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Xiabuxiabu Catering Management (China) Holdings Co., Ltd.
呷哺呷哺餐飲管理(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 520

2016
Annual Report

MIX
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ho Kuang-Chi *(Chairman)*
Ms. Yang Shuling

Non-executive Directors

Ms. Chen Su-Yin
Mr. Wei Ke

Independent Non-executive Directors

Ms. Hsieh Lily Hui-yun
Mr. Hon Ping Cho Terence
Ms. Cheung Sze Man

AUDIT COMMITTEE

Ms. Hsieh Lily Hui-yun *(Chairman)*
Mr. Wei Ke
Mr. Hon Ping Cho Terence

NOMINATION COMMITTEE

Mr. Ho Kuang-Chi *(Chairman)*
Ms. Hsieh Lily Hui-yun
Ms. Cheung Sze Man

REMUNERATION COMMITTEE

Mr. Hon Ping Cho Terence *(Chairman)*
Mr. Ho Kuang-Chi
Ms. Cheung Sze Man

COMPANY SECRETARY

Ms. Ng Sau Mei

AUTHORIZED REPRESENTATIVES

Mr. Ho Kuang-Chi
Ms. Ng Sau Mei

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

COMPANY'S WEBSITE

www.xiabu.com

STOCK CODE

520

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Suncun Industrial Development Zone
Huangcun Town
Daxing District
Beijing
PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Codan Trust Company (Cayman) Limited
2901 One Exchange Square
Connaught Place
Central
Hong Kong

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

REGISTERED OFFICE IN CAYMAN ISLANDS

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1201, 12/F
OfficePlus @Wan Chai
No. 303 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL BANKS

Bank of Communications
China Merchants Bank
Shanghai Pudong Development Bank

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,758,137**	2,424,606	2,201,989	1,890,470	1,508,331
Restaurant level operating profit(1)	**639,830**	495,154	450,257	365,823	282,645
Profit before tax	**473,122**	323,120	186,043	184,708	139,556
Profit for the year attributable to owners of the Company	**368,028**	263,363	141,193	140,710	107,523

ASSETS AND LIABILITIES

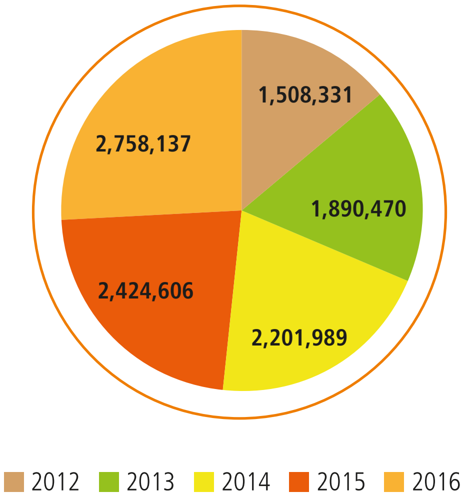
	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**594,847**	452,414	404,223	349,677	313,680
Current assets	**1,717,757**	1,511,717	1,277,927	491,662	332,167
Total assets	**2,312,604**	1,964,131	1,682,150	841,339	645,847
Equity and liabilities					
Total equity	**1,716,308**	1,480,483	1,273,866	537,417	365,403
Non-current liability	**15,645**	16,555	17,465	18,375	16,835
Current liabilities	**580,651**	467,093	390,819	285,547	263,609
Total liabilities	**596,296**	483,648	408,284	303,922	280,444
Total equity and liabilities	**2,312,604**	1,964,131	1,682,150	841,339	645,847
Net current assets	**1,137,106**	1,044,624	887,108	206,115	68,558
Total assets less current liabilities	**1,731,953**	1,497,038	1,291,331	555,792	382,238

Note:

(1) Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses. Restaurant level operating profit is an unaudited non-generally accepted accounting principle ("**GAAP**") item. The Group has presented this non-GAAP item because the Group considers it important supplemental measures of the Group's operating performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry the Group operates in. The Group's management uses such non-GAAP item as an additional measurement tool for purposes of business decision-making. Other companies in the industry the Group operates may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under International Financial Reporting Standards ("**IFRS**") and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

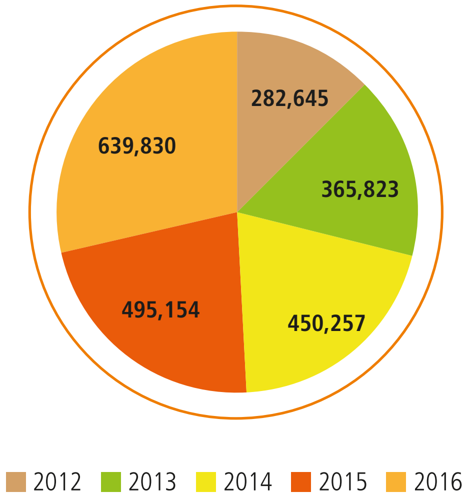
REVENUE

RMB'000



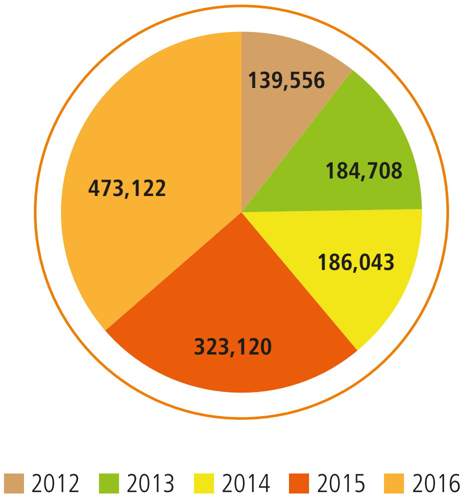
RESTAURANT LEVEL OPERATING PROFIT

RMB'000



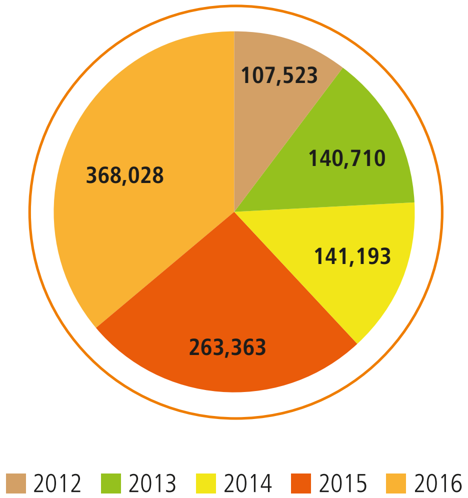
PROFIT BEFORE TAX

RMB'000



PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

RMB'000



CHAIRMAN'S STATEMENT

Mr. Ho Kuang-Chi
Chairman of the Board

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "**Company**" or "**Xiabuxiabu**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2016.

The motto of success of the Company is "High quality derives from persistent efforts" and we believe in values as "unity, pragmatism, integrity, diligence and creativity". We strive to improve the values and competitive strengths of the Company and are determined to build the Company as the leader of the casual restaurants in China.

FINANCIAL HIGHLIGHTS

In 2016, China's catering service industry experienced a slow recovery, while encountering challenges from restructuring and upgrading and pressure for business model innovation. Whilst we have been actively responding to such challenges, we are able to realize continuous growth in our operating results. For the year ended 31 December 2016, Xiabuxiabu has achieved outstanding results in our key operational indicators. In 2016, we opened a total of 112 new restaurants and our revenue increased to RMB2,758 million in 2016, representing a year-on year growth of 13.8% from 2015. Net profit for 2016 attributable to owners of the Company reached RMB368.0 million and after excluding the share based compensation expenses in relation to employee share options of RMB4.4 million, the adjusted net profit was approximately RMB372.5 million, representing a year-on-year growth of 38.0% compared to 2015. The adjusted net profit margin increased to 13.5% in 2016 compared to 11.1% in 2015.

BUSINESS HIGHLIGHTS

We believe that Xiabuxiabu has been the undisputed leader of the hotpot industry. Our persistence in innovating, improving our operating model, strengthening our competitive advantages through economies of scale and systematic management, gave us the leverage to enable us to provide continuous and stable returns to our shareholders.

New Restaurant Openings

Leading us to the next phase of growth, we have set several new milestones and to start off we have steadily implemented our five-year expansion plan. We have expanded our business by further cultivating our current markets in Beijing and Northern China, as well as developing new markets. To ensure our success in expansion, we enhanced our restaurants development plan where we implemented an upgrade 2.0 model in many restaurants and continued to improve our inventory management. We also optimized our site selection standards and conducted extensive research prior to entering any new market. In addition, we have formed strategic alliances to collaborate with owners and developers of commercial real estate such as shopping malls. As of 31 December 2016, Xiabuxiabu owned and operated 639 restaurants in 58 cities over 11 provinces and two autonomous regions as well as three centrally administered municipalities in China, of which 112 restaurants were opened in 2016.

Sales Growth

We are continuously improving our service standard and efficiency, and in the meantime, enhancing our brand promotion by integrating our online and offline marketing channels. In addition, we constantly optimize our menu, regularly launch new menu items, update the dish combination and improve the restaurant environment to provide customers with better and a new dining experience. We also took various initiatives to increase our same store sales. In particular, we selectively upgraded existing restaurants to Xiabuxiabu 2.0. As compared with the previous generation Xiabuxiabu restaurants, Xiabuxiabu 2.0 restaurants offer a more upscale yet relaxed dining atmosphere through refreshed urban restaurant design and decoration while maintaining high operational efficiency and quality service. We experienced sales growth for restaurants that have been upgraded to Xiabuxiabu 2.0. Furthermore, we continued to explore our takeout and delivery services branded "Xiabu Fresh" by collaborating with a number of leading online and mobile meal ordering and delivery platforms, including Xiabu's own delivery online portal which just launched in January 2017 and external O2O platforms such as baidu.com, meituan.com eleme.com and dianwoda.com. We believe the expansion of the delivery services branded "Xiabu Fresh" provides the customers with an easy and fast access to Xiabuxiabu's fresh ingredients and hotpot experiences as well as fully utilizes business hours beyond rush hours during lunch and dinner time to improve our operating results. As such, for the year ended 31 December 2016, despite a turbulent catering service market, we managed to achieve a revenue growth of 13.8% from last year.

Introduction of "Coucou" (湊湊)

We launched a mid- to high-end casual dining brand representing a novel and trend-setting business model to meet increasing demand of the customers for a more upscale casual dining experience. We established the Coucou brand as a comprehensive resolution for friends, family and business gathering at urban commercial complexes. The Coucou restaurants feature tasty and healthy fusion hotpot cuisine, which provide a distinguishing and unforgettable culinary experience to the customers. We also endeavor to deliver considerate and attentive service to the customers in Coucou restaurants without interrupting their dining experience. As such, we believe that we are able to offer an outstanding dining experience, comprising food, drinks, service and dining atmosphere, at Coucou restaurants, and thus broadening our customer base to cover customers who prefer medium and high-end hotpot experience. As of 31 December 2016 and as of the date of this annual report, we operated two and four Coucou restaurants in Beijing, respectively.

Formation of Condiment Joint Venture Companies

In October 2016, we agreed to establish Xiabuxiabu (China) Food Holdings Co., Limited (呷哺呷哺(中國)食品控股有限公司) and its wholly-owned operating subsidiary in the PRC (the "**Condiment JV Companies**"), for the research, development, production and sale of condiment products including soup bases, dipping sauces, seasoning sauces and products and various compound condiments, and products with giftwrapping and limited editions which target at mid- to high-end customers. As of the date of this annual report, the establishment of the joint venture structure has not yet been completed and it is currently expected that the establishment of the joint venture structure will be completed in the second quarter of 2017. In light of the time required for establishing the joint venture structure, we, through our wholly-owned subsidiary, have conducted the pre-research of the condiment products market and have successfully developed 11 condiment products, which are currently placed on trial sale in our restaurants, supermarkets and online platforms such as Tmall and JD.com.

Profit Growth

Evidenced by the increase of the consumer price index, the increasing costs for food ingredients, labor and rent has become the major challenges faced by the catering service industry. In response, we constantly optimize our menu selection, strengthen our price bargaining power, leveraging our operational scale and strategically manage our stock, so as to efficiently control our cost for ingredients, which is far below the average procurement price in the industry. In the meantime, we strengthen our labor efficiency by adjusting staff structure, enhancing shifts management and improving flow in our restaurants. In 2016, we further enhance our procurement system and devise tailored cost control measures for different categories of supplies. Furthermore, we started to calculate and pay value-added tax instead of business tax starting from 1 May 2016, which decreased our tax burden. In the meantime, we undertook various measures to increase the efficiency of our bill checking and tax reporting system, including the election to consolidate the income tax of the Group and adoption of electronic invoices with Quick Response codes. In addition, we had restructured our organization structure and established an incentive remuneration system, which we believe will increase our organizational efficiency. All these efforts have laid solid foundation for our profit growth.

Social Responsibility

We stay grateful to the society for our success and continued to adhere to the philosophy of paying back to the society. In 2016, we supported certain targeted poverty relief project in Guangchang County, Jiangxi Province whereby our donations have been used to fund the building of a cafeteria and purchasing necessary equipment at one of the school for less privileged children in the area. In 2016, we also donated to the Taiwan Earthquake Relief Donations in response to the damages caused by the earthquake in Kaohsiung, Taiwan in February 2016, and made donations to the Red Cross Society of China for helping the less fortunate children. We also endeavor to environmental protection causes. For example, the Company arranges for bus to take the colleagues to office to help reduce the carbon emissions, when we upgrade our restaurants we use induction cooker instead of gas stove, and used LED lighting to actively reduce our carbon emission and electricity consumption. We also actively promote a sense of responsibilities for environmental protection among our employees by promoting energy and water saving and reducing the use of paper in our facilities. Furthermore, we also purchased food ingredients of approximately RMB75 million from farmers and agricultural cooperatives under our farm-to-table project, which has significantly improved the farmers' income, guaranteed the quality and supply of vegetables and helped to suppress the increase of our food ingredients procurement costs.

OUTLOOK FOR 2017

2017 is the second year where we lay the groundwork to achieve our five-year plan, we endeavor to continue our outstanding performance and achieve more in the future. We will continue to innovate, optimize our platform and enhance our competitive strengths, to ensure the sustainable development of Xiabuxiabu and Coucou, by which we will be able to create greater value and returns to our customers, employees and shareholders.

Additional Growth Drivers

Based on our casual hotpot business, we endeavor to develop additional growth drivers, including "Xiabu Fresh" delivery business, "Coucou" restaurants and the condiment products to be developed by the Condiment JV Companies. We plan to continue to customize and optimize our menu to suit our new development. Meanwhile, we will optimize our brand positioning and pricing strategies of the menu items in Xiabuxiabu and Coucou restaurants and the condiment products in response to the ever changing market conditions. We expect to further extend the business hours of Coucou and introduce new products to improve the sales density of restaurants. In addition, we will actively manage the distribution network of the condiment products to be developed by the Condiment JV Companies and proactively monitoring the retail price and preventing counterfeiting of our products. We plan to leverage on the strong recognition of our Xiabuxiabu brand to further develop these additional business lines.

Expansion of Restaurant Network

We will follow our five-year strategic plan to steadily expand our business. In 2017, we plan to open 100 new restaurants. We plan to consolidate our leading position and deepen our penetration in our existing markets. During the expansion, we will continue to focus on new markets research and create synergies among functions of our internal departments such as business development, sales and marketing and operations departments so as to ensure the success of new restaurants when we venture into mature and emerging markets.

Drive Same-Store Growth

In addition to branding and promotion initiatives such as an enhanced visual and space identity system, we will accelerate our exploration on the "Xiabu Fresh" delivery business to fully utilize business hours during rush hours such as lunch and dinner time to improve our sales density. We endeavor to shorten the construction time for the Xiabuxiabu 2.0 restaurant upgrade to improve our sales density. We will continue to collaborate with leading online and mobile meal ordering and delivery platforms to promote our "Xiabu Fresh" delivery business and we currently plan to extend such delivery business to 50 additional restaurants in 2017. To improve customer experience, we plan to improve the packaging and shorten the delivery time of "Xiabu Fresh". In addition, we endeavor to enhance interactions with customer through customer relationship management ("**CRM**") program, which is expected to further increase customer loyalty and brand stickiness. We also plan to fully utilize our members and continue to increase the size of the members via attractive reward program and further rollout targeted marketing initiatives to fully leverage on big data.

Cost Control

We plan to continue to control our procurement cost while maintaining a stringent quality standard. We plan to further enhance our procurement system and design cost control measures tailored for different categories of supplies. As we launch new stores and expands our restaurant network, we plan to update our list of approved suppliers and deepen the cooperation with farmers and agricultural cooperatives to ensure sufficient supply of quality ingredients. We also plan to adjust our inventory strategy in accordance with market condition and constantly monitor our level of inventory. To control our staff costs, we intend to optimize restaurant layout, introduce new technologies and continuously improve operation management efficiency in response to the challenging labor market. In addition, we intend to continue to strictly follow the tender procedures for the selection of suppliers for the construction and decoration of Xiabuxiabu 2.0 restaurants to control the relevant costs. Furthermore, we intend to enhance our brand value, strengthen strategic alliance with well-known real estate developers to effectively control rental expenses.

Strengthen Organization and Human Resources Management

In order to better understand the market, we will enhance our accountability system and encourage the proactivity of general managers of specific markets to take full responsibility for marketing and sales, restaurant openings and profit management in the respective local market. As to employee development, in addition to constantly implementing the management trainee project, we will continuously enhance our employee appraisal, training and promotion system as well as remuneration system, to ensure we remain competitive to attract talents.

Maintain Stringent Food Safety and Quality Standard

We are committed to enforcing food safety and quality, including the following aspects: (i) implement stringent food safety and quality control standards and measures throughout different aspects of our operations, including supply chain, logistics, food processing plants and restaurants; (ii) continue to enhance our centralized procurement system; (iii) cooperate exclusively with reputable and high-quality suppliers; (iv) eliminate intermediaries in the supply chain through direct delivery to restaurant from suppliers or our logistics centers; and (v) continue to enforce self-evaluation and stringent control on our food safety and quality control standards and measures.

In the past 18 years, Xiabuxiabu has established the model featuring in high profits and fast duplication by successfully building up the systematic management model where we integrate procurement, delivery, operation and upgrade the information technology system for the Group. Despite the slightly-lagging market condition is expected to continue, Xiabuxiabu is striving for excellence as well as making continuous innovations, so as to live up to the expectations of the shareholders and the society as a whole in the upcoming year. My sincere gratitude goes to the management team and all employees for their excellent work and contribution in the past year, to the support from the shareholders, business partners and all walks of life, and thank them for their confidence in Xiabuxiabu. Judging from Xiabuxiabu's development over the past 18 years, I am very optimistic about Xiabuxiabu's prospects in the future. We will continue to work hard to become a powerful leading brand in Asia's catering sector and a company that our employees are proud of, an enterprise that our shareholders trust and are willing to invest in, as well as an industry leader with the highest social values.

Ho Kuang-Chi
Chairman

Hong Kong, 28 March 2017

BUSINESS REVIEW AND OUTLOOK

OVERVIEW

In 2016, the Group opened a total of 112 new restaurants, in line with the Group's overall restaurant network expansion plan for the year. The Group extended its restaurant network into Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia autonomous regions in 2016. In particular, the Group also launched its mid- to high-end casual dining brand, "Coucou" (湊湊), in 2016, with two of the 112 new restaurants opened by the Group during the year being established under the Coucou brand in Beijing. As of 31 December 2016, the Group owned and operated 639 restaurants in 58 cities over 11 provinces, two autonomous regions and in three centrally administered municipalities, namely Beijing, Tianjin and Shanghai, in China.

