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FOOD IS ABOVE ANYTHING

ANNUAL REPORT 2016

小南国
SHANGHAI MIN

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

Incorporated in the Cayman Islands with limited liability
Stock Code: 3666

POKKA CAFÉ　米芝蓮 Mai Chi Ling　WOLFGANG PUCK　ORENO DINING BAR　THE BOATHOUSE SHANGHAI CHINA　南小館 the dining room　上海小南国 SHANGHAI MIN　MAISON DE L'HUI 慧公馆

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY[1]

Ms. Mok Ming Wai

AUTHORIZED REPRESENTATIVES

Ms. Wang Huimin
Ms. Zhu Xiaoxia

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

EXECUTIVE COMMITTEE

Ms. Wang Huimin (Chairlady)
Ms. Zhu Xiaoxia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 5th Floor, Paramount Building,
12 Ka Yip Street,
Chai Wan, Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

Note 1 Ms. Zhao Hailin acted as the joint company secretary with Ms. Mok Ming Wai from 23 May 2016 to 28 October 2016. Upon Ms. Zhao's resignation on 28 October 2016 Ms. Mok has remained the company secretary of the company.

LEGAL ADVISERS

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

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

AUDITOR

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

STOCK CODE

03666

COMPANY'S WEBSITE

www.xiaonanguo.com

INVESTOR RELATIONS

Ms. Xia Hongye
Email: ir@xiaonanguo.com

Financial Highlights

	For the year ended 31 December		% Change
	2016	2015	**increase/(decrease)**
Revenue (RMB'000)	**2,001,001**	2,035,177	(1.7%)
Gross profit[1] (RMB'000)	**1,433,929**	1,405,409	2.0%
Gross margin[2]	**71.7%**	69.1%	2.6%pts
(Loss)/profit for the year (RMB'000)	**34,246**	(98,417)	134.8%
Net profit margin[3]	**1.7%**	(4.8%)	6.5%pts
Earnings/(loss) Per Share – Basic (RMB cents)	**2.0**	(6.3)[13]	131%
Total Assets (RMB'000)	**1,785,785**	1,546,689	15.5%
Net Assets (RMB'000)	**962,442**	770,882	24.8%
Cash and Cash Equivalents (RMB'000)	**233,390**	169,024	38.1%
Net Cash[4]	**(108,425)**	(165,292)	34.4%
Account Receivables Turnover Days[5] (days)	**4.8**	3.9	23.1%
Accounts Payable Turnover Days[6] (days)	**59.5**	63.9	(6.9%)
Inventory Turnover Days[7] (days)	**29.5**	28.7	(2.8%)
Cash Cycle[8] (days)	**(25.2)**	(31.3)	19.5%
Gearing Ratio[9]	**33.6%**	40.7%	(7.2%)pts
Return on Equity[10]	**4.0%**	(12.6%)	16.6%pts
Return on net Asset[11]	**2.1%**	(6.8%)	8.9%pts
Number of restaurants[12] (as at 31 December)	**127**	139	(8.6%)

Notes:

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

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

3 Net profit margin is calculated as (loss)/profit for the year divided by revenue.

4 Net cash represents cash and cash equivalents minus interest bearing bank loans.

5 Equivalent to 365/(revenue/annual average receivables).

6 Equivalent to 365/(Cost of sales/annual average payables).

7 Equivalent to 365/(Cost of sales/annual average inventories).

8 Equivalent to AR Days + Inventory Days – AP Days.

9 Equivalent to net debts over capital and net debts.

10 Equivalent to net (loss)/profit over annual average equity.

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

12 The number of restaurants as at 31 December 2016 included the 27 stores of POKKA HK and excluded Mai Chi Ling licenced stores.

13 Earnings per share for the year ended 31 December 2015 is restated to reflect the bonus element of Rights Issue (the "**Rights Issue**") on 18 July 2016.

The board (the "Board") of directors (the "Director(s)") of the Xiao Nan Guo Restaurants Holdings Limited (the "Company") is pleased to present its report and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of restaurant chain stores in Mainland China and Hong Kong. There were no significant changes in the nature of the Group's principal activities during the year. Particulars of the companies comprising the Group at present are set out in Note 1 to the financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2016 together with the Company's and the Group's financial conditions as of that date are set out in pages 62 to 69 and page 154 of the financial statements. The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders of the Company (the "Shareholders") to attend the forthcoming annual general meeting to be held on 6 June 2017, the register of members of the Company will be closed from 31 May 2017 to 6 June 2017, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend the forthcoming annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 26 May 2017.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, none of the Group's sales to the 5 largest customers amounted to 30% or more of the Group's revenue. In 2016, total purchases attributed to the 5 largest suppliers and the largest supplier of the Group were approximately 21.6% and 5.5% of the total purchases respectively.

During the year, other than Ms. Zhu Xiaoxia who indirectly holds 17.07% interests in the fifth largest supplier Shanghai Zhongmin Supply Chain Management Co., Ltd. (approximately 3.1% of the total purchases) and Ms. Wang Huimin who indirectly holds 10.37% interests in the fifth largest supplier Shanghai Zhongmin Supply Chain Management Co., Ltd. (approximately 3.1% of the total purchases), none of the Directors, their associates or Shareholders who to the best knowledge of the directors own 5% interest above of the issued shares of the Company has any beneficial interest in any of the Group's 5 largest suppliers or customers.

SHARE CAPITAL AND SHARE OPTION SCHEME

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

(1) Pre-IPO Share Option Schemes

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

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

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

(2) 12.5% shall vest if the Company's net profit for the year ended 31 December 2011 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

(3) if the Company's net profit for the year ended 31 December 2011 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options;

(b) from 1 July 2013 to 10 years from the date of grant:

(1) 25% shall vest if the Company's net profit for the year ended 31 December 2012 reaches a specified target;

(2) 12.5% shall vest if the Company's net profit for the year ended 31 December 2012 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

(3) if the Company's net profit for the year ended 31 December 2012 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options;

(c) from 1 July 2014 to 10 years from the date of grant:

(1) 25% shall vest if the Company's net profit for the year ended 31 December 2013 reaches a specified target;

(2) 12.5% shall vest if the Company's net profit for the year ended 31 December 2013 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

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

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

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

(2) 12.5% shall vest if the Company's net profit for the year ended 31 December 2014 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

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

(e) from 1 July 2016 to 10 years from the date of grant:

(1) 25% shall vest if the Company's net profit for the year ended 31 December 2015 reaches a specified target;

(2) 12.5% shall vest if the Company's net profit for the year ended 31 December 2015 reaches 90% of the specified target and the Company has the right to cancel the other 12.5%;

(3) if the Company's net profit for the year ended 31 December 2015 is lower than 90% of the specified target, the Company has the right to cancel 25% of such options.

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

Under the Pre-IPO Scheme Option Schemes, all the options were granted on or before 13 June 2012 as mentioned in the Prospectus. No further options will be granted under the Pre-IPO Share Option Schemes upon listing. The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of RMB1 or RMB1.1 or RMB1.175 by the grantee.

