserves of RMB687,864,000 and RMB772,809,000 in the consolidated statements of financial position as at 31 December 2015 and 2014, respectively.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	Year ended 31 December 2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(93,959)**	8,117
Adjustments for:			
Finance costs	7	**12,357**	6,015
Interest income	5	**(3,797)**	(1,976)
Dividend income from available-for-sale investment	5	**(2,652)**	–
Depreciation	13	**184,273**	126,184
Amortisation of intangible assets	15	**3,155**	1,294
Amortisation of other long-term assets	6	**157**	212
Loss on disposal of items of property, plant and equipment	6	**9,931**	6,501
Loss on disposal of items of intangible assets	6	**343**	–
Gain on disposal of a subsidiary	5	**(5)**	–
Impairment of property, plant and equipment		**66,743**	–
Equity-settled share option expense	6	**5,500**	3,000
		182,046	149,347
(Increase)/decrease in inventories		**(522)**	4,887
Increase in trade receivables		**(3,328)**	(1,854)
Decrease/(increase) in prepayments, deposits and other receivables		**26,358**	(73,043)
Increase in trade payables		**7,966**	17,650
Increase in other payables and accruals		**16,647**	4,342
Increase in long-term rental deposits		**(16,564)**	(11,259)
Increase in long-term payables		**3,084**	10,542
Increase/(decrease) in deferred income		**4,380**	(557)
Cash generated from operations		**220,067**	100,055
Income tax paid		**(20,150)**	(21,241)
Net cash flows from operating activities		**199,917**	78,814

Year ended 31 December 2015

	Notes	Year ended 31 December 2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(168,600)**	(173,929)
Proceeds from disposal of items of property, plant and equipment		**–**	8,343
Purchases of intangible assets		**–**	(1,119)
Loan to non-controlling shareholder		**(51,259)**	–
Repayment of loan to non-controlling shareholder		**9,384**	–
Payment for acquisition of non-controlling interests		**(2,598)**	–
Payment for acquisition of a subsidiary	32	**(74,164)**	–
Purchase of available-for-sale investments		**(7,167)**	–
Proceeds from disposal of available-for-sale investments		**1,000**	–
Dividends received from available-for-sale investments	5	**2,652**	–
Interest received		**3,797**	1,976
Net cash flows used in investing activities		**(286,955)**	(164,729)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	3,908
Increase in pledged time deposits		**(80,000)**	–
Repurchase of shares		**–**	(2,711)
Repayment of bank loans		**(165,219)**	(205,759)
Proceeds from new bank loans		**259,774**	238,664
Dividend paid to non-controlling shareholders		**(9,384)**	–
Capital contribution from non-controlling shareholders		**2,548**	2,029
Interest paid		**(12,357)**	(6,220)
Net cash flows (used in)/from financing activities		**(4,638)**	29,911
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(91,676)**	(56,004)
Cash and cash equivalents at beginning of year		**269,305**	324,499
Effect of foreign exchange rate changes, net		**(8,605)**	810
CASH AND CASH EQUIVALENTS AT END OF YEAR		**169,024**	269,305
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**143,521**	264,501
Time deposits with maturity of less than three months, not pledged	22	**25,503**	4,804
Cash and cash equivalents as stated in the statement of cash flows		**169,024**	269,305

31 December 2015

1. CORPORATE AND GROUP INFORMATION

Xiao Nan Guo restaurants holdings Limited is a limited liability company incorporated in 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 principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of 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 the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Xiao Nan Guo restaurants holdings Limited, which is incorporated in the Cayman Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (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)
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)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
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	(2)
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)
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)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
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 Huangpu Xiao Nan Guo Restaurant Management Co., Ltd. 上海黃浦小南國餐飲管理有限公司	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)
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd. 深圳市小南國餐飲管理有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Zhabei Xiao Nan Guo Restaurant Management Co., Ltd. 上海閘北小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
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)
Chengdu Hui Zhi Nan Restaurant Co., Ltd 成都慧之南餐飲管理有限公司	PRC	RMB5,000	–	100	(1)
Shenyang Xiao Nan Guo Restaurant Co., Ltd 瀋陽小南國餐飲管理有限公司	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 Restaurant Management Co., Ltd. 上海小南國煌智餐飲管理有限公司	PRC	RMB2,000	–	100	(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 Yiqian International Trade Co., Ltd 上海益錢國際貿易有限公司	PRC	RMB10,000	–	100	(9)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Shanghai Yan Meng Technology and Information Development Co., Ltd (Formerly known as Shanghai Xiao Nan Guo Technology and Information Development Co., Ltd) 上海焱萌信息科技發展有限公司 (formerly named: 上海小南國科技信息發展有限公司)	PRC	RMB1,000	–	100	(10)
Shanghai Mizhilian Restaurant Management Co., Ltd 上海米芝蓮餐飲管理有限公司	PRC	RMB200	–	50	(8)
Shanghai Xiao Nan Guo Oreno Restaurant Management Co., Ltd. 上海俺的小南國餐飲管理有限公司	PRC	RMB7,000	–	100	(7)
Shanghai Huijie Restaurant Management Co., Ltd. 上海慧捷餐飲管理有限公司	PRC	RMB1,000	–	51	(7)
Shanghai Hui Zhi Restaurant Management Co., Ltd. 上海慧置餐飲管理有限公司	PRC	RMB1,000	–	65	(1)
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)
Xiao Nan Guo Management (Kowloon) Limited 小南國管理（九龍）有限公司	Hong Kong	HK$10	–	100	(4)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
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 Holdings Limited 小南國控股有限公司	Hong Kong	HK$330.2	–	100	(7)
Wisecorp Worldwide Development Limited 協和環球發展有限公司	Hong Kong	HK$5,000	–	100	(7)
Xiao Nan Guo Holdings Limited	BVI	US$10	100	–	(7)
Xiao Nan Guo (Hong Kong) Restaurant Group Limited	BVI	US$0.00001	100	–	(7)
King Merit Corporation Limited 煌智有限公司	Hong Kong	HK$0.01	–	100	(7)
King Merit (Macau) Limited 煌智（澳門）有限公司	Macau	HK$10,000	–	100	(5)
High Ace Enterprises Limited	Hong Kong	US$0.001	100	–	(7)
Oreno Xiao Nan Guo International (Hong Kong) Limited	Hong Kong	HK$7,600	–	68	(7)

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Company Name	Place of incorporation/ registration and business	Issued ordinary/ registered share Capital ('000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Big Wonder Limited	BVI	US$0.001	100	–	(7)
Jet Elite Investments Limited	Hong Kong	HK$0.001	–	51	(7)
Lucky Grip Limited	BVI	US$0.001	100	–	(7)
Bright Charm Development Limited	BVI	US$0.001	100	–	(7)
Team Harvest Investment Limited	Hong Kong	HK$0.001	–	70	(7)
Magic New Investments Limited	Hong Kong	HK$38,000	–	100	(7)
Roadmap Ventures Limited	BVI	US$0.001	100	–	(7)
Rosy Lead Limited	BVI	US$0.001	100	–	(7)
Affluent Harvest Limited	BVI	US$1	100	–	(7)
Million Rank Limited	BVI	US$0.1	–	65	(7)
Million Rank (HK) Limited (Formerly named Pokka Corporation (HK) Limited)	Hong Kong	HK$16,000	–	65	(4)
Million Rank (Macau) Limited (Formerly named Pokka Coffee (Macau) Ltd.,)	Macau	MOP200	–	65	(5)
Xu Feng Limited	Hong Kong	HK$0.1	–	65	(7)
Beauty Wheel Limited	Hong Kong	HK$0.1	–	70	(7)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Notes of the principal activities:

(1) Operation of Chinese restaurant chain stores in Mainland China
(2) Trading and sale of 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 sale of micro-freezing liquid and micro-freezing machines, and provision of related services
(7) Investment holding
(8) Rendering the management services and engaged in franchise operation
(9) Goods and technology import and export services in Mainland China
(10) Rendering of IT technology services and sale of software

Details of the acquisition and disposal of subsidiaries of the Group during the year are included in notes 32 and 33 to the financial statements.

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"). They have been prepared under the historical cost convention except for financial asset at fair value through profit or loss and equity investment 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.

Net current liability

As at 31 December 2015, the current liabilities of the Group exceeded its current assets by approximately RMB191.2 million. In the opinion of the Directors, the net current liability position was mainly caused by the full payment for cash consideration of the acquisition transaction (stated in note 32) and capital investment on newly opened stores. The Directors have prepared these financial statements on a going concern basis based on the cash flow forecast, for the next 18-months since 31 December 2015, that the Group will generate sufficient operation cash inflows, to meet its financial obligations when they fall due.

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 2015. 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).

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

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 standards for the first time for the current year's financial statements.

Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010-2012 Cycle	*Amendments to a number of IFRSs*
Annual Improvements 2011-2013 Cycle	*Amendments to a number of IFRSs*

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

In addition, the company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The impact to the financial statements is on the presentation and disclosure of certain information in 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*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IAS 7	*Disclosure initiative*[2]
Amendments to IAS 12	*Recognition of Deferred tax Assets for Unrealised Losses*[2]
IFRS 16	*Leases*[4]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
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

31 December 2015

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

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.

IFRS 15 establishes a new five-step model to account for 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 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits; and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after 1 January 2017 and to be applied retrospectively. The Group expects to adopt the amendments from 1 January 2017. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17. In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Given the nature of the Group's operations, it is expected to have impacts on the Group's consolidated financial statements. The Group has not completed its assessment of the full impact of adopting IFRS 16 and therefore the possible impacts on the Group's operating results and financial position have not been quantified.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 of 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 is measured at fair value with changes in fair value either recognised in profit or loss. 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its 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.

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, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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
Leasehold land and building	2%	0%
Furniture, fixtures and equipment	20%	5%
Motor vehicles	20%	5%
Leasehold improvements	Over the shorter of lease terms and estimated useful life	0%

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

An item of property, plant and equipment 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 is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

	Annual rate	Estimated residual values rate
Software	10%-20%	0%
Favourable contract	4%	0%
Trademark	5%	0%
Customer relationship	10%	0%

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 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, 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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Financial assets at fair value through profit or loss

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 and other payables, dividends payable, interest-bearing bank loans, long-term defer payment 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

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

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sales, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions *(continued)*

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

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) membership fee income, on a time and value proportion basis over the membership period;

(d) management fee from franchisee, is recognized when management services rendered;

(e) dividend income from available for sale investment, is recognized when the right to receive payment established; and

(f) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

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

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

For awards that do not ultimately vest, because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions 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, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the 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 27 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 are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, 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.

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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 translation 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 Group (RMB) 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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements *(continued)*

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.

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Shanghai Mizhilian Restaurant Management Co., Ltd ("Mizhilian") even though it owns 50% of the voting rights. This is because the Group controls Mizhilian by being exposed and owing rights to variable returns from its involvement with Mizhilian and owning the ability to affect those returns through its power over Mizhilian.

Lack of significant influence even though the Group holds more than 20% of voting rights

The Group considers that it lacks of significant influence on Yancheng Guanhua Aquatic Products Co., Ltd. ("Yancheng Guanhua") even though it owns more than 20% of the voting rights. This is because the Group has failed to obtain representation on the Yancheng Guanhua's board of directors and cannot exercise significant influence on financial and operating decisions.

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB12,674,000 (2014: Nil). Further details are given in Note 14.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 13 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

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 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 recognised tax losses at 31 December 2015 and 2014 were RMB37,324,000 and RMB41,047,000, respectively. Further details are contained in note 26 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.

Impairment of receivables

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

Deferred income

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

4. OPERATING SEGMENT INFORMATION

In the year before 31 December 2014, 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. On 7 January 2015, since the Group completed the acquisition of Million Rank (HK) Limited and its subsidiary Million Rank (Macau) Ltd., (collectively referred to as "POKKA HK"), the Group has the following two reportable operating segments based on their brands and services:

(a) Xiao Nan Guo Business (including main brands: Shanghai Min, Maison De L'Hui and the dining room)

(b) POKKA HK Business (including main brands: Pokka Café and Tonkichi)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2015

	Xiao Nan Guo RMB'000	POKKA HK RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,737,956	297,221	2,035,177
Revenue from continuing operations			2,035,177
Segment results	(75,418)	1,212	(74,206)
Reconciliation:			
Elimination of intersegment results			(281)
Dividend income from available-for-sale investments			2,652
Equity-settled share option expense			(5,500)
Interest income			3,797
Finance costs			(12,357)
Gain on disposal of a subsidiary			5
Corporate and other unallocated expenses			(8,069)
Loss before tax			(93,959)
Segment assets	770,919	472,521	1,243,440
Reconciliation:			
Elimination of intersegment receivables			(30,528)
Corporate and other unallocated assets			333,777
Total assets			1,546,689
Segment liabilities	379,564	75,783	455,347
Reconciliation:			
Elimination of intersegment payables			(30,528)
Corporate and other unallocated liabilities			350,988
Total liabilities			775,807
Other segment information:			
Depreciation and amortisation	166,313	21,272	187,585
Capital expenditure*	141,905	176,810	318,715

* Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of a subsidiary.

31 December 2015

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Mainland China	**1,438,888**	1,279,567
Hong Kong	**554,840**	235,946
Others	**41,449**	28,686
	2,035,177	1,544,199

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

(b) Non-current assets

	31 December	31 December
	2015	2014
	RMB'000	RMB'000
Mainland China	**615,418**	699,066
Hong Kong	**251,366**	54,659
Others	**1,588**	2,990
	868,372	756,715

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

Information about a major customer

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2015 and 2014, no segment information is presented in accordance with IFRS 8 *Operating Segments*.

31 December 2015

5. REVENUE, OTHER INCOME AND GAIN

Revenue, 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:

	Note	Year ended 31 December	
		2015	2014
		RMB'000	RMB'000
Revenue			
Restaurant operations		**2,021,115**	1,535,342
Other revenue		**14,062**	8,857
		2,035,177	1,544,199
Other income			
Government grants		**24,082**	33,250
Dividend income from available-for-sale investments		**2,652**	–
Membership fee income		**5,990**	–
Bank interest income		**3,797**	1,976
Management fee income		**4,836**	8,877
Service fee income		**1,350**	–
Others		**1,329**	2,513
		44,036	46,616
Gain			
Gain on disposal of a subsidiary	33	**5**	–
		44,041	46,616

31 December 2015

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cost of inventories consumed		**629,768**	509,272
Depreciation	13	**184,273**	126,184
Amortisation of intangible assets	15	**3,155**	1,294
Amortisation of other long-term assets		**157**	212
Minimum lease payments under operating leases on buildings		**367,868**	273,340
Auditors' remuneration		**3,109**	3,089
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**496,606**	354,978
Equity-settled share option expense		**5,500**	3,000
Defined contribution pension schemes		**118,178**	100,726
		620,284	458,704
Foreign exchange differences, net		**2,197**	578
Bank interest income	5	**(3,797)**	(1,976)
Loss on disposal of items of property and equipment		**9,931**	6,501
Loss on disposal of items of intangible assets		**343**	–
Impairment of property, plant and equipment		**66,743**	–
Gain on disposal of a subsidiary	33	**(5)**	–

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2015 RMB'000	2014 RMB'000
Interest on bank loans	**12,766**	7,124
Less: Interest capitalised	**(409)**	(1,109)
	12,357	6,015

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Fees	**440**	366
Other emoluments:		
Salaries, allowances and benefits in kind	**2,701**	2,785
Equity-settled share-based payment	**456**	1,396
Pension scheme contributions	**114**	105
	3,271	4,286
	3,711	4,652

(a) Independent non-executive directors

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

	2015	2014
	RMB'000	RMB'000
Mr. Wang Yu	**52**	122
Mr. Tsang Henry Yuk Wong	**53**	122
Mr. Wang Chiwei	**156**	122
Dr. Wu Chun Wah	**109**	–
Mr. Lui Wai Ming	**70**	–
	440	366

	2015	2014
	RMB'000	RMB'000
Equity-settled share-based payment:		
Mr. Tsang Henry Yuk Wong	**46**	–

During the years ended 31 December 2015, 500,000 share options were granted to Mr. Tsang Henry Yuk Wong in respect of his services to the Group, which was forfeited subsequently, further details of which are set out in note 29 to the financial statements. Except for those options granted to Mr. Tsang Henry Yuk Wong, there were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(a) Independent non-executive directors *(continued)*

Mr. Wang Yu and Mr. Tsang Henry Yuk Wong were appointed as independent non-executive directors in 2011 and resigned on 4 June 2015. Mr. Wang Chiwei was appointed as an independent non-executive director in 2011 and resigned on 31 December 2015. Dr. Wu Chun Wah was appointed as an independent non-executive director on 4 June 2015. Mr. Lui Wai Ming was appointed as an independent non-executive director and the chairman of Audit Committee on 18 August 2015. Mr. Lin Lijun was appointed as an independent non-executive director on 23 March 2016.

