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SHANGHAI MIN

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3666)

(1) INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (2) ADJUSTMENTS TO THE SHARE OPTIONS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
			% Change
	2016	2015	*Increase/*
	(unaudited)	(unaudited)	*(decrease)*
Revenue (RMB'000)	**1,004,431**	1,002,917	0.2%
Gross profit[1] (RMB'000)	**709,851**	696,949	1.9%
Gross margin[2]	**70.7%**	69.5%	1.2%
Profit for the period attributable to equity holder of the parent (RMB'000)	**10,802**	14,899	(27.5%)
Net profit margin[3]	**1.1%**	1.5%	(0.4%)
Earnings per share – Basic	**RMB0.74 cents**	RMB1.02 cents	
Interim dividend per share (HK cents)	**–**	–	
Number of restaurants (as at 30 June)[4]	**137**	137	

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 profit for the period attributable to equity holder of the Company divided by revenue.

4 The number of restaurants included the 29 stores of POKKA HK acquired at the beginning of 2015 and excluded Mai Chi Ling licenced stores.

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Xiao Nan Guo Restaurants Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 (the "**Reporting Period**") together with unaudited comparative figures for the corresponding period in the year 2015 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Six-month period ended 30 June 2016

		Six-month period ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
REVENUE	*5*	**1,004,431**	1,002,917
Cost of sales		**(294,580)**	(305,968)
Gross profit		**709,851**	696,949
Other income	*5*	**22,111**	22,703
Selling and distribution expenses		**(623,805)**	(605,634)
Administrative expenses		**(75,293)**	(79,770)
Other expenses		**(9,551)**	(7,253)
Finance costs	*7*	**(4,741)**	(6,823)
PROFIT BEFORE TAX	*6*	**18,572**	20,172
Income tax expense	*8*	**(7,916)**	(5,969)
PROFIT FOR THE PERIOD		**10,656**	14,203
Attributable to:			
Equity holder of the parent		**10,802**	14,899
Non-controlling interests		**(146)**	(696)
		10,656	14,203
Earnings per share attributable to ordinary equity holders of the Company			
– Basic	*10*	**RMB0.74 cents**	RMB1.02 cents
– Diluted	*10*	**RMB0.74 cents**	RMB1.02 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six-month period ended 30 June 2016

	Six-month period ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PROFIT FOR THE PERIOD	**10,656**	14,203
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	**(1,128)**	–
Exchange differences on translation of foreign operations	**1,087**	(1,287)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(41)**	(1,287)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**10,615**	12,916
Attributable to:		
Equity holder of the parent	**10,761**	13,612
Non-controlling interests	**(146)**	(696)
	10,615	12,916

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**745,726**	721,712
Goodwill	*4*	**12,930**	12,674
Intangible assets		**34,517**	35,468
Available-for-sale investments		**18,486**	19,990
Long-term rental deposits		**102,432**	98,518
Deferred tax assets		**86,483**	84,526
Pledged deposits	*13*	**40,000**	60,000
Loan to non-controlling interest shareholder	*4/a.2*	**45,385**	44,487
Other long-term receivables	*4/b*	**29,060**	31,836
Total non-current assets		**1,115,019**	1,109,211
CURRENT ASSETS			
Inventories		**37,884**	54,116
Trade receivables	*11*	**22,226**	25,677
Prepayments, deposits and other receivables	*12*	**241,777**	168,434
Financial asset at fair value through profit or loss		**231**	227
Pledged deposits	*13*	**20,000**	20,000
Cash and cash equivalents	*13*	**184,891**	169,024
Total current assets		**507,009**	437,478
CURRENT LIABILITIES			
Trade payables	*14*	**111,103**	117,889
Interest-bearing bank loans		**265,570**	291,099
Tax payable		**18,224**	15,963
Other payables and accruals	*15*	**184,960**	198,503
Deferred income		**3,478**	5,221
Total current liabilities		**583,335**	628,675
NET CURRENT LIABILITIES		**(76,326)**	(191,197)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,038,693**	918,014

	Notes	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Long-term deferred payment	***4/b***	**29,060**	31,836
Long-term payables		**86,185**	71,371
Interest-bearing bank loans		**139,812**	43,217
Deferred tax liabilities		**333**	708
Total non-current liabilities		**255,390**	147,132
Net assets		**783,303**	770,882
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**12,035**	12,035
Reserves		**700,375**	687,864
		712,410	699,899
Non-controlling interests		**70,893**	70,983
Total equity		**783,303**	770,882

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Xiao Nan Guo Restaurants Holdings Limited (the "**Company**") 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 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 period.

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as well as with all the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Net current liability

As at 30 June 2016, the current liabilities of the Group exceeded its current assets by approximately RMB76 million. In the opinion of the Directors, the net current liability position was mainly caused by the payment for cash consideration of the acquisition transaction mentioned in note 4 as well as capital investment on newly opened stores. The Directors have prepared these interim condensed consolidated financial statements on a going concern basis based on the cash flow forecast, for the next 18-months since 30 June 2016, that the Group will generate sufficient operation cash inflows, to meet its financial obligations when they fall due.