Since the adoption of the Pre-IPO Share Option Schemes, 101,318,199 share options have been granted under these schemes. From 1 January 2016 to 31 December 2016, no share options granted under the Pre-IPO Share Option Schemes have been exercised, 7,859,260 share options granted under the Pre-IPO Share Option Schemes have been cancelled and 921,060 share options granted under the Pre-IPO Share Option Schemes have been lapsed. As of 31 December 2016, 21,807,828 share options granted under the Pre-IPO Share Option Schemes were still outstanding. The summary of the share options granted under the Share Option Schemes that were still outstanding as at 31 December 2016 is as follows:

Name of the grantee	No. of share options outstanding as at 1 January 2016	No. of share options granted during the year ended 31 December 2016	No. of share options exercised during the year ended 31 December 2016	No. of share options adjusted during the year ended 31 December 2016	No. of share options cancelled during the year ended 31 December 2016	No. of share options lapsed during the year ended 31 December 2016	No. of share options outstanding as at 31 December 2016
Employees (in aggregate)	30,407,250	–	–	180,898[1]	7,859,260	921,060	21,807,828

Note 1: Statistics have adjusted based on the rights issue in July 2016

(2) Share Option Scheme

The Company adopted a share option scheme (the "**Share Option Scheme**") which became effective on 4 July 2012. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participants to subscribe for the Shares at an exercise price and subject to other terms under the Share Option Scheme. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 147,500,000 Shares, being 10% of the total number of Shares in issue at the time when dealings of the Shares first commenced on the Stock Exchange. The exercise price shall be determined and notified to the qualified participants by the Board and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such share option (which must be a business day); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of such share option; and (iii) the nominal value of the Shares on the date of grant.

The total number of Shares issued and to be issued upon the exercise of the options granted or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Group (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 4 July 2012. Under the Share Option Scheme, each option has a 10-year exercise period. For the period from 1 January 2016 to 31 December 2016, no other share options were granted under the Share Option Scheme.

The summary of the share options granted under the Share Option Schemes that were still outstanding as at 31 December 2016 is as follows:

Name of the grantee	No. of Share options Outstanding as at 1 January 2016	No. of Share options granted during the period ended 31 December 2016	No. of Share options exercised during the period ended 31 December 2016	No. of Share options Adjusted during the period ended 31 December 2016	No. of Share options Cancelled during the period ended 31 December 2016	No. of Share options Lapsed during the period ended 31 December 2016	No. of Share options Outstanding as the period ended 31 December 2016
Employees (In aggregate)	47,485,024	–	–	276,823[1]	10,110,425	7,229,125	30,422,297

Note 1: Statistic has impacted by the Right Issue on July 2016

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2016 and a outlook on the Group's future business development, possible risks and uncertainties that the Group may be facing are shown in "**Management Discussion and Analysis**" section of this annual report. The financial risk management objectives and policies of the Group are set out in note 39 to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in "**Five-Year Financial Summary**" section of this report.

Environmental policies and performance

The Group believes that due performance of environmental responsibility would definitely improve the effectiveness of the utilization of the Group's resources and the quality of customer service, and would raise the economic efficiency to the Group. The Group abides by all the applicable environmental laws and regulations of the places where the Group has business operations. The Group has established the environmental protection actions that include oil-water separator setting, reasonable disposal of restaurant wastes and waste cooking oils in order to minimize the impacts to the environment.

Compliance with the relevant laws and regulations

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

Key Relationships with stakeholders

Employees

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

Customers

The Group focuses on improving the quality of products and services to enhance customer satisfaction. Details of which are set out in the Environmental, Social and Governance Report section of this report.

Suppliers

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

DEBENTURES

For the year ended 31 December 2016, the Company did not issue any debentures.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Schemes and the Share Option Scheme, for the financial year ended 31 December 2016, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISION

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in Note 2.4 and 25 to the financial statements.

FIVE YEARS FINANCIAL SUMMARY

The summary of the Group's results, assets and liabilities for the last five financial years is set out on page 154 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum and Articles of Association (the "**Articles of Association**") or relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RESERVES

Movements in the reserves of the Company are set out in Note 42 to the financial statements.

As at 31 December 2016, the distributable reserves of the Company amounted to approximately RMB708,544,000, while no amount was proposed as a final dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Movements in the Group's properties and equipment during the year are set out in Note 13 to the financial statements.

DIRECTORS

For the year ended 31 December 2016 and as at the date of this report, the Board was comprised of the following Directors:

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Dr. Wu Chun Wah
Mr. Lui Wai Ming
Mr. LIN Lijun (appointed with effect from 23 March 2016)

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors of the Company and the senior management of the Group are set out on pages 43 to 45.

DIRECTORS' SERVICE CONTRACTS

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

No Director offering for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation (other than the normal statutory compensation).

EMOLUMENT POLICY

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

The emolument of the Directors and the five highest paid individuals is set out in Note 8 and Note 9 to the financial statements.

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

Details of share capital and share-based payment are set out in Note 28 and Note 29 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS OR ARRANGEMENTS

Except for those disclosed in Note 36 to the financial statements, for the year ended 31 December 2016, none of the Directors had any direct or indirect material interest in any contracts, transactions or arrangements of significance in relation to the Group's business to which any of the Company, its holding companies, its subsidies or its fellow subsidies was a party.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to notify to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Name of Directors	Nature of Interest	Number of Shares [1]	Approximate percentage of shareholding
Wang Huimin	Beneficiary of a trust	778,765,500(L) [2]	35.19% [8]
	Trustee	166,747,227(L) [3]	7.53% [8]
Wu Wen	Interest in controlled corporation	62,592,681(L) [4]	2.83% [8]
	Beneficial owner	13,050,000(L)	0.59% [8]
Wang Huili	Interest in controlled corporation	12,260,625(L) [5]	0.55% [8]
	Beneficial owner	13,650,000(L)	0.62% [8]
Wang Hairong	Interest in controlled corporation	118,223,625(L) [6]	5.34% [8]
	Beneficial owner	12,297,000(L)	0.56% [8]
Weng Xiangwei	Interest in controlled corporation	167,887,000 [7]	7.59%

Notes:

(1) The letter "L" denotes long position in the shares held by the Directors.

(2) The relevant shares of the Company were held by Value Boost Limited. The entire issued share capital of Value Boost Limited was held by Extensive Power Limited which acted as the trustee of The Wang Trust. The Wang Trust was a trust established by Ms. Wang Huimin, an executive Director, as the settlor and the trustee on 27 August 2011. The beneficiaries of The Wang Trust were Ms. Wang Huimin and in the event of her decease her estate administrator. Therefore, Ms. Wang Huimin and Extensive Power Limited were deemed to be interested in the Shares held Value Boost Limited under the SFO.

(3) The relevant Shares were held by Ms. Wang Huimin as trustee. Therefore, Ms. Wang Huimin was also deemed to be interested in the Shares under the SFO.

(4) The relevant Shares were held by Well Reach Limited. Ms. Wu Wen, a non-executive Director, owned the entire issued share capital of Brilliant South Limited, which beneficially owned 100% equity interest in Well Reach Limited. Therefore, Ms. Wu Wen was deemed to be interested in the Shares held by Well Reach Limited under the SFO.

(5) The relevant Shares were held by Fast Thinker Limited. Ms. Wang Huili, a non-executive Director, owned the entire issued share capital of Ever Project Investments Limited, which beneficially owned 100% equity interest in Fast Thinker Limited. Therefore, Ms. Wang Huili was deemed to be interested in the Shares held by Fast Thinker Limited under the SFO.