Despite the slowdown in China's economic growth, the Group managed to grow its revenue by 13.8% from RMB2,424.6 million in 2015 to RMB2,758.1 million in 2016 primarily due to the Group's effort to expand its restaurant network and a robust nationwide same-store sales growth of 3.0%. Meanwhile, the Group's efforts in controlling procurement costs for raw materials by economies of scale and price bargaining power enhancement, coupled with the reduction in the tax burden on the Company as a result of the PRC tax reform starting in May 2016 whereby existing business tax is being replaced by value-added tax, resulted in a 29.2% growth in the Group's restaurant level operating profit from RMB495.2 million in 2015 to RMB639.8 million in 2016. As of 31 December 2016, the Group's net current assets increased by 8.9% to RMB1,137.1 million from RMB1,044.6 million as of 31 December 2015.

TOTAL RESTAURANTS
639

SEAT TURNOVER RATE
3.4 x

BUSINESS REVIEW AND OUTLOOK

INDUSTRY REVIEW

In 2016, China's catering service market was slowly recovering despite the slowdown in China's economic growth. China's gross domestic product grew by 6.7% in 2016 to reach RMB74,413 billion, being the lowest growth rate since the first quarter of 2009. According to the China Cuisine Association, China's catering service market grew by 10.8% from 2015 to reach RMB3,580 billion. In addition, the Internet continues to penetrate into the catering service industry and changes consumers' consumption behavior. As a result, the operation and marketing in the traditional catering service industry are experiencing significant changes.

REVENUE
RMB
2,758.1
MILLION

AVERAGE SPENDING PER CUSTOMER
RMB
47.7

BUSINESS REVIEW AND OUTLOOK

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The Group's restaurant network

In 2016, the Group adhered to its restaurant network expansion plan and opened a total of 112 new restaurants. In addition, the Group closed a total of 25 restaurants in 2016 due to commercial reasons. In aggregate, the Group's restaurants in operation increased by 87 in 2016. The table below sets forth the breakdown of the Group's system wide restaurants by region as of the dates indicated:

	As of 31 December			
	2016		2015	
	#	%	#	%
Beijing	**285**	**44.6**	275	49.8
Shanghai	**54**	**8.5**	58	10.5
Tianjin	**60**	**9.4**	49	8.9
Other regions[1]	**240**	**37.5**	170	30.8
Total	**639**	**100.0**	552	100.0

(1) Including 58 cities in Hebei, Liaoning, Jiangsu, Shandong, Shanxi, Henan, Hubei, Heilongjiang, Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia Autonomous Regions.

OUR RESTAURANT NETWORK IN 2016

Key operational information for the Group's restaurants

Set forth below are certain key performance indicators of the Group's system wide restaurants by region:

	As of or for the years ended 31 December	
	2016	**2015**
Revenue (in RMB thousands)		
Beijing	**1,635,159**	1,525,953
Shanghai	**192,915**	202,861
Tianjin	**222,385**	184,311
Other regions(1)	**707,678**	511,481
Total	**2,758,137**	2,424,606
Seat turnover rate (X)(2)		
Beijing	**4.0**	3.9
Shanghai	**2.4**	2.4
Tianjin	**3.1**	3.1
Other regions(1)	**2.8**	2.8
Total	**3.4**	3.4
Average spending per customer (RMB)(3)		
Beijing	**48.6**	47.0
Shanghai	**50.0**	48.4
Tianjin	**46.3**	46.0
Other regions(1)	**45.6**	45.6
Total	**47.7**	46.8

(1) Including 58 cities in Hebei, Liaoning, Jiangsu, Shandong, Shanxi, Henan, Hubei, Heilongjiang, Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia Autonomous Regions.

(2) Calculated by dividing total customer traffic by total restaurant operation days and average seat count during the year.

(3) Calculated by dividing gross revenue for the year by total customer traffic for the year.

In 2016, Beijing continued to be the Group's most important geographical market both in terms of restaurant count and revenue contribution. Meanwhile, as the Group successfully implemented its nationwide expansion plan, the Group's revenue generated from restaurants outside Beijing increased in absolute terms and as a percentage of the Group's total revenue in 2016. On the other hand, average customer spending continued to increase in 2016, primarily due to the increase in sales of premium menu items with higher profit margin as the Group continued to optimize its product combinations and launch new products regularly.

BUSINESS REVIEW AND OUTLOOK

The table below sets forth the Group's same-store sales for the years indicated. The Group's same-store base is defined as those restaurants that were in operation throughout the periods under comparison.

	Year ended 31 December		Year ended 31 December	
	2015	**2016**	**2014**	**2015**
Number of same-store (#)				
Beijing	**233**		223	
Shanghai	**52**		51	
Tianjin	**43**		37	
Other regions[1]	**139**		86	
Total	**467**		397	
Same-store sales (in RMB millions)				
Beijing	**1,457.3**	**1,519.2**	1,408.1	1,365.3
Shanghai	**188.3**	**190.8**	211.6	189.5
Tianjin	**187.8**	**195.4**	149.2	153.0
Other regions[1]	**503.2**	**501.5**	329.5	305.9
Total	**2,336.6**	**2,406.9**	2,098.4	2,013.7
Same-store sales growth (%)				
Beijing	**4.2**		(3.0)	
Shanghai	**1.3**		(10.4)	
Tianjin	**4.0**		2.6	
Other regions[1]	**(0.3)**		(7.2)	
Nationwide	**3.0**		(4.0)	

(1) Including 58 cities in Hebei, Liaoning, Jiangsu, Shandong, Shanxi, Henan, Hubei, Heilongjiang, Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia Autonomous Regions.

In 2016, the Group's nationwide same-store sales increased by 3.0%, primarily due to the effective promotion campaign and enhanced branding initiatives by the Group.

OUTLOOK FOR 2017

Business Outlook

During 2017, the Group will continue its efforts to achieve its goal of becoming the leading operator of fast casual restaurant industry and maintaining its leading position as a hotpot restaurant chain operator in China. The Group intends to continue to pursue the following:

- *Additional growth drivers* – Based on its casual hotpot business, the Group endeavors to develop additional growth drivers, including "Xiabu Fresh" delivery business, "Coucou" restaurants and the condiment products to be developed by Xiabuxiabu (China) Food Holdings Co., Limited (呷哺呷哺(中國)食品控股有限公司) and its subsidiary (collectively, the "**Condiment JV Companies**"). The Group plans to continue to customize and optimize its menu to suit its new development. Meanwhile, the Group will optimize its brand positioning and pricing strategies of the menu items in Xiabuxiabu and Coucou restaurants and the condiment products in response to the ever changing market conditions. The Group expects to further extend the business hours of Coucou and introduce new products to improve the sales density of restaurants. In addition, the Group will actively manage the distribution network of the condiment products to be developed by the Condiment JV Companies and proactively monitoring the retail price and preventing counterfeiting of its products. The Group plans to leverage on the strong recognition of its Xiabuxiabu brand to further develop these additional business lines.

- *Expansion of restaurant network* – The Group will follow its five-year strategic plan to steadily expand the Group's business. In 2017, the Group plans to open 100 new restaurants. The Group plans to consolidate its leading position and deepens its penetration in its existing markets. During the expansion, the Group will continue to focus on new markets research and create synergies among functions of the Group's internal departments such as business development, sales and marketing and operations departments so as to ensure the success of new restaurants when the Group ventures into mature and emerging markets.

- *Drive same-store growth* – In addition to branding and promotion initiatives such as an enhanced visual and space identity system, the Group will accelerate its exploration on the "Xiabu Fresh" delivery business to fully utilize business hours during rush hours such as lunch and dinner time to improve its sales density. The Group endeavors to shorten the construction time for the Xiabuxiabu 2.0 restaurant upgrade to improve the Group's operating results. The Group will continue to collaborate with leading online and mobile meal ordering and delivery platforms to promote its "Xiabu Fresh" delivery business and the Group currently plans to extend such delivery business to 50 additional restaurants in 2017. To improve customer experience, the Group plans to improve the packaging and shorten the delivery time of "Xiabu Fresh". In addition, the Group endeavors to enhance interactions with customer through CRM program, which is expected to further increase customer loyalty and brand stickiness. The Group also plans to fully utilize its members and continue to increase the size of the members via attractive reward program and further rollout targeted marketing initiatives to fully leverage on big data.

- *Cost control* – The Group plans to continue to control its procurement cost while maintaining a stringent quality standard. The Group plans to further enhance its procurement system and design cost control measures tailored for different categories of supplies. As the Group launches

new stores and expands its restaurant network, the Group plans to update its list of approved suppliers and deepen the cooperation with farmers and agricultural cooperatives to ensure sufficient supply of quality ingredients. The Group also plans to adjust its inventory strategy in accordance with market condition and constantly monitor its level of inventory. To control its staff costs, the Group intends to optimize restaurant layout, introduce new technologies and continuously improve operation management efficiency in response to the challenging labor market. In addition, the Group intends to continue to strictly follow the tender procedures for the selection of suppliers for the construction and decoration of Xiabuxiabu 2.0 restaurants to control the relevant costs. Furthermore, the Group intends to enhance its brand value, strengthen strategic alliance with well-known real estate developers to effectively control rental expenses.

- *Strengthen organization and human resources management* – In order to better understand the market, the Group will enhance its accountability system and encourage the proactivity of general managers of specific markets to take full responsibility for marketing and sales, restaurant openings and profit management in the respective local markets. As to employee development, in addition to constantly implementing the management trainee project, the Group will continuously enhance its employee appraisal, training and promotion system as well as remuneration system, to ensure the Group remains competitive to attract talents.

- *Maintain stringent food safety and quality standard* – The Group is committed to enforcing food safety and quality, including the following aspects: (i) implement stringent food safety and quality control standards and measures throughout different aspects of the Group's operations, including supply chain, logistics, food processing plants and restaurants; (ii) continue to enhance the Group's centralized procurement system; (iii) cooperate exclusively with reputable and high-quality suppliers; (iv) eliminate intermediaries in the supply chain through direct delivery to restaurant from suppliers or the Group's logistics centers; and (v) continue to enforce self-evaluation and stringent control on the Group's food safety and quality control standards and measures.

Industry Outlook

The Group believes that the growth per capita disposable income and urbanization rate, changing consumer lifestyle and quicker living tempo as well as favorable government policies will continue to support the development of China's catering service market. In particular, the Group expects China's catering service industry to experience the following trends:

- *Stronger demand for mass-market oriented restaurants* – Demand for mass-market oriented restaurants is always rigid, offering value for money and convenience, these restaurants have gained stronger market recognition and well-liked by consumers. The growth of sales from mass-market oriented restaurants was the driving force behind the recovery of China's catering industry in 2016, and the trend is expected to persist in 2017.

BUSINESS REVIEW AND OUTLOOK

- *Increasing attention from the capital market* – China's catering service industry continued to recover in 2016, despite at a slow pace. Meanwhile, catering service providers have also diversified their access to the capital market, which is expected to boost the growth in China's catering service industry. The global capital market also shows stronger interest in restaurant operators focusing on the Chinese market. Many large international restaurant operators has shown increasing interest in Chinese- and Asian-style quick service restaurants ("**QSRs**") and might expand their operations accordingly.

- *Demand for dining convenience* – O2O dining, mobile apps for restaurants and dining, online and mobile order and delivery platforms, WeChat, CRM system and other modern information technologies are enabling customers to make reservation, order, queue and pay through mobile devices or website have become the prevailing trend in China's catering service market. Restaurant operators, particularly QSR operators, are under pressure to strengthen their information system management capability.

- *Food processing becomes a new growth driver* – A number of catering services providers began to explore food processing business as a supplement to their existing business models and have obtained impressive success. It is expected that the food processing business will continue to be a potential growth driver for catering service providers in 2017.

- *Restaurants become more popular among commercial complexes operators* – As e-commerce continues to impact the retail business, restaurants' ability to bring people flow has become especially attractive for operators of commercial complexes. Such growing popularity is expected to affect the site selection strategy of catering service providers in 2017 and going forward.

- *Challenges* – China's catering service industry continues to face challenges including intensified competition among industry participants, rising food ingredients price and increasing cost for labor and rent in first-tier cities, as well as pressure for business model innovation.

The Group expects to further its long-standing dedication in China's catering service market and leverages on its dining concepts and value propositions, brand recognition, scalable and standardized business model and commitment to the safety and quality ingredients to ride the wave of industry growth and cope with industry challenges. In particular, the Group believes its dedication on high-quality healthy cuisine, food safety and mass-market oriented position combine with its strong brand recognition will position the Group well in capitalizing the government-led development trend of healthy mass-market dining with highest food safety standard.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table is a summary of the Group's consolidated statement of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from 2015 to 2016:

	Year Ended 31 December				Year-on-Year Change
	2016		2015		
	RMB	*%*	*RMB*	*%*	*%*
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**2,758,137**	**100.0**	2,424,606	100.0	13.8
Other income	**31,496**	**1.1**	26,658	1.1	18.1
Raw materials and consumables used	**(979,258)**	**(35.5)**	(946,164)	(39.0)	3.5
Staff costs	**(651,956)**	**(23.6)**	(542,980)	(22.4)	20.1
Property rentals and related expenses	**(356,971)**	**(12.9)**	(328,416)	(13.5)	8.7
Utilities expenses	**(108,951)**	**(4.0)**	(101,375)	(4.2)	7.5
Depreciation and amortization	**(113,968)**	**(4.1)**	(120,022)	(5.0)	(5.0)
Other expenses	**(146,947)**	**(5.3)**	(139,297)	(5.7)	5.5
Other gains and losses	**41,540**	**1.5**	50,110	2.1	(17.1)
Profit before tax	**473,122**	**17.2**	323,120	13.3	46.4
Income tax expense	**(105,094)**	**(3.8)**	(59,757)	(2.5)	75.9
Profit for the year attributable to owners of the Company	**368,028**	**13.3**	263,363	10.9	39.7
Other comprehensive expense for the year	**(1,232)**	**(0.0)**	–	–	–
Profit and total comprehensive income for the year attributable to owners of the Company	**366,796**	**13.3**	263,363	10.9	39.3
Earnings per share					
Basic (RMB cents per share)	**34.71**		24.76		
Diluted (RMB cents per share)	**34.48**		24.59		

Revenue

The Group's revenue increased by 13.8% from RMB2,424.6 million in 2015 to RMB2,758.1 million in 2016, primarily due to (i) the increase in the number of the Group's restaurants from 552 as of 31 December 2015 to 639 as of 31 December 2016 and (ii) the nationwide same-store sales growth of 3.0%. The Group opened a total of 112 restaurants throughout China in 2016 to further expand the Group's restaurant network by opening stores in more desirable locations with more customer traffic. Meanwhile, as a result of the Group's effective initiatives in promotion and branding, the Group recorded a robust same-store sales growth of 3.0% nationwide.

Other income

The Group's other income increased by 18.1% from RMB26.7 million in 2015 to RMB31.5 million in 2016, primarily due to a government subsidy of approximately RMB4.4 million the Group received from the local government for the Group's local business development in 2016. There were no unfulfilled conditions in the period in which they were recognised.

Raw materials and consumables used

The Group's raw materials and consumables costs increased by 3.5% from RMB946.2 million in 2015 to RMB979.3 million in 2016 as the scale of the Group's operations further increased, which included the number of the restaurants in the Group's network and the Group's system-wide sales. As a percentage of the Group's revenue, the Group's raw materials and consumables costs decreased from 39.0% in 2015 to 35.5% in 2016, primarily due to (i) the Group's continued procurement cost control efforts, in particular, the implementation of a more stringent control of bidding process for the procurement of food ingredients; (ii) the increase in sales of premium menu items with high profit margin as the Group continued to optimize its menu, adjust products mix and launch of new products; and (iii) the transition from business tax to value-added tax effective from 1 May 2016, which enables the Group to deduct certain input value-added tax and lower the raw material and consumables costs.

Staff costs

The Group's staff costs increased by 20.1% from RMB543.0 million in 2015 to RMB652.0 million in 2016, primarily due to an increase in the number of the Group's employees from 13,582 as of 31 December 2015 to 15,544 as of 31 December 2016, as well as an increase in per capita wages, which in turn was generally in line with China's labor market. As a percentage of the Group's revenue, the Group's staff costs increased from 22.4% in 2015 to 23.6% in 2016, primarily as a result of an increase in per capita wages. In 2016, in connection with the pre-IPO share incentive plan adopted by the Company on 28 August 2009 (the "**Pre-IPO Share Incentive Plan**") and the restricted share unit scheme adopted by the Company on 28 November 2014 (the "**RSU Scheme**"), the Group incurred equity-settled share-based expenses of RMB4.4 million (2015: RMB6.5 million).

Property rentals and related expenses

The Group's property rentals and related expenses increased by 8.7% from RMB328.4 million in 2015 to RMB357.0 million in 2016, primarily due to an increase in the number of the Group's restaurants. As the majority of the Group's leases are subject to fixed rent arrangement, the increase in the Group's revenue outpaced the increase in the Group's property rentals and related expenses, and the Group's property rentals and related expenses decreased from 13.5% in 2015 to 12.9% in 2016 as a percentage of the Group's revenue.

Utilities expenses

The Group's utilities expenses increased by 7.5% from RMB101.4 million in 2015 to RMB109.0 million in 2016 as the scale of the Group's operation in terms of number of restaurants continued to increase. As a percentage of the Group's revenue, utilities expenses remained relatively stable at 4.0% in 2016 as compared with 4.2% in 2015.

Depreciation and amortization

The Group's depreciation and amortization decreased by 5.0% from RMB120.0 million in 2015 to RMB114.0 million in 2016, primarily attributable to the fact that a number of restaurants and the associated assets had been fully depreciated in 2015. As a percentage of the Group's revenue, depreciation and amortization decreased from 5.0% in 2015 to 4.1% in 2016.

Other expenses

The Group's other expenses increased by 5.5% from RMB139.3 million in 2015 to RMB146.9 million in 2016. The increase in absolute amount of the Group's other expenses was primarily due to (i) the increase of logistics expenses as a result of the increase in restaurant count; and (ii) the increase in delivery expenses as a result of the expansion of Xiabu Fresh. As a percentage of the Group's revenue, the Group's other expenses decreased from 5.7% in 2015 to 5.3% in 2016 as the growth in revenue outpaced the growth in other expenses.

Other gains and losses

The Group's other gains decreased by 17.1% from RMB50.1 million in 2015 to RMB41.5 million in 2016, primarily as a result of (i) the decrease in the net foreign exchange gain recorded by the Company from RMB38.4 million in 2015 to RMB29.1 million in 2016 and (ii) the impairment loss recognised in respect of leasehold improvement of RMB6.7 million in 2016 (2015: Nil). Such decrease was partially offset by an increase in the gains from changes in fair value of financial assets designated at fair value through profit or loss, which represent the short-term investment the Group made as part of the Group's treasury policy, from RMB13.0 million in 2015 to RMB22.5 million in 2016. As a percentage of the Group's revenue, other gains decreased from 2.1% in 2015 to 1.5% in 2016.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by 46.4% from RMB323.1 million in 2015 to RMB473.1 million in 2016, and as a percentage of the Group's revenue, the Group's profit before tax increased from 13.3% in 2015 to 17.2% in 2016.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB4.4 million (2015: RMB6.5 million), the Group's profit before tax would have increased by 44.9% from RMB329.6 million in 2015 to RMB477.6 million in 2016, and increased from 13.6% in 2015 to 17.3% in 2016 as a percentage of the Group's revenue.