(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 2015				
Executive directors:				
Ms. Wang Huimin	**–**	**–**	**–**	**–**
Ms. Wu Wen	**–**	**–**	**–**	**–**
Ms. Zhu Xiaoxia	**–**	**–**	**–**	**–**
Mr. Kang Jie	**2,701**	**410**	**114**	**3,225**
	2,701	**410**	**114**	**3,225**
Year ended 31 December 2014				
Executive directors:				
Ms. Wang Huimin	–	–	–	–
Ms. Wu Wen	–	–	–	–
Mr. Kang Jie	2,785	1,396	105	4,286
	2,785	1,396	105	4,286

Mr. Kang Jie was also the chief executive of the Group and his remuneration disclosed above includes the remuneration for services rendered by him as the chief executive. On 29 December 2015, Mr. Kang Jie resigned as an executive director and the chief executive with effect from 31 December 2015. Ms. Zhu Xiaoxia was appointed as an executive director and Ms. Wang Huimin was appointed as the chief executive officer on 29 December 2015 with effect from 31 December 2015.

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(c) Non-executive directors

Ms. Wang Huili and Mr. Weng Xiangwei were appointed as non-executive directors in 2010. Mr. Wang Hairong was appointed as a non-executive director in 2012. There were no fees or other emoluments payable to them during the years ended 31 December 2015 and 2014.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director (also chief executive) for the years ended 31 December 2015 and 2014, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2014: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,566**	3,440
Equity-settled share-based payment	**320**	188
Pension scheme contributions	**518**	404
	4,404	4,032

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	
	2015	2014
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	2
HK$1,500,001 to HK$2,000,000	**1**	1
	4	4

During the years ended 31 December 2015 and 2014, 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 29 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.

31 December 2015

10. INCOME TAX

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Current – Mainland China charged for the year	**13,537**	18,368
Current – Hong Kong and elsewhere charged for the year	**2,997**	2,398
Deferred tax (note 26)	**(12,076)**	(13,681)
Total tax charge for the year	**4,458**	7,085

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%.

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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 Macau Complementary Tax ("MCT") Law, taxable profits below MOP200,000 are exempted from tax, taxable profits between MOP200,001 and MOP300,000 are subject to the rate of 9%, and taxable profits over MOP300,000 are subject to the rate of 12%.

31 December 2015

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) 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:

	2015 RMB'000	2014 RMB'000
(Loss)/Profit before tax	**(93,959)**	8,117
Tax at the statutory tax rate of 25% (2014: 25%)	**(23,490)**	2,029
Lower tax rates for specific provinces or enacted by local authorities	**(719)**	(578)
Income not subject to tax	**(227)**	(400)
Expenses not deductible for tax	**3,664**	1,923
Tax losses not recognised during the year	**18,452**	4,111
Temporary differences not recognised during the year	**6,778**	–
	4,458	7,085

11. DIVIDENDS

No interim dividend was declared and no final dividend was proposed for 2015 and 2014.

The Company holds 65% equity interest of Million Rank Limited, through its wholly-owned subsidiary Bright Charm. Million Rank Limited declared a distribution of HK$34,000,000 (equivalent to RMB28,485,200) to its shareholders on 20 March 2015.

31 December 2015

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amount for the year ended 31 December 2015 is based on the consolidated (loss)/profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 1,466,004,685 (2014: 1,465,593,392) in issue during the year.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/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/loss 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 Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

The calculations of basic and diluted (loss)/earnings per share are based on:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
(Loss)/Earnings		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**(93,242)**	566

	Year ended 31 December	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**1,466,004,685**	1,465,593,392
Effect of dilution – weighted average number of ordinary shares**:		
Share options	**–**	–
Number of ordinary shares used in the diluted earnings per share calculation	**1,466,004,685**	1,465,593,392

* Not taking into account the 7,500,000 ordinary shares issued to Affluent Harvest Limited, a wholly-owned subsidiary of the Company.

** Since the exercise prices of these options exceed the average market price of ordinary shares during the year, there was no dilutive effect as of 31 December 2015 and 2014.

31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015						
At 31 December 2014 and 1 January 2015:						
Cost	–	891,043	200,800	6,455	9,147	1,107,445
Accumulated depreciation and impairment	–	(313,017)	(103,453)	(4,976)	–	(421,446)
Net carrying amount	–	578,026	97,347	1,479	9,147	685,999
At 1 January 2015, net of accumulated depreciation	–	578,026	97,347	1,479	9,147	685,999
Additions	–	91,817	38,661	726	25,982	157,186
Acquisition of a Subsidiary (Note 32)	73,380	31,045	23,562	881	–	128,868
Depreciation provided during the year	(2,290)	(132,387)	(49,002)	(594)	–	(184,273)
Disposals	–	(7,856)	(2,033)	(42)	–	(9,931)
Impairment	–	(56,295)	(10,447)	(1)	–	(66,743)
Transfers	–	20,708	5,861	–	(26,569)	–
Exchange realignment	4,507	4,214	1,837	48	–	10,606
At 31 December 2015, net of accumulated depreciation and impairment	75,597	529,272	105,786	2,497	8,560	721,712
At 31 December 2015:						
Cost	77,958	971,110	274,919	6,609	8,560	1,339,156
Accumulated depreciation and impairment	(2,361)	(441,838)	(169,133)	(4,112)	–	(617,444)
Net Carrying amount	75,597	529,272	105,786	2,497	8,560	721,712

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014					
At 31 December 2013 and 1 January 2014:					
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
At 1 January 2014, net of accumulated depreciation	560,702	94,427	1,825	28,552	685,506
Additions	45,750	20,800	114	74,666	141,330
Depreciation provided during the year	(94,814)	(30,921)	(449)	–	(126,184)
Disposals	(9,813)	(5,020)	(11)	–	(14,844)
Transfers	76,044	18,027	–	(94,071)	–
Exchange realignment	157	34	–	–	191
At 31 December 2014, net of accumulated depreciation	578,026	97,347	1,479	9,147	685,999
At 31 December 2014:					
Cost	891,043	200,800	6,455	9,147	1,107,445
Accumulated depreciation and impairment	(313,017)	(103,453)	(4,976)	–	(421,446)
Net carrying amount	578,026	97,347	1,479	9,147	685,999

At 31 December 2015, the building, of Million Rank (HK) Limited of which the Company indirectly holds 65% equity interest, with a net carrying amount of approximately RMB75,597,000 (31 December 2014: nil) was pledged to secure bank loans granted to Million Rank (HK) Limited (note 25).

During the year of 2015, the Group decided to close certain loss-making restaurants in the near future and identified certain restaurants with no sufficient future cash inflows to fully cover the net book value of restaurants' assets. An impairment provision of RMB66,743,000 was recognised in profit or loss for the year ended 31 December 2015.

14. GOODWILL

	RMB'000
At 1 January 2015:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2015, net of accumulated impairment	–
Acquisition of a subsidiary (Note 32)	11,930
Exchange realignment	744
At 31 December 2015	12,674
At 31 December 2015:	
Cost	12,674
Accumulated impairment	–
Net carrying amount	12,674

Impairment testing of goodwill

Goodwill acquired through business combination, as stated in note 32, has been allocated to the POKKA HK Business, from which the goodwill was resulted. The POKKA HK Business is treated as a cash-generating unit for impairment testing.

POKKA HK Business cash-generating unit

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14%. The growth rate used to extrapolate the cash flows of the POKKA HK Business beyond the five-year period is 3%.

Assumptions were used in the value in use calculation of the POKKA HK Business cash-generating unit for 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue from restaurants operations – The basis used to determine the value assigned to revenue from restaurants operations is the average revenue POKKA HK Business achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Budgeted operating expenses – the bases used to determine the values assigned are cost of inventories consumed, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

Discount rates – The discount rates used are before tax and reflect specific risks relating to this unit.

31 December 2015

14. GOODWILL *(continued)*

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the cash-generating unit to materially exceed the recoverable amount.

15. INTANGIBLE ASSETS

Year ended 31 December 2015

	Customer relationship RMB'000 a)	Favourable contract RMB'000 b.1)	Trademark RMB'000 b.2)	Software RMB'000	Total RMB'000
Cost at 1 January 2015, net of accumulated amortisation	–	–	–	4,325	4,325
Disposals	–	–	–	(343)	(343)
Acquisition of a subsidiary (Note 32)	6,776	15,250	10,635	–	32,661
Amortisation provided during the year	(698)	(574)	(548)	(1,335)	(3,155)
Exchange realignment	401	932	647	–	1,980
At 31 December 2015	6,479	15,608	10,734	2,647	35,468

31 December 2014

	Software RMB'000
Cost at 1 January 2014, net of accumulated amortisation	4,500
Additions	1,119
Amortisation provided during the year	(1,294)
At 31 December 2014	4,325
At 31 December 2014:	
Cost	7,847
Accumulated amortisation	(3,522)
Net carrying amount	4,325

15. INTANGIBLE ASSETS *(continued)*

a) The customer relationships are amortised over 10 years, which are the management's best estimation of their beneficial lives.

b) With respect to the acquisition transaction stated in note 32,

b.1) Pokka Sapporo Food & Beverage Ltd. grants to Pokka Corporation (HK) Limited, a 65% subsidiary of the Group, a royalty-bearing, non-transferable license for a term of 25 years commencing 7 January 2015 to use the "POKKA CAFÉ" mark on an exclusive basis in connection with the related business in PRC, Hong Kong and Macau. The intangible asset of favorable contract, based on its fair value over Pokka Corporation (HK) Limited's annual royalty payments, amortised during the term of 25 years.

b.2) The intangible asset of certain trademark, operated by Pokka Corporation (HK) Limited, is amortised over 20 years, which is the management's best estimation of its beneficial lives.