These interim condensed consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidates financial statements have not been audited. These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 25 August 2016.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new standards and interpretations effective as of 1 January 2016, noted below:

Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

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

2.3 IMPACT OF 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*[2]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IFRS 15	*Revenue from Contract with Customers*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs except for IFRS9 and IFRS 16 are unlikely to have a significant impact on the Group's results of operations and financial position. 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. Given the nature of the Group's operations, IFRS16 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.

3. OPERATING SEGMENT INFORMATION

On 7 January 2015, since the Group completed the acquisition of Million Rank (HK) Limited and its subsidiary Million Rank (Macau) Ltd., (collectively referred as "Pokka HK"), the Group has following two reportable operating segments:

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

(b) POKKA HK Business (the business acquired at the beginning of 2015 and 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 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.

Period ended 30 June 2016

	Xiao Nan Guo *RMB'000* (unaudited)	POKKA HK *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue			
Sales to external customers	**853,084**	**151,347**	**1,004,431**
Revenue from continuing operations			**1,004,431**
Segment results	**28,211**	**(776)**	**27,435**
Reconciliation:			
Elimination of intersegment results			**29**
Dividend income from an available-for-sale investment			**400**
Equity-settled share option expense			**(1,750)**
Interest income			**2,050**
Finance costs			**(4,741)**
Loss on disposal of a subsidiary			**(2,621)**
Corporate and other unallocated expenses			**(2,230)**
Profit before tax			**18,572**
Segment assets	**844,811**	**477,591**	**1,322,402**
Reconciliation:			
Elimination of intersegment receivables			**(31,979)**
Corporate and other unallocated assets			**331,605**
Total assets			**1,622,028**
Segment liabilities	**336,707**	**110,058**	**446,765**
Reconciliation:			
Elimination of intersegment payables			**(31,979)**
Corporate and other unallocated liabilities			**423,939**
Total liabilities			**838,725**
Other segment information:			
Depreciation and amortization	**72,945**	**11,427**	**84,372**
Capital expenditure*	**113,423**	**3,914**	**117,337**

Period ended 30 June 2015

	Xiao Nan Guo *RMB'000* (unaudited)	POKKA HK *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue			
Sales to external customers	854,583	148,334	1,002,917
Revenue from continuing operations			1,002,917
Segment results	26,825	3,473	30,298
Reconciliation:			
Elimination of intersegment results			(431)
Dividend income from available-for-sale investment			2,000
Equity-settled share option expense			(1,750)
Interest income			2,286
Finance costs			(6,823)
Corporate and other unallocated expenses			(5,408)
Profit before tax			20,172
Segment assets	1,028,978	278,144	1,307,122
Reconciliation:			
Elimination of intersegment receivables			(32,470)
Corporate and other unallocated assets			441,758
Total assets			1,716,410
Segment liabilities	381,884	41,534	423,418
Reconciliation:			
Elimination of intersegment payables			(32,470)
Corporate and other unallocated liabilities			441,889
Total liabilities			832,837
Other segment information:			
Depreciation and amortization	69,282	12,793	82,075
Capital expenditure*	69,335	637	69,972

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

Geographical information

(a) ***Revenue from external customers***

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Mainland China	**691,105**	713,814
Hong Kong	**301,679**	268,536
Others	**11,647**	20,567
	1,004,431	1,002,917

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

(b) **Non-current assets**

	30 June	31 December
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Mainland China	**654,262**	615,418
Hong Kong	**241,006**	251,366
Others	**337**	1,588
	895,605	868,372

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

Information about a major customer

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six-month periods ended 30 June 2016 and 2015, no major customers segment information is presented in accordance with IFRS 8 *Operating Segments*.

4. 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"), respectively. 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 recognized on acquisition *RMB'000*
Property, plant and equipment	128,868
Intangible assets*	32,661
Long term rental deposits	15,720
Deferred tax assets	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 payables	(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.

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

	Note	*RMB'000*
Cash consideration		(236,580)
Cash consideration to be paid	*b*	31,544
Cash consideration paid		(205,036)
Cash and bank balances acquired		44,915
Consideration net off with the due from the precedent controlling shareholder	*d*	34,698
Consideration paid by 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	*e*	(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 HK$216,000,000 (equivalent to RMB170,338,000).

a.1 The HK$151,000,000 (equivalent to RMB119,079,000) has been paid by MRL through Bright Charm's subscription price for its subscription of shares in MRL was derived from the bank loan. The bank loan with balance of HK$42,800,000 (equivalent to RMB35,858,000) as at 31 December 2015 was secured by the pledge of certain of the Group's time deposits amounted to RMB80,000,000. As at 30 June 2016, to match with the loan balance, the time deposit pledged for bank loan decreased to RMB40,000,000 accordingly.

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. For financing purpose, Pokka HK entered into a facility agreement, amounted to HK65,000,000 (equivalent to RMB51,259,000), with commercial bank on 15 December 2014. The bank loans borrowed by POKKA HK are secured by mortgages over POKKA HK's building with a net carrying value of approximately RMB75,808,000 at the end of 30 June 2016 (31 December 2015: RMB75,597,000). The loans to Rosy Metro, non-controlling shareholder of the Group, are secured as below note d. mentioned, bearing 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.