Income tax expense

The Group's income tax expenses increased by 75.9% from RMB59.8 million in 2015 to RMB105.1 million in 2016, primarily as a result of the increase in the Group's taxable income. The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, increased from 18.5% in 2015 to 22.2% in 2016, primarily due to a decrease in the profits generated by the Company that were not subject to EIT in China as a percentage of the Group's profit before tax from 2015 to 2016.

Profit for the year

As a result of the cumulative effect of the above factors, the Group's profit for the year increased by 39.7% from RMB263.4 million in 2015 to RMB368.0 million in 2016, and as a percentage of the Group's revenue, the Group's profit for the year increased from 10.9% in 2015 to 13.3% in 2016.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB4.4 million (2015: RMB6.5 million), the Group's profit for the year would have increased by 38.0% from RMB269.9 million in 2015 to RMB372.5 million in 2016, and increased from 11.1% in 2015 to 13.5% in 2016 as a percentage of the Group's revenue. For further details, please refer to the section headed "Non-IFRS Measure – (b) Adjusted net profit" below.

Non-IFRS Measure

(a) Restaurant level operating profit

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group also uses restaurant level operating profit as an additional financial measure to evaluate the Group's financial performance at the restaurant level. Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses from the Group's revenue.

The table below sets forth the Group's revenue breakdown by geographical regions, each presented as a percentage of the Group's total revenue for the years indicated, as well as the geographical breakdown of the Group's restaurant level operating profit, each presented as a percentage of the Group's regional revenue for the years indicated:

	Year Ended 31 December			
	2016		2015	
	RMB	%	*RMB*	%
	(In thousands, except for percentages)			
Revenue:				
Beijing	**1,635,159**	**59.3**	1,525,953	62.9
Shanghai	**192,915**	**7.0**	202,861	8.4
Tianjin	**222,385**	**8.1**	184,311	7.6
Other regions(1)	**707,678**	**25.6**	511,481	21.1
Total	**2,758,137**	**100.0**	2,424,606	100.0
Restaurant Level Operating Profit and Margin Performance(2):				
Beijing	**447,389**	**27.4**	365,387	23.9
Shanghai	**13,010**	**6.7**	11,105	5.5
Tianjin	**52,109**	**23.4**	37,629	20.4
Other regions(1)	**127,322**	**18.0**	81,033	15.8
Total	**639,830**	**23.2**	495,154	20.4

(1) Including 58 cities in Hebei, Liaoning, Jiangsu, Shandong, Shanxi, Henan, Hubei, Heilongjiang, Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia Autonomous Regions.

(2) Restaurant level operating profit is an unaudited non-GAAP item. The Group has presented this non-GAAP item because the Group considers it important supplemental measures of the Group's operating performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry the Group operates in. The Group's management uses such non-GAAP item as an additional measurement tool for purposes of business decision-making. Other companies in the industry the Group operates in may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

In 2016, Beijing continued to be the Group's most important geographical market both in terms of restaurant count and revenue contribution. However, as the Group successfully expanded into additional markets, the Group's revenue generated from restaurants in Beijing decreased as a percentage of the Group's total revenue from 62.9% in 2015 to 59.3% in 2016.

In 2016, as a result of the Group's efforts in optimizing its menu and products combinations and controlling its procurement costs, in particular, the implementation of a more stringent control of bidding process for the procurement of food ingredients, as well as controlling its rental expenses for the restaurants, the growth in the Group's restaurant level operating profit outpaced the growth in the Group's revenue. The growth in the Group's restaurant level operating profit was also attributable to the reduction in the tax burden on the Company as a result of the PRC tax reform starting in May 2016 whereby existing business tax was replaced by value-added tax. As a percentage of the Group's revenue, the Group's restaurant level operating profit increased from 20.4% in 2015 to 23.2% in 2016.

(b) Adjusted net profit

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group also uses adjusted net profit as an additional financial measure to evaluate the Group's financial performance without taking into account certain unusual and non-recurring items. Adjusted net profit is calculated by deducting expense related to equity-settled share-based payments from the Group's staff costs. The table below sets forth the reconciliation of profit for the year to adjusted net profit:

	Year ended 31 December	
	2016	2015
	(In RMB thousands)	
Profit for the year	**368,028**	263,363
Equity-settled share-based payments	**4,439**	6,523
Adjusted net profit	**372,467**	269,886

(1) Adjusted net profit is an unaudited non-GAAP item. The Group uses such unaudited non-IFRS adjusted net profit as an additional financial measure to supplement the consolidated financial statements which are presented in accordance with IFRS and to evaluate the financial performance of the Group by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the business of the Group. Other companies in the industry the Group operates in may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

LIQUIDITY AND CAPITAL RESOURCES

In 2016, the Group financed its operations primarily through cash from the Group's operations. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, as well as the net proceeds received from the Company's initial public offering (the "**Global Offering**").

Cash and cash equivalents

As of 31 December 2016, the Group had cash and cash equivalents of RMB1,479.2 million as compared with RMB1,354.5 million as of 31 December 2015, which primarily consisted of cash on hand and demand deposits and which were mainly denominated in Renminbi (as to 70.2%), Hong Kong dollars (as to 7.7%), and U.S. dollars (as to 22.1%).

In view of the Group's currency mix, the Group currently does not use any derivative contracts to hedge against the Group's exposure to currency risk. The Group's management manages the currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Net proceeds from the Global Offering (including the partial exercise of the over-allotment option on 9 January 2015), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to an aggregate of approximately HK$1,043.5 million, comprising HK$1,001.5 million raised from the Global Offering and HK$42.0 million raised from the issue of shares pursuant to the partial exercise of the over-allotment option. Up to 31 December 2016, the net proceeds from the Global Offering had not yet been utilized as the Group had sufficient financial resources to fund its expansion plan. All of the net proceeds from the Global Offering has been deposited into short-term demand deposits and money market instruments such as short-term financial products issued by reputable commercial banks as well as bonds. In 2017 and in the upcoming years, the Group will start utilizing the net proceeds from the Global Offering and for purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 5 December 2014 (the "**Prospectus**").

Short-term investments

The Company subscribed for and held various short-term investments throughout the year ended 31 December 2016, which mainly represented short-term investments in financial products ("**Financial Products**") issued by Bank of Communications Co., Ltd., China Merchants Bank Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. The Financial Products were not principal protected nor with pre-determined or guaranteed return. The Company generally subscribed for the Financial Products on a revolving basis, which means that the Company would subscribe for additional Financial Products when the terms of certain Financial Products previously subscribed for by the Company expired. As of 31 December 2016, all the Financial Products had expired, thus the Group did not have any financial assets designated at fair value through profit or loss as of that date.

The Financial Products which the Company subscribed for during the year ended 31 December 2016 were with a term ranging from 2 days to 180 days and an expected return rate ranging from 2.61% to 4.65% per annum. As of 31 December 2016, all Financial Products subscribed for by the Company in 2016 had been fully redeemed or matured and the Group had totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. The gain the Group realized from the Financial Product which was recorded as changes in fair value of financial assets designated at fair value through profit or loss amounted to approximately RMB22.5 million for the year ended 31 December 2016.

The underlying investments of the Financial Products were primarily (i) fixed income products such as corporate and government bonds with AA rating if a rating has been obtained, deposits and other money market funds; (ii) structured equities or securities investment products and/or other asset management plans or funds; and (iii) non-standardized debts instruments such as entrustment loans, acceptance bills and/or letter of credits.

Subscriptions of Financial Products were made for treasury management purpose to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity. Generally, the Company had in the past selected standard short-term financial products issued by reputable commercial banks that had relatively low associated risk. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the Group's business needs, operating activities and capital expenditures even after making the investments in such Financial Products. However, in accordance with the relevant accounting standards, the Financial Products are accounted for as financial assets designated at fair value through profit or loss.

Although the Financial Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and are also in line with the internal risk management, cash management and investment policies of the Group as the Company had totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. In addition, the Financial Products were with flexible redemption terms or a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group to earn an attractive rate of return.

In view of an upside of earning a more attractive return than current saving or fixed deposit rate under the low interest rate trend, as well as the low risk nature and the flexible redemption terms or a relatively short term of maturity of the Financial Products, the directors of the Company (the "**Directors**") are of the view that the Financial Products pose little risk to the Group and the terms and conditions of each of the subscriptions are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Details of subscriptions of Financial Products during the year ended 31 December 2016 which constituted notifiable transactions of the Company under Chapter 14 of the Listing Rules were disclosed in the announcements of the Company dated 30 September 2016, 26 October 2016, 14 November 2016, 29 November 2016, 5 December 2016 and 16 December 2016. Save as otherwise disclosed in these announcements, there was no other single short-term investment, including those accounted for as available-for-sale investments and financial assets at fair value through profit or loss, in the Group's investment portfolio that was considered a significant investment as none of the investments has a carrying amount that account for more than 5% of the Group's total assets.

Indebtedness

As of 31 December 2016, the Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection thereof.

Capital expenditures

The Group made payment for the capital expenditures representing the purchase of property, plant and equipment of RMB137.0 million in 2016 in connection with new restaurant opening and re-decoration and furnishing of existing stores. In 2015, the Group made payment for the capital expenditures of RMB130.2 million. The Group's capital expenditure in 2016 was funded primarily by cash generated from its operating activities. In particular, after considering the Group's restaurant opening plan, the Group funded the opening of 100 restaurants that the Group planned to fund with the net proceeds from the Global Offering with its existing cash instead. In 2016, the Group opened a total of 112 new restaurants. As of 31 December 2016, the Company did not have any charge over its assets.

Contingent liabilities and guarantees

As of 31 December 2016, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against the Group.

Material acquisitions and future plans for major investment

On 18 October 2016, the Company and Mr. Ho Kuang-Chi, the Chairman of the Board and an executive Director, entered into a joint venture agreement (the "**JV Agreement**") pursuant to which the Company and Mr. Ho agreed to establish a joint venture company, to be named Xiabuxiabu (China) Food Holdings Co., Limited (呷哺呷哺(中國)食品控股有限公司) (the "**JV Company**"), in the Cayman Islands. Pursuant to the JV Agreement, the Company shall initially contribute US$600,000, representing 60% of the total issued share capital of the JV Company, to the JV Company. The Company also committed to further invest US$6,000,000 into the JV Company by subscribing for its shares and/or providing shareholders' loans to the JV Company in proportion to its shareholding as the business of the JV Company develops. Pursuant to the JV Agreement, the JV Company will establish a wholly-owned operating subsidiary in the PRC, to be named Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司) (the "**JV Subsidiary**"), to engage in the research, development, production and sale of condiment products including soup bases, dipping sauces, seasoning sauces and products and various compound condiments, and products with gift-wrapping and limited editions which target mid- to high-end customers. As of the date of this annual report, the establishment of the joint venture structure has not yet been completed and it is currently expected that the establishment of the joint venture structure will be completed in the second quarter of 2017. Further details with respect to the JV Agreement and the establishment of the JV Company and the JV Subsidiary thereunder were set out in the announcement of the Company dated 18 October 2016.

Save as disclosed above, the Group did not conduct any material investments, acquisitions or disposals in 2016. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

EMPLOYEE AND STAFF COSTS

As of 31 December 2016, the Group had a total of 15,544 employees. In particular, 133 employees worked at the Group's food processing facilities, 1,496 are responsible for restaurant management and 13,141 are restaurant staff.

The Group offers competitive wages and other benefits to the Group's restaurant employees to manage employee attrition. The Group also offers discretionary performance bonus as further incentive to the Group's restaurant staff if a specific restaurant target is achieved. The Group's staff costs include all salaries and benefits payable to all the Group's employees and staff, including the Group's executive Directors, headquarters staff and food processing facilities staff.

For the year ended 31 December 2016, the total staff costs of the Group (including salaries, bonuses, social insurances, provident funds and share incentive schemes) amounted to RMB652.0 million, representing approximately 23.6% of the total revenue of the Group.

Pursuant to the Pre-IPO Share Incentive Plan, options to subscribe for an aggregate of 22,675,624 ordinary shares with nominal value of US$0.000025 each of the Company ("**Share(s)**") (representing approximately 2.12% of the total issued share capital of the Company as at the date of this annual report) granted by the Company under the Pre-IPO Share Incentive Plan remained outstanding as of 31 December 2016. The Company has also adopted the RSU Scheme which became effective upon the date of listing of the Company. Computershare Hong Kong Trustees Limited has been appointed as the trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme (the "**RSU Trustee**"). During the year ended 31 December 2016, the RSU Trustee purchased an aggregate of 7,954,500 Shares at a total cash consideration of approximately HK$28,780,000 on-market to hold on trust for the benefit of the participants of the RSU Scheme (the "**RSU Participants**") pursuant to the rules of the RSU Scheme and the trust deed entered into between the

Company and the RSU Trustee. Such shares will be used as awards for relevant RSU Participants upon the grant and vesting of restricted share units ("**RSUs**"). On 17 November 2016, an executive Director and the chief executive officer of the Company and 14 employees of the Group were granted RSUs in respect of an aggregate of 2,910,920 Shares. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs. As of 31 December 2016, RSUs in respect of an aggregate of 2,910,920 Shares (representing approximately 0.27% of the total issued share capital of the Company as at the date of this annual report) granted by the Company under the RSU Scheme remained outstanding. Further details of the Pre-IPO Share Incentive Plan and the RSU Scheme, together with, among others, the details of the options granted under the Pre-IPO Share Incentive Plan and the RSUs granted under the RSU Scheme, are set out in the section headed "Directors' Report – Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme" in this annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.086 per share, amounting to approximately a total of RMB91.26 million for the year ended 31 December 2016 (the "**2016 Final Dividend**"), representing approximately 40% of the Group's net profit for the six months ended 31 December 2016. The 2016 Final Dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ho Kuang-Chi (賀光啓), aged 53, is the Chairman of the Board and an executive Director. He was appointed as our Director on 14 May 2008 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Ho is also a director of each of the subsidiaries of our Group. Mr. Ho has over 18 years of experiences in the food and beverage industry. Mr. Ho founded our business in 1998 and continues to oversee the management of our operations and business. He established our first restaurant in Beijing in 1999 and has guided our operations and business in adhering to quality and innovation in our operations since our establishment. Mr. Ho was awarded the "Most Influential Entrepreneur of Food and Beverage Industry in China in 2015 (2015年度中國餐飲最具影響力企業家)" and the "Most Influential Entrepreneur of Hotpot Industry in China in 2015 (2015年度中國火鍋行業最具影響力企業家)" by China Cuisine Association (中國烹飪協會). Mr. Ho also serves as a director of the Eighth Session of the Board of Directors of Beijing Overseas Friendship Association and has been the Vice Chairman of the Beijing Association of Taiwanese-Invested Enterprises. Mr. Ho is the husband of Ms. Chen Su-Yin, our non-executive Director.

Ms. Yang Shuling (楊淑玲), aged 55, is our chief executive officer and an executive Director. She joined Xiabuxiabu Fast Food Chain Management Co., Ltd. in 1998 as an accountant and has subsequently continued to serve our Group as our finance manager, deputy general manager, executive vice president and president and has gained over 18 years of experiences in the food and beverage industry and also in operations management. Ms. Yang was appointed as a Director on 3 November 2008 and as the chief executive officer in March 2013 and is primarily responsible for overseeing the management and strategic development of our Group. Ms. Yang is also a director of each of the subsidiaries of our Group. Prior to joining our Group, Ms. Yang has served as statistics officer and accounting officer in certain Beijing enterprises. She obtained secondary technical education in finance and accounting.

Non-executive Directors

Ms. Chen Su-Yin (陳素英), aged 53, is a non-executive Director. She was appointed to our Board on 12 December 2012 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. Ms. Chen is also a director of each of the subsidiaries of our Group. Ms. Chen has continued to provide guidance on the range and variety of foods offered and the enhancement of the tastes and flavors of our foods and the development of our dipping sauces and our hot and spicy soup base since our establishment. Our hot and spicy soup base was awarded "Beijing Specialty Cuisine" by Beijing Cuisine Association. Ms. Chen graduated from Taipei Ching-Chwan Commercial High School in June 1981. Ms. Chen is the wife of Mr. Ho Kuang-Chi.

Mr. Wei Ke (魏可), aged 43, is a non-executive Director. He was appointed to our Board on 12 December 2012 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Wei is also a director of our subsidiary in Hong Kong, Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. Mr. Wei is a Managing Director at General Atlantic LLC, where he has worked since 2009. Based in Hong Kong, he focuses on General Atlantic LLC's investment opportunities in Greater China. Prior to joining General Atlantic LLC, Mr. Wei served as an Investment Principal at Actis, an emerging market private equity firm, from 2008 to 2009. He also worked at Boston Consulting Group from 2005 to 2008. Since August 2012, Mr. Wei has served as a non-executive director of Tenfu (Cayman) Holdings Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock Code: 6868). Mr. Wei earned his Master's degree in Business Administration from Harvard Business School in June 2005, and his Bachelor's degree in Arts from University of Science and Technology, Beijing in July 1996.

Independent Non-executive Directors

Ms. Hsieh Lily Hui-yun (謝慧雲), aged 62, is an independent non-executive Director. She was appointed to our Board on 28 November 2014. She has over 30 years of experience in the auditing and accounting in various industries, including food retailing, manufacturing and processing, public utilities and airlines. Ms. Hsieh joined YUM! China in 1996 and was the chief financial officer of YUM! China from 2000 to 2012. Before joining YUM! China, she worked with Kraft Foods (Asia Pacific) Ltd., Pillsbury Canada and China Airlines. Ms. Hsieh serves as an independent non-executive director of Dongpeng Holdings Company Limited (stock code: 3386) from November 2013 until it was delisted from the Main Board of the Stock Exchange in June 2016 and has served as a non-executive director of Little Sheep Group Limited (stock code: 968) from November 2009 until it was delisted from the Main Board of the Stock Exchange in February 2012. Ms. Hsieh received an Master's degree in Business Administration from University of Toronto in June 1980 and the title of Certified Management Accountant (CMA) in July 1985.

Mr. Hon Ping Cho Terence (韓炳祖), aged 57, is an independent non-executive Director. He was appointed to our Board on 28 November 2014. Mr. Hon has over 30 years of experience in accounting, treasury and financial management. He is the Chief Financial Officer and the Company Secretary of DTXS Silk Road Investment Holdings Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 620). Mr. Hon was the Chief Financial Officer and the Company Secretary of Auto Italia Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 720) from June 2013 to March 2016. Prior to joining Auto Italia Holdings Limited, Mr. Hon was appointed to various senior financial positions in a number of companies listed on the Main Board of the Stock Exchange. From December 2010 to September 2012, he was the chief financial officer and a member of executive committee of China Dongxiang (Group) Co., Ltd. (stock code: 3818). From September 2008 to December 2010, Mr. Hon was the chief financial officer of K.Wah Construction Materials Limited, a subsidiary of Galaxy Entertainment Group Limited (stock code: 27). Mr. Hon served as the group finance director from March 2006 to February 2008 and as the group treasurer and general manager of the finance department from June 2001 to February 2006 of TOM Group Limited (stock code: 2383). From February 1996, he was the company secretary of Ng Fung Hong Limited, a company then listed on the Stock Exchange (former stock code: 318) until it was delisted from the Main Board of the Stock Exchange in June 2001. Prior to this, Mr. Hon worked with KPMG, an international accounting firm for more than seven years since 1985. He is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Hon obtained his Master's degree in Business Administration (Financial Services) from The Hong Kong Polytechnic University in August 2004.