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. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000	% of the equity interest hold by the Group
Unlisted equity investments, at cost:				
Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd.		**100**	100	10%
Shanghai Huajing Agriculture Biotechnology Co., Ltd.		**–**	10,000	8%
Yancheng Guanhua Aquatic Products Co., Ltd.	a	**10,000**	10,000	24.01%
Shanghai Zhong Hong Kuai Jian Brand Management Co.,Ltd		**4,000**	–	16.67%
		14,100	20,100	
Unlisted equity investment, at fair value:				
Zhongju Limited Partnership Enterprise	b	**5,890**	–	2.943%
		19,990	20,100	

31 December 2015

17. AVAILABLE-FOR-SALE INVESTMENTS *(continued)*

On 31 December 2015, the Group disposed of an 8% ownership interest of Shanghai Huajing Agriculture Biotechnology Co., Ltd. for a total consideration of RMB10,000,000. On 31 December 2015, the receivables of the disposal transaction amounted to RMB9,000,000.

As at 31 December 2015, certain unlisted equity investments with a carrying amount of RMB14,100,000 (2014: RMB20,100,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that 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.

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

a. As stated in note 3, the Group considers that it lacks of significant influence on Yancheng Guanhua Aquatic Products Co., Ltd. ("Yancheng Guanhua") even though it owns more than 20% of the voting rights. This is because the Group has failed to obtain representation on the Yancheng Guanhua's board of directors and cannot exercise significant influence on financial and operating decisions. On 20 May 2015, Yancheng Guanhua declared and paid dividends of RMB2,000,000 to the Company. The prepayment balance of RMB10,312,000 (2014: RMB16,418,319) to Yancheng Guanhua was included in prepayments, deposits and other receivables as at 31 December 2015.

b. On 8 January 2016, Shanghai Xiao Nan Guo, an indirect wholly-owned subsidiary of the Company, the general partner of Zhongju Limited Partnership Enterprise ("Zhongmin GP") and other investors, which are independent third parties of the Company ("the Other Zhongju Investors") entered into a limited partnership agreement ("Zhongju LP Agreement") for the establishment of the Zhongju Limited Partnership Enterprise ("Zhongju LPE"), and pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agrees to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total registered capital). During the year ended 31 December 2015, Zhongju LPE declared a distribution of RMB652,000 to the Group on 10 July 2015.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB2,042,000 (2014: Nil).

18. INVENTORIES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Food and beverages, and other operating items for restaurant operations, at cost	**54,116**	45,014

19. 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:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within 1 month	**16,537**	12,224
1 to 2 months	**3,035**	2,548
2 to 3 months	**2,412**	1,163
Over 3 months	**3,693**	2,133
	25,677	18,068

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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Deposits and other receivables	**75,072**	59,108
Prepaid expense	**29,525**	24,852
Amounts due from companies owned by the controlling shareholder	**42,010**	53,923
Amount due from a director of major subsidiaries in Hong Kong	**243**	455
Current portion of other long-term receivable	**1,676**	–
Prepayments	**19,908**	37,355
	168,434	175,693

31 December 2015

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Financial asset at fair value through profit or loss	**227**	–

The above investment was classified as held for trading and was, upon initial recognition, designated by the Group as financial asset at fair value through profit or loss. The fair value for the above investment as at 31 December 2015 was determined based on the quoted price from a creditworthy bank.

22. CASH AND CASH EQUIVALENTS

	Note	31 December 2015 RMB'000	31 December 2014 RMB'000
Cash and bank balances		**143,521**	264,501
Time deposits with original maturity of less than three months		**45,503**	4,804
Time deposits with original maturity of over three months		**60,000**	–
		249,024	269,305
Less: Pledged time deposits for bank loans	25(b)		
– Current portion of		**(20,000)**	–
– Non-current portion of		**(60,000)**	–
Cash and cash equivalents		**169,024**	269,305

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB202,801,000 (2014: RMB183,126,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE PAYABLES

An 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 2015 RMB'000	31 December 2014 RMB'000
Within 3 months	**116,019**	99,850
3 months to 1 year	**400**	1,112
Over 1 year	**1,470**	1,496
	117,889	102,458

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

24. OTHER PAYABLES AND ACCRUALS

	Note	31 December 2015 RMB'000	31 December 2014 RMB'000
Payroll and welfare payables		**56,565**	37,910
Taxes other than corporate income tax		**11,091**	9,238
Other payables for construction in progress		**38,784**	50,198
Accruals and other payables		**78,004**	46,165
Current portion of the long term defer payment	32(b)	**1,676**	–
Advances from customers		**12,383**	6,997
		198,503	150,508

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

31 December 2015

25. INTEREST-BEARING BANK LOANS

		31 December 2015			31 December 2014		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans – unsecured		–	–	–	6.60	2015	80,000
Bank loans – unsecured		5.06	2016	80,000	–	–	–
Bank loans – unsecured		–	–	–	Hibor+2.50	2015	47,334
Bank loans – unsecured	(c)	Hibor+2.50	2018	36,303	–	–	–
Bank loans – unsecured		–	–	–	Hibor+2.75	2015	39,445
Bank loans – unsecured		–	–	–	Hibor+2.75	2016	29,584
Bank loans – unsecured	(c)	Hibor+2.75	2018	25,716	–	–	–
Bank loans – unsecured		–	–	–	COF+2.50	2015	39,778
Bank loans – unsecured		COF+2.50	2016	41,890	–	–	–
Bank loans – unsecured		Libor+1.50	2016	64,908	–	–	–
Bank loans – secured	(a)	Hibor+2.30	2016	35,858	–	–	–
Current portion of long term bank loans – secured*	(b)	Hibor+1.70	2016	2,234	–	–	–
Current portion of long term bank loans – secured*	(b)	Hibor+2.45	2016	4,190	–	–	–
				291,099			236,141
Non-current							
Bank loans – secured	(b)	Hibor+1.70	2022	29,603	–	–	–
Bank loans – secured	(b)	Hibor+2.45	2020	13,614	–	–	–
				43,217			236,141
				334,316			236,141

	31 December 2015	31 December 2014
Analysed into:		
Bank loans repayable:		
Within one year or on demand	291,100	236,141
In the second year	6,423	–
In the third to seventh year, inclusive	36,793	–
	334,316	236,141

25. INTEREST-BEARING BANK LOANS *(continued)*

(a) The bank loans borrowed by the Company are secured by the pledge of certain of the Group's time deposits amounting to RMB80,000,000. Part of the pledged deposit, amounting to RMB20,000,000, has been released on 4 January 2016 because of partial advance repayment of the loan.

(b) The bank loans borrowed by POKKA HK are secured by POKKA HK's building, which had a net carrying value of approximately RMB75,597,000 at the end of the reporting period.

(c) The balances are 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.

26. DEFERRED TAX

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

Deferred tax liabilities

31 December 2015

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Fair value change of available for sales investment RMB'000	Total RMB'000
At 1 January 2015	432	345	–	777
Acquisition of a subsidiary (note 32)	26	–	–	26
Deferred tax charged to the statement of profit or loss during the year (note 10)	55	379	–	434
Deferred tax charged to other comprehensive income	–	–	681	681
Gross deferred tax liabilities at 31 December 2015	513	724	681	1,918

31 December 2015

26. DEFERRED TAX *(continued)*

Deferred tax assets

31 December 2015

	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 2015	60	6,690	7,441	17,373	41,047	72,611
Acquisition of a subsidiary (note 32)	–	615	–	–	–	615
Deferred tax credited/(charged) to the statement of profit or loss (note 10)	5,434	2,405	(26)	8,420	(3,723)	12,510
Gross deferred tax assets at 31 December 2015	5,494	9,710	7,415	25,793	37,324	85,736

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	85,736
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,210)
	84,526

26. DEFERRED TAX *(continued)*

Deferred tax liabilities

31 December 2014

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Total RMB'000
At 1 January 2014	157	559	716
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	275	(214)	61
Gross deferred tax liabilities at 31 December 2014	432	345	777

Deferred tax assets

31 December 2014

	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 2014	60	4,143	5,688	14,355	34,523	100	58,869
Deferred tax credited/(charged) to the statement of profit or loss (note 10)	–	2,547	1,753	3,018	6,524	(100)	13,742
Gross deferred tax assets at 31 December 2014	60	6,690	7,441	17,373	41,047	–	72,611

As at 31 December 2015, the Group had accumulated tax losses arising in Mainland China of RMB97,527,000 (2014: RMB23,719,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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.