(6) The relevant Shares were held by Full Health Limited. Mr. Wang Hairong, a non-executive Director, owned the entire issued share capital of Wealth Boom Enterprises Limited, which beneficially owned 100% equity interest in Full Health Limited. Therefore, Mr. Wang Hairong and Wealth Boom Enterprise Limited were deemed to be interested in the Shares held by Full Health Limited under the SFO.

(7) The relevant Shares were held by Sunshine Property I Limited. Mr. Weng Xiangwei, a non-executive Director, owned the entire issued share capital of Shining (BVI) Limited, which beneficially owned 100% equity interest in Shining Capital Management Limited, which in turn beneficially owned 100% equity interest in Shining Capital Holdings L.P., which also in turn beneficially owned 100% equity interest in Sunshine Property I Limited. Therefore, Mr. Weng Xiangwei, Shining (BVI) Limited, Shining Capital Management Limited and Shining Capital Holdings L.P. were deemed to be interested in the shares held by Sunshine Property I Limited under the SFO.

(8) Upon completion of the Rights Issue, the enlarged number of issued shares of the Company would be 2,213,031,000 Shares. Details of the Rights Issue have been set out in the announcement published on 8 June 2016, the prospectus published on 30 June 2016 and the announcement published on 22 July 2016 by the Company.

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

As at 31 December 2016, the following persons (other than directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Extensive Power Limited	Interest in controlled corporation	778,765,500 (L)[2]	35.19%[6]
Value Boost Limited	Beneficial owner	778,765,500 (L)[2]	35.19%[6]
Full Health Limited	Beneficial owner	118,223,625 (L)[3]	5.34%[6]
Wealth Boom Enterprise Limited	Interest in controlled corporation	118,223,625 (L)[3]	5.34%[6]
Shining (BVI) Limited	Interest in controlled corporation	167,887,000 (L)[4]	7.59%
Shining Capital Holdings L.P.	Interest in controlled corporation	167,887,000 (L)[4]	7.59%
Shining Capital Management Limited	Interest in controlled corporation	167,887,000 (L)[4]	7.59%
Sunshine Property I Limited	Beneficial owner	167,887,000 (L)[4]	7.59%
Kralik James Christopher	Trustee	113,820,000 (L)[5]	5.14%
Lou Yunli	Trustee/Founder of a discretionary trust	113,820,000 (L)[5]	5.14%
Linden Street Capital Limited	Interest in controlled corporation	113,820,000 (L)[5]	5.14%
MCP China Investment Holdings Limited	Interest in controlled corporation	113,820,000 (L)[5]	5.14%
Milestone Capital Investment Holdings Limited	Interest in controlled corporation	113,820,000 (L)[5]	5.14%
Milestone Capital Partners III Limited	Interest in controlled corporation	113,820,000 (L)[5]	5.14%
Milestone China Opportunities Fund III, L.P.	Interest in controlled corporation	113,820,000 (L)[5]	5.14%
Milestone F&B I Limited	Beneficial owner	113,820,000 (L)[5]	5.14%

Notes:

(1) The letter "L" denotes long position in the shares.

(2) The relevant Shares were held by Value Boost Limited. The entire issued share capital of Value Boost Limited was held by Extensive Power Limited which acted as the trustee of The Wang Trust. The Wang Trust was a trust established by Ms. Wang Huimin, an executive Director, as the settlor and the trustee on 27 August 2011. The beneficiaries of The Wang Trust were Ms. Wang Huimin and in the event of her decease her estate administrator. Therefore, Ms. Wang Huimin and Extensive Power Limited were deemed to be interested in the Shares held by Value Boost Limited under the SFO.

(3) The relevant Shares were held by Full Health Limited. Mr. Wang Hairong, a non-executive Director, owned the entire issued share capital of Wealth Boom Enterprises Limited, which beneficially owns 100% equity interest in Full Health Limited. Therefore, Mr. Wang Hairong and Wealth Boom Enterprise Limited were deemed to be interested in the Shares held by Full Health Limited under the SFO.

(4) The relevant Shares were held by Sunshine Property I Limited. Mr. Weng Xiangwei, a non-executive Director, owned the entire issued share capital of Shining (BVI) Limited, which beneficially owned 100% equity interest in Shining Capital Management Limited, which in turn beneficially owned 100% equity interest in Shining Capital Holdings L.P., which also in turn beneficially owned 100% equity interest in Sunshine Property I Limited. Therefore, Mr. Weng Xiangwei, Shining (BVI) Limited, Shining Capital Management Limited and Shining Capital Holdings L.P. were deemed to be interested in the shares held by Sunshine Property I Limited under the SFO.

(5) The relevant Shares were held by Milestone F&B I Limited. Each of James Christopher Kralik and Lou Yunli held 50% interests in Linden Street Capital Limited, which in turn held 100% in MCP China Investment Holdings Limited. MCP China Investment Holdings Limited held 85% interests in Milestone Capital Investment Holdings Limited, which in turn held 100% interests in Milestone Capital Partners III Limited. Milestone Capital Partners III Limited was the general partner of Milestone China Opportunities Fund III, L.P., which in turn held 100% interest in Milestone F&B I Limited. Therefore, James Christopher Kralik, Lou Yunli, Linden Street Capital Limited, MCP China Investment Holdings Limited, Milestone Capital Investment Holdings Limited, Milestone Capital Partners III Limited and Milestone China Opportunities Fund III, L.P. were therefore deemed to be interested in the Shares held by Milestone F&B I Limited.

(6) Upon completion of the Rights Issue, the enlarged number of issued shares of the Company would be 2,213,031,000 Shares. Details of the Rights Issue have been set out in the announcement published on 8 June 2016, the prospectus published on 30 June 2016 and the announcement published on 22 July 2016 by the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DONATIONS

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

PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES

On 7 June 2016 (after trading hours), the Company and the underwriter Guotai Junan Securities (Hong Kong) Limited (the "**Underwriter**") entered into an underwriting agreement to implement the rights issue by issuing 737,677,000 rights shares ("**Rights Shares**") at the subscription price of HK$0.41 per Rights Share with the total nominal value of HK$7,376,770, on the basis of one Rights Share for every two shares held. The Company considers that the Rights Issue will provide opportunities for the Group to enhance its capital base and financial position and the Rights Issue will allow all shareholders to participate equally in the future development of the Company. On 7 June 2016, the closing price of the shares of the Company was HK$0.5 per share. In this Rights Issue, shareholders jointly subscribed 441,885,425 Rights Shares, representing approximately 59.9% of the total number of Rights Shares available under the Rights Shares; 295,791,575 Rights Shares were not subscribed, representing approximately 40.1% of the Rights Shares available under the Rights Shares. The Rights Shares which were not subscribed would be subscribed by the Underwriter under the underwriting agreement.

The Rights Issue became unconditional on 18 July 2016 at 4:00 p.m. The Company has issued an announcement in relation to the results of the right issue on 22 July 2016 and dispatched the share certificates for all fully-paid Rights Shares on 25 July 2016. The net proceeds per share amounted to RMB0.40 and all net proceeds have been utilized in the acquisition of 9.82% interests in JMU Limited (formerly known as Wowo Limited).