Ms. Cheung Sze Man (張詩敏), aged 46, is an independent non-executive Director. She was appointed to our Board on 28 November 2014. Ms. Cheung has accumulated audit experience in an international accounting firm and has substantial experiences in corporate finance, accounting and human resource management by holding senior positions in private and public listed companies. She has also served as directors of listed companies in Hong Kong. She was an executive director of China Ocean Shipbuilding Industry Group Limited (stock code: 651 and formerly known as Wonson International Holdings Ltd), a company listed on the Main Board of the Stock Exchange, from November 2006 to November 2007. She was an executive director of ITC Properties Group Limited (stock code: 199 and formerly known as Cheung Tai Hong), a company listed on the Main Board of the Stock Exchange, from May 2004 to May 2005. She also served as the independent non-executive director of 21 Holdings Limited (stock code: 1003 and currently known as Huanxi Media Group Limited), a company listed on the Main Board of the Stock Exchange, from November 2011 to April 2014. Ms. Cheung is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Cheung graduated from the University of Auckland in New Zealand with a Bachelor of Commerce degree and a Bachelor of Arts degree in May 1995. She also obtained a Master of Business Administration degree from the University of Bradford in the United Kingdom in July 2012.

Senior Management

Ms. Zhao Yi (趙怡), aged 47, is the Chief Financial Officer of our Group. Ms. Zhao joined our Group on 12 November 2012 and is primarily responsible for the audit, accounting, financial management and IT related matters of our Group. Ms. Zhao has almost 20 years of experience in accounting and corporate finance and business management in multi-national companies, such as The East Asiatic Company (China) Limited, PepsiCo Food Co., Unilever Service Co., Ltd., Sony Ericsson Group and McDonald's, where she had taken up financial analysis, budgeting, auditing and management roles. Prior to joining our Group, the major roles and positions undertaken by Ms. Zhao includes serving as the Commercial Manager of Unilever Service Co., Ltd. from October 2001 to October 2004, the chief operating officer of Sony Ericsson Mobile Communications (China) Co., Ltd. mainly responsible for strategic planning and the establishment of operating system from June 2005 to February 2009 and the Financial Director of McDonald's in Northern China Region from June 2009 to October 2012. Ms. Zhao obtained a Master's degree in Business Administration in Business Management from Newport University of the United States in May 2003, and her Bachelor's degree in International Finance from China Institute of Finance (currently known as School of International Finance of the University of International Business and Economics) in July 1993.

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group, for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Group is the operation of fast casual restaurants and providing catering services in China.

BUSINESS REVIEW

In 2016, the Group opened a total of 112 new restaurants and extended its restaurant network into Anhui, Jilin and Shaanxi provinces and Ningxia and Inner Mongolia autonomous regions. As of 31 December 2016, the Group owned and operated 639 restaurants in 58 cities over 11 provinces, two autonomous regions and in three centrally administered municipalities, namely Beijing, Tianjin and Shanghai, in China.

Performance of the Group's Restaurants

Despite the slowdown in China's economic growth, the Group managed to grow its revenue by 13.8% from RMB2,424.6 million in 2015 to RMB2,758.1 million in 2016 primarily due to the Group's effort to expand its restaurant network and a robust nationwide same-store sales growth of 3.0%. Meanwhile, the Group's efforts in controlling procurement costs for raw materials by economies of scale and price bargaining power enhancement, coupled with the reduction in the tax burden on the Company as a result of the PRC tax reform starting in May 2016 whereby existing business tax is being replaced by value-added tax, resulted in a 29.2% growth in the Group's restaurant level operating profit from RMB495.2 million in 2015 to RMB639.8 million in 2016. See "Business Review and Outlook – Key Operational Information for the Group's Restaurants" for further details on the performance of the Group's restaurants.

Relationship with Suppliers

The Group generally works with a relatively small number of suppliers for key food ingredients at a particular time so as to ensure proper accountability. Furthermore, the Group prefers to work with larger suppliers with whom we have developed long-standing relationships. On average, the Group has over five years of business dealings with its major suppliers.

Relationship with Customers

As a restaurant chain, the Group has a large and diverse customer base. The Group's revenue derived from its five largest customers accounted for less than 30% of our total revenue for the year ended 31 December 2016.

Relationship with Employees

Restaurant operations are highly service-oriented. Therefore the Group's success, to a considerable extent, depends upon its ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and staff. Employee attrition levels tend to be higher in the catering service industry than in other industries. The Group offers competitive wages, discretionary performance bonuses and other benefits to our restaurant employees to manage employee attrition.

Environmental Policy

In order to comply with the relevant environmental laws and regulations, the Group has undertaken wastewater and solid waste disposal and processing measures such as (i) installing proper wastewater treatment devices as required by PRC laws and regulations to process wastewater at each of the Group's restaurants and food processing plants; (ii) daily collection of solid wastes for which the Group contracted qualified waste management companies to dispose of; (iii) special treatment for water pipes at each of the Group's restaurants and food processing plants to avoid leakage and corrosion; and (iv) timely payment of wastewater processing fees to the relevant authorities.

Licenses, Regulatory Approvals and Compliance Record

The Group had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits from relevant regulatory authorities for all of its restaurants opened in 2016.

Principal Risks and Uncertainties

Principal risks and uncertainties the Group faces include:

- uncertainty as to the opening and profitable operation of new restaurants;
- uncertainty as to the expansion into new geographical markets;
- uncertainty as to the performance of the Group's current restaurants;
- risks related to site selection for new restaurants;
- risks related to quality control and food safety; and
- risks related to increasing food price, labor costs and commercial real estate rent.

Subsequent Event

Particulars of important events affecting the Group that have occurred since the year ended 31 December 2016 are stated in Note 32 to the consolidated financial statements.

Outlook for 2017

In 2017, the Group will continue its efforts to achieve its goal of becoming the leading operator of fast casual restaurant industry and maintaining its leading position as a hotpot restaurant chain operator in China. In particular, the Group plans to explore additional growth drivers, improve its same-store sales, further expand its restaurant network, control its costs, strengthen organization and human resources management and maintain stringent food safety and quality standard.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 61 to 119.

FINAL DIVIDEND

The Board recommends the payment of the 2016 Final Dividend of RMB0.086 per share for the year ended 31 December 2016 and is subject to the approval of the Company's shareholders (the "**Shareholders**") at the AGM, which will be held on 26 May 2017. The 2016 Final Dividend will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 6 June 2017. The 2016 Final Dividend, if approved by the Shareholders at the AGM, will be paid on or about 26 June 2017 to those Shareholders whose names appear on the register of members of the Company on 6 June 2017.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statements of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are set out in Notes 23 and 24 to the consolidated financial statements and the paragraph headed "Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme" below, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2016 are set out in Note 29 to the consolidated financial statements.

DONATION

Donations made by the Group during the year ended 31 December 2016 amounted to RMB60,500 (2015: RMB85,200).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2016.

For details of the Shares purchased by RSU Trustee for the purpose of the RSU Scheme during the year ended 31 December 2016, please refer to the section headed "Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme – Restricted Share Unit Scheme" below and Note 24 to the consolidated financial statements.

PRE-IPO SHARE INCENTIVE PLAN AND RESTRICTED SHARE UNIT SCHEME

Pre-IPO Share Incentive Plan

On 28 August 2009, a pre-IPO share incentive plan (the "**Pre-IPO Share Incentive Plan**") of the Company was approved and adopted by the then shareholder.

The purpose of the Pre-IPO Share Incentive Plan is to promote the success of our Company and the interests of our shareholders by providing a means through which our Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors, consultant or advisor who renders or has rendered bona fide services to the Company, and other eligible persons (the "**Eligible Person**") and to further link the interests of the grantees or recipients of the options ("**Options**") or share awards ("**Share Awards**", together with the Options, collectively referred to as the "**Awards**").

Each Award is evidenced by an award agreement, which shall contain the terms for such Award, as well as any other terms, provisions, or restrictions that may be imposed on the Award, and in the case of Options, any Shares subject to the Option, and in each case subject to the applicable provisions and limitations of the Pre-IPO Share Incentive Plan. The maximum number of Shares which may be issued and/or delivered pursuant to all Awards granted under the Pre-IPO Share Incentive Plan must not exceed 40,000,000 Shares (representing approximately 3.75% of the total issued Shares as at the date of this annual report).

As at 31 December 2016, Options to subscribe for an aggregate of 22,675,624 Shares (representing approximately 2.12% of the total issued Shares as at the date of this annual report) have been granted by the Company and are outstanding under the Pre-IPO Share Incentive Plan. No Share Award has been granted or agreed to be granted under the Pre-IPO Share Incentive Plan since the adoption of the plan.

An Eligible Person whom an Option is granted in accordance with the terms of the Pre-IPO Share Incentive Plan and the relevant award agreement (the "**Grantee**") is not required to pay for the grant of any Option under the Pre-IPO Share Incentive Plan.

No Grantee shall be entitled to any rights, interest or benefits attached to the underlying Shares of the Options granted under the Pre-IPO Share Incentive Plan unless and until the Option in respect of such Shares has been vested on him/her and exercised in accordance with the terms of the Pre-IPO Share Incentive Plan. There is no maximum entitlement for each Eligible Person under the rules of the Pre-IPO Share Incentive Plan although no Eligible Person under the rules of the Pre-IPO Share Incentive Plan has been granted Options exceeding 1.3% of the issued share capital of the Company.

An Option shall not be exercisable on any date unless such terms and conditions (including, without limitation, any performance criteria, passage of time or other factors or any combination thereof which the exercise of the Option shall be conditional) as set out in the relevant award agreement, if any, are satisfied and to the extent that the Option has vested.

The exercise price in respect of any Option granted under the Pre-IPO Share Incentive Plan is set forth in the relevant award agreement, and the exercise price of an Option shall be no less than the greatest of:

(i) the par value of the Shares of the Company; and

(ii) the value as reasonably determined by the administrator,

provided that no Shares newly-issued by the Company may be issued for less than the minimum lawful consideration for such Shares or for consideration other than that permitted by applicable law.

An Option, once exercisable and unless the administrator otherwise expressly provides, shall remain exercisable until the expiration or earlier termination of the Option. Each Option shall expire not more than ten years after its date of grant. No fewer than 1,000 Shares may be purchased on exercise of any Option at one time unless the number of Shares purchased is the total number of Shares at the time available for purchase under the Option.

All of the Options granted under the Pre-IPO Share Incentive Plan were granted in four different tranches on 31 August 2009, 17 May 2011, 24 December 2012 and 21 March 2014. As at 31 December 2016, there are altogether 25 Option holders including an executive Director and the Chief Executive Officer of the Company, the Chief Financial Officer of the Company and 23 other employees of the Group. Details of the Options granted under the Pre-IPO Share Incentive Plan and outstanding as at 31 December 2016 and details of the vesting period, exercise period and the exercise price are set out below:

Name of Option holder	Position held with the Group	Number of Shares represented by the Options at 1 January 2016	Date of grant	Exercise price (RMB)	Exercised during the year	Weighted average closing price of the Shares immediately before the dates on which the Options were exercised (HKD)[3]	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2016
Director									
Yang Shuling	Executive Director and Chief Executive Officer	1,400,000	31 August 2009	0.84	350,000	4.32	–	–	1,050,000
		3,564,800	17 May 2011	1.79	–	–	–	–	3,564,800
		4,594,994	24 December 2012	1.84	–	–	–	–	4,594,994
		3,437,973	21 March 2014	2.78	–	–	–	–	3,437,973
		12,997,767			**350,000**		**–**	**–**	**12,647,767**

Name of Option holder	Position held with the Group	Number of Shares represented by the Options at 1 January 2016	Date of grant	Exercise price (RMB)	Exercised during the year	Weighted average closing price of the Shares immediately before the dates on which the Options were exercised (HKD)[3]	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2016
Senior management members of the Group									
Zhao Yi	Chief Financial Officer	**2,006,629**	21 March 2014	2.78	**-**	**-**	**-**	**-**	**2,006,629**
Ex-senior management members of the Group									
Ying Zhongqiu[1]	Ex-Vice President of Human Resources	554,400	17 May 2011	1.79	–	–	–	554,400	–
		580,663	24 December 2012	1.84	145,165	4.99	–	435,498	–
		1,160,117	21 March 2014	2.78	–	–	–	1,160,117	–
		2,295,180			**145,165**		**-**	**2,150,015**	**-**
Fang Liang[2]	Ex-Vice President of Development and Engineering	**1,349,678**	21 March 2014	2.78	**-**	**-**	**-**	**1,349,678**	**-**
23 other employees of the Group		1,111,000	31 August 2009	0.84	120,750	4.22	–	3,000	987,250
		2,158,906	17 May 2011	1.79	396,334	4.30	–	88,576	1,673,996
		3,142,637	24 December 2012	1.84	713,519	4.98	–	316,557	2,112,561
		5,731,823	21 March 2014	2.78	–	–	–	2,484,402	3,247,421
		12,144,366			**1,230,603**		**-**	**2,892,535**	**8,021,228**
Total		2,511,000	31 August 2009	0.84	470,750	4.29	–	3,000	2,037,250
		6,278,106	17 May 2011	1.79	396,334	4.30	–	642,976	5,238,796
		8,318,294	24 December 2012	1.84	858,684	4.98	–	752,055	6,707,555
		13,686,220	21 March 2014	2.78	–	–	–	4,994,197	8,692,023
		30,793,620			**1,725,768**		**-**	**6,392,228**	**22,675,624**

Notes:

(1) Mr. Ying Zhongqiu has resigned as a Vice President of Human Resources of the Company with effect from 6 April 2016.

(2) Mr. Fang Liang has resigned as a Vice President of Development and Engineering of the Company with effect from 22 April 2016.

(3) As a result of the exercise of the Options under the Pre-IPO Share Incentive Plan during the year ended 31 December 2016, a total of 1,725,768 Shares had been issued in 2016 and the total funds received by the Company with respect to the exercise of such Options amounted to RMB2,684,846.42.

Details of movements in the Options under the Pre-IPO Share Incentive Plan are also set out in Note 24 to the consolidated financial statements.

The holders of the Options granted under the Pre-IPO Share Incentive Plan as referred to in the table above are not required to pay for the grant of any Option under the Pre-IPO Share Incentive Plan and the relevant award agreement.

Subject to the satisfactory performance of the option holders, the Options granted to each of the option holders shall be vested in accordance with vesting schedule as follows:

(i) as to 25% of the aggregate number of Shares underlying the Option on the date ending 12 months after the Listing Date;

(ii) as to 25% of the aggregate number of Shares underlying the Option on the date ending 24 months after the Listing Date;

(iii) as to 25% of the aggregate number of Shares underlying the Option on the date ending 36 months after the Listing Date; and

(iv) as to the remaining 25% of the aggregate number of Shares underlying the Option on the date ending 48 months after the Listing Date.

Each Option granted under the Pre-IPO Share Incentive Plan has a ten-year exercise period.

No further Options have been granted under the Pre-IPO Share Incentive Plan after the Listing Date. Save as disclosed above, during the year ended 31 December 2016, no Options have been exercised by the holders, nor have any of the Options lapsed or been cancelled.

The Pre-IPO Share Incentive Plan has expired on the Listing Date but the provisions of the Pre-IPO Share Incentive Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto. No further Awards will be granted under the Pre-IPO Share Incentive Plan after the Listing Date.

Restricted Share Unit Scheme

On 28 November 2014, a restricted share unit scheme (the "**RSU Scheme**") of the Company was approved and adopted by the then shareholders of the Company. Such plan became effective on the Listing Date.

The purpose of the RSU Scheme is to incentivize Directors (excluding independent non-executive Directors), senior management, officers and other selected personnel of the Group ("**RSU Eligible Persons**") for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion. There is no maximum entitlement for each RSU Eligible Person under the rules of the RSU Scheme.

The RSU Scheme will be valid and effective for a period of ten years, commencing from the Listing Date, being 17 December 2014 (unless it is terminated earlier in accordance with its terms) (the "**RSU Scheme Period**"). As at 31 December 2016, the remaining life of the RSU Scheme is approximately eight years.

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) must not exceed 42,174,566 Shares, being 4% of the total number of Shares in issue as at the Listing Date (the "**RSU Scheme Limit**") and 3.95% of the total issued Shares of the Company as at the date of this annual report. The RSU Scheme Limit may be refreshed from time to time subject to prior approval from the Shareholders in general meeting, provided that the total number of Shares underlying the RSUs granted following the date of approval of the refreshed limit (the "**New Approval Date**") under the limit as refreshed from time to time must not exceed 4% of the number of

Shares in issue as of the relevant New Approval Date. Shares underlying the RSUs previously granted under the RSU Scheme (including RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) prior to such New Approval Date will not be counted for the purpose of calculating the limit as refreshed.

The Board may not grant any RSUs to any RSU Eligible Person in any of the following circumstances:

a) the securities laws or regulations require that a prospectus or other offering documents be issued in respect of the grant of the RSUs or in respect of the RSU Scheme, unless the Board determines otherwise; or

b) where granting the RSUs would result in a breach by the Company, its subsidiaries or any of their directors of any applicable securities laws, rules or regulations; or

c) after inside information has come to the knowledge of the Company until such inside information has been announced as required under the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

   1) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

   2) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement; or

d) where such grant of RSUs would result in breach of the limits set out in the rules of the RSU Scheme. Under such rules, the maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules) must not exceed 4% of the total number of Shares in issue as at the Listing Date.

The Board can determine the vesting criteria and conditions, the vesting schedule, the exercise price of the RSUs (where applicable) and such other details as the Board considers necessary, and such criteria, conditions and details shall be stated in the letter granting such RSUs ("**RSU Grant Letter**"). Within a reasonable time after the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, the Board will send a vesting notice ("**Vesting Notice**") to each of the RSU Participants. The Vesting Notice will confirm the extent to which the vesting criteria, conditions and time schedule have been reached, fulfilled, satisfied or waived, and the number of Shares (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) involved.

The Board has the power to administer the RSU Scheme, including the power to construe and interpret the rules of the RSU Scheme and the terms of the RSUs granted under it. The Board may delegate the authority to administer the RSU Scheme to a committee of the Board. The Board may also appoint one or more independent third party contractors (including the RSU Trustee) to assist with the administration and vesting of RSUs granted pursuant to the RSU Scheme. The Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the RSUs upon exercise.

The Company has appointed Computershare Hong Kong Trustees Limited as the RSU Trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme. During the year ended 31 December 2016, the RSU Trustee purchased an aggregate of 7,954,500 Shares at a total cash consideration of approximately HK$28,780,000 on-market to hold on trust for the benefit of the RSU Participants pursuant to the RSU Scheme and the RSU Trust Deed. As of the date of this annual report, the 7,954,500 Shares, representing approximately 0.75% of the total issued Shares of the Company as of the date of this annual report, remains to be held by the RSU Trustee. Pursuant to the RSU Trust Deed, notwithstanding that the RSU Trustee is the legal registered holder of the Shares held upon trust pursuant to the RSU Scheme, the RSU Trustee shall refrain from exercising any voting rights attached to such Shares held by it under the trust.