31 December 2015

26. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

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 approximately RMB228,853,000 and RMB228,520,000 at 31 December 2015 and 2014, respectively.

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

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the state regulations of the PRC, the subsidiaries in Mainland China participate in a defined contribution pension scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries are required to make contributions to the local social security bureau at 13% to 21% 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.

28. SHARE CAPITAL

Shares

	31 December 2015 RMB'000	31 December 2014 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	**1,475,354,000**	1,478,826,000
Equivalent to RMB'000	**12,035**	12,062

28. SHARE CAPITAL *(continued)*

Shares *(continued)*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Capital redemption reserve RMB'000	Total RMB'000
At 1 January 2014	1,476,880,000	12,047	473,301	–	485,348
Share options exercised (Note (a))	1,946,000	15	2,237	–	2,252
At 31 December 2014 and 1 January 2015	1,478,826,000	12,062	475,538	–	487,600
Shares cancelled (Note (b))	(3,472,000)	(27)	(2,711)	27	(2,711)
At 31 December 2015	1,475,354,000	12,035	472,827	27	484,889

Notes:

(a) Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

(b) The Company repurchased 3,472,000 shares of its stock on the Stock Exchange at an aggregate consideration of HK$3,436,000 (equivalent to RMB2,711,000). These shares were cancelled by the Company on 7 January 2015.

29. 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.

29. SHARE-BASED PAYMENTS *(continued)*

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

The following share options were outstanding under the Pre-IPO Schemes during the years ended 31 December 2015 and 2014:

	Year ended 31 December 2015	
	Weighted average exercise price per share RMB	Number of options '000
At 1 January 2015		45,048
Forfeited during the year	1.106	(14,641)
At 31 December 2015		30,407

	Year ended 31 December 2014	
	Weighted average exercise price per share RMB	Number of options '000
At 1 January 2014		61,755
Forfeited during the year	1.111	(14,761)
Exercised during the year	1.090	(1,946)
At 31 December 2014		45,048

No share options were exercised during the year ended 31 December 2015. The weighted average share price at the date of exercise for share options under the Pre-IPO Schemes exercised during the year 2014 was RMB1.243 per share. The 1,946,000 share options exercised during the year 2014 resulted in the issue of 1,946,000 ordinary shares of the Company and new share capital of approximately HK$19,000 and share premium of approximately HK$2,844,000, as further detailed in note 28 to the financial statements.

29. 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 Schemes outstanding as at 31 December 2015 are as follows:

Number of options '000	Exercise price RMB per share	Exercise period
10,153	1	1 January 2012 to 11 February 2020
240	1	1 January 2012 to 21 June 2020
1,895	1	1 January 2012 to 1 September 2020
1,606	1.1	1 January 2012 to 15 December 2020
126	1.1	1 January 2012 to 26 January 2021
2,972	1.1	1 January 2012 to 22 March 2021
2,123	1.1	1 January 2012 to 22 March 2021
1,880	1.1	1 July 2012 to 1 July 2021
141	1.1	1 July 2012 to 1 July 2021
3,380	1.1	1 July 2012 to 12 August 2021
443	1.175	1 July 2012 to 12 August 2021
1,918	1.175	1 January 2013 to 15 January 2022
3,530	1.175	1 January 2013 to 15 May 2022
30,407		

There were no share options granted under the Pre-IPO Schemes after 4 July 2012, the Company's listing date. The Group recognised a share option expense of RMB1,139,000 under the Pre-IPO Schemes during the year ended 31 December 2015 (31 December 2014: RMB858,000).

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.

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 for 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 ended 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, 8,750,000 shares have been repurchased and cancelled, pursuant to the resolution of the board of directors of the Company, given the performance conditions were not met.

31 December 2015

29. SHARE-BASED PAYMENTS *(continued)*

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

The incremental fair value of the replacement share-based payment arrangement for the director is recognised as share option expense over the vesting period. As at 31 December 2015, 16,250,000 Compensation Shares have been transferred to the director.

(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 years ended 31 December 2015 and 2014:

	Year ended 31 December 2015	
	Weighted average exercise price per share HK$	Number of options '000
At 1 January 2015		47,524
Granted during the year	1.102	23,251
Forfeited during the year	1.324	(23,289)
At 31 December 2015		47,486

29. SHARE-BASED PAYMENTS *(continued)*

(2) Share Option Scheme *(continued)*

	Year ended 31 December 2014	
	Weighted average exercise price per share HK$	Number of options '000
At 1 January 2014		31,085
Granted during the year	1.395	25,440
Forfeited during the year	1.421	(9,001)
At 31 December 2014		47,524

No share options under the Share Option Scheme were exercised during the years ended 31 December 2015 and 2014.

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.

The exercise prices and exercise periods of the share options under the Share Option Scheme outstanding as at 31 December 2015 are as follows:

Number of options '000	Exercise price HK$ per share	Exercise period
16,602	1.5	23 August 2013 to 22 August 2023
7,738	1.5	1 July 2015 to 29 June 2024
8,056	1.3	1 July 2015 to 29 June 2024
4,890	1.3	1 January 2016 to 31 December 2024
9,700	1.0	1 January 2016 to 31 December 2024
500	1.0	1 January 2016 to 29 January 2025
47,486		

The Group recognised a share option expense of RMB4,361,000 (2014: RMB2,142,000) during the year ended 31 December 2015. During the years ended 31 December 2015, 500,000 share options were granted to Mr. Tsang Henry Yuk Wong in respect of his services to the Group at an exercise price of RMB1, which has forfeited subsequently.

31 December 2015

29. SHARE-BASED PAYMENTS *(continued)*

(2) Share Option Scheme *(continued)*

The fair value of all equity-settled share options under the Share Option Scheme granted during the year ended 31 December 2015 was estimated as at the date of grant using a binomial model, taking into account the following:

	Year ended 31 December 2014	**Year ended 31 December 2015**
Dividend yield (%)	0.71%	**0.00%**
Expected volatility (%)	37.16%	**37.20%-37.44%**
Risk-free interest rate (%)	2.00%	**1.36%-1.90%**
Maturity date	29 June 2024	**31 December 2024**
Weighted average exercise price (HK$ per share)	1.39	**1.10**

As at 31 December 2015, the Company had 30,407,000 and 47,486,000 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 77,893,000 additional ordinary shares of the Company and additional share capital of RMB652,600 and share premium of RMB79,944,000 (before issue expenses).

30. RESERVES

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 and the additional contribution made by the shareholders of the Company's subsidiaries and, in the case of acquisition of an additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the book value of the non-controlling interest acquired.

30. RESERVES *(continued)*

(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.

(vii) Available-for-sale investment revaluation reserve

Available-for-sale investment revaluation reserve comprises all revaluation changes arising from available- for-sale investment.

31 December 2015

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2015	2014
Percentage of equity interest held by non-controlling interests:		
Oreno Xiao Nan Guo International (Hong Kong) Limited	**32%**	32%
Shanghai Mizhilian Restaurant Management Co., Ltd.*	**50%**	50%
King Merit (Macau) Limited	**30%**	–
Million Rank Limited	**35%**	–
Shanghai Xiao Nan Guo Huajing Food Science and Technology Development Co., Ltd.	**–**	49%

	2015 RMB'000	2014 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Oreno Xiao Nan Guo International (Hong Kong) Limited	**(2,995)**	(6)
Shanghai Mizhilian Restaurant Management Co., Ltd.	**(1,285)**	473
King Merit (Macau) Limited	**(255)**	–
Million Rank Limited	**(640)**	–
Shanghai Xiao Nan Guo Huajing Food Science and Technology Development Co., Ltd.	**–**	(1)
	(5,175)	466
Accumulated balances of non-controlling interests at the reporting date:		
Oreno Xiao Nan Guo International (Hong Kong) Limited	**(957)**	1,923
Shanghai Mizhilian Restaurant Management Co., Ltd.	**(712)**	573
King Merit (Macau) Limited	**(127)**	–
Million Rank Limited	**72,779**	–
Shanghai Xiao Nan Guo Huajing Food Science and Technology Development Co., Ltd.	**–**	3,998
	70,983	6,494

* As stated in Note 3, the Group considers that it controls Shanghai Mizhilian Restaurant Management Co., Ltd ("Mizhilian") even though it owns 50% of the voting rights. This is because the Group controls Mizhilian by being exposed and owing rights to variable returns from its involvement with Mizhilian and owning the ability to affect those returns through its power over Mizhilian.

31. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

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

	Oreno Xiao Nan Guo International (Hong Kong) Limited RMB'000	Shanghai Mizhilian Restaurant Management Co., Ltd. RMB'000	King Merit (Macau) Limited RMB'000	Million Rank Limited RMB'000
2015				
Revenue	37,546	8,730	27,477	297,221
Total expenses	(46,905)	(11,300)	(28,327)	(299,049)
Loss for the year	(9,359)	(2,570)	(850)	(1,828)
Total comprehensive income for the year	(9,359)	(2,570)	(850)	(1,828)
Current assets	7,872	14,587	1,109	153,832
Non-current assets	20,982	1,482	1,212	199,866
Current liabilities	30,182	17,493	2,744	134,625
Non-current liabilities	1,663	–	–	9,937
Cash and cash equivalents	4,849	–	3,629	22,160

	Oreno Xiao Nan Guo International (Hong Kong) Limited RMB'000	Shanghai Mizhilian Restaurant Management Co., Ltd RMB'000	Shanghai Xiao Nan Guo Huanjing Food Science and Technology Development Co., Ltd RMB'000
2014			
Revenue	–	6,172	–
Total expenses	(20)	(5,226)	(2)
Profit/(loss) for the year	(20)	946	(2)
Total comprehensive income for the year	(31)	946	(2)
Current assets	8,428	5,414	8,157
Non-current assets	1,462	24	2
Current liabilities	3,893	4,292	–
Cash and cash equivalents	4,072	–	–

31 December 2015

32. BUSINESS COMBINATION

Bright Charm Development Limited (Bright Charm) (a wholly-owned subsidiary of the Company) and Rosy Metro Investment Limited (Rosy Metro) (a company wholly owned by Ms. Pauline Wong) own 65% and 35% of the issued share capital of Million Rank Limited ("MRL"). On 7 January 2015, MRL acquired a 100% equity interest of POKKA HK from Pokka Corporation (Singapore) Pte. Ltd., (the "Seller"), at a total consideration of HK$300,000,000 (equivalent to RMB236,580,000). POKKA HK, incorporated in Hong Kong, specialises in operating restaurants in Hong Kong and Macau under a portfolio of brands mainly in the casual dining segment of western and Japanese cuisines. The acquisition was made as part of the Group's strategy to expand both its existing product portfolio and customer base. After the acquisition, the Company indirectly holds 65% shares of interest in POKKA HK.

The fair values of the identifiable assets and liabilities of POKKA HK as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	**128,868**
Intangible assets*	**32,661**
Long-term rental deposits	**15,720**
Deferred tax asset	**615**
Inventories	**8,580**
Prepayments, deposits and other receivables	**12,416**
Due from the precedent controlling shareholder	**34,698**
Trade receivables	**4,281**
Financial asset at fair value through profit or loss	**213**
Cash and cash equivalents	**44,915**
Trade payables	**(7,465)**
Other payables and accruals	**(41,086)**
Tax payable	**(3,340)**
Long-term payables	**(6,400)**
Deferred tax liability	**(26)**
Total identifiable net assets at fair value	**224,650**
Goodwill on acquisition	**11,930**
Satisfied by cash	**236,580**

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB4,281,000 and RMB12,416,000, respectively, with no difference between the gross contractual amounts.

* The fair values of intangible assets as at the date of acquisition amounted to RMB32,661,000, which consist of favourable contract, trademark and customer relationship.

32. BUSINESS COMBINATION *(continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Notes	RMB'000
Cash consideration		(236,580)
Cash consideration to be paid	b	31,544
Cash consideration paid		(205,036)
Cash and cash equivalents acquired		44,915
Consideration net off with the amount due from the precedent controlling shareholder	c	34,698
Consideration paid by a non-controlling shareholder	a.2	51,259
Net outflow of cash and cash equivalents included in cash flows from investing activities		(74,164)
Transaction costs of the acquisition included in cash flows from operating activities	d	(7,852)
		(82,016)

The purchase price payment arrangement is as follows:

a. At the acquisition, Bright Charm and Rosy Metro shall pay to the Seller in the amount of HK$216,000,000 (equivalent to RMB170,338,000).

a.1 The HK$151,000,000 (equivalent to RMB119,079,000) paid by MRL through Bright Charm's subscription price for its subscription of shares in MRL was derived from the bank loan, which is secured by: (i) the pledge of certain of the Group's time deposits amounting to RMB80,000,000. (ii) mortgages over the buildings of Xiao Nan Guo (Group) Co., Ltd., which is a company owned by the Controlling Shareholder, and was subsequently released with the partial repayment of bank loan.

a.2 The HK$65,000,000 (equivalent to RMB51,259,000) constitutes part of the subscription price to be paid by Rosy Metro for its subscription of shares in MRL, was derived from the loan provided by POKKA HK. Pokka HK entered into a facility agreement, amounted to HK65,000,000 (equivalent to RMB51,259,000), with commercial bank to funding the loan to Rosy Metro on 15 December 2014. The bank loans borrowed by POKKA HK are secured by mortgages over POKKA HK's building, which had a net carrying value of approximately RMB75,597,000 at the end of the reporting period. The loans to Rosy Metro, non-controlling shareholder of the Group, are secured and bear annual interest rate at no more than 5% and should be repaid in the next three years since 30 March 2015, the draw-down date.

With the repayment of the loan, the financial statements of the Group stated RMB44,487,000 of loan to a Non-controlling shareholder, using the exchange rate as at 31 December 2015.

32. BUSINESS COMBINATION *(continued)*

b. The HK$40,000,000 (equivalent to RMB31,544,000) paid by MRL through Rosy Metro's subscription price for its subscription of shares in MRL shall pay to the Seller in five instalments in accordance with the deferred payment schedule. According to the deferred payment schedule, HK$2,000,000, HK$4,000,000, HK$5,000,000, HK$6,000,000 and HK$23,000,000 shall be paid on 7 January 2016, 2017, 2018, 2019 and 2020, respectively.

MRL and the Seller has entered into a share pledge agreement on 7 January 2015, pursuant to which 2,400,000 shares, representing 15% of the total issued share capital of POKKA HK, have been charged to the Seller as security for the above deferred payment of HK$40,000,000 (equivalent to RMB31,544,000). Upon punctual payment of each instalment of the deferred payment, the Seller undertakes to release certain charged shares in the amount proportional to the amount of each instalment of the deferred payment.

The financial statements of the Group stated RMB1,676,000 as current portion of the long-term receivables and current portion of the long term defer payment, RMB31,836,000 as other long term receivables and other long-term defer payment, using the exchange rate as at 31 December 2015.

The loan to Rosy Metro and the deferred payment schedule mentioned above in notes a.2 and b are both mortgaged by the 35% equity interest of MRL held by Rosy Metro. In the event that Rosy Metro may fail to fulfil these obligations, the Company and Bright Charm shall purchase or cause a third party to purchase the shares held by Rosy Metro.

c. The HK$44,000,000 (equivalent to RMB34,698,000) paid by MRL through Bright Charm's subscription price for its subscription of shares in MRL was net off with the payment to POKKA HK assumed by the Seller.

d. The transaction costs incurred for this acquisition amounted to RMB14,162,000. HK$8,000,000 (equivalent to RMB6,310,000) has been undertaken by the Seller. HK$6,840,000 (equivalent to RMB5,395,000) and RMB1,239,000 had been expensed by POKKA HK and the Company in the consolidated statement of profit or loss for the year ended 31 December 2014, respectively. The remaining cost of RMB700,000 had been expensed and was included in other expenses in the consolidated statement of profit or loss of 2015.

From the date of acquisition, POKKA HK has contributed RMB297,221,000 to the Group's revenue and loss amounting to RMB666,000 to the consolidated loss for the year ended 31 December 2015.

31 December 2015

33. DISPOSAL OF A SUBSIDIARY

On 31 December 2015, the Group disposed of Shanghai Xiao Nan Guo Huajing Food Science and Technology Development Co., Ltd., a 51% indirectly-owned subsidiary of the Company, to its non-controlling shareholder, Mr. Han Yongmiao, an independent third party of the Group.