The outstanding loan balance due from Rosy Metro was HK$53,100,000, equivalent to RMB45,385,000 and RMB44,487,000 as at 30 June 2016 and 31 December 2015 respectively. Related interest income receivables from the outstanding loans of Rosy metro amounted to RMB1,436,800 as at 30 June 2016.

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 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 MRL has paid the first instalment of HK$2,000,000 (equivalent to RMB1,676,000) to the seller with certain charged shares released in January 2016. Included in the outstanding defer payment balance with amount of HK$38,000,000 (equivalent to RMB32,479,000), HK$4,000,000 (equivalent to RMB3,419,000) was stated as current portion of the long term defer payment.

   The outstanding long-term receivables balance due from Rosy Metro was HK$40,000,000, equivalent to RMB34,188,000 and RMB31,544,000 as at 30 June 2016 and 31 December 2015 respectively. The financial statements of the Group stated RMB5,128,000 (31 December 2015: RMB1,676,000) as current portion of the long-term receivables.

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 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.

e. The transaction costs incurred for this acquisition are 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.

5. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Restaurant operations	**990,905**	994,322
Other revenue	**13,526**	8,595
Revenue, net	**1,004,431**	1,002,917
Other income		
Government grants	**10,821**	13,667
Compensation income	**4,900**	–
Bank interest income	**2,050**	2,286
Membership fee income	**1,983**	–
Management fee	**681**	3,882
Dividend income from available-for-sale investment	**400**	2,000
Foreign exchange differences	**187**	163
Others	**1,089**	705
	22,111	22,703

6. PROFIT BEFORE TAX

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

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories consumed	**294,580**	305,968
Depreciation	**82,894**	80,716
Amortisation of intangible assets	**1,478**	1,359
Amortisation of other long-term assets	**–**	106
Minimum lease payments under operating lease on buildings	**191,143**	178,555
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**231,862**	233,346
Equity-settled share option expense	**1,750**	1,750
Defined contribution pension scheme	**56,657**	58,515
	290,269	293,611
Bank interest income	**(2,050)**	(2,286)
Loss on disposal of a subsidiary	**2,621**	–
Loss on disposal of items of property and equipment	**6,810**	6,314

7. FINANCE COSTS

An analysis of finance cost is as follows:

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest on bank loans wholly repayable within five years	**5,755**	7,226
Less: Interest capitalised	**(1,014)**	(403)
	4,741	6,823

8. INCOME TAX

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current – Mainland China charged for the period	**7,759**	13,523
Current – Hong Kong and elsewhere charged for the period	**2,490**	794
Deferred tax	**(2,333)**	(8,348)
Total tax charge for the period	**7,916**	5,969

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

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

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

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

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

9. DIVIDENDS

No interim dividend was proposed during the six-month period ended 30 June 2016. No final and interim dividend was declared in 2015.

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

The calculation of basic earnings per share for the six-month period ended 30 June 2016 is based on the consolidated profit attributable to the equity holders of the Company and weighted average number of ordinary shares of 1,467,854,000 (30 June 2015: 1,464,104,000) in issue throughout the period.

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

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

	Six-month period ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**10,802**	14,899

	Six-month period ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation*	**1,467,854,000**	1,464,104,000
Effect of dilution – weighted average number of ordinary shares**: Share options	**–**	–
Number of ordinary shares used in the diluted earnings per share calculation	**1,467,854,000**	1,464,104,000

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

** Since the exercise prices of these options exceeded the average market price of ordinary shares during the period, there was no dilutive effect as of 30 June 2016.

11. 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 periods, based on the invoice date, is as follows:

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Within 1 month	**14,289**	16,537
1 to 2 months	**1,188**	3,035
2 to 3 months	**1,355**	2,412
Over 3 months	**5,394**	3,693
	22,226	25,677

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

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
Deposits and other receivables	**93,578**	75,072
Prepaid expense	**28,053**	29,525
Amount due from companies owned by the Controlling Shareholder	**46,447**	42,010
Amount due from a director of major subsidiaries in Hong Kong	**365**	243
Receivables from non-controlling interests *(Note 4/b)*[(i)]	**7,052**	1,676
Prepayments[(ii)]	**66,282**	19,908
	241,777	168,434

(i) The balance of receivables from non-controlling interest consisted of the current portion of long-term receivables with amount of RMB5,128,000 as mentioned in noted 4/b, the interest receivables of the loan to non-controlling interest with amount of RMB1,436,800 as mentioned in note 4/a.2. and other short-term receivables.

(ii) Including RMB13,000,000 and RMB9,000,000 were paid to two ingredients suppliers, Ningbo Bomin Trading Co,. Ltd. and Ningbo Wendingxinwei Trading Co,. Ltd., respectively.