Save as disclosed above, the Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the year ended 31 December 2016.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this report on pages 16 to 21, none of the Company or any of its subsidiaries entered into any contracts of significance with the Controlling Shareholder or any of its subsidiaries, nor was there any contracts of significance between the Group and the Controlling Shareholder or any of its subsidiaries.

CONNECTED TRANSACTIONS

One-off Connected Transactions

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

Connected Transactions	Total Transaction Amount
On 8 January 2016 (with retrospective effect effective from 31 December 2015), since the Group has been exploring investments in food and restaurant related business and the Board considers that the investment in Shanghai Zhongju Investment Management Centre (Limited Partnership) (上海眾鉅投資管理中心(有限合夥)) in turn provides the Group with the opportunity to invest in e-commerce platform for integrating restaurant business in supply chain, Shanghai Xiao Nan Guo, a wholly-owned subsidiary of the Group, Shanghai Zhongmin Investment Management Co., Ltd. (上海眾敏投資管理有限公司) (the "**Zhongmin GP**") and other Zhongju Investors entered into the Zhongju LP Agreement for the establishment of the Zhongju LPE, and pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agrees to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total registered capital), while Zhongmin GP (as the general partner which controls Zhongju LPE, and Ms. Wang Huimin and Ms. Zhu Xiaoxia hold 50% equity interests in Shanghai Zhongmin Investment Development Group Co., Ltd. (上海眾敏投資發展集團有限公司), the controlling shareholder of Zhongmin GP, respectively) agrees to invest RMB283,221 in Zhongju LPE (representing approximately 0.263% of the relevant total registered capital).	HK$3,168,000
On 7 June 2016, Moonlight Vista Limited, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendors, pursuant to which Moonlight Vista Limited has conditionally agreed to acquire, and each of the Asia Global Develop Limited (as the first vendor), Jade Investments Ventures Limited (as the second vendor) and Markland (Hong Kong) Planning Limited (as the third vendor) has conditionally agreed to dispose of 70,435,164 target shares, 38,115,693 target shares and 33,364,023 target shares, representing approximately 4.88%, 2.64% and 2.31% of the issued share capital of JMU Limited (formerly known as Wowo Limited), respectively. The 141,914,880 target shares represents an aggregate of approximately 9.82% of the issued share capital of JMU Limited. The aggregate consideration for the acquisition is HK$368,396,837. In view of the potential business growth of JMU Limited (formerly known as Wowo Limited), the management of the Company considers that the strategy to acquire the interests in JMU Limited (formerly known as Wowo Limited) will provide the Company with reasonable investment opportunities, and enable the Group to create sustainable returns for the Shareholders. The consideration for the acquisition was determined by the parties after arm's length negotiations with reference to among other things, (i) the valuation of the existing shares in JMU Limited (formerly known as Wowo Limited) held by the vendors; (ii) the current operations of JMU Limited (formerly known as Wowo Limited); and (iii) the business prospects of JMU Limited (formerly known as Wowo Limited). On 15 December 2016, each of Ms. Wang Huimin, Ms. Zhu Xiaoxia and Moonlight Vista is respectively interested in approximately 17.07% 10.37% and 9.82% of the total issued capital of JMU Limited and is a substantial shareholder of JMU Limited (formerly known as Wowo Limited).	HK$368,396,837

Continuing Connected Transactions

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

Continuing Connected Transactions	2016 Annual Cap of the Transaction (RMB)	2016 Actual Annual Transaction Amount (RMB)
1. Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("**Shanghai Hongqiao**") had agreed to lease the premise (the "**Hongmei Premises**") of a total gross floor area of approximately 8,800 sq.m located at Block 4, No.3337, Hongmei Road, Shanghai to Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. ("**Shanghai Hongmei**") for use as a restaurant. The fixed annual rental amount paid by Shanghai Hongmei is RMB4,000,000 for the period from 1 January 2015 to 31 December 2017.	RMB4,000,000	RMB4,000,000
2. Shanghai Hongqiao had agreed to provide property management and security services to Shanghai Hongmei at Hongmei Premises. The expenses represent the actual cost incurred from the service for the period from 1 January 2015 to 31 December 2017.	RMB600,000	Property management and security services fee for the year 2016 waived
3. Xiao Nan Guo (Group) Company Ltd. has agreed to lease the premises (the "**Yingkou Premises**") of approximately 6,200 sq.m located at 601 Yingkou Road, Shanghai, the PRC to Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd, of which approximately 3,700 sq.m would be used as restaurants and approximately 2,500 sq.m would be used as office premises. A contingent rent would be paid for leasing the restaurant premises, calculated as 17% of the revenue income of the restaurant at the Yingkou Premises. A fixed rent would be paid for leasing the office premises. In addition, Xiao Nan Guo Group has agreed to provide property management and security services to Shanghai Xiao Nan Guo at the Yingkou Premises. On 18 December 2015, Xiao Nan Guo Group and Shanghai Xiao Nan Guo entered into the supplemental lease agreement. The rent payable by Shanghai Xiao Nan Guo to Xiao Nan Guo Group under the restaurant lease is reduced from 17% to 12% of the annual turnover of Shanghai Xiao Nan Guo. Period for each is from 1 January 2015 to 31 December 2017.	RMB11,600,000	Rental for office premises, RMB2,982,926; Rental for restaurants premises, RMB4,409,171

Continuing Connected Transactions	2016 Annual Cap of the Transaction (RMB)	2016 Actual Annual Transaction Amount (RMB)
4. Shanghai Xiao Nan Guo Restaurants Holdings Limited provided Xiao Nan Guo (Group) Company Ltd. and its subsidiaries with management services, including administrative, legal, human resources, financial management and accounting. For the services in relation to information and technology of the ERP system shared by Xiao Nan Guo Restaurants Holdings Limited and its subsidiaries (the "**Group**") and Xiao Nan Guo (Group) Company Ltd. and its subsidiaries and any other services in relation to the management of Xiao Nan Guo (Group) Company Ltd. as agreed by the parties from time to time, the expenses each month are RMB250,000. On 8 January 2016, Shanghai Xiao Nan Guo Restaurants Holdings Limited entered into a termination agreement with Ms. Wang (for herself or on behalf of the companies controlled by her) to early terminate the renewed comprehensive framework agreement, with effect from 1 January 2016.	RMB3,000,000	Nil
5 Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") has agreed to sell branded food products (or coupons) to Xiao Nan Guo (Group) Company Ltd.. The price of branded food products (or coupons) should be determined by Shanghai Xiao Nan Guo. Xiao Nan Guo (Group) Company Ltd. should purchase branded products (or coupon) at the market price as determined by Shanghai Xiao Nan Guo. Period for each is from 1 January 2015 to 31 December 2017.	RMB3,000,000	RMB221,004