RSUs held by a RSU Participant that are vested as evidenced by the Vesting Notice may be exercised (in whole or in part) by the RSU Participant serving an exercise notice in writing on the RSU Trustee and copied to the Company. Any exercise of RSUs must be in respect of a board lot of 500 Shares each or an integral multiple thereof (except where the number of RSUs which remains unexercised is less than one board lot). Upon receipt of an exercise notice, the Board may decide at its absolute discretion to:

(a) direct and procure the RSU Trustee to, within a reasonable time, transfer the Shares underlying the RSUs exercised (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) to the RSU Participant which the Company has allotted and issued to the RSU Trustee as fully paid up Shares or which the RSU Trustee has either acquired by purchasing existing Shares or by receiving existing Shares from any Shareholder, subject to the RSU Participant paying the exercise price (where applicable) and all tax, stamp duty, levies and charges applicable to such transfer to the RSU Trustee or as the RSU Trustee directs; or

(b) pay, or direct and procure the RSU Trustee to, within a reasonable time, pay, to the RSU Participant in cash an amount which represents the value of the Shares underlying the RSUs exercised on or about the date of exercise (and, if applicable, the cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions in respect of those Shares) less any exercise price (where applicable) and after deduction of any tax, levies, stamp duty and other charges applicable to the sale of any Shares to fund such payment and in relation thereto.

A RSU Participant does not have any contingent interest in any Shares or rights to any income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSUs unless and until such Shares are actually transferred to the RSU Participant. Any Shares transferred to a RSU Participant in respect of any RSUs will be subject to all the provisions of the articles of association of the Company and will rank pari passu with the fully paid Shares then in issue.

On 17 November 2016, an executive Director and the Chief Executive Officer of the Company and 14 employees of the Group were granted RSUs in respect of an aggregate of 2,910,920 Shares. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs.

As of 31 December 2016, RSUs in respect of an aggregate of 2,910,920 Shares, representing approximately 0.27% of the total issued Shares of the Company as of the date of this annual report, remains outstanding. Details of the RSUs granted under the RSU Scheme and outstanding as of 31 December 2016 and details of the vesting period and the movements in RSUs during the year ended 31 December 2016 are set out below:

Name of grantees of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 January 2016	Date of grant	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 December 2016
Director								
Yang Shuling	Executive Director and Chief Executive Officer	–	17 November 2016	1,273,859	–	–	–	1,273,859
Employees of the Group								
14 other employees of the Group		–	17 November 2016	1,637,061	–	–	–	1,637,061
Total		–		2,910,920[1]	–	–	–	2,910,920

Note:

(1) The closing price of the Shares on 16 November 2016, being the trading day immediately preceding the date on which the 2,910,920 RSUs were granted, was HK$4.82 per Share.

Details of movements in the RSUs under the RSU Scheme are also set out in Note 24 to the consolidated financial statements.

The grantees of the RSUs under the RSU Scheme as referred to in the table above are not required to pay for the grant of any RSUs under the RSU Scheme and the relevant RSU Grant Letter.

Subject to the satisfactory performance of the grantees, the RSUs granted to each of the grantees shall be vested in accordance with the vesting schedule as follows:

(i) as to 25% of the RSUs on 1 April 2018;

(ii) as to 25% of the RSUs on 1 April 2019;

(iii) as to 25% of the RSUs on 1 April 2020; and

(iv) as to the remaining 25% of the RSUs on 1 April 2021.

Each RSU granted under the RSU Scheme has a ten-year exercise period commencing from the date of grant.

DIRECTORS

The Directors of the Company during the year were:

Directors

Name	Position
Mr. Ho Kuang-Chi	Chairman of the Board and Executive Director
Ms. Yang Shuling	Chief Executive Officer and Executive Director
Ms. Chen Su-Yin	Non-executive Director
Mr. Wei Ke	Non-executive Director
Ms. Hsieh Lily Hui-yun	Independent Non-executive Director
Mr. Hon Ping Cho Terence	Independent Non-executive Director
Ms. Cheung Sze Man	Independent Non-executive Director

In accordance with the articles of association of the Company, Mr. Ho Kuang-Chi, Ms. Yang Shuling and Ms. Chen Su-Yin shall retire by rotation at the AGM and they being eligible, offer themselves for re-election.

None of Mr. Ho Kuang-Chi, Ms. Yang Shuling and Ms. Chen Su-Yin has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

The biographical details of the Directors and senior management of the Company are set out in the section headed "Biographies of the Directors and Senior Management" in this annual report.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as the related party transactions as disclosed in Note 28 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this Directors' Report, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and no transaction, arrangement or contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of its subsidiaries, subsisted at the end of the year or at any time during the year.

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

As at 31 December 2016, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") were as follows:

Name of Director/ Chief Executive	Capacity/ Nature of interest	Number of underlying Shares(1)	Approximate percentage of shareholding(5)
Mr. Ho Kuang-Chi(2)	Founder of a discretionary trust	450,000,000	42.22%
Ms. Yang Shuling(3)	Beneficial owner	12,997,767	1.22%
	Beneficiary of a trust	1,273,859	0.12%
Ms. Chen Su-Yin(2)(4)	Interest of spouse	450,000,000	42.22%

Notes:

(1) All interests stated are long positions.

(2) The Ying Qi Trust, a discretionary trust established by Mr. Ho Kuang-Chi (as the settlor) for the benefit of Mr. Ho Kuang-Chi and with Ying Qi PTC Limited acting as the trustee, holds the entire issued shares of Ying Qi Investments Limited. Accordingly, Mr. Ho Kuang-Chi is deemed to be interested in the 450,000,000 Shares held by Ying Qi Investments Limited.

(3) Ms. Yang Shuling is interested in 350,000 Shares and Options representing 12,647,767 underlying Shares granted to her under the Pre-IPO Share Incentive Plan and RSUs representing 1,273,859 Shares held on trust on her behalf by the RSU Trustee which can be exercised for nil consideration. Both the Options and RSUs are subject to a vesting schedule.

(4) Ms. Chen Su-Yin is the wife of Mr. Ho Kuang-Chi and is deemed to be interested in the Shares which are interested by Mr. Ho Kuang-Chi under the SFO.

(5) As at 31 December 2016, the Company had 1,065,911,220 issued Shares.

Save as disclosed above, as at 31 December 2016, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Shares or securities held[(1)]	Approximate percentage of interest[(5)]
Ying Qi PTC Limited[(2)]	Trustee of a trust	450,000,000	42.22%
Ying Qi Investments Limited[(2)]	Beneficial owner	450,000,000	42.22%
Gap (Bermuda) Limited[(3)]	Interest of controlled corporation	340,754,718	31.97%
General Atlantic Genpar (Bermuda) L.P.[(3)]	Interest of controlled corporation	340,754,718	31.97%
General Atlantic Partners (Bermuda) II, L.P.[(3)]	Interest of controlled corporation	340,754,718	31.97%
General Atlantic Singapore Fund Interholdco Ltd.[(3)]	Interest of controlled corporation	340,754,718	31.97%
General Atlantic Singapore Fund Pte. Ltd.[(3)]	Beneficial owner	340,754,718	31.97%
Hillhouse Capital Management, Ltd.[(4)]	Investment Manager	57,720,500	5.42%
Gaoling Fund, L.P. [(4)]	Beneficial owner	55,920,000	5.25%

Notes:

(1) All interests stated are long positions.

(2) Ying Qi PTC Limited, the trustee of the Ying Qi Trust, in its capacity as trustee holds the entire issued share capital of Ying Qi Investments Limited. The Ying Qi Trust is a discretionary trust established by Mr. Ho Kuang-Chi (as the settlor) and the beneficiary of which includes Mr. Ho Kuang-Chi. Accordingly, each of Mr. Ho and Ying Qi PTC Limited are deemed to be interested in the 450,000,000 Shares held by Ying Qi Investments Limited by virtue of the SFO.

(3) The sole shareholder of General Atlantic Singapore Fund Pte. Ltd ("**GASF**") is General Atlantic Singapore Fund Interholdco Ltd. ("**GA Interholdco**") and the controlling shareholder of GA Interholdco is General Atlantic Partners (Bermuda) II, L.P. ("**GAP LP**"). The general partner of GAP LP is General Atlantic Genpar (Bermuda) L.P. ("**GA GenPar**") and the general partner of GA GenPar is Gap (Bermuda) Limited. Accordingly, each of GA Interholdco, GAP LP, GA GenPar and Gap (Bermuda) Limited are deemed to be interested in the 340,754,718 Shares held by GASF by virtue of the SFO.

(4) Hillhouse Capital Management, Ltd. is the investment manager of, and manages, both Gaoling Fund, L.P. and YHG Investment L.P. Each of Gaoling Fund, L.P. and YHG Investment L.P. held 55,920,000 Shares and 1,800,500 Shares, respectively. Accordingly, Hillhouse Capital Management, Ltd. is deemed to be interested in the 55,920,000 Shares held by Gaoling Fund, L.P. and 1,800,500 Shares held by YHG Investment L.P. by virtue of the SFO.

(5) As at 31 December 2016, the Company had 1,065,911,220 issued Shares.

Save as disclosed above, as at 31 December 2016, the Directors or chief executive of the Company are not aware of any other person, not being a Director or chief executive of the Company, who has an interest or short position in the Shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

As a restaurant chain, we have a large and diverse customer base. Our revenue derived from our five largest customers accounted for less than 30% of our total revenue for the year ended 31 December 2016.

During the year ended 31 December 2016, the purchases of food ingredients and other supplies from the Group's five largest suppliers accounted for 30.9% of the Group's total purchases from all suppliers for the same period. The purchases from the Group's single largest supplier for the year ended 31 December 2016 accounted for 9.9% of the Group's total purchases from all suppliers for the same period. All of our five largest suppliers are independent third parties. None of our Directors, any of their close associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers during the year ended 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

EMOLUMENT POLICY

Restaurant operations are highly service-oriented, therefore the Directors believe that the ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and operational personnel, is critical to the success of the Group's business. The Company will continue to seek to retain and attract qualified employees, particularly restaurant staff and operational personnel, by increasing efforts in recruitment and human resources management, further its career advancement program and establish a clearly identifiable long-term career path to motivate its employees, implement a rigorous evaluation program to identify suitable candidates for promotion, offer long-term equity incentive plans and tailored compensation packages and offer training programs tailored to specific needs of our employees' career development. The Company also provides various incentives through share incentive schemes to better motivate its employees.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 27 to the consolidated financial statements.

PUBLIC FLOAT

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming annual general meeting and, being eligible, offered themselves for re-appointment.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB888.9 million (2015: RMB965.9 million).

BANK AND OTHER LOANS

The Group did not have any short-term or long-term bank borrowings or other loans as at 31 December 2016.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme" above, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

PERMITTED INDEMNITY PROVISION

Subject to applicable laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, pursuant to the articles of association of the Company. Such provisions were in force throughout the year ended 31 December 2016 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 17 December 2014, the Company's Shares were listed on the Main Board of the Stock Exchange. A total of 227,100,000 Shares were issued at HK$4.70 per Share for a total of approximately HK$1,067.4 million. Furthermore, on 9 January 2015, the joint global coordinators to the Global Offering partially exercised the over-allotment option granted by the Company under the Global Offering and pursuant to which the Company had issued and alloted an aggregate of 9,436,500 additional Shares at HK$4.70 per Share for a total of approximately HK$44.4 million. The net proceeds raised by the Company from the Global Offering (including the partial exercise of the over-allotment option on 9 January 2015), after deducting the underwriting commission and other expenses in connection with the Global Offering, which the Company received amounted to an aggregate of approximately HK$1,043.5 million, comprising HK$1,001.5 million raised from the Global Offering and HK$42.0 million raised from the issue of shares pursuant to the partial exercise of the over-allotment option. Up to 31 December 2016, the net proceeds from the Global Offering had not yet been utilized as the Group had sufficient financial resources to fund its expansion plan. All of the net proceeds from the Global Offering had been deposited into short-term demand deposits and money market instruments such as short-term financial products issued by reputable commercial banks as well as bonds.

In 2017 and in the upcoming years, the Group will start utilizing the net proceeds from the Global Offering and for the purpose consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

CONNECTED TRANSACTIONS

On 30 April 2014, Xiabuxiabu Restaurant Management Co., Ltd. ("**Xiabu Beijing**", an indirect wholly-owned subsidiary of the Company) entered into a renewed lease agreement with Xiabuxiabu Fast Food Chain Management Co., Ltd. ("**Xiabu Fast Food**", a company wholly-owned by Mr. Ho Kuang-Chi ("**Mr. Ho**"), a substantial Shareholder and an executive Director, and is therefore a connected person of the Company) to lease the factory located at Suncun Industrial Development Zone, Huangcun Town, Daxing District, Beijing, PRC with a total area of 7,066.75 square meters for a term of two years commencing on 1 May 2014. The leased property is used for industrial purpose and which is utilized by Xiabu Beijing as the food processing plant and warehouse. The monthly rental under the lease agreement is RMB110,250 for the period commencing from 1 May 2014 and ending on 30 April 2015 and RMB115,000 for the period commencing from 1 May 2015 and ending on 30 April 2016. On 30 April 2016, Xiabu Beijing further renewed the lease agreement for the same factory with Xiabu Fast Food for a further term of two years commencing on 1 May 2016. The monthly rental under the renewal agreement remains the same at RMB115,000 for the period commencing from 1 May 2016 and ending on 30 April 2018. The transactions contemplated under the lease agreement and the renewal agreement constitute de minimis continuing connected transactions under Rule 14A.76(1) of the Listing Rules. The transactions contemplated under the lease agreement and the renewal agreement also constitute related party transactions of the Company under IFRS, details of which are set out in Note 28 to the consolidated financial statements.

In addition, on 18 October 2016, the Company and Mr. Ho entered into a joint venture agreement (the "**JV Agreement**") pursuant to which the Company and Mr. Ho agreed to establish a joint venture company, to be named Xiabuxiabu (China) Food Holdings Co., Limited (呷哺呷哺(中國)食品控股有限公司) (the "**JV Company**"), in the Cayman Islands. Pursuant to the JV Agreement, the Company and Mr. Ho committed to invest US$1,000,000 into the JV Company by subscribing for its shares upon the formation of the JV Company; the Company and Mr. Ho have agreed to contribute US$600,000 and US$400,000, which shall represent 60% and 40% of the total issued share capital of the JV Company, respectively. The Company and Mr. Ho committed to further invest US$10,000,000 into the JV Company by subscribing for its shares and/or providing shareholders' loans to the JV Company in proportion to their respective shareholdings as the business of the JV Company develops, among which the Company and Mr. Ho committed to further invest US$6,000,000 and US$4,000,000, respectively. After the said further investment, the shareholding of each of the Company and Mr. Ho in the JV Company will remain unchanged. Pursuant to the JV Agreement, the JV Company will establish a wholly-owned operating subsidiary in the PRC, to be named Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司) (the "**JV Subsidiary**"), to engage in the research, development, production and sale of soup bases, dipping sauces, seasoning sauces and products and various compound condiments, and products with gift-wrapping and limited editions (the "**Condiment Products**") which target mid- to high-end customers. Upon establishment of the JV Subsidiary pursuant to the JV Agreement, the Company shall enter into a licensing agreement with the JV Subsidiary, pursuant to which the Company shall grant to the JV Subsidiary an exclusive and non-transferable right and license to use certain trademarks owned by the Company in connection with the production and sale of Condiment Products. Details of the licensing arrangement, including but not limited to the trademarks of the Company subject to the license and the royalty payable by the JV Subsidiary, are still to be determined as of the date of this annual report. As of the date of this annual report, the establishment of the joint venture structure has not yet been completed. It is currently expected that the establishment of the joint venture structure will be completed in the second quarter of 2017 and upon which the Company will enter into the licensing agreement with the JV Subsidiary.

All references above to other sections, reports or notes in this annual report form part of this Directors' report.

By order of the Board
Ho Kuang-Chi
Chairman

Hong Kong, 28 March 2017

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the Corporate Governance Code and Corporate Governance Report (the "**Code**") set out in Appendix 14 to the Listing Rules and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

During the year ended 31 December 2016, the Company has complied with the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

Pursuant to code provision A.2.1 of the Code, the roles of chairman and chief executive are separate and are being performed by two different individuals. Mr. Ho Kuang-Chi is the Chairman of the Company. With extensive experience in the industry, Mr. Ho is responsible for formulating the overall development strategies and business plan of our Group and is instrumental to the Company's growth and business expansion since its establishment in 1998. Ms. Yang Shuling is the Chief Executive Officer of the Company and is responsible for overseeing the management and strategic development of our Group.

The Board currently consists of seven Directors, namely Mr. Ho Kuang-Chi (Chairman) and Ms. Yang Shuling (Chief Executive Officer) as executive Directors, Ms. Chen Su-Yin and Mr. Wei Ke as non-executive Directors, and Ms. Hsieh Lily Hui-yun, Mr. Hon Ping Cho Terence and Ms. Cheung Sze Man as independent non-executive Directors. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Company has also adopted a board diversity policy to set out the approach adopted by the Board regarding diversity of Board members. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director of the Company. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Mr. Ho Kuang-Chi, Chairman and executive Director of the Company, is the husband of Ms. Chen Su-Yin, a non-executive Director. Save as disclosed, no Board member has a relationship with the other Board members and the chief executive of the Company.

The biographies of the Directors are set out on pages 29 to 31 of this annual report.

Each of the executive Directors has entered into a service contract with the Company on 28 November 2014 and the Company has issued letters of appointment to each of the non-executive Directors and independent non-executive Directors. The principal particulars of these service contracts and letters of appointment are (a) for a term of 3 years commencing from 28 November 2014 and (b) subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with the articles of association of the Company and the applicable Listing Rules.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) payable to the Directors for the year ended 31 December 2016 was approximately RMB6.3 million.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors for 2016 are set out in Note 11 to the consolidated financial statements. In addition, pursuant to code provision B.1.5 of the Code, the annual remuneration of members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration band	Number of senior management member
HKD1,000,001 to HKD1,500,000	1
HKD1,500,001 to HKD2,000,000	-
HKD2,000,001 to HKD2,500,000	1

During the year ended 31 December 2016, the Company has three independent non-executive Directors, which meets the requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board and should not be less than three.

The Company has received a written confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers them to be independent.

Directors have access to the services of the company secretary to ensure that the Board procedures are followed. The company secretary of the Company is Ms. Ng Sau Mei. Ms. Ng Sau Mei is a senior manager of KCS Hong Kong Limited, and is responsible for provision of corporate secretarial and compliance services to listed company clients. Her primary corporate contact person at the Company is Ms. Zhao Yi, the Chief Financial Officer of the Company. In compliance with Rule 3.29 of the Listing Rules, Ms. Ng Sau Mei has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

Each of the Directors attended various trainings in 2016, including the trainings for the reporting procedures and disclosure obligations regarding notifiable and connected transactions under the Listing Rules, for the disclosure of interests obligations under the SFO, for the Director's duties and responsibilities and continuous obligations and for the Model Code, etc. The Company will continue to arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

During the year ended 31 December 2016, the Board held four meetings to discuss and approve, among others, the overall strategies and policies of the Company and certain connected transactions of the Company, as well as to review and approve the Company's 2015 annual report, 2015 annual results announcement, 2016 interim report, 2016 interim results announcement and the payment of interim dividend.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2016.