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

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

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Cash and bank balances	**169,852**	143,521
Time deposits with original maturity of less than three months	**15,039**	45,503
Time deposits with original maturity of over three months	**60,000**	60,000
	244,891	249,024
Less: Pledged time deposits for bank loans:		
– Current portion of	**(20,000)**	(20,000)
– Non-current portion of	**(40,000)**	(60,000)
Cash and cash equivalents	**184,891**	169,024

The cash and bank balances and time deposits of the Group subsidiaries in Mainland China denominated in RMB amounted to RMB222,861,100 and RMB202,801,000 as at 30 June 2016 and 31 December 2015, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

14. TRADE PAYABLES

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

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Within 3 months	**106,197**	116,019
3 months to 1 year	**2,835**	400
Over 1 year	**2,071**	1,470
	111,103	117,889

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

15. OTHER PAYABLES AND ACCRUALS

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Payroll and welfare payables	**45,654**	56,565
Taxes other than corporate income tax	**1,715**	11,091
Other payables for construction in progress	**56,549**	38,784
Accruals and other payables	**69,544**	78,004
Current portion of the long term defer payment	**3,419**	1,676
Advances from customers	**8,079**	12,383
	184,960	198,503

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2016, the global economy delivered sluggish overall performance. The prospect of global economic recovery faced increased uncertainties due to the geopolitical risks represented by the Brexit. Against the backdrop of slowdown in the global economy and the deepening of the structural adjustment in China, during the first half of 2016, China's Gross Domestic Product (GDP) recorded a year-on-year growth of 6.7% to RMB34,063.7 billion, which was higher than the lower limit of the forecasted annual target.

According to statistics issued by the National Bureau of Statistics of China, in the first half of 2016, disposable income per capita nationwide was RMB11,886, representing an actual year-on-year increase of 6.5%. Revenue of the catering industry in China reached RMB1,668.3 billion, representing a year-on-year increase of 11.2%, which was 0.3 percentage point lower than the growth rate delivered in the first quarter of 2016. Revenue of the catering industry in the PRC accounted for 10.7% of total retail sales of social consumer goods. The growth rate of revenue of the catering industry, although experienced an overall deceleration, was higher than that of total retail sales of social consumer goods. According to the analysis of the China Cuisine Association (CCA), currently both the total retail sales of social consumer goods and the revenue of the catering industry displayed relatively stable trend of development, and the floating path was largely in line with the performance last year. The revenue of the catering industry was developing within a rational range, despite the weakening in the growth momentum. As a rule of thumb, during summer season, especially the summer vacation, driven by the thriving mass catering and the leisure travelling consumption, the catering market across the country will follow a development trend of acceleration amid stable performance. It is expected that the growth rate of the revenue of the catering industry in China will pick up in the coming two months.

As one of the largest multi-brand restaurant groups in China 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 endeavor to improve income and earnings, the Company will also strive for becoming the leading industry player.

FINANCIAL PERFORMANCE

As at 30 June 2016, revenue of the Company increased by 0.2% from that of the same period last year to RMB1,004.4 million. The gross profit increased by 1.9% to RMB709.9 million during the period, which benefited from the increase in gross profit margin. Profit attributable to owners of the Company was RMB10.8 million, representing a decrease of RMB4.1 million from that of the same period last year.

OPERATIONS REVIEW

As an active response to the changes in the market environment and demand of consumers, in the first half of 2016, Xiao Nan Guo took a comprehensive approach to the strategic transformation of the Company, which involved the gradual shift away from the heavy-asset business model to the rapid increase in the brand investment and operation featuring light asset model from a strategic perspective, as well as the inclusion of certain important aspects into the framework of the overall transformation of Xiao Nan Guo, such as brand development, business transformation, reshaping of the system of supply chain and application related to the Internet. Major initiatives adopted in the first half of 2016 are set out below:

Adjust restaurants with conventional fixed assets and optimize asset structure

Under the strategy of "focusing on core cities and enhancing management efficiency", during the first half of 2016, the Company closed down 10 restaurants with burdensome conventional fixed assets, and narrowed down its management radius from 22 cities to 21 cities. In the first half of 2016, although 10 restaurants were closed down as part of the adjustment, our OBM business, represented by Shanghai Min restaurants, showed robust performance, with the operating profit margin of the stores reaching 9.9% (the first half of 2015: 9.3%), which was a testimony of the Company's operation and management ability under complex market conditions.

Adjust organization structure and reap preliminary results in control on headquarter administrative expenses

Since the beginning of 2016, the Company had taken an active approach of flattening and market-oriented reform for the management function of the headquarter, and conferred 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. As at 30 June 2016, the headcount of management decreased by 14.4% compared with that at the end of 2015, while the percentage of headquarter administrative expense to the total revenue decreased to 7.5% in the first half of 2016 from the full year level of 8.0% in 2015. As the completion of structural adjustment took place by stages in the first half of 2016, the effect of control on administration expenses will be further materialized in the second half of 2016.

Carry forward our multi-brand strategy and expand the sources of revenue

Since the implementation of our multi-brand strategy in 2013, the Company has been dedicated to fostering and introducing various up-to-date concepts of catering. During the year 2015, these newly introduced brands commenced operation successively and delivered preliminary results. Oreno and Wolfgang Puck, the two flagship restaurants opened in the second half of 2015 in Shanghai Xintiandi were well received by customers and delivered excellent performance.