Continuing Connected Transactions	2016 Annual Cap of the Transaction (RMB)	2016 Actual Annual Transaction Amount (RMB)
6. Shanghai Xiao Nan Guo intends to grants the coupons of WH Ming Hotel (as present) to customers of "Shanghai Min" restaurants who have contributed certain amounts. Shanghai Xiao Nan Guo will purchase the coupons from WH Ming Hotel at a discounted price from WH Ming Hotel (i.e. each Coupon will be sold to Shanghai Xiao Nan Guo at a price lower than its actual par value) in accordance with the terms and conditions stipulated in the hotel coupon purchase agreement for the period from 1 January 2014 to 31 December 2016.	RMB1,000,000	Nil
7. Shanghai Xiao Nan Guo will provide the Banquet Food to WH Ming Hotel upon request for banquet arrangements at the Hotel premises for the customers of WH Ming Hotel. The price of Banquet Food provided to WH Ming Hotel shall be decided by Shanghai Xiao Nan Guo, and shall not be lower than 75% of the selling price of the food in the menu of Shanghai Xiao Nan Guo for the period from 1 January 2014 to 31 December 2016.	RMB30,000,000	RMB20,349,284
8. Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. ("**Shanghai Xiao Nan Guo**") entrusted Shanghai Xiao Nan Guo Enterprise Service Information Development Limited ("**XNG Information Development**") to issue, maintain and manage the Pre-paid Cards which can be used at the Shanghai Min Restaurants. The Commission payable by Shanghai Xiao Nan Guo in respect of the issue, maintenance and management of the Pre-paid Cards to XNG Information Development is 1% of the actual dining expenses of a Pre-paid Card holder for every bill (before discount (if any)) at Shanghai Min Restaurant. Period for each from 1 April 2014 to 31 December 2016.	RMB250,000,000	Pre-paid Card spending amount RMB67,256,518 Commission RMB721,500

Continuing Connected Transactions	2016 Annual Cap of the Transaction (RMB)	2016 Actual Annual Transaction Amount (RMB)
9. Pursuant to the Procurement Framework Agreement entered and amended in 2016, Shanghai Xiao Nan Guo agreed to procure raw food ingredients and other non-food items used for its restaurant operation from Zhongmin Supply Chain Management Co. Ltd ("**Zhongmin Supply Chain**"). The pricing of such raw materials shall be determined with reference to the costs for such raw materials and the prevailing market price and procurement quantity of similar raw materials.	The Company entered into a Procurement Framework Agreement with Zhongmin Supply Chain on 20 November 2015. The validity of the Procurement Framework Agreement was one year from 1 July 2015 and terminated on 30 June 2016, with the annual procurement in aggregate no more than RMB40 million. The Company entered into a Procurement Framework Agreement with Zhongmin Supply Chain on 22 July 2016 (amended on 20 December 2016), with effect from 13 January 2017 as approved by the general meeting. The validity of the Procurement Framework Agreement is one year with effect from 1 June 2016 and will be terminate on 31 May 2017, with the annual procurement in aggregate of no more than RMB300 million.	From 1 January 2016 to 31 May 2016, the transaction amount in aggregate was RMB11,181,881. From 1 June 2016 to 31 December 2016, the transaction amount in aggregate was RMB28,971,267.

As mentioned above, Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("**Shanghai Hongqiao**"), Xiao Nan Guo (Group) Company Ltd., WH Ming Hotel, Shanghai Zhongmin Supply Chain Management Co., Ltd. are owned by Ms. Wang Huimin, the chairlady, controlling shareholder and executive Director of the Company Ms. Zhu Xiaoxia also owns interests in Shanghai Zhongmin supply Chain Management Co. Ltd. Shanghai Xiao Nan Guo Enterprise Service Information Development Limited is owned by Ms. Wang Bai Xuan Tiffany who is the daughter of Ms. Wang Huimin.

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

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

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

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

The auditors of the Company have performed certain pre-determined procedures and reported their findings regarding the continuing connected transactions entered into by the Group set out above for the year ended 31 December 2016 and state that:

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

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

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

(4) the aggregate amounts of the continuing connected transactions have not exceeded the relevant annual cap amounts as disclosed in the announcements of the Company published on 10 January 2014, 22 April 2014, 29 May 2014, 7 November 2014 and 20 November 2015, and the Company's circular issued on 4 July 2014 and 22 December 2016 respectively.

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors at the date of this report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDITORS

The financial statements were audited by Ernst & Young who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

SUBSEQUENT EVENTS

Since 31 December 2016 to the date of this report, there were no important events affecting the Group.

On behalf of the Board
Wang Huimin
Chairlady

Shanghai, 27 March 2017

INDUSTRY REVIEW FOR 2016

In 2016, the global economy had a sluggish recovery. The geopolitical risk represented by the Brexit and the US president election further increased the uncertainty of the global economy recovery. The monetary policy of various countries maintained differentiation, and the Euro Zone and Japan appeared negative interest rate. These changes played a great influence on global financial markets, and its impact on the real economy was uncertain to a large extent. Under the background of slowdown in the global economy and the deepening of the structural adjustment in China, in 2016, China's Gross Domestic Product (GDP) was RMB74,412.72 billion, breaking through RMB70,000 billion for the first time, representing an increase of RMB6,741.9 billion over last year; specifically, the GDP in the accommodation and catering industry increased by RMB1,328.08 billion.

According to statistics issued by the National Bureau of Statistics of China, in 2016, disposable income per capita nationwide was RMB23,821, representing an actual increase of 6.3%. Revenue from catering sales from January to December in 2016 in China reached RMB3,577.9 billion, representing a year-on-year increase of 10.8%, up 10.8% over last year. Revenue of the catering enterprises with designated size and above[1] achieved RMB94.6 billion, representing a year-on-year increase of 6.7%. Revenue of the catering industry in the PRC accounted for 10.8% of total retail sales of social consumer goods. The growth rate of revenue of the catering industry, albeit experiencing an overall deceleration, was higher than that of total retail sales of social consumer goods. According to the analysis of the China Cuisine Association (CCA)[2], the development of China's catering industry for this year is in a state of ups and downs according to the total market size of the country's catering industry in 2016, which began to rise gradually and slowly in the fourth quarter, and the catering revenue in December recorded an increase of 10.6% year-on-year, and the difference with the growth rate of total retail sales of social consumer goods 10.9% decreased to 0.3 percentage points, the decline rate of the same period last year also decreased to 0.6 percentage points. The online catering revenue growth increased by 0.7 percentage points compared with the same period of last year.

At the beginning of January 2016, the central conference made a special topic research on the proposal of supply side structural reform, which aims at propelling the structural adjustment to reduce the financing costs of corporates and reduce the corporate tax expense, so as to enhance the social productivity level. In November 2016, the China Cuisine Association convened a symposium on the supply side reform and development of catering industry, together with the Development Research Center of the State Council. It was concluded that "the total retail of the social consumer goods amounted to RMB30.1 trillion in 2016, while the market size of catering industry made a breakthrough and exceeded RMB3 trillion to reach RMB3.2 trillion, accounting for one-tenth for the total retail of social consumer goods. It indicated that catering industry is the main force of the living service industry, and the quality of the development of catering industry has significant impact on the development of the whole national economy as well as the enhancement of the living standard of the people.

1. The units with designated size and above are included in the statistical reporting system for wholesale and retail, accommodation and catering industry in China, setting clear regulations on the sales (turnover) and the standards of employees of wholesale enterprises, retail enterprises and catering enterprises included in the scope of regular statistical reports. Among which, total income of the catering industry for the year exceed RMB2 million, and the number of employees exceed 40 at the end of the year.
2. Source from the industry news dated 20 January 2017 on the official website of Chinese Cuisine Association.