	Note	**2015**	2014
		RMB'000	RMB'000
Net assets disposed of:			
Deferred tax asset		**2**	–
Prepayments and other receivables		**8,153**	–
Less: non-controlling interests		**(4,000)**	–
		4,155	–
Gain on disposal of a subsidiary	5	**5**	–
Satisfied by:			
Prepayments and other receivables		**4,160**	–

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 3 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:

	31 December 2015	31 December 2014
	RMB'000	RMB'000
Within one year	**261,650**	247,237
In the second to fifth years, inclusive	**668,904**	694,581
After five years	**202,524**	283,368
	1,133,078	1,225,186

31 December 2015

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:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**76,502**	247,450

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 2015 RMB'000**	2014 RMB'000
Fee income from the provision of food processing service	(i)	**439**	479
Management fee income	(ii)	**3,829**	8,036
Management fee expense	(iii)	**693**	–
Sub-contracting fee expense	(iv)	**59**	–
Property rental expense	(v)	**13,358**	1,200
Integrated property management expense	(vi)	**168**	–
Purchases of goods and service	(vii)	**25,732**	–
Sales of goods and service	(viii)	**23,134**	24,872
Actual spending of pre-paid cards	(ix)	**120,621**	132,779
Commission paid for pre-paid cards	(ix)	**1,287**	1,418
Transfer of old pre-paid cards	(x)	**–**	45,716
Transfer of equity	(xi)	**4,000**	–
Purchase of asset	(xii)	**30,306**	–

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

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, for the period commencing from 1 January 2012 to 31 December 2014 and period has been extended to December 31 2017 in 2015.

(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 2015 and extended to 31 December 2017 on 8 January 2016 for a monthly service fee of RMB250,000.

The Group entered into a management service agreement with Shanghai Huimei Restaurant Management Co., Ltd. ("Shanghai Huimei"), a company indirectly owned by the Controlling Shareholder, pursuant to which the Group has agreed to provide comprehensive management services to Shanghai Huimei for the period commencing from 1 January 2014 to 31 December 2016. The contract was terminated on 1 July 2015, with the disposal of Shanghai Huimei by the Controlling Shareholder. The actual service fee charged during the year ended 31 December 2015 was RMB829,000 (31 December 2014: RMB5,036,000).

(iii) The Group entered into an operation management service agreement with Shanghai Sushang Restaurant Management Co., Ltd. ("Shanghai Sushang"), a company owned by the Controlling Shareholder, pursuant to which Shanghai Sushang has agreed to provide operation management services to the Group for the period commencing from 1 April 2015 to 31 December 2017 with a monthly service fee charged as 15% of Shanghai Sushang's revenue. The actual service fee charged during the year ended 31 December 2015 was RMB693,000 (2014: Nil).

(iv) The Group entered into a sub-contracting agreement with WH Ming Hotel, a hotel owned by the Controlling Shareholder, pursuant to which the Group has agreed to sub-contract for the operation of Shi Guang Tunnel Restaurant for the period commencing from 1 March 2015 to 31 July 2015 for a monthly sub-contracting fee at the higher of RMB10,000 or 17% of the revenue. The actual sub-contracting fee charged during the year ended 31 December 2015 was RMB59,000 (2014: Nil).

(v) Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("Hongqiao XNG"), a company owned by the Controlling Shareholder, leases restaurant premises to the Group for an annual rental fee of RMB4,000,000, which was determined with reference to the market rental rate, for a period of five years commencing 1 July 2008 and the lease period has been extended to 31 December 2017 in 2014. During the year ended 31 December 2015, rental of RMB4,000,000 was charged by Hongqiao XNG. No rental was charged in 2014 according to the supplemental agreement signed for 2014.

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 and the lease period has been extended to 31 December 2017 in 2014, based on a market price mutually agreed by both parties. The actual fee charged during the year ended 31 December 2015 was RMB2,887,000. According to the supplemental agreement signed for 2014, the rental fee decreased to RMB1,200,000 during the year ended 31 December 2014.

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 and the lease period has been extended to 31 December 2017 in 2014, at a rental fee based on a market price mutually agreed by both parties. During the year ended 31 December 2015, the rental charged by Xiao Nan Guo (Group) Co., Ltd. was RMB6,471,000.No rental was charged in 2014 according to the supplemental agreement signed for 2014.

31 December 2015

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(vi) 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 period commenced from 1 January 2012 to 31 December 2014 and the lease period has been extended to 31 December 2017 in 2014. The service fee was charged based on actual costs incurred. During the year ended 31 December 2015 and 2014, no service fee was charged by Hongqiao XNG pursuant to a supplemental agreement signed in 2015 and 2014, respectively.

The Group entered into a service agreement with Xiao Nan Guo (Group) Co., Ltd for the period commencing from 1 January 2015 to 31 December 2017, pursuant to which Xiao Nan Guo (Group) has agreed to provide property management service to the Group for a monthly service fee of RMB14,000. During the year ended 31 December 2015, the service free charged by Xiao Nan Guo (Group) Co., Ltd. was RMB168,000.

(vii) 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") in 2013. Pursuant to the Coupon Purchase Agreement, the Group agreed to purchase hotel coupons at an agreed price which would enable the Group to attain a gross margin rate of not lower than 25% of its selling price.

In 2014, the Coupon Purchase Agreement has been revised with a term of three years. Pursuant to the revised Coupon Purchase Agreement, the Group agreed to purchase hotel coupons at a discounted price. There was no transaction conducted in 2015 (2014: Nil).

The Group entered into a procurement framework agreement with Zhongmin Supply Chain, a company indirectly owned by the Controlling Shareholder, pursuant to which the Group has agreed to procure raw ingredients used for restaurant operations from Zhongmin Supply Chain, for the period commencing from 1 July 2015 to 30 June 2016. The Group has procured raw ingredients of RMB25,732,000 from Zhongmin during the year ended 31 December 2015. The pricing of such raw ingredients shall be determined with reference to the costs for such raw ingredients and the prevailing market price and procurement quantity of similar raw ingredients.

(viii) 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 agreement commenced from 1 January 2014 to 31 December 2016. The income generated from banquet food provided to WH Ming Hotel amounted to RMB22,435,000 during the year ended 31 December 2015 (2014: RMB23,872,000).

No transactions on gift boxes were conducted with WH Ming Hotel based on market prices (2014: RMB317,000).

The Group sold gift boxes to Xiao Nan Guo (Group) Co., Ltd. amounting to RMB699,000 based on market prices (2014: RMB683,000).

(ix) The Group entered into a Pre-paid Cards Agreement in 2014 with Shanghai Xiao Nan Guo Enterprise Service Information Development Limited ("XNG Information Development"), a company indirectly owned by Ms. Wang Bai Xuan Tiffany, the daughter of the Controlling Shareholder of the Company. The agreement commenced from 1 April 2014 to 31 December 2016. Pursuant to the agreement, the pre-paid cards issued by XNG Information Development according to the Agreement (the "Prepaid Cards) can be used at the Shanghai Min Restaurants, WH Ming Hotel as well as other businesses operated by the Controlling Shareholder. The actual spending is the amount which the Pre-paid Card holders have actually spent at the Shanghai Min Restaurants via the Pre-paid Cards, which amounted to RMB120,621,000 in 2015 (2014: RMB132,779,000). The commission rate payable to XNG Information Development shall be 1% of the actual dining expenses, which amounted to RMB1,287,000 in 2015 (2014: RMB1,418,000), of a Pre-paid Card holder for every bill (before discount (if any)) at the Shanghai Min Restaurants.

(x) The Group entered into an Old Pre-paid Cards Agreement in 2014 with XNG Information Development and the Controlling Shareholder of the Company. Pursuant to the agreement, the unspent valid balance of Old Pre-paid Cards of the Group for approximately RMB45,716,000 as at 31 December 2014 was transferred to XNG Information Development. As a consideration for the assignment of the liability, the Group agreed to offset the other receivables from the companies owned by the Controlling Shareholder.

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(xi) The Group has entered into an Equity Transfer Agreement with the Controlling Shareholder to purchase a 20% equity interest held in Shanghai Zhong Heng Kuai Jian Brand Management Co.,Ltd on 8 June 2015, with a total consideration of RMB4,000,000.

(xii) The Group has entered into an Asset Disposal Agreement with Xiao Nan Guo (Group) Co., Ltd., pursuant to which Xiao Nan Guo (Group) Co,. Ltd agreed to sell and the Group agreed to acquire the decorative renovation work, kitchen facilities and related assets used for operation ("the Asset") in the restaurant located at 601 Yingkou Road, Shanghai, for a consideration of RMB30,306,000. The total consideration is determined in accordance with the appraisal value of the Asset in the restaurant which is operated by the Group since 2012 as at 18 December 2015.

(b) Other transaction with a related party

(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 trademark for no consideration.

(ii) On 8 January 2016, Shanghai Xiao Nan Guo, an indirect wholly-owned subsidiary of the Company, Zhongmin GP and the Other Zhongju Investors entered into the Zhongju LP Agreement for the establishment of the Zhongju Limited Partnership Enterprise, and pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agrees to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total registered capital). As stated in Note 17 of the financial statements, during the year ended 31 December 2015, Zhongju LPE declared a distribution of RMB652,000 to the Group on 10 July 2015.