The operation of the four restaurants in the theme park with international reputation in Shanghai, namely, the Shanghai Min, The Boathouse, Wolfgang Puck and the dining room, which were settled in the theme park in June 2016, has commenced as scheduled. It is expected that these restaurants will deliver satisfactory results benefiting from the growth in the traffic in the theme park in the future.

In the first half of 2016, total revenue of newly introduced brands (including Oreno, Wolfgang Puck, The Boathouse, Mai Chi Ling and POKKA) reached RMB200.4 million, representing 19.9% of the total revenue (the first half of 2015: 16.5%). Revenue of "the dining room" restaurants reached RMB113.0 million, representing 11.3% of the total revenue (the first half of 2015: 8.8%).

OUTLOOK

The Company expects that the catering industry in the second half of 2016 will continue to face various challenges and more intense competitions. Under the leadership of Ms. Wang Huimin, the Company will be committed to focusing on the industry chain of the catering industry and the vertical penetration into the terminal sales level, while pushing ahead with the integration between offline stores and the platform resources in the industry chain, thus building up an integrated platform catering to the industry brand development, and accomplishing the transformation to a group engaging in industry brand investment and operation. The Group proposed the following strategies to continue to promote our strategic reform:

Multi-brand Strategy

The Company will continue to operate the existing business of each brand and enhance overall operational efficiency, while boosting the same restaurant comparable sales through different measures, such as menu optimization and marketing campaigns. Meanwhile, the Company 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 continue to push ahead with its strategy of light asset model, gradually dispose of conventional fixed assets with low competitive advantage, while focusing on brands/products that are lighter and with greater technology/platform advantage and higher added value. These initiatives are expected to further strengthen the Company's core competitive advantage in the Internet plus era of catering industry.

Cost efficiency strategy

We will fully utilize the online 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 improve product quality and reduce supply chain cost and eventually expand the profit margin.

Product commercialization strategy

The Company will leverage on the Company's brand strength and R&D capability, as well as through the acquisition of 9.82% equity interest of Wowo Limited, the original source supplier, customer channel and internet platform resources, and the strengthened cooperation with various Internet platforms to explore B2C and B2B online and offline sales, with the ultimate goal of promoting the sale of our branded goods and add value to our brand.

Human resources capitalization strategy

The Company will continue to promote a culture of internal entrepreneurship, and take advantage of our platform to introduce partnership mechanism to inspire the potential and creativity of our staffs through a more flexible corporate structure, thus boost the value contribution from the talents.

FINANCIAL REVIEW

For the six months ended 30 June 2016, the revenue of the Group reached RMB1,004.4 million, representing an increase of RMB1.5 million or 0.2% compared to RMB1,002.9 million for the six months ended 30 June 2015. The gross profit of the Group achieved RMB709.9 million, an increase of approximately RMB13.0 million from RMB696.9 million for the same period of 2015. For the six months ended 30 June 2016, the profit attributable to owners of the Company amounted to approximately RMB10.8 million, a decrease of RMB4.1 million compared to the profit for the same period of 2015.

As at 30 June 2016, the Group operated a restaurant network of 77 "Shanghai Min" restaurants, 3 "Maison De L'Hui" restaurants, 23 "the dining room" restaurants, 2 "Oreno" restaurants, 2 "Wolfgang Puck" restaurants, 1 "Boathouse" restaurant and 29 restaurants under POKKA HK brands, which covers some of the most affluent and fast-growing cities in China, Hong Kong and other regions. The following table sets forth the revenue and the number of the restaurants in operation, by geographical region and brand, as at 30 June 2016 and 2015 respectively.

	Six months ended 30 June			
	2016		2015	
	Number of restaurants *(Note iii)*	**Revenue** ***RMB'000*** **(unaudited)**	Number of restaurants	Revenue *RMB'000* (unaudited)
China *(Note (i))*				
– Shanghai Min	**69**	**571,696**	73	618,509
– Maison De L'Hui	**3**	**30,122**	3	28,725
– the dining room	**17**	**50,448**	14	56,984
– Oreno	**1**	**11,785**	1	1,001
– Wolfgang Puck	**2**	**12,443**		
– The Boathouse	**1**	**1,137**		

	Six months ended 30 June			
	2016		2015	
	Number of restaurants *(Note iii)*	**Revenue** ***RMB'000*** **(unaudited)**	Number of restaurants	Revenue *RMB'000* (unaudited)
Hong Kong				
– Shanghai Min	**8**	**83,283**	9	86,911
– the dining room	**6**	**61,780**	4	29,042
– Oreno	**1**	**11,780**	1	11,610
– POKKA HK Brands *(Note iv)*	**28**	**144,536**	29	140,972
Macau *(Note v)*				
– Shanghai Min	**–**	**4,273**	1	11,171
– the dining room	**–**	**811**	1	2,035
– POKKA HK Brands	**1**	**6,811**	1	7,362
Total revenue of restaurant operations *(Note ii)*	**137**	**990,905**	137	994,322
Other revenue		**13,526**		8,595
Total revenue		**1,004,431**		1,002,917

Notes

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

(ii) Total revenue of restaurant operations include revenue of restaurant operations and packaging products of restaurants.

(iii) The number of restaurants did not include Mai Chi Ling licensed stores.