Director	Number of Board meetings requiring attendance	Number of Board meetings attended
Mr. Ho Kuang-Chi	4	4
Ms. Yang Shuling	4	4
Ms. Chen Su-Yin	4	4
Mr. Wei Ke	4	4
Ms. Hsieh Lily Hui-yun	4	4
Mr. Hon Ping Cho Terence	4	4
Ms. Cheung Sze Man	4	4

In 2016, the Company convened and held one general meeting, being the 2015 annual general meeting held on 30 May 2016. All Directors attended the 2015 annual general meeting.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Code. The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

BOARD COMMITTEES

The Company has three principal Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Company has also updated the terms of reference of the Audit Committee reflecting the changes to the Code in respect of the Company's risk management and internal control systems, and which became effective on 1 January 2016. The Audit Committee consists of three members, being two independent non-executive Directors, namely Ms. Hsieh Lily Hui-yun and Mr. Hon Ping Cho Terence and one non-executive Director, namely Mr. Wei Ke. Ms. Hsieh Lily Hui-yun has been appointed as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise, and provide an independent view of the effectiveness of, the financial reporting process and risk management and internal control systems of the Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2016, the Audit Committee held two meetings to consider the Company's 2015 annual report, 2015 annual results announcement, 2016 interim report, 2016 interim results announcement and the report on audit plan for the year of 2016 by Deloitte Touche Tohmatsu, the external auditor of the Company. The Audit Committee also assessed the risk management and internal control measures of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2016.

Director	Number of meetings requiring attendance	Number of meetings attended
Ms. Hsieh Lily Hui-yun	2	2
Mr. Hon Ping Cho Terence	2	2
Mr. Wei Ke	2	2

NOMINATION COMMITTEE

The Company established a Nomination Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of two independent non-executive Directors, being Ms. Hsieh Lily Hui-yun and Ms. Cheung Sze Man, and one executive Director, being Mr. Ho Kuang-Chi, who is the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment and removal of Directors.

During the year ended 31 December 2016, the Nomination Committee held two meetings to review the Board structure, the board diversity policy, the independence of the independent non-executive Directors and to recommend the re-election of the retiring Directors.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2016.

Director	Number of meetings requiring attendance	Number of meetings attended
Mr. Ho Kuang-Chi	2	2
Ms. Hsieh Lily Hui-yun	2	2
Ms. Cheung Sze Man	2	2

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee with written terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The Company has adopted the model described in code provision B.1.2(c)(ii) of the Code in the terms of reference of the Remuneration Committee. The Remuneration Committee has three members, being two independent non-executive Directors, namely Mr. Hon Ping Cho Terence and Ms. Cheung Sze Man, and one executive Director, namely Mr. Ho Kuang-Chi. Mr. Hon Ping Cho Terence is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations to the Board on employee benefit arrangement.

During the year ended 31 December 2016, the Remuneration Committee held two meetings to review the remuneration of the Directors and senior management as well as the policy and structure of the remuneration for the Directors and senior management and to consider the grant of RSUs to an executive Director and to key employees and recommended to the Board for approval.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2016.

Director	Number of meetings requiring attendance	Number of meetings attended
Mr. Hon Ping Cho Terence	2	2
Mr. Ho Kuang-Chi	2	2
Ms. Cheung Sze Man	2	2

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2016.

INTERNAL CONTROL MEASURES AND OBSERVANCE OF UNDERTAKINGS RELATING TO OPENING OF RESTAURANTS

Historically, the Group had certain non-compliance in respect of the licenses and approvals of some of its restaurants and prior to the listing, the Company had enhanced its internal control measures to reduce the risk of penalties from the PRC regulatory authorities in respect of restaurants that the Company operates in the future. Such enhanced internal control measures include, among others, (i) adopting of the Restaurant Opening Approval Policy and amending the Licenses and Permits Management Policy, (ii) compiling and maintaining a list of relevant licenses and permits that would be required for the commencement of the operation of a new restaurant, (iii) strengthening the site selection and approval procedures, (iv) streamlining the development plan and timetable for opening new restaurants to cater for time required for applying and obtaining various licenses and permits prior to opening of new restaurants, and (v) regularly carrying out compliance status review on individual restaurants and identifying, assessing and monitoring compliance risks.

During the year ended 31 December 2016, the Company has strictly implemented the above internal control policies and measures relating to restaurants opening and their operations, and had strictly complied with and fulfilled the relevant undertakings provided by the Company with respect to the opening of new restaurants as more particularly described in the section headed "Business – Licenses, Regulatory Approvals and Compliance Record – Fire Safety – Rectification Measures" in the Prospectus. In particular, the Group has obtained all the relevant material official licenses and permits prior to the opening of restaurants.

EXTERNAL AUDITOR

Deloitte Touche Tohmatsu is appointed as the external auditor of the Company.

For the year ended 31 December 2016, the fees paid/payable to Deloitte Touche Tohmatsu for the audit of the financial statements of the Group were RMB2.9 million.

Fees paid/payable to Deloitte Touche Tohmatsu for non-audit services provided to the Group in the year were RMB0.3 million. The non-audit services conducted include consultancy on tax issues of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditor about its reporting responsibilities on the financial statements is set out on pages 56 to 60 of this annual report. In preparing the financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board acknowledges its responsibilities for maintaining sound and effective internal control and risk management systems in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Company's internal control and risk management systems on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Company's performance, positions and prospects.

The Company has established a sound internal control and risk management system, and formulated internal guidance covering a full range of operations including restaurant opening, site selection, procurement, quality control, marketing, finance, treasury activities, finance and human resources management, with a complete organizational structure and clear responsibilities and authorizations. The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

As the risks faced by the Company stem primarily through various aspects of its operations, including restaurant opening, site selection, procurement, quality control, marketing and human resources management, these departments are in the best position to observe and identify recent development that might lead to material risks for the Company, and the management and the Board take into account the reports made by these departments in assessing and managing the risks.

Procedures to identify, evaluate and manage significant risks

(1) Establishment of the risk context: evaluating and reviewing the effectiveness of the risk management and internal control systems of the Group to reduce the costs of operational risk and ensure compliant operation of the Company.

(2) Formulation of the risk management policies: ensuring that the Group carries out consistent procedures and criteria for risk identification, measurement and reporting.

(3) Identification of the risks: identifying any potential risks of various business segments and key procedures.

(4) Evaluation on the risks: evaluating and rating the impact on business and its likelihood of the risks identified.

(5) Response to the risks: evaluating the risk management solutions and the effectiveness of risk management.

(6) Report and monitor: monitoring and reviewing the policies and evaluating procedures for risk management, and the measures for managing and effectiveness of controlling significant risks, and report the findings to the Board.

Procedures and internal controls for the handling and dissemination of inside information

The Board conducts regular review and assessment of inside information, discusses with the management or authorized persons of the Company about disclosure of inside information, reports to the Board once identified any inside information for dissemination. Inside information disclosure policies are formulated to provide employees with guidelines on report and disseminating inside information, confidentiality and compliance with restrictions on trading.

During the year ended 31 December 2016, the Board has reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions, as well as the effectiveness of the internal audit functions of the Company. The review was made by discussions with the management of the Company, its external and internal auditors and the assessment conducted by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance.

SHAREHOLDERS

The Company is incorporated in the Cayman Islands. The Board may whenever it thinks fit call general meetings. Pursuant to the articles of association of the Company, general meetings shall also be convened on the written requisition to the secretary of the Company of any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within two (2) months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

To safeguard Shareholder interests and rights, separate resolutions are and will be proposed at general meetings on each substantial issue, including the election of individual Directors.

The procedures for Shareholders to propose a person for election as Director is available on the Company's website (www.xiabu.com). Shareholders may lodge written proposal to the company secretary of the Company at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, provided that the minimum length of the period, during which such written notice is given, shall be at least seven days and that the lodgement of such notice shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. In order to ensure that other shareholders would have sufficient time to receive and consider the information of the person proposed for election as a Director, Shareholders are urged to lodge their written notice of his intention to propose a person for election as Director as early as practicable in advance of the relevant general meeting and, in any case, not less than 12 business days (as defined in the Listing Rules, i.e. day(s) on which the Stock Exchange is open for business of dealing in securities) before the date scheduled for holding the relevant general meeting, so that the Company can complete the verification procedure with the Company's share registrar, and procure the publication of an announcement and/or the dispatch of a supplementary circular to Shareholders in compliance with the applicable requirements under the Listing Rules. In the event that any such written notice is received by the Company later than the 12th business day before the date of holding the relevant general meeting, the Company will need to consider whether to adjourn the relevant meeting so as to give Shareholders a notice of at least 10 business days of the proposal in accordance with the Listing Rules.

Enquiries about the Company may be put to the Board by contacting the Company or directly by raising the questions at an annual general meeting or extraordinary general meeting. The contact details of the Company are set out in the Company's website (www.xiabu.com). Shareholders can also direct their enquiries about their shareholdings to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, whose address is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016 and up to the date of this annual report, there has been no change to the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company (www.xiabu.com) and that of the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
XIABUXIABU CATERING MANAGEMENT (CHINA) HOLDINGS CO., LTD.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 61 to 119, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

TO THE SHAREHOLDERS OF
XIABUXIABU CATERING MANAGEMENT (CHINA) HOLDINGS CO., LTD. (continued)
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of leasehold improvement	
We identified the impairment of leasehold improvement as a key audit matter due to the significance of the balance on the consolidated statement of financial position as at 31 December 2016 and the significant management estimate involved in determining the recoverable amounts of leasehold improvement. The Group has leasehold improvement of RMB315,803,000 as of 31 December 2016, and impairment loss amounting to RMB6,694,000 is recognised for the year ended 31 December 2016. As disclosed in note 6 to the consolidated financial statements, that management determined whether leasehold improvement is impaired requires an estimation of the recoverable amount of individual asset or the cash generating units to which the asset belongs using a value in use calculation. Management's estimation is primarily based on the cash flow projections and the discount rate.	Our procedures in relation to impairment of leasehold improvement included: • Testing the internal controls over impairment assessment of leasehold improvement; • Evaluating the appropriateness of the valuation methodology and assumption of discount rate used in determining the recoverable amount; • Evaluating the appropriateness of other key assumptions and inputs, including the growth rate of revenue and major costs (include raw materials and consumables used, staff costs and property rental) to revenue ratio by comparing to historical performance and relevant operation plans.

INDEPENDENT AUDITOR’S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tung Wai Lung Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		For the year ended 31 December	
		2016	2015
	Notes	**RMB'000**	RMB'000
Revenue	5	**2,758,137**	2,424,606
Other income	6	**31,496**	26,658
Raw materials and consumables used		**(979,258)**	(946,164)
Staff costs		**(651,956)**	(542,980)
Property rentals and related expenses		**(356,971)**	(328,416)
Utilities expenses		**(108,951)**	(101,375)
Depreciation and amortization		**(113,968)**	(120,022)
Other expenses		**(146,947)**	(139,297)
Other gains and losses	7	**41,540**	50,110
Profit before tax	8	**473,122**	323,120
Income tax expense	9	**(105,094)**	(59,757)
Profit for the year attributable to owners of the Company		**368,028**	263,363
Other comprehensive expense for the year		**(1,232)**	–
Profit and total comprehensive income for the year attributable to owners of the Company		**366,796**	263,363
Earnings per share			
– basic (RMB cents per share)	10	**34.71**	24.76
– diluted (RMB cents per share)	10	**34.48**	24.59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	As at 31 December **2016** **RMB'000**	 2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**398,700**	333,709
Intangible assets		**1,241**	984
Lease prepayments for land use right	14	**22,476**	23,010
Available-for-sale investment	15	**35,071**	–
Deferred tax assets	16	**78,704**	47,729
Rental deposits		**58,655**	46,982
		594,847	452,414
Current assets			
Inventories	17	**124,515**	103,869
Trade and other receivables and prepayments	18	**96,347**	53,351
Available-for-sale investment	15	**17,687**	–
Bank balances and cash	19	**1,479,208**	1,354,497
		1,717,757	1,511,717
Current liabilities			
Trade payables	20	**167,360**	148,985
Accrual and other payables	21	**341,600**	278,283
Tax payables		**70,371**	34,381
Provision		**–**	1,106
Deferred income	22	**1,320**	4,338
		580,651	467,093
Net current assets		**1,137,106**	1,044,624
Total assets less current liabilities		**1,731,953**	1,497,038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	As at 31 December **2016** **RMB'000**	 2015 RMB'000
Non-current liability			
Deferred income	22	**15,645**	16,555
Net assets		**1,716,308**	1,480,483
Capital and reserves			
Share capital	23	**172**	172
Reserves		**1,716,136**	1,480,311
Total equity		**1,716,308**	1,480,483

The consolidated financial statements on pages 61 to 119 were approved and authorized for issue by the board of directors on 28 March 2017 and are signed on its behalf by:

Mr. Ho Kuang-Chi
Director

Ms. Yang Shuling
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share Capital RMB'000	Share premium RMB'000	Equity-settled share-based payments reserve RMB'000	Statutory surplus reserve RMB'000 (Note i)	Treasury share reserve RMB'000	Investments revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	171	970,769	12,125	29,000	–	–	261,801	1,273,866
Profit and total comprehensive income for the year	–	–	–	–	–	–	263,363	263,363
Issue of new shares by exercise of over-allotment options (Note ii)	1	35,011	–	–	–	–	–	35,012
Issue cost of new shares by exercise of over-allotment options	–	(1,230)	–	–	–	–	–	(1,230)
Effect of forfeited share option during the year	–	–	(764)	–	–	–	764	–
Exercise of issued share option	–	643	(143)	–	–	–	–	500
Recognition of equity-settled share-based payments	–	–	6,523	–	–	–	–	6,523
Payments of dividends	–	–	–	–	–	–	(97,551)	(97,551)
Appropriation of statutory surplus reserve	–	–	–	78	–	–	(78)	–
Balance at 31 December 2015	**172**	**1,005,193**	**17,741**	**29,078**	**–**	**–**	**428,299**	**1,480,483**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**368,028**	**368,028**
Other comprehensive expense for the year (Note iv)	**–**	**–**	**–**	**–**	**–**	**(1,232)**	**–**	**(1,232)**
Profit and total comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**–**	**(1,232)**	**368,028**	**366,796**
Recognition of equity-settled share-based payments	**–**	**–**	**4,439**	**–**	**–**	**–**	**–**	**4,439**
Effect of forfeited share option during the year	**–**	**–**	**(3,216)**	**–**	**–**	**–**	**3,216**	**–**
Exercise of issued share option	**–**	**3,916**	**(1,095)**	**–**	**–**	**–**	**–**	**2,821**
Payments of dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(113,675)**	**(113,675)**
Appropriation of statutory surplus reserve	**–**	**–**	**–**	**13**	**–**	**–**	**(13)**	**–**
Purchase of treasury share under restricted share unit scheme (note iii)	**–**	**–**	**–**	**–**	**(24,556)**	**–**	**–**	**(24,556)**
Balance at 31 December 2016	**172**	**1,009,109**	**17,869**	**29,091**	**(24,556)**	**(1,232)**	**685,855**	**1,716,308**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes:

(i) According to the People's Republic of China ("PRC") Company Law and the Articles of Association of the PRC subsidiaries of the Group, these companies are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilized, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital.

(ii) On 9 January 2015, the Company issued 9,436,500 ordinary shares with par value of US$0.000025 each at price of HK$4.70 per share by means of exercise of the over-allotment option.

(iii) During the year ended 31 December 2016, the Company acquired its existing shares of 7,954,500 from the market with consideration of HK$28,780,000 (equivalent to approximately RMB24,556,000) for the restricted share unit scheme (the "RSU Scheme") approved on 28 November 2014 by the board of directors of the Company. Further details are disclosed in Note 24.

(iv) The amounts are fair value changes of the listed debt securities held by the company, which are classified as available-for-sale financial assets.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**473,122**	323,120
Adjustments for:		
Depreciation of property, plant and equipment	**112,724**	117,313
Impairment loss recognised in respect of property, plant and equipment	**6,694**	–
Release of lease prepayments for land use right	**534**	534
Amortization of intangible assets	**710**	2,175
Recognition of equity-settled share-based payments	**4,439**	6,523
Interest income	**(15,537)**	(18,247)
Gains from interests income of available-for-sale investments	**(2,382)**	–
Gain from changes in fair value of financial assets designated as at FVTPL	**(22,546)**	(12,969)
Government grant released from deferred income	**(910)**	(910)
Foreign exchange gain net	**(27,735)**	(30,369)
Reversal of impairment loss on trade receivables	**–**	(474)
(Reversal of) impairment loss recognised on rental deposit	**(115)**	4
Loss (gain) on disposal of property, plant and equipment, net	**2,998**	(385)
Provision for the probable losses of the pending lawsuits	**–**	1,106
Operating cash flows before movements in working capital	**531,996**	387,421
Movements in working capital		
(Increase) decrease in inventories	**(20,646)**	18,676
Decrease (increase) in trade receivables	**7,519**	(11,991)
Increase in other receivables	**(36,380)**	(1,071)
Decrease in provisions for the probable losses of the pending lawsuits	**(1,106)**	–
Increase in rental deposits	**(11,558)**	(7,573)
Increase in trade payables	**18,375**	35,163
Increase in other payables	**9,941**	6,089
(Decrease) increase in deferred income	**(3,018)**	692
Cash generated from operations	**495,123**	427,406
Income taxes paid	**(100,079)**	(57,194)
Net cash generated from operating activities	**395,044**	370,212

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cash flows from investing activities		
Interests income received	**16,461**	11,032
Purchase of financial assets at fair value through profit or loss	**(4,779,400)**	(3,134,000)
Proceeds from financial assets at fair value through profit or loss	**4,801,946**	3,146,969
Purchase of available-for-sale investments	**(51,609)**	–
Purchases of property, plant and equipment	**(136,960)**	(130,231)
Proceeds from disposal of property, plant and equipment	**289**	1,113
Purchase of intangible assets	**(967)**	(480)
Net cash used in investing activities	**(150,240)**	(105,597)
Cash flows from financing activities		
Dividend paid	**(113,675)**	(97,551)
Cash from exercise of share option	**2,821**	500
Net proceeds from issue of new shares to the public	**–**	33,782
Payment for repurchase of ordinary shares	**(24,556)**	–
Amounts prepaid to the RSU Trustee for purchase of ordinary shares (Note 24)	**(10,037)**	–
Net cash used in financing activities	**(145,447)**	(63,269)
Net increase in cash and cash equivalents	**99,357**	201,346
Cash and cash equivalents at the beginning of the year	**1,354,497**	1,122,782
Effect of foreign exchange rate changes, net	**25,354**	30,369
Cash and cash equivalents at the end of the year represented by bank balances and cash	**1,479,208**	1,354,497

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the main board of The Stock Exchange of Hong Kong Limited ("HKEX") on 17 December 2014. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company and the Company and its subsidiaries (collectively referred to as "the Group") are principally engaged in Chinese hotpot restaurant operations in the PRC.

The Company's immediate holding company is Ying Qi Investments Limited (incorporated in the British Virgin Islands), and its ultimate controlling party is Mr. Ho Kuang-Chi, who is also the Chairman of the Company.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied, for the first time, following amendments to IFRSs that are mandatorily effective in the current year:

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
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 IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new, revised and interpretation to IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except for those as stated below, the adoption of these new and revised IFRS is not expected to have material impact on the results and the financial position of the Group.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments:

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 9 Financial Instruments *(continued)*

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 15 Revenue from Contracts with Customers *(continued)*

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest expense and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(CONTINUED)*

New and amendments to IFRSs in issue but not yet effective *(continued)*

IFRS 16 Leases *(continued)*

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,458,389,000 as disclosed in note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value at the end of each reporting period as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Company 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 listed above.

Consolidation of a subsidiary begins with the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specially, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains controls until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Restaurant operations and provision of catering services

Revenue is recognised when the related services have been rendered to customers.