FINANCIAL PERFORMANCE FOR 2016

The Company's revenue for the year 2016 amounted to RMB2.0 billion with the gross profit for the year increased by 2.0% to RMB1,433.9 million, and the net profit for the year grew significantly from a loss in 2015 to RMB34.2 million, representing a significant breakthrough, which mainly benefited from the flat organization and system transformation, operating asset optimization, cost control and policy of "to replace the business tax with value added tax". Profit attributable to owners of the Company for the year was RMB35.0 million, representing an increase of RMB128.2 million from that of the same period last year.

OPERATIONS REVIEW FOR 2016

During the year of 2016, the real enterprises in the China's catering industry suffered from huge impact and profound influence by the policies from internet, capital, market circumstance, etc., facing an unprecedented reform era featured with "industry + capital + internet". As one of the largest multi-brands catering groups in China founded for 30 years, the Company continues to push ahead with its strategic transformation of being an industry brands investment and management group. By organizational and structural reform, optimization of assets, minimization of costs, the Company intends to enhance its profitability; deepen the cooperation with international brands; realize the commercialization of a single product/highly-popular product of brands; achieve the development and research of an industry chain for the commercialization of the Company's products; complete the branding establishment for business to business and business to customer (B2B2C) products and accurate layout of online and offline business cooperation channel.

Transformation from heavy asset to light asset model delivered preliminary results

Under the strategy of "focusing on core cities and enhancing management efficiency", the Company continued to close down 15 restaurants (including 9 restaurants of Xian Nan Guo and 3 restaurants of the dining room and 3 restaurants of Pokka) with unsatisfactory operating results in 2016, with the managed areas narrowed from 22 cities in 2015 to 18 cities. The operating had improved despite the number of stores decreased by 12 as compared with 2015, which was attributable to the fact that the Company disposed part of its unperformed assets in advance in 2015 and piloted the reform of partner incentive evaluation system to improve the responsibility and proactivity of senior management.

Carry forward our multi-brand strategy and deploy for future growth in revenue

The four restaurants in Disney town namely Xiao Nan Guo, The BOATHOUSE, Wolfgang Puck and The Dining Room have commenced their business in around June 2016. Since the tourism popularity, business climate and tourists spending habits in Disney town are still under formation, in addition to the effect of the expenses for opening, four restaurants are still at the stage of development.

In 2016, the revenue of our introduced western cuisine brands, namely, Oreno, Wolfgang Puck and The BOATHOUSE, reached RMB82.7 million, representing an increase of 77.9% from RMB46.5 million compared with the same period of last year, which will lay a solid foundation for the rapid replication of the highly popular product/explosive goods business model of western cuisine brands.

In 2016, the number of mini stores represented by "Mai Chi Ling" increased to 306 (2015: 153), and the license fee and management fee income grew from RMB8.7 million to RMB14.3 million.

Make use of the advantage of industry platform to reduce costs of stores

On 8 September 2016, the Company completed its acquisition of 9.82% equity interest in JMU Limited (formerly known as "**Wowo Limited**") to strengthen cooperation on purchasing platform and supply chains, which resulted in a decrease in the procurement costs on raw materials price.

Continue to control the cost of management and optimize the organizational structure

With the continuation of the flat reform and personnel streamlining on headquarters management function, and the improvement plan of management efficiency, the outcome of the management cost control gradually revealed. As at 31 December 2016, the number of employees at management legal decreased by 16% compared with that as at the end of 2015, and the general and administrative expenses represented the proportion of revenue decreased from 9.0% in 2015 to 8.2% in 2016.

Actively grasp the favorable policies to benefit from: Business Tax Replaced with value added Tax

As the leading enterprises on large chain catering industry, in light of the advantages gained from the substantial use of value added tax invoices in the cooperation with the suppliers over the years, the Company benefited from the implementation of the policy of "to replace business tax with value added tax" in that the tax burden was significantly reduced, and the tax burden ratio decreased from 4.0% in 2015 to 1.5% in 2016. The tax burden ratio represents business tax and surcharges divided by revenue.

STRATEGIC OUTLOOK FOR 2017

The year of 2016 is the first year of the Company's implementation of its five major strategies, namely the "multi-brand strategy", "asset optimization strategy", "cost efficiency strategy", "human resources capitalization strategy" and the "product commercialization strategy". During the year, the management took a number of proactive measures and achieved the turnaround from suffering from a loss to making net profit. At the same time, a lot of deep-rooted legacy problems which constrain our future development have also been resolved, thus laying a solid foundation for the rapid growth of the Company in 2017 and the next five years.

According to the data released by China Cuisine Association, the national catering industry is expected to maintain an average annual growth rate of more than 10% during the period from 2017 to 2021. The total retail sales of social goods in the catering industry will exceed RMB4.5 trillion in 2021. Taking into account this huge market with potential for sustained growth, the Company expects to see the formation of the new watershed and the industrial restructuring in national catering industry in the coming five years. The supply-side reform initiated by the Chinese government, the "One Belt, One Road" initiative, the promulgation of national policies such as new laws and regulations for food safety, and the rapid development of the Internet as well as the Internet of Things, will provide the soil favorable to the growth of mass-market catering businesses which adopt internationally recognized philosophies and focus on branded operation and quality offerings. Such developments will also create a favorable environment for the entire catering industry chain.

During the five-year period, the catering industry in China will enter into an era of merger and acquisition at the most rapid pace since the reform and opening-up. Amid the trend of mergers and acquisitions, the international catering brands and capital synergy will become the absolute leader. With the deepening of the mergers and acquisitions, we expect to see the emergence of the real international catering giants and the real international catering a chain services giants in China. A brand-new era for the catering industry in China, which is underpinned by the chassis of "brand + supply chain", and supported by the operation model of "industry + capital + Internet" is around the corner.

The year of 2017 is the thirtieth anniversary since the establishment of the Xiao Nan Guo brand. Leveraging on the rich experience in the catering industry, the precise prediction of the developments in the market, as well as highly efficient execution, the Company will be committed to grasping the golden opportunities emerging in the national catering industry. Apart from seizing the opportunities brought by the strategy of "brand + supply chain", the Company will also take an aggressive approach to sourcing the participation of strategic capital and strategic partners around the globe, and strive to become a leader of the national catering industry amid the dazzling tide of mergers and acquisitions.

In 2017, the Company will continue the following five major strategies:

Multi-brand strategy

In 2017, the Company will speed up the transformation from a conventional catering business to an investment and operation group with industrial branding, while establishing the joint operation model featured by joint development of the domestic market through cooperation between the Company and internationally renowned first-tier brands in the catering industry, and preparing for the subsequent introduction of such catering brands.

Asset optimization strategy

Comprehensively enhance the output efficiency of the Company's asset allocation. The core of the light asset strategy lies in the prioritized allocation of essential resources to single unit or brands which are more easily duplicated, more advantageous in terms of technology and platform, and higher added value, with the aim to achieving rapid enhancement in output efficiency of the Company's asset allocation. Faced with the traditional operations and model of heavy assets that are lack of competitive edge, the Company will further restructure the assets through spin-off, cooperation and trusteeship etc., while continuing to inject the new assets so as to optimize its asset allocation thoroughly.

Cost efficiency strategy

In 2017, the Company will fully realize the connection with the third-party public procurement platform system, making full use of the advantages of strategic cooperation with Internet B2B supply chain platform in the industry, thus achieving direct procurement, reducing layers of distribution and enhancing tracking system for food safety. These measures will help to improve product quality and reduce supply chain cost and eventually expand the profit margin.