(iv) POKKA HK brands included 29 stores under 10 brands such as POKKA Café and Tonkichi, etc., in Hong Kong and Macau.

(v) Macau Shanghai Xiao Nan Guo (澳門小南國) and the dining room were sold at the end of February 2016. Stores of which were not included in the number of restaurants as at the end of the period, but the revenue from January to February in 2016 included in the revenue for the first half of 2016.

Revenue

Revenue of the Group increased by RMB1.5 million, or 0.2%, from RMB1,002.9 million for the six months ended 30 June 2015 to RMB1,004.4 million for the six months ended 30 June 2016. This increase was due to an increase of RMB4.9 million in other revenue during the period.

Total Revenue of restaurant operations

Total revenue of restaurant operations decreased by RMB3.4 million, or 0.3% from RMB994.3 million for the six months ended 30 June 2015 to RMB990.9 million for the six months ended 30 June 2016, primarily reflecting:

- an increase of RMB22.6 million in revenue contributed by 7 restaurants newly opened for the six months ended 30 June 2016;
- an increase of RMB68.5 million in revenue contributed by 12 restaurants opened in 2015;
- a decrease of RMB15.7 million, representing a decrease of 2.1%, in comparable restaurants sales from the six months ended 30 June 2015 to the six months ended 30 June 2016; and
- the relocation, adjustment, decrease of stores for the six months ended 30 June 2016 incurred a decrease in revenue of RMB78.8 million.

Other revenue

Other revenue increased by RMB4.9 million, from RMB8.6 million for the six months ended 30 June 2015 to RMB13.5 million for the six months ended 30 June 2016, which primarily reflected an increase of RMB7.6 million in Mai Chi Ling licensing business for the period.

Cost of Sales

Cost of sales decreased by RMB11.4 million, or 3.7%, from RMB306.0 million for the six months ended 30 June 2015 to RMB294.6 million for the six months ended 30 June 2016.

The cost of sales as a percentage of the revenue decreased from 30.5% for the six months ended 30 June 2015 to 29.3% for the six months ended 30 June 2016, which primarily reflected a saving in the cost of foods and the cost in processing of semi-finished products.

Other income

Other income decreased by RMB0.6 million, from RMB22.7 million for the six months ended 30 June 2015 to RMB22.1 million for the six months ended 30 June 2016.

Selling and distribution expenses

Selling and distribution cost increased by RMB18.2 million, or 3.0%, from RMB605.6 million for the six months ended 30 June 2015 to RMB623.8 million for the six months ended 30 June 2016, which was mainly due to the increase of operation expenses from stores in the theme park with international reputation during the pre-opening period.

Labor costs relating to the restaurants, central kitchens and central warehouses increased by RMB0.7 million, or 0.3%, from RMB247.5 million for the six months ended 30 June 2015 to RMB248.2 million for the six months ended 30 June 2016. As a percentage of our revenue, labor costs maintained at 24.7% for the six months ended 30 June 2016.

Occupancy costs relating to restaurants, central kitchens and central warehouses increased by RMB10.2 million, or 5.9%, from RMB174.3 million for the six months ended 30 June 2015 to RMB184.5 million for the six months ended 30 June 2016. As a percentage of our revenue, occupancy costs increased from 17.4% for the six months ended 30 June 2015 to 18.4% for the six months ended 30 June 2016, which was mainly due to the increase of rent from new stores opened in 2015 and 2016.

Depreciation expenses relating to the restaurants, central kitchens and central warehouses increased by RMB0.7 million, or 0.9%, from RMB75.4 million for the six months ended 30 June 2015 to RMB76.1 million for the six months ended 30 June 2016. As a percentage of our revenue, depreciation expenses increase from 7.5% for the six months ended 30 June 2015 to 7.6% for the six months ended 30 June 2016.

General and administrative expenses

Administrative expenses decreased by RMB4.5 million, or 5.6%, from RMB79.8 million for the six months ended 30 June 2015 to RMB75.3 million for the six months ended 30 June 2016, and as a percentage of our revenue, administrative expenses decreased from 8.0% to 7.5% during the same periods which was mainly attributable to the adjustment of the corporate structure and the control of management fees.

Other expenses

Other expenses of RMB9.6 million for the six months ended 30 June 2016 were mainly attributable to one-time write-off of store closure and assets disposal.

Income Tax Expense

Income tax expenses increased by RMB1.9 million or 32.6%, from RMB6.0 million for the six months ended 30 June 2015 to RMB7.9 million for the six months ended 30 June 2016, which was mainly attributable to the lapse of deferred income tax assets in Mainland China resulting the decrease in recoverable income tax.

Profit for the period attributable to owners of the Company

As a result of the foregoing, the profit for the period attributable to owners of the Company decreased by RMB4.1 million from RMB14.9 million for the six months ended 30 June 2015 to RMB10.8 million for the six months ended 30 June 2016. The net profit margin decreased from 1.5% for the six months ended 30 June 2015 to 1.1% for the six months ended 30 June 2016.

Dividends payable

For the six months ended 30 June 2016, the Group did not pay any dividends. As at 30 June 2016, there were no outstanding dividends payable.