Sales of goods that result in cash discounts or free goods ("the Discounts") for customers for next sales transaction, under the Group's coupons award scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the Discounts granted. The consideration allocated to the coupons award is measured by reference to their fair value – the amount for which the cash discount could be realised separately or which the goods designated could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the Discounts are realised and the Group's obligations have been discharged or expired.

Revenue from promotion service is recognised when these services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

The employees of the Group are members of state-managed retirement benefit schemes, the obligations of the Group under which are equivalent to those arising in a defined contribution retirement benefit plan. Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options and restricted share units granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24 to the Group's consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instrument expected to vest. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rental arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. The lease payments for leasehold land that is accounted for as an operating lease is presented as "lease prepayments for land use right" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

Property, plant and equipment other than construction in progress as described below are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress is carried at cost, less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets representing trademark and software that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives as below:

Trademark	10 years
Software	3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

An intangible asset is derecognised upon disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of tangible and intangible assets

At the end of the year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL, of which interest income is included in net gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is (i) held for trading, or (ii) it is designated as FVTPL.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Financial assets at FVTPL *(continued)*

(ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excluded any dividend or interest earned on the financial assets.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and changes in foreign exchange rates are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at the end of the year. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loan and receivables, objective evidence of impairment could include:

(i) significant financial difficulty of the issuer or counterparty; or

(ii) breach of contract, such as default or delinquency in interest or principal payments; or

(iii) it becoming probable that the borrower will enter bankruptcy or financial reorganization.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of loans and receivables are reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

The financial liabilities (including trade payables and other payables) are subsequently measured at amortized cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Treasury shares

When an entity reacquires its own shares, those shares (known as treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management of the Group are required to make judgments, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Key sources of estimation uncertainty

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the year that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of the year.

Impairment of leasehold improvement

Leasehold improvement are stated at costs less depreciation and impairment, as appropriate. The directors review their impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In determining whether an asset is impaired, the Group have to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the value in use, i.e. the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimate the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2016, the impairment amounts of leasehold improvement are RMB6,694,000. Details of the impairment of leasehold improvement are disclosed in Note 13.

5. REVENUE AND SEGMENT INFORMATION

During the year, the Group's revenue which represents the amount received and receivable from the operation of restaurant net of discount and sales related taxes, are as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Restaurant operations	**2,758,137**	2,424,606

Information reported to the executive directors of the Company, who are identified as the chief operating decision maker (the "CODM") of the Group, in order to allocate resources and to assess performance, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

5. REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

All of the Group's operations are located in the PRC. The Group's revenue from external customers and all of its non-current assets are located in PRC based on geographical location of assets.

No revenue from individual external customer contributing over 10% of total revenue of the Group.

6. OTHER INCOME

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest income on:		
– bank deposits	**15,537**	18,247
– AFS investments	**2,382**	–
	17,919	18,247
Promotion service income	**1,067**	808
Government grant		
– subsidy received (Note)	**4,394**	2,114
– release from deferred income (Note 22)	**910**	910
	5,304	3,024
Others	**7,206**	4,579
	31,496	26,658

Note:

The amounts represent the subsidy received from the local government for the Group's local business development. There were no unfulfilled conditions in the year in which they were recognised.

7. OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(Loss) gain on disposal of property, plant and equipment, net	**(2,998)**	385
Foreign exchange gain, net	**29,116**	38,401
Loss on closure of restaurants	**(545)**	(1,009)
Provision for the probable losses of the pending lawsuits	**–**	(1,106)
Reversal of impairment loss on trade receivables	**–**	474
Reversal of impairment loss on rental deposit	**898**	1,082
Impairment loss on rental deposit	**(783)**	(1,086)
Impairment loss recognised in respect of leasehold improvement	**(6,694)**	–
Gains from changes in fair value of financial assets designated as at FVTPL	**22,546**	12,969
	41,540	50,110

8. PROFIT BEFORE TAX

The Group's profit for the year has been arrived at after charging:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**112,724**	117,313
Amortization of intangible assets	**710**	2,175
Release of lease prepayments for land use right	**534**	534
Total depreciation and amortization	**113,968**	120,022
Operating lease rentals in respect of		
– rented premises (minimum lease payments)	**9,671**	9,009
– restaurants		
– minimum lease payments	**318,200**	293,956
– contingent rent (Note)	**29,100**	25,451
	347,300	319,407
Total property rentals and related expenses	**356,971**	328,416
Directors' emoluments (Note 11)	**6,267**	6,547
Other staff cost		
Salaries and other allowance	**597,083**	495,662
Equity-settled share-based payments	**2,173**	3,904
Retirement benefit contribution	**46,433**	36,867
Total staff costs	**651,956**	542,980
Auditor's remuneration	**2,880**	2,420

Note: The contingent rent refers to the operating rentals based on pre-determined percentages to revenue less minimum rentals of the respective leases.

9. INCOME TAX EXPENSE

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Enterprise income tax ("EIT")		
Current tax in the PRC	**120,465**	69,562
Withholding EIT-current year	**12,393**	11,194
Under provision in prior years	**3,211**	–
Deferred tax (Note 16)	**(30,975)**	(20,999)
Total income tax recognised in profit or loss	**105,094**	59,757

The Company is tax exempted company incorporated in the Cayman Islands.

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% on estimated assessable profit and no taxable profit derived from Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. ("Xiabu Hong Kong") for the years ended 31 December 2016 and 2015. Under the Law of the PRC on Enterprise Income Tax ("EIT Law") effective from 1 January 2008 and Implementation Regulation of the EIT Law, the statutory EIT rate of PRC subsidiaries of the Company is 25%.

Further, in the PRC, 10% withholding income tax is generally imposed on the assessable profits earned by foreign investors from the foreign investment enterprises established in the PRC from 16 September 2008 onwards. During the year ended 31 December 2016, Xiabu Hong Kong recognised taxable royalty income determined with reference to revenue earned by the PRC subsidiary and interest income from a PRC subsidiary, and the corresponding amounts of which are deductible expenses for the PRC subsidiary. Such royalty income and the interest income are subject to withholding tax of 10% during the years ended 31 December 2016 and 2015.

Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to RMB726 million as at 31 December 2016 (2015: RMB492 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. INCOME TAX EXPENSE *(CONTINUED)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**473,122**	323,120
Tax calculated at applicable domestic tax rates at 25%	**118,281**	80,780
Tax effect of different tax rate on intra-group royalty income and interest income subject to withholding tax	**(18,589)**	(16,791)
Effect of different tax rates of company operating in other jurisdictions	**(4,297)**	(15,626)
Tax effect of expenses not deductible for tax purposes	**6,955**	6,816
Tax effect of tax losses and deductible temporary differences not recognised	**3,627**	4,578
Utilisation of tax losses and deductible temporary differences previously not recognised	**(4,094)**	–
Under provision in respect of prior year	**3,211**	–
Income tax expense	**105,094**	59,757

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is as following:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Earnings for the purpose of calculating basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**368,028**	263,363

The weighted average number of ordinary shares for the purpose of basic earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	For the year ended 31 December	
	2016	2015
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,060,147**	1,063,473
Effect of dilutive potential ordinary shares:		
Non-vested share options issued by the Company	**6,969**	7,454
Non-vested shares under the RSU Scheme	**247**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,067,363**	1,070,927

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

	For the year ended 31 December 2016					
	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Mr. Ho Kuang-Chi (賀光啓先生)	953	–	–	–	–	953
Ms. Yang Shuling (楊淑玲女士) (Note)	208	1,800	–	–	2,266	4,274
Sub-total	1,161	1,800	–	–	2,266	5,227
Non-executive directors:						
Ms. Chen Su-Yin (陳素英女士)	208	–	–	–	–	208
Mr. Wei Ke (魏可先生)	208	–	–	–	–	208
Sub-total	416	–	–	–	–	416
Independent non-executive directors:						
Ms. Hsieh Hui-yun (謝慧雲女士)	208	–	–	–	–	208
Mr. Hon Ping Cho (韓炳祖先生)	208	–	–	–	–	208
Ms. Cheung Sze Man (張詩敏女士)	208	–	–	–	–	208
Sub-total	624	–	–	–	–	624
Total						6,267

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(CONTINUED)*

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

	For the year ended 31 December 2015					
	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Mr. Ho Kuang-Chi (賀光啓先生)	922	–	–	–	–	922
Ms. Yang Shuling (楊淑玲女士) (Note)	201	1,800	–	–	2,619	4,620
Sub-total	1,123	1,800	–	–	2,619	5,542
Non-executive directors:						
Ms. Chen Su-Yin (陳素英女士)	201	–	–	–	–	201
Mr. Wei Ke (魏可先生)	201	–	–	–	–	201
Sub-total	402	–	–	–	–	402
Independent non-executive directors:						
Ms. Hsieh Hui-yun (謝慧雲女士)	201	–	–	–	–	201
Mr. Hon Ping Cho (韓炳祖先生)	201	–	–	–	–	201
Ms. Cheung Sze Man (張詩敏女士)	201	–	–	–	–	201
Sub-total	603	–	–	–	–	603
Total						6,547

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE *(CONTINUED)*

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Note:

Ms. Yang Shuling is also the Chief Executive Officer of the Group and her emoluments disclosed above include those for services rendered by her as the Chief Executive Officer.

Of the five individuals with the highest emoluments in the Group, one was the directors of the Company for the years ended 31 December 2016 (2015: one), whose emoluments are included in the disclosures above. The emoluments of the remaining four (2015: four) individuals for the year were as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and allowance	**4,492**	4,650
Equity-settled share-based payments	**701**	1,331
Contributions to retirement benefits schemes	**57**	71
	5,250	6,052

The number of these highest paid employees whose remuneration fell within the following band is as follows:

	For the year ended 31 December	
	2016	2015
HKD1,000,001 to HKD1,500,000	**3**	1
HKD1,500,001 to HKD2,000,000	**–**	2
HKD2,000,001 to HKD2,500,000	**1**	1
Total	**4**	4

During the years ended 31 December 2016 and 2015, no Directors waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Dividends recognised as distributions during the year	**113,675**	97,551

On 18 March 2015, the Company declared a dividend of RMB0.047 per share with total dividends of RMB49,521,000 to shareholders for the year ended 31 December 2014. The dividend was paid in June 2015.

On 18 August 2015,the Company declared a dividend of RMB0.044 per share with total dividends of RMB48,030,000 to shareholders for the six months ended 30 June 2015. The dividend was paid in September 2015.

On 29 March 2016, the Company declared a dividend of RMB0.054 per share with total dividends of RMB57,720,000 to shareholders for the year ended 31 December 2015. The dividend was paid in June 2016.

On 25 August 2016, the Company declared a dividend of RMB0.052 per share with total dividends of RMB55,955,000 to shareholders for the six months ended 30 June 2016. The dividend was paid in September 2016.

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2016 of RMB0.086 per share, amounting to approximately RMB91,256,000 has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting, which will be held on 26 May 2017. The 2016 final dividend will be declared in RMB and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited as its middle rate of exchange prevailing on 6 June 2017. The dividend has not been included as a liability in these consolidated financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold Improvement RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2015	45,902	456,531	8,849	4,939	68,576	10,848	595,645
Additions	–	–	–	29	9,816	130,048	139,893
Transfer	–	135,963	–	–	–	(135,963)	–
Disposals	–	–	(82)	(252)	(2,805)	–	(3,139)
At 31 December 2015	45,902	592,494	8,767	4,716	75,587	4,933	732,399
Additions	–	–	336	1,940	16,341	169,079	187,696
Transfer	–	161,160	–	–	–	(161,160)	–
Disposals	–	–	–	(940)	(11,399)	–	(12,339)
At 31 December 2016	**45,902**	**753,654**	**9,103**	**5,716**	**80,529**	**12,852**	**907,756**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2015	**7,892**	**230,557**	**3,241**	**3,900**	**38,198**	**–**	**283,788**
Charge for the year	**2,273**	**102,359**	**824**	**321**	**11,536**	**–**	**117,313**
Eliminated on disposals	**–**	**–**	**(16)**	**(194)**	**(2,201)**	**–**	**(2,411)**
At 31 December 2015	**10,165**	**332,916**	**4,049**	**4,027**	**47,533**	**–**	**398,690**
Charge for the year	**2,273**	**98,241**	**827**	**313**	**11,070**	**–**	**112,724**
Eliminated on disposals	**–**	**–**	**–**	**(893)**	**(8,159)**	**–**	**(9,052)**
Impairment loss recognised in profit or loss	**–**	**6,694**	**–**	**–**	**–**	**–**	**6,694**
At 31 December 2016	**12,438**	**437,851**	**4,876**	**3,447**	**50,444**	**–**	**509,056**
CARRYING AMOUNT							
At 31 December 2016	**33,464**	**315,803**	**4,227**	**2,269**	**30,085**	**12,852**	**398,700**
At 31 December 2015	**35,737**	**259,578**	**4,718**	**689**	**28,054**	**4,933**	**333,709**

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

The above items of property, plant and equipment other than construction in progress are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis as follows:

Buildings	20 years
Leasehold improvement	Over the shorter of the lease term and estimated useful lives up to 5 years
Machinery	10 years
Motor vehicles	4 years
Furniture and fixtures	3 – 5 years

At the end of 31 December 2016, in view of the unfavourable future prospects of some restaurants, there was indication that the related leasehold improvement may suffer an impairment loss. The management of the Group has conducted impairment testing. After the assessment, the recoverable amount is value in use, and the impairment of leasehold about RMB6,694,000 had been recognised during the year 2016.

The impairment loss recognised for the above assets have been included in profit or loss in the "other gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

14. LEASE PREPAYMENTS FOR LAND USE RIGHT

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost:		
At beginning and the end of the year	**26,704**	26,704
Accumulated amortization:		
At beginning of the year	**3,160**	2,626
Charge for the year	**534**	534
At the end of the year	**3,694**	3,160
Carrying amount at the end of the year	**23,010**	23,544

14. LEASE PREPAYMENTS FOR LAND USE RIGHT *(CONTINUED)*

Analyse for reporting purpose as:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current portion included in trade and other receivables (Note 18)	**534**	534
Non-current portion	**22,476**	23,010
	23,010	23,544

15. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Listed investments:		
Debt securities listed in HKEX (Note)	**52,758**	–

Analysed for reporting purposes as:

Current	**17,687**	–
Non-current	**35,071**	–
	52,758	–

Note:

The listed debentures, amounting to RMB17,687,000 and RMB35,071,000 with fixed interest rate of 6.375% and 5.5% per annum respectively, will be matured on 26 September 2017 and 5 June 2018 respectively and are measured at fair value.

16. DEFERRED TAX ASSETS

The movements of the Group's deferred tax assets during the year are as follows:

	Accrued staff costs RMB'000	Deferred income RMB'000	Allowance for doubtful debts RMB'000	Impairment of leasehold improvement RMB'000	Accrued expense not paid RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	20,434	5,183	922	–	–	191	26,730
Charge (credit) to profit or loss	(20,434)	(85)	(253)	–	41,938	(167)	20,999
At 31 December 2015	–	5,098	669	–	41,938	24	47,729
Charge (credit) to profit or loss	–	(887)	(625)	484	32,003	–	30,975
At 31 December 2016	–	4,211	44	484	73,941	24	78,704

Deferred tax assets have not been recognised in respect of the following items:

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Tax losses	**70,655**	71,343
Deductible temporary differences		
Accrued expenses	**1,656**	7,778
Deferred income	**120**	500
Impairment loss on rental deposit	**681**	115
Impairment of leasehold improvement	**4,758**	–
	77,870	79,736

16. DEFERRED TAX ASSETS *(CONTINUED)*

The tax losses will be expired as follow:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
2016	**–**	7,987
2017	**16,734**	18,387
2018	**27,176**	27,176
2020	**17,793**	17,793
2021	**8,952**	–
	70,655	71,343

No deferred tax asset has been recognised in relation to the unutilized tax losses and deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit will be available against which the tax losses and the deductible temporary differences can be utilized.

17. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Food and beverage	**98,141**	84,043
Other materials	**16,020**	14,842
Consumables	**10,354**	4,984
	124,515	103,869

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**11,888**	21,113
Less: allowance for doubtful debts	**–**	(1,706)
	11,888	19,407
Prepaid operating expenses	**27,865**	21,970
Prepayments to suppliers	**3,727**	17
Current portion of lease prepayments for land use right	**534**	534
Interest receivable	**8,673**	7,215
Amounts prepaid to the RSU Trustee for purchase of ordinary shares (Note 24)	**10,037**	–
Prepayments for value-added tax	**26,740**	–
Other receivables	**6,883**	4,208
Total trade and other receivables and prepayments	**96,347**	53,351

The Group allows an average credit period of 1-30 days to its trade customers. The credit period provided to customers can vary based on a number of factors including nature of operations and the Group's relationship with the customer.

The following is an aged analysis of trade receivables presented based on the invoice date:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 60 days	**11,888**	17,906
61 to 180 days	**–**	561
181 days to 1 year	**–**	–
Above 1 year	**–**	940
	11,888	19,407

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(CONTINUED)*

Movement in the allowance for doubtful debts

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**1,706**	2,180
Reversal of impairment losses on trade receivables	**–**	(474)
Amounts written off as uncollectible	**(1,706)**	–
At the end of the year	**–**	1,706

Aging of trade receivables that are past due but not impaired:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Overdue by:		
91 to 180 days	**–**	–
181 days to 1 year	**–**	–
Above 1 year	**–**	940
	–	940

At the end of the reporting period, there are no trade receivables that have expired but not impaired. The Group's exposure to the concentration of credit risk is disclosed in Note 30.

19. BANK BALANCES AND CASH

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and bank balances denominated in:		
– RMB	**1,039,062**	798,264
– USD	**326,866**	7,321
– HKD	**113,280**	548,912
	1,479,208	1,354,497

Bank balances carried interest at prevailing market rates which range from 0.01% to 0.35% (2015: 0.01% to 0.35%) per annum as at 31 December 2016.

The bank balances denominated in RMB were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

20. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on 60-day credit term. An aged analysis of the Group's trade payables, as at the end of each year, based on the goods received date, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 60 days	**163,559**	142,941
61 to 180 days	**964**	5,144
181 days to 1 year	**1,930**	117
Over 1 year	**907**	783
	167,360	148,985

21. ACCRUAL AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Staff cost payable	**102,045**	74,430
Accrued operating expenses	**39,590**	41,577
Construction fee payables	**95,808**	42,432
Rental payables	**31,446**	27,516
Other PRC tax payables	**19,509**	23,891
Advance from customers	**760**	24,326
Deposits from suppliers	**19,910**	17,862
Others	**32,532**	26,249
	341,600	278,283

22. DEFERRED INCOME

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Customer loyalty programme (i)	**1,320**	4,338
Government grant (ii)	**15,645**	16,555
	16,965	20,893
Current	**1,320**	4,338
Non-current	**15,645**	16,555
	16,965	20,893

Notes:

(i) The deferred income which arises in respect of the Group's coupon award scheme is recognised in accordance with IFRIC 13 *Customer Loyalty Programmes*.

(ii) The deferred income represents the infrastructure subsidies granted by government in the previous years. During the year ended 31 December 2016, no infrastructure government subsidies were received or receivable. The release of deferred income was RMB910,000 for the year ended 31 December 2016 (2015: RMB910,000), over the useful lives of the relevant buildings.