(c) Outstanding balances with related parties

The amounts due from companies owned by the Controlling Shareholder are disclosed in note 20 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Short-term employee benefits	**6,899**	6,734
Equity-settled share-based payment	**730**	1,584
Total compensation paid to key management personnel	**7,629**	8,318

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.

31 December 2015

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:

31 December 2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	19,990	19,990
Long-term rental deposits	98,518	–	98,518
Loan to a non-controlling shareholder	44,487	–	44,487
Other long-term receivables	31,836	–	31,836
Trade receivables	25,677	–	25,677
Financial assets included in prepayments, deposits and other receivables	98,740	–	98,740
Financial asset at fair value through profit or loss	227	–	227
Pledged deposit	80,000	–	80,000
Cash and cash equivalents	169,024	–	169,024
	548,509	19,990	568,499

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

31 December 2015

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term defer payment	31,836
Long-term payables	71,371
Trade payables	117,889
Financial liabilities included in other payables and accruals	128,774
Interest-bearing bank loans	334,316
	684,186

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

31 December 2014

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	20,100	20,100
Long-term rental deposits	66,234	–	66,234
Trade receivables	18,068	–	18,068
Financial assets included in prepayments, deposits and other receivables	89,901	–	89,901
Cash and cash equivalents	269,305	–	269,305
	443,508	20,100	463,608

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term payables	61,887
Trade payables	102,458
Financial liabilities included in other payables and accruals	115,482
Interest-bearing bank loans	236,141
	515,968

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, available-for-sale investments, long-term rental deposits, loan to non-controlling shareholder, other long-term receivables, long-term defer payments, long-term payables, trade payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans approximate to their carrying amounts.

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

31 December 2015

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The following table provides the fair value measurement hierarchy of the Company's financial instruments measured at fair value as at 31 December 2015:

Financial assets measured at fair value

As at 31 December 2015

	Fair value measurements categorised into			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Financial asset at fair value through profit or loss	–	227	–	227
Unlisted equity investment, at fair value	5,890	–	–	5,890
	5,890	227	–	6,117

There have been no transfers between Level 1 and Level 2 during the year.

The fair values of the financial asset at fair value through profit or loss and the unlisted equity investment at fair value are derived from quoted prices in active markets.

Unlisted available-for-sale equity investments as at 31 December 2014 and certain unlisted available-for-sale equity investments as at 31 December 2015 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.

31 December 2015

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 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.

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 2015 (2014: 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.

31 December 2015

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

Foreign currency risk *(continued)*

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 (loss)/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 (loss)/profit before tax RMB'000
2015		
If RMB strengthens against US$	**(5)**	**3,205**
If RMB weakens against US$	**5**	**(3,205)**
2014		
If RMB strengthens against US$	(5)	1,722
If RMB weakens against US$	5	(1,722)

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

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from interest-bearing financial assets and liabilities. The Group's interest-bearing financial assets and liabilities comprise primarily 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 following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

31 December 2015

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

Interest rate risk *(continued)*

	Increase/ (decrease) in basis points	Increase/ (decrease) in (loss)/profit before tax RMB'000
2015		
If interest rate increase	**50**	**(1,582)**
If interest rate decrease	**(50)**	**1,582**
2014		
If interest rate increase	50	(1,087)
If interest rate decrease	(50)	1,087

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 arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2015 and 2014, 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 2015 and 2014, the Group had bank loans of RMB334,316,000 and RMB236,141,000, respectively. The directors review the Group's working capital and capital expenditure requirements and consider the liquidity risk is manageable.

31 December 2015

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:

31 December 2015

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	11,744	287,791	25,971	21,559	347,065
Trade payables	1,870	116,019	–	–	–	117,889
Financial liabilities included in other payables and accruals	128,774	–	–	–	–	128,774
Long-term defer payment	–	–	–	31,836	–	31,836
Long-term payables	–	–	–	71,371	–	71,371
	130,644	127,763	287,791	129,178	21,559	696,935

31 December 2014

	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	–	7,964	226,304	9,972	244,240
Trade payables	2,608	99,850	–	–	102,458
Financial liabilities included in other payables and accruals	115,482	–	–	–	115,482
Long-term payables	–	–	–	61,887	61,887
	118,090	107,814	226,304	71,859	524,067

Capital management

The Group's objectives for 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 for managing capital were made during the reporting periods.

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

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Interest-bearing bank loans	**334,316**	236,141
Trade payables	**117,889**	102,458
Other payables and accruals	**198,503**	150,508
Less: Cash and cash equivalents	**(169,024)**	(269,305)
Net debt	**481,684**	219,802
Equity attributable to owners of the Company	**699,899**	782,160
Capital and net debt	**1,181,583**	1,001,962
Gearing ratio	**40.77%**	21.9%

40. CONTINGENT LIABILITIES

As at 31 December 2015, neither the Group nor the Company had any significant contingent liabilities (31 December 2014: Nil).

41. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Company or by the Group after 31 December 2015.

31 December 2015

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**635,620**	536,107
Total non-current assets	**635,620**	536,107
CURRENT ASSETS		
Cash and cash equivalents	**767**	1,569
Other receivables	**12,543**	8,457
Total current assets	**13,310**	10,026
CURRENT LIABILITIES		
Interest-bearing bank loans	**64,908**	–
Total current liabilities	**64,908**	–
NET CURRENT (LIABILITIES)/ASSETS	**(51,598)**	10,026
TOTAL ASSETS LESS CURRENT LIABILITIES	**584,022**	546,133
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**35,858**	–
Total non-current liabilities	**35,858**	–
Net assets	**548,164**	546,133
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**12,035**	12,062
Treasury shares	**–**	(2,711)
Reserves (Note 30)	**536,129**	536,782
Total equity	**548,164**	546,133

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Capital redemption reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	**475,538**	**(2,711)**	**59,312**	**14,504**	**–**	**(10,513)**	**652**	**536,782**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,563**	**(8,743)**	**(6,180)**
Issue of shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cancellation of shares	**(2,711)**	**2,711**	**–**	**–**	**27**	**–**	**–**	**27**
Equity-settled share option arrangements	**–**	**–**	**–**	**5,500**	**–**	**–**	**–**	**5,500**
At 31 December 2015	**472,827**	**–**	**59,312**	**20,004**	**27**	**(7,950)**	**(8,091)**	**536,129**
At 1 January 2014	473,301	–	59,312	11,725	–	(11,196)	1,192	534,334
Total comprehensive income for the year	–	–	–	–	–	683	(540)	143
Issue of shares	2,237	–	–	(221)	–	–	–	2,016
Equity-settled share option arrangements	–	(2,711)	–	–	–	–	–	(2,711)
Interim dividend	–	–	–	3,000	–	–	–	3,000
At 31 December 2014	475,538	(2,711)	59,312	14,504	–	(10,513)	652	536,782

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2016.

Five Years Financial Summary

RMB'000	2011	2012	2013	2014	**2015**
Revenue	1,088,582	1,332,298	1,385,911	1,544,199	**2,035,177**
Cost of sales	(361,342)	(424,536)	(458,756)	(509,272)	**(629,768)**
Gross profit	727,240	907,762	927,155	1,034,927	**1,405,409**
Other income	30,086	45,966	40,006	46,616	**44,041**
Selling and distribution costs	(525,135)	(689,186)	(829,998)	(931,853)	**(1,256,272)**
Administrative expenses	(85,252)	(106,006)	(113,005)	(127,812)	**(183,312)**
Other expenses	(2,364)	(397)	(10,686)	(7,746)	**(91,468)**
Finance costs	(3,287)	(6,125)	(7,671)	(6,015)	**(12,357)**
PROFIT BEFORE TAX	141,288	152,014	5,801	8,117	**(93,959)**
Income tax expense	(34,269)	(33,484)	(5,130)	(7,085)	**(4,458)**
PROFIT FOR THE YEAR FROM THE CONTINUING BUSINESS	107,019	118,530	671	1,032	**(98,417)**
Profit from non-continuing business	–	–	–	–	**–**
Profit for the Year	107,019	118,530	671	1,032	**(98,417)**
Attributable to:					
Owners of the Company	107,019	118,530	1,075	566	**(93,242)**
Non-controlling interests	–	–	(404)	466	**(5,175)**
Total non-current assets	566,453	704,386	824,319	849,426	**1,109,211**
Total current assets	510,104	614,033	541,857	508,080	**437,478**
Total current liabilities	650,001	458,134	530,843	506,188	**628,675**
Total assets net of current liabilities	426,556	860,285	835,333	851,318	**918,014**
Total non-current liabilities	72,296	40,018	52,061	62,664	**147,132**
Net assets	354,260	820,267	783,272	788,654	**770,882**