Liquidity, financial resources and cash flow

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

As at 30 June 2016, the Group's total interest-bearing bank loans were RMB405.4 million. The gearing ratio was 42.0%. Gearing ratio is net debt divided by the adjusted capital plus net debt. 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 Group had net cash inflows from operating activities of RMB32.2 million for the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB82.6 million). As at 30 June 2016, the Group had RMB184.9 million in cash and cash equivalents (30 June 2015: RMB252.7 million). The following table sets out certain information regarding the consolidated cash flows for the period ended 30 June 2016 and 2015.

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash flows from operating activities	**32,225**	82,622
Net cash flows used in investing activities	**(98,607)**	(198,277)
Net cash flows generated from financing activities	**84,367**	100,353
Net increase/(decrease) in cash and cash equivalents	**17,985**	(15,302)
Cash and cash equivalents at the beginning of the period	**169,024**	269,305
Effect of foreign exchange rate, net	**(2,118)**	(1,274)
Cash and cash equivalents at the end of the period	**184,891**	252,729

Operating activities

Net cash inflow from operating activities decreased by RMB50.4 million from RMB82.6 million for the six months ended 30 June 2015 to RMB32.2 million for the six months ended 30 June 2016, which was primarily attributable to the decrease of profit in operating activities.

Investing activities

Net cash flow used in investing activities was RMB98.6 million for the six months ended 30 June 2016, compared with RMB198.3 million for the same period in 2015, which is due to the investment activity of acquiring POKKA HK of the same period of last year.

Financing activities

Net cash flow generated from financing activities decreased from a cash inflow of RMB100.4 million during the six months ended 30 June 2015 to a cash inflow of RMB84.4 million during the six months ended 30 June 2016, representing a decrease of RMB16.0 million.

Foreign currency exposure

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the six-month periods ended 30 June 2016 and 30 June 2015 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure of foreign exchange risk.

Contingent liabilities

There were no significant contingent liabilities for the Group as at 30 June 2016 and 31 December 2015.

Operating lease arrangements

As lessee

The Group leases certain of its offices 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 reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 *RMB'000* **(unaudited)**	31 December 2015 *RMB'000* (audited)
Within one year	**336,460**	261,650
In the second to fifth years, inclusive	**840,908**	668,904
After five years	**272,994**	202,524
	1,450,362	1,133,078

Capital commitment

Capital commitments were approximately RMB3.8 million and RMB76.5 million as at 30 June 2016 and 31 December 2015 respectively.

Pledge of group assets

As at 30 June 2016, the bank loans of HK$42,800,000 (equivalent to RMB36,581,000) and RMB18,000,000 borrowed by the Company are secured by the pledge of certain of the Group's time deposits amounting to RMB40,000,000 and RMB20,000,000, respectively. The bank loans borrowed by POKKA HK are secured by mortgages over POKKA HK's building, which had a net carrying book value of approximately RMB75,808,000 at the end of the reporting period.

Material acquisition and disposal

For the six months ended 30 June 2016, the Group and its subsidiaries and associated companies have no major acquisition and disposal.

Human resources

The salary level of employees in the China restaurant industry has been generally increasing in recent years. Employee attrition level tend to be higher in the catering industry than other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 30 June 2016, the Group recruited about 5,064 employees in China, Hong Kong and other regions. During the six months ended 30 June 2016, total staff cost was RMB290.3 million, accounting for 28.9% of the revenue (six months ended 30 June 2015: RMB293.6 million, 29.3% of the revenue), representing a decrease in percentage of the revenue of 0.4% as compared to the first half of 2015.

Important events after the current reporting period

On 7 June 2016, the Company and Guotai Junan Securities (Hong Kong) Limited, entered into the underwriting agreement to implement the right issue on the basis of one rights Share for every two Shares at the subscription price of HK$0.41 per rights Share, total 737,677,000 rights Shares were issued on 25 July 2016. For the details, please refer to the announcement dated 7 June 2016, the prospectus dated 30 June 2016 and the announcement dated 22 July 2016 of the Company in relation of the rights issue.

On 7 June 2016, Moonlight Vista Limited, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendors (namely, Asia Global Develop Limited, Jade Investments Ventures Limited and Markland (Hong Kong) Planning Limited), has conditionally agreed to acquire 9.82% equity interest of WoWo Limited (the "**Acquisition**"). The Acquisition creates synergy to further enhance the Company's development by taking advantage of the strong supply chain capacity of the WoWo Limited. The consideration for the Acquisition is approximately HK$368.4 million. For the details, please refer to the announcement dated 7 June 2016 and the circular dated 9 August 2016 of the Company. The Acquisition has been approved by the extraordinary general meeting held on 24 August 2016.

On 22 July 2016, the Company and Shanghai Zhongmin Supply Chain Management Co., Ltd.entered into the Procurement Framework Agreement (the "**Procurement Framework Agreement**") to procure raw food ingredients and other non-food items used for its restaurant operation. The Procurement Framework Agreement and the transactions contemplated thereunder constitute a continuing connected transaction for the Company. For the details, please refer to the announcement of the Company dated 22 July 2016.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its code of corporate governance. Except as disclosed below, for the six months period ended 30 June 2016, the Company has complied with the applicable code provisions in the CG Code.