23. SHARE CAPITAL

Issued and fully paid-up:

	As at 31 December	
	2016	2015
	USD'000	USD'000
Share capital of US$0.000025 each	**27**	27
	RMB'000	RMB'000
Presented as:		
Ordinary shares	**172**	172

	As at 31 December	
	2016	2015
	'000	'000
Number of shares:		
Fully paid ordinary shares	**1,065,912**	1,064,186

Ordinary shares

	Authorized shares		**Issued capital**	
	Number of shares '000	**Amount RMB'000**	**Number of shares '000**	**Amount RMB'000**
Balance at 1 January 2015	2,000,000	336	1,054,364	171
Increase in authorised capital and new issue of shares to the public (Note)	–	–	9,437	1
Exercise of issued share option	–	–	385	–
Balance at 31 December 2015	2,000,000	336	1,064,186	172
Exercise of issued share option	–	–	1,726	–
Balance at 31 December 2016	**2,000,000**	**336**	**1,065,912**	**172**

Notes:

On 9 January 2015, 9,436,500 ordinary shares with par value of US$0.000025 each of the Company were issued at HK$4.70 by way of placing and public offer. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

24. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) SHARE OPTION SCHEMES

The Company adopted a share option scheme for the grant of options to eligible participants on 28 August 2009 (the "Pre-IPO Share Incentive Plan"). In accordance with the terms of the scheme, executives and senior employees may be granted options to purchase ordinary shares of the Company when there is a Qualified IPO. The share options granted under the Pre-IPO Share Incentive Plan were granted in four different tranches on 31 August 2009, 17 May 2011, 24 December 2012 and 21 March 2014, respectively. The share options are exercisable according to the following arrangement:

Share option tranche	Number of options granted	Grant date	Vesting period
Share option tranche A	4,233,000	31/08/2009	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche B	11,795,228	17/05/2011	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche C	9,670,361	24/12/2012	25% for each of 4 years after 12 months from the date of Qualified IPO
Share option tranche D			
Schedule I	3,207,461	21/03/2014	25% for each of 4 years after 24 months from the date of Qualified IPO
Schedule II	5,717,140	21/03/2014	25% for each of 4 years after 36 months from the date of Qualified IPO
Schedule III	6,664,542	21/03/2014	25% for each of 4 years after 48 months from the date of Qualified IPO

Each share option can subscribe for one ordinary share of the Company when exercise. No amounts are paid or payable upon the acceptance of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the vesting date to the expiry date as mentioned below.

The exercise price of the share option is the agreed price at the date of the grant. The expiry date is no more than ten years from the date of the grant and the options would be forfeited when the staff resigned before the expiry day.

24. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

(1) SHARE OPTION SCHEMES *(continued)*

(i) Analysis of share options granted to the Group's employees related to the share option scheme

	The year ended 31 December							
	2016				2015			
Share option tranches	**Tranche A**	**Tranche B**	**Tranche C**	**Tranche D**	Tranche A	Tranche B	Tranche C	Tranche D
Share options granted to								
Director	**1,050,000**	**3,564,800**	**4,594,994**	**3,437,973**	1,400,000	3,564,800	4,594,994	3,437,973
Other key management personnel	**–**	**–**	**–**	**2,006,629**	–	554,400	580,663	4,516,424
Other staff	**987,250**	**1,673,996**	**2,112,561**	**3,247,421**	1,111,000	2,158,906	3,142,637	5,731,823
Share options granted at the end of the year	**2,037,250**	**5,238,796**	**6,707,555**	**8,692,023**	2,511,000	6,278,106	8,318,294	13,686,220

(ii) The movement of share options

	The year ended 31 December			
	2016		2015	
Share options	**Number of options**	**Weighted average exercise price RMB**	Number of options	Weighted average exercise price RMB
Balance at beginning of the year	**30,793,620**	**2.18**	33,544,707	2.17
Forfeited during the year	**(6,392,228)**	**2.62**	(2,366,287)	2.26
Exercised during the year	**(1,725,768)**	**1.60**	(384,800)	1.30
Balance at end of the year	**22,675,624**	**2.10**	30,793,620	2.18

24. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

(1) SHARE OPTION SCHEMES *(continued)*

(iii) The range of the exercise price about the share options at the end of current year

Share option tranche	Number of options granted	Grant date	Expiry date	Exercise price (RMB)	Fair value at grant date (RMB per share)
Share option tranche A	4,233,000	31/08/2009	31/08/2019	0.84	0.33
Share option tranche B	11,795,228	17/05/2011	17/05/2021	1.79	0.90
Share option tranche C	9,670,361	24/12/2012	24/12/2022	1.84	1.10
Share option tranche D					
Schedule I	3,207,461	21/03/2014	21/03/2024	2.78	1.19
Schedule II	5,717,140	21/03/2014	21/03/2024	2.78	1.22
Schedule III	6,664,542	21/03/2014	21/03/2024	2.78	1.24

(iv) The approach of determining the fair value of the share options

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumption. The inputs into the model were as follows:

Share option schemes	Tranche A	Tranche B	Tranche C	Tranche D		
				Schedule I	Schedule II	Schedule III
Fair value per share	0.82	1.86	1.81	2.60	2.60	2.60
Exercise price	0.84	1.79	1.84	2.78	2.78	2.78
Dividend yield	1.65%	1.37%	–	2%	2%	2%
Risk-free interest rate	4.16%	3.58%	1.52%	1.92%	1.99%	2.08%
Year to expiration	7.59	6.70	7.38	7.14	7.64	8.14
Expected volatility	39.9%	49.9%	60.7%	56.0%	56.0%	56.0%

The Group recognised the total expense of RMB3,810,000 for the year ended 31 December 2016 (2015: RMB6,523,000) in relation to share options granted by the Company.

24. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

(2) RESTRICTED SHARE UNIT SCHEME

On 28 November 2014, a restricted share unit scheme (the "RSU Scheme") of the Company was approved and adopted by the shareholders of the Company. The RSU Scheme will be valid and effective for a period of ten years, commencing from the Listing Date, being 17 December 2014 (unless it is terminated earlier in accordance with its terms) (the "RSU Scheme Period").

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) must not exceed 42,174,566 Shares, being 4% of the total number of Shares in issue as at the Listing Date (the "RSU Scheme Limit"). The RSU Scheme Limit may be refreshed from time to time subject to prior approval from the Shareholders in general meeting, provided that the total number of Shares underlying the RSUs granted following the date of approval of the refreshed limit (the "New Approval Date") under the limit as refreshed from time to time must not exceed 4% of the number of Shares in issue as of the relevant New Approval Date. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees for their contribution to the Group and to attract and retain suitable personnel to enhance the development of the Group.

The Company has appointed Computershare Hong Kong Trustees Limited as the RSU Trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme.

During the year ended 31 December 2016, the RSU Trustee has purchased an aggregate of 7,954,500 Shares with consideration of HK$28,780,000 (equivalent to approximately RMB24,556,000) from the market. The shares will be held on trust for the benefit of the RSU Participants pursuant to the RSU Scheme and the trust deed. The shares so purchased will be used as awards for relevant participants in the RSU Scheme (the "RSU Participants").

During the year ended 31 December 2016, the Company purchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid
		Highest HK$	Lowest HK$	HK$'000
January	2,992,500	2.78	2.75	8,311
June	2,141,000	4.00	3.93	8,580
July	2,000,000	3.97	3.97	8,017
November	821,000	5.11	4.70	3,872

As at 31 December 2016, amounts about RMB10,037,000 were held by the RSU Trustee to purchase ordinary share from the market in the forthcoming period according to the instruction of the Company.

24. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(CONTINUED)*

(2) RESTRICTED SHARE UNIT SCHEME *(continued)*

On 17 November 2016, one director, one key management personnel and 13 employees of the Group were granted RSUs in respect of an aggregate of 2,910,920 shares. The Grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs. Subject to certain vesting conditions and the satisfaction of certain performance targets, the RSUs shall be exercisable over a period of ten years commencing from the date on which the RSUs are granted. The closing price of the Shares on the Stock Exchange as at the date of grant of the RSUs is HK$4.83 per share.

The newly granted RSUs shall vest as follows:

(i) as to 25% of the RSUs on 1 April 2018;
(ii) as to 25% of the RSUs on 1 April 2019;
(iii) as to 25% of the RSUs on 1 April 2020; and
(iv) as to the remaining 25% of the RSUs on 1 April 2021.

The following table discloses the movement of the Company's RSUs granted to the selected participants for the year ended 31 December 2016 and outstanding at 31 December 2016:

	Number of Awarded Shares				
RSU tranches	**Outstanding at 1 January 2016**	**Granted during the year**	**Outstanding at 31 December 2016**	**Share price at grant date HK$**	**Grant price HK$**
RSUs granted to					
Director	–	1,273,859	1,273,859	4.83	–
Other key management personnel	–	741,164	741,164	4.83	–
Other staff	–	895,897	895,897	4.83	–
Total	–	2,910,920	2,910,920		

The Group recognised the total expense of RMB629,000 for the year ended 31 December 2016 (2015: Nil) in relation to RSUs granted by the Company this year.

25. OPERATING LEASES

The Group as lessee

At the end of the year, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Minimum lease payments under operating leases:		
Within one year	**338,425**	300,686
In the second to fifth year	**917,075**	793,394
After five years	**202,889**	214,979
	1,458,389	1,309,059

The above operating lease payments commitments represent rental payable by the Group for warehouse and premises leased for restaurants. These leases were negotiated for lease terms of one to fifteen years. Monthly rental was fixed for certain leases.

The operating lease rentals for certain restaurants are determined by applying pre-determined percentage to revenue of the respective restaurants ("Prorated Rental") or at the higher of a fixed rental and a Prorated Rental pursuant to the terms and conditions as set out in the respective rental agreements. As the future revenue of these restaurants could not be reliably determined, the relevant contingent rent has not been included above and only the minimum lease commitments have been included in the above table.

26. CAPITAL COMMITMENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**5,191**	5,429

27. RETIREMENT BENEFITS CONTRIBUTION

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year ended 31 December 2016 amounted to RMB46,433,000 (2015: RMB36,867,000).

28. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name	Relationship
Xiabu Fast Food Chain Management Co., Ltd. ("Xiabu Fast Food")	Entity controlled by the ultimate controlling shareholder of the Company

(b) Related party transactions

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Expense on property leasing	**1,380**	1,361

At 31 December 2016, the commitment for future minimum lease payments under non-cancellable operating lease with Xiabu Fast Food was RMB460,000 (2015: RMB460,000).

(c) Remuneration of key management personal of the Group

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Short term employee benefits	**1,325**	3,445
Post-employment benefit	**20**	53
Equity-settled share-based payments	**701**	1,331
	2,046	4,829

Further details of the Directors' emoluments are included in Note 11.

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

During the year ended 31 December 2016, the Company has interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and paid ordinary share capital/ registered capital	Equity interest attributable to the Company		Principal activities
			31 December 2016 %	31 December 2015 %	
Xiabu Hong Kong (Note iv)	Hong Kong 16 May 2008	Ordinary share capital HK$1	**100**	100	Investment holding
Xiabuxiabu Restaurant Management Co., Ltd.* (呷哺呷哺餐飲管理有限公司) ("Xiabu Beijing") (Note i)	The PRC 16 September 2008	Registered capital RMB55,000,000	**100**	100	Operating restaurant
Xiabuxiabu Restaurant Management (Shanghai) Co., Ltd.* (呷哺呷哺餐飲管理(上海)有限公司) ("Xiabu Shanghai") (Note i)	The PRC 10 June 2010	Registered capital US$1,000,000	**100**	100	Operating restaurant
Coucou (China) Holdings Co., Ltd. (湊湊(中國)控股有限公司) ("Coucou (China)") (Note iii) (Note iv)	British Virgin Islands 5 March 2015	Ordinary share capital US$1	**100**	100	Investment holding
Coucou (HK) Holdings Co., Ltd. (湊湊(香港)控股有限公司) ("Coucou (HK)") (Note iii)	Hong Kong 18 March 2015	Ordinary share capital HK$1	**100**	100	Investment holding
Coucou Restaurant Management Co., Ltd.* (湊湊餐飲管理有限公司) (Note i) (Note v)	The PRC 19 August 2015	Paid Registered capital RMB11,754,000	**100**	100	Operating restaurant
XiabuXiabu (Shanghai) Industrial Co., Ltd.* (呷哺呷哺(上海)實業有限公司)	The PRC 14 July 2015	Paid registered capital RMB100,000	**100**	100	Investment holding

* The English name is for identification only. The official names of the companies are in Chinese.

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(CONTINUED)*

Notes:

(i) The entities are wholly owned foreign enterprises.

(ii) None of the subsidiaries had issued any debts securities at the end of the year.

(iii) Guoyun (China) Holdings Co., Ltd. and Guoyun (HK) Holdings Co., Ltd. were renamed as Coucou (China) Holdings Co., Ltd. and Coucou (HK) Holdings Co., Ltd. in March 2016.

(iv) Except for Xiabu Hong Kong and Coucou (China) which are directly held by the Company, other subsidiaries are indirectly held by the Company.

(v) Coucou Restaurant Management Co., Ltd. is the wholly-owned subsidiary of Coucou (HK) with registered capital of RMB80,000,000.00. RMB11,754,000 was paid by Coucou (HK) in December 2016.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of the financial instruments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (Including cash and bank balances)	**1,516,689**	1,385,327
Available-for-sale investments	**52,758**	–
Financial liabilities:		
Amortized cost	**488,691**	379,051

Financial risk management objectives and policies

The Group's major financial instruments include debt investments, trade and other receivables, cash and bank balances, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the foreign currency risk and interest rate risk, which details are described as follows:

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Foreign currency risk management

The Group undertakes certain financing and operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets as at the end of the year are as follows:

	Assets	
	As at 31 December	
	2016	2015
	RMB'000	RMB'000
USD	**379,624**	7,321
HKD	**113,280**	548,912

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the US dollar and HK dollar against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the profit for the year, and the amounts below would be negative.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year		
USD	**18,981**	275
HKD	**5,664**	20,584

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Interest rate risk

The Group is exposed to cash flow interest risk in relation to variable-rate bank balances (see Note 19), which carry prevailing market interest. The Group currently does not have a specific policy to manage their interest rate risk but will closely monitor their interest rate risk exposure in the future.

Interest rate sensitivity analysis

No sensitivity analysis on interest rate risk on bank balance is presented as management consider the sensitivity on interest rate risk on bank balance is insignificant.

Credit risk

As at 31 December 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

The Group trades with a large number of individual customers and trading terms are mainly on cash and credit card settlement; the Group does not have significant credit risk exposure to any single individual customer. For the trade receivables due from the shopping malls, the Group monitors the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. In addition, the receivable balances are also monitored on ongoing basis. Hence, the management of the Company believes that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, management of the Company considered that the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation.

Liquidity risk

In management of liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management relies on the cash generated from operating activities as the main source of liquidity. For the year ended 31 December 2016, the Group had cash generated from operating activities of approximately RMB395.0 million, (2015: RMB370.2 million). The Group expects to meet its other obligations from operating cash flows.

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

The following tables details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	On demand or within one month RMB'000	**Over 1 month but within 3 months RMB'000**	**Over 3 months but within 1 year RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
As at 31 December 2016					
Financial liabilities					
Trade payables	**165,209**	**1,918**	**233**	**167,360**	**167,360**
Other payables	**130,208**	**155,858**	**35,265**	**321,331**	**321,331**
Total	**295,417**	**157,776**	**35,498**	**488,691**	**488,691**

	On demand or within one month RMB'000	Over 1 month but within 3 months RMB'000	Over 3 months but within 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015					
Financial liabilities					
Trade payables	147,961	1,024	–	148,985	148,985
Other payables	152,576	45,552	31,938	230,066	230,066
Total	300,537	46,576	31,938	379,051	379,051

30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Fair value of financial instruments

The fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table gives information about how the fair values of AFS investments of the Group is determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at (RMB'000)		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2016	31 December 2015				
Available-for-sale investment	**Assets 52,758**	–	Level 1	Quoted bid price in an active market.	N/A	N/A

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while to maximise the return to the owners of the Company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of the total equity of the Group.

The management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Group will balance its overall capital structure through issue of new shares, issue of new debts as well as the redemption of existing debts.

32. SUBSEQUENT EVENTS

Subsequent to 31 December 2016, the Group had the following subsequent event:

During the period from 20 January 2017 to 26 January 2017, the RSU Trustee has purchased an aggregate of 118,000 shares from the market with total consideration of HK$579,747.48.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current asset		
Investment in subsidiaries	**89,760**	74,849
Amounts due from a subsidiary	**132,682**	124,201
	222,442	199,050
Current assets		
Interest receivable	**8,673**	7,215
Amounts due from subsidiaries	**87,217**	256,922
Amounts prepaid to the RSU Trustee for purchase of ordinary shares (Note 24)	**10,037**	–
Bank balances and cash	**562,281**	510,008
	668,208	774,145
Current liabilities		
Amounts due to subsidiaries	**–**	6,463
Other payables	**1,627**	671
	1,627	7,134
Net current liabilities	**666,581**	767,011
Total assets less current liabilities	**889,023**	966,061
Net assets	**889,023**	966,061
Capital and reserves		
Share capital	**172**	172
Reserves (Note)	**888,851**	965,889
Total equity	**889,023**	966,061

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Note:

	Attribute to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Equity-settled share-based payments reserve RMB'000	Treasury share reserve RMB'000	(Accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2015	171	970,769	12,125	–	(31,122)	951,943
Profit and total comprehensive income for the year	–	–	–	–	70,864	70,864
Issue of new shares by exercise of over-allotment options	1	35,011	–	–	–	35,012
Issue cost of new shares by exercise of over-allotment options	–	(1,230)	–	–	–	(1,230)
Effect of forfeited share option during the year	–	–	(764)	–	764	–
Exercise of issued share option	–	643	(143)	–	–	500
Recognition of equity-settled share-based payments	–	–	6,523	–	–	6,523
Payment of dividends	–	–	–	–	(97,551)	(97,551)
Balance at 31 December 2015	172	1,005,193	17,741	–	(57,045)	966,061
Profit and total comprehensive income for the year	–	–	–	–	53,933	53,933
Effect of forfeited share option during the year	–	–	(3,216)	–	3,216	–
Exercise of issued share option	–	3,916	(1,095)	–	–	2,821
Recognition of equity-settled share-based payments	–	–	4,439	–	–	4,439
Payment of dividends	–	–	–	–	(113,675)	(113,675)
Purchase of treasury share under restricted share unit scheme	–	–	–	(24,556)	–	(24,556)
Balance at 31 December 2016	172	1,009,109	17,869	(24,556)	(113,571)	889,023

34. APPROVAL OF FINANCIAL STATEMENT

The financial statements were approved by the board of directors and authorised for issuance on 28 March 2017.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,758,137**	2,424,606	2,201,989	1,890,470	1,508,331
Profit before income tax	**473,122**	323,120	186,043	184,708	139,556
Income tax expenses	**(105,094)**	(59,757)	(44,850)	(43,998)	(32,033)
Profit for the year	**368,028**	263,363	141,193	140,710	107,523
Other comprehensive expense for the year	**(1,232)**	–	–	–	–
Profit and total comprehensive income for the year attributable to Owners of the Company	**366,796**	263,363	141,193	140,710	107,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December,				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,312,604**	1,964,131	1,682,150	841,339	645,847
Total liabilities	**596,296**	483,648	408,284	303,922	280,444
Net assets	**1,716,308**	1,480,483	1,273,866	537,417	365,403