Product commercialization strategy

In 2017, the Company will focus on the incremental growth of the "quality take-away + brand take-away" market. Building on existing brand strength and capabilities in research and development of cuisines, and leveraging on the resources comprising the source suppliers of supply chain platform companies, customer pipeline and the resources of Internet platforms, the Company will launch different series of B2B2C products successively, such as "Family Banquet" and "Juice King". In addition, various channels, including direct sales in our own stores, locked sales through take-away platforms, sales on the shelves in supermarket specialized in the sales of fresh products, will also be utilized to increase the share of the revenue arising from take-away business in the total revenue, and consolidate our core competitive advantages in the "catering industry + Internet" era.

Human resources capitalization strategy

The Company takes a future-oriented perspective to promote the change of structure of talents. The Company will continue to promote the establishment of an internal "entrepreneurship culture", and take advantage of our platform to introduce a professional partnership mechanism, while making efforts to improve the talent structure and further attract talents specializing in operation of international brands and those having expertise in supply chain product research and development. A more flexible corporate structure is also established to inspire the potentiality and creativity of our staff, thus boosting the value contribution from the talents.

FINANCIAL PERFORMANCE

The Group's revenue in 2016 decreased by 1.7% from that of last year to RMB2,001.0 million. The gross profit increased by 2.0% during the year, which mainly benefited from the business improved and management improvement in 2016. Profit for the year of the Company in 2016 was approximately RMB34.2 million, representing an increase of RMB132.6 million as compared to the loss of approximately RMB98.4 million recorded in the same period of 2015.

FINANCIAL REVIEW

In 2016, the revenue of the Group reached RMB2,001.0 million, representing a decrease of RMB34.2 million or 1.7% compared to RMB2,035.2 million for the year ended 2015. The gross profit of the Group amounted to RMB1,433.9 million, representing an increase of approximately RMB28.5 million from RMB1,405.4 million of 2015. In 2016, the profit attributable to owners of the Company amounted to approximately RMB35.0 million, representing an increase of RMB128.2 million compared to the loss of RMB 93.2 million recorded in 2015.

In 2016, the Group operated a restaurant network of 70 "Shanghai Min" restaurants, 3 "Maison De L'Hui" restaurants, 22 "the dining room" restaurants, 2 "Oreno" restaurants, 2 "Wolfgang Puck" restaurants, 1 "The BOATHOUSE" restaurant and 27 restaurants under POKKA HK brands, which covers some of the most affluent and fast-growing cities in China (note(ii)), Hong Kong and other regions. The following table sets forth the revenue and the number of the restaurants in operation, by geographical region and brand, in 2016 and 2015 respectively.

	As of 31 December			
	2016		2015	
	Number of restaurants (Note (iii))	**Revenue RMB'000 (audited)**	Number of restaurants	Revenue RMB'000 (audited)
China *(Note (ii))*				
– Shanghai Min	**63**	**1,122,269**	72	1,230,460
– Maison De L'Hui	**3**	**63,709**	3	60,075
– the dining room	**16**	**110,010**	16	113,687
– Oreno	**1**	**22,882**	1	11,668
– Wolfgang Puck	**2**	**31,029**	1	8,936
– The BOATHOUSE	**1**	**6,786**	–	–
Hong Kong				
– Shanghai Min	**7**	**160,526**	8	172,829
– the dining room	**6**	**128,719**	5	72,884
– Oreno	**1**	**22,017**	1	25,878
– POKKA HK Brands *(note (iv))*	**26**	**296,271**	29	283,250
Macau *(note (v))*				
– Shanghai Min	**–**	**4,273**	1	22,823
– the dining room	**–**	**811**	1	4,654
– POKKA HK Brands	**1**	**13,493**	1	13,971
Total revenue of restaurant operations *(Note (i))*	**127**	**1,982,795**	139	2,021,115
Other revenue		**18,206**		14,062
Total revenue		**2,001,001**		2,035,177

Notes

(i) Total revenue of restaurant operations includes revenue of restaurant operations and packaging products of restaurants.

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

(iii) The number of restaurants excludes Mai Chi Ling licensed stores.

(iv) POKKA HK brand stores include 27 stores under 9 brands such as POKKA Café, Tonkichi in Hong Kong and Macau.

(v) Shanghai Min and the dining room in Macau were disposed at the end of February 2016, which not included in the numbers of restaurants, while revenue from January to February in 2016 was included in revenue for the year of 2016.

REVENUE

Revenue of the Group decreased by RMB34.2 million, or 1.7%, from RMB2,035.2 million in 2015 to RMB2,001.0 million in 2016. This decrease was due to revenue decreased for stores closed during the year.

Total Revenue of restaurant operations

Total revenue of restaurant operations decreased by RMB38.3 million, or 1.9% from RMB2,021.1 million in 2015 to RMB1,982.8 million in 2016, primarily reflecting:

- an increase of RMB75.5 million in revenue contributed by restaurants newly opened for the year ended 31 December 2016;
- an increase of RMB57.6 million in revenue contributed by restaurants opened in 2015;
- a decrease of RMB37.2 million, representing a decrease of 2.4%, in comparable restaurants sales for the year ended 2015 to the year ended 2016;
- the relocation, adjustment, closing stores for the year ended 31 December 2016 resulted in a decrease in revenue of RMB108.0 million;
- Shanghai Min and the dining room in Macau were disposed at the end of February 2016, which caused a decrease of revenue of RMB22.4 million.

Other revenue

Other revenue increased by RMB4.1 million, from RMB14.1 million in 2015 to RMB18.2 million in 2016, which primarily reflected an increase of RMB5.6 million for revenue from licensing and management business of Mai Chi Ling in 2016.

COST OF SALE

The cost of sale decreased by RMB62.7 million, or 10.0%, from RMB629.8 million in 2015 to RMB567.1 million in 2016.

The cost of inventory for consumption as a percentage of the revenue decreased from 30.9% in 2015 to 28.3% in 2016, which primarily reflected a saving in the cost of foods and the cost of OEM semi-finished products.

OTHER INCOME AND GAIN

Other income and gain increased by RMB2.7 million, from RMB44.0 million in 2015 to RMB46.7 million in 2016, with an insignificant change in general.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution cost decreased by RMB38.3 million, or 3.0%, from RMB1,256.3 million in 2015 to RMB1,218.0 million in 2016.

Labor costs relating to the restaurants, central kitchens and central warehouses decreased by RMB16.3 million, or 3.2%, from RMB510.4 million in 2015 to RMB494.1 million in 2016. As a percentage of our revenue, labor costs decreased from 25.1% in 2015 to 24.7% in 2016, which primarily reflected the control of labor cost and the closure of stores.

Occupancy costs relating to restaurants, central kitchens and central warehouses decreased by RMB0.1 million, from RMB359.1 million for the year ended 2015 to RMB359.0 million for the year ended 2016, with an insignificant change in general. As a percentage of our revenue, occupancy costs increased from 17.6% in 2015 to 17.9% in 2016.

Depreciation expenses relating to the restaurants, central kitchens and central warehouses decreased by RMB1.9 million, or 1.2%, from RMB155.7 million in 2015 to RMB153.8 million in 2016. As a percentage of our revenue, depreciation expenses maintained at 7.7% in 2015 and 2016.