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.

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 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

After specific enquires to all directors, all the Directors have confirmed that they have complied with the required standard of dealings set out in the Model Code during the six months ended 30 June 2016.

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

For the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established the Audit Committee (the "**Audit Committee**") on 30 August 2011 with written terms of reference formulated in accordance with the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's internal control and financial reporting process and to maintain an appropriate relationship with the Company's independent auditors.

The members of the Audit Committee include Mr. Lui Wai Ming, Mr. Weng Xiangwei, Dr. Wu Chun Wah and Mr. Lin Lijun. Mr. Lui Wai Ming is the chairman of the Audit Committee.

The Audit Committee has discussed with the management of the Company and the external auditor about the accounting principles and practices adopted by the Company and reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016.

PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiaonanguo.com). The interim report of the Company for the six months ended 30 June 2016 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

ADJUSTMENTS TO THE SHARE OPTIONS

References are made to the prospectus of the Company dated 30 June 2016 (the "**Prospectus**") in relation to the rights issue of shares on the basis of one share for every two existing shares (the "**Rights Issue**") by the Company and the announcement of the Company in relation to the results of the Rights Issue dated 22 July 2016. As disclosed in the Prospectus, as a result of the completion of the Rights Issue, adjustments will be required to be made to the exercise price and the number of outstanding share options granted by the Company ("**Share Options**") pursuant to the terms of the two pre-IPO share option schemes adopted by the Company on 10 February 2010 and 15 March 2011 (and amended on 10 August 2011) (the "**Pre-IPO Share Option Schemes**") and the terms of the share option scheme adopted by the Company on 4 July 2012 (the "**Share Option Scheme**").

In accordance with the terms of the Pre-IPO Share Option Schemes and the Share Option Scheme and Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 (the "**Supplementary Guidance**"), the exercise price and the number of outstanding Share Options granted under the Pre-IPO Share Option Schemes ("**Pre-IPO Share Options**") and the number of outstanding Share Options granted under the Share Option Scheme ("**Post-IPO Share Options**") will be adjusted in the following manner:

		Before adjustments		After adjustments	
Type of Share Options	**Date of grant**	**Exercise price per share**	**Number of outstanding Share Options**	**Exercise price per share**	**Number of outstanding Share Options**
Pre-IPO Share Options	11/02/2010	HK$1.22	8,207,750	HK$1.210	8,273,412
Pre-IPO Share Options	21/06/2010	HK$1.22	180,000	HK$1.210	181,440
Pre-IPO Share Options	1/09/2010	HK$1.22	1,035,000	HK$1.210	1,043,280
Pre-IPO Share Options	15/12/2010	HK$1.34	1,156,000	HK$1.329	1,165,248
Pre-IPO Share Options	26/01/2011	HK$1.34	8,301	HK$1.329	8,367
Pre-IPO Share Options	28/02/2011	HK$1.34	1,450,000	HK$1.329	1,461,600
Pre-IPO Share Options	22/03/2011	HK$1.34	1,136,750	HK$1.329	1,145,844
Pre-IPO Share Options	1/07/2011	HK$1.34	1,674,900	HK$1.329	1,688,299
Pre-IPO Share Options	1/07/2011	HK$1.34	121,950	HK$1.329	122,926
Pre-IPO Share Options	12/08/2011	HK$1.34	3,020,000	HK$1.329	3,044,160
Pre-IPO Share Options	12/08/2011	HK$1.34	401,750	HK$1.329	404,964
Pre-IPO Share Options	15/01/2012	HK$1.43	1,475,120	HK$1.419	1,486,921
Pre-IPO Share Options	15/05/2012	HK$1.43	2,745,400	HK$1.419	2,767,363
Post-IPO Share Options	23/08/2013	HK$1.50	10,541,137	HK$1.488	10,625,466
Post-IPO Share Options	30/06/2014	HK$1.50	6,680,000	HK$1.488	6,733,440
Post-IPO Share Options	30/06/2014	HK$1.30	5,814,781	HK$1.290	5,861,299
Post-IPO Share Options	1/01/2015	HK$1.00	7,500,000	HK$0.992	7,560,000
Post-IPO Share Options	1/01/2015	HK$1.30	4,067,500	HK$1.290	4,100,040

Save for the above adjustments, all other terms and conditions of the outstanding Share Options remain unchanged. The above adjustments satisfy the requirements of the Note to Rule 17.03(13) of the Listing Rule and the Supplementary Guidance on the Listing Rule 17.03(13) and the Note immediately after the Rule issued by The Stock Exchange of Hong Kong Limited on 5 September 2005. Separate notification regarding the adjustments will be sent by the Company to each holder of the Share Options.

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

Hong Kong, 25 August 2016

As at the date of this announcement, the executive Directors are Ms. WANG Huimin, Ms. WU Wen and Ms. Zhu Xiaoxia, the non-executive Directors are Ms. WANG Huili, Mr. WENG Xiangwei and Mr. WANG Hairong; and the independent non-executive Directors are Dr. Wu Chun Wah, Mr. Lui Wai Ming and Mr. Lin Lijun.