GENERAL AND ADMINISTRATIVE EXPENSES

Benefiting from adjustment of manage structure, administrative expenses decreased by RMB18.8 million, or 10.3%, from RMB183.3 million in 2015 to RMB164.5 million in 2016, and as a percentage of our revenue, administrative expenses decreased from 9.0% to 8.2% during the same periods.

OTHER EXPENSES

Other expenses of RMB23.7 million in 2016 were mainly attributable to one-time write-off of store closure and loss from disposal of assets in the normal course of business of RMB9.1 million, loss of one-off non-current financial assets of RMB4.0 million, loss form disposal of subsidiary of RMB2.6 million and impairment loss of fixed assets of RMB2.0 million.

INCOME TAX EXPENSE

Income tax expenses increased by RMB21.7 million or 486.9%, from RMB4.5 million in 2015 to RMB26.2 million in 2016, which was mainly attributable to the increase of profit before tax during the year and percent of earning in Mainland China, resulting the increase of tax burden compared with other areas.

PROFIT FOR THE YEAR

As a result of the foregoing, the profit for the year increased by RMB132.6 million from the loss of RMB98.4 million in 2015 to RMB34.2 million in 2016. The net profit margin increased from negative 4.8% in 2015 to 1.7% in 2016.

DIVIDENDS PAYABLE

In 2016, the Group did not pay any dividends. As at 31 December 2016, there were no outstanding dividends payable.

LIQUIDITY, CAPITAL RESOURCES AND CASH FLOW

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

As at 31 December 2016, the Group's total interest-bearing bank loans were RMB341.8 million. The gearing ratio was 33.6%, which decreased by 7.2% from 40.8% of gearing ratio as at 31 December 2015. Gearing ratio represents net debt dividend by adjusted capital plus net debt. Net debt includes interest-bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

The Group had net cash inflows from operating activities of RMB179.5 million in 2016 (2015: RMB199.9 million). As at 31 December 2016, the Group had RMB233.4 million in cash and cash equivalents (31 December 2015: RMB169.0 million). The following table sets out certain information regarding the consolidated cash flows for the years ended 31 December 2016 and 2015:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
	(audited)	(audited)
Net cash flows from operating activities	**179,467**	199,917
Net cash flows used in investing activities	**(350,239)**	(286,955)
Net cash flows generated from/(used in) financing activities	**237,904**	(4,638)
Net increase/(decrease) in cash and cash equivalents	**67,132**	(91,676)
Cash and cash equivalents at the beginning of the year	**169,024**	269,305
Effect of foreign exchange rate, net	**(2,766)**	(8,605)
Cash and cash equivalents at the end of the year	**233,390**	169,024

OPERATING ACTIVITIES

Net cash inflow from operating activities decreased by RMB20.4 million from RMB199.9 million as at 31 December 2015 to RMB179.5 million as at 31 December 2016, which was primarily attributable to the decrease of trade payables and increase of prepayments, deposits and other receivable.

INVESTING ACTIVITIES

Net cash flow used in investing activities was RMB350.2 million for the year ended 31 December 2016, compared with RMB287.0 million in 2015. The cash outflow from major investment activities was for acquiring non-current financial assets, being the 9.82% equity interest of JMU Limited (formerly known as "**Wowo Limited**"), and for facility investment of Disney project in 2016.

FINANCING ACTIVITIES

Net cash flow generated from financing activities increased from a cash outflow of RMB4.6 million during the year ended 31 December 2015 to a cash inflow of RMB237.9 million during the year ended 31 December 2016, representing an increase of RMB242.5 million, which is primarily the proceeds of RMB232.4 million from issuance of shares.

FOREIGN CURRENCY EXPOSURE

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the twelve-month periods ended 31 December 2016 and 31 December 2015 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to foreign exchange risk.

CONTINGENT LIABILITIES

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

OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its offices and restaurant properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 3 to 12 years.

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

	31 December 2016 RMB'000 (audited)	31 December 2015 RMB'000 (audited)
Within one year	**278,423**	261,650
In the second to fifth years, inclusive	**795,232**	668,904
After five years	**269,748**	202,524
	1,343,403	1,133,078

CAPITAL COMMITMENT

Capital commitments were approximately RMB29.5 million and RMB76.5 million as at 31 December 2016 and 31 December 2015 respectively.

HUMAN RESOURCES

The salary level of employees in the restaurant industry in China has been generally increasing in recent years. Employee attrition levels tend to be higher in the food services industry than in other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 31 December 2016, the Group recruited about 3,933 employees in China and Hong Kong. During 2016, total staff cost was RMB571.6 million, representing 28.6% of the revenue (2015: RMB620.3 million, representing 30.5% of the revenue), the decrease in cost of human resource mainly benefited from the optimization of the management structure.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own corporate governance code. For the year ended 31 December 2016, save as disclosed in this report, the Company has complied with all applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors have confirmed that, they had complied with the required standard as set out in the Model code throughout the year ended 31 December 2016.

BOARD OF DIRECTORS

The Board is the governing body of the Company. It is responsible for the efficient management of the catering business of the Group, formulating and reviewing the corporate governance policies and practices of the Company, putting forward proposals to the Board, reviewing and monitoring the training and continuing professional development of Directors and senior management, reviewing and monitoring the policies and practices with regard to the Company's compliance with statutory requirements, and the Company's observance of the CG Code, and reviewing the issuer's compliance with the Code and disclosure in the Corporate Governance Report. The Board is fully aware of its principal responsibilities to the Company and its duties to protect and enhance the interests of the shareholders of the Company.

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

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

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

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

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

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

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

All Directors have appropriate professional qualification or substantive experience and industry knowledge. Except that Ms. Wang Huili is the sister of Ms. Wang Huimin and Mr. Wang Hairong is the brother of both Ms. Wang Huimin and Ms. Wang Huili, there is no other relationship among members of the Board.

The Board adopted and approved its diversity policy on the composition of board members during the year of 2013. Below is the summary of the Board diversity policy of the Company:

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

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

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

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

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

The Company has received the annual confirmation from each of the independent non-executive Directors about his independence in accordance with Rule 3.13 of the Listing Rules and considers each of them to be independent.

BOARD MEETINGS

The Company adopts the practice of regular board meetings and notices of regular Board meetings are served to all Directors no less than 14 days before the meetings. All of the Directors have chance to attend the regular meetings and discuss issues on agenda. For all other Board and Committee meetings, reasonable notice is generally given. The final versions of the minutes of all Board meetings and respective Committees meetings are normally circulated to Directors for comment within a reasonable time after each meeting is held.

Five full Board meetings and two general meetings held during the year ended 31 December 2016. Attendance of each Director is set out as below:

Directors	Number of meetings attended/eligible to attend	General meetings attended/eligible to attend
Ms. Wang Huimin[1]	5/5	0/2
Ms. Wu Wen	4/5	0/2
Ms. Zhu Xiaoxia[2]	5/5	2/2
Ms. Wang Huili	3/5	0/2
Mr. Weng Xiangwei	5/5	0/2
Mr. Wang Hairong	4/5	0/2
Dr. Wu Chun Wah	5/5	2/2
Mr. Lui Wai Ming	5/5	1/2
Mr. Lin Lijun[3]	4/4	0/2

Notes:

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

2 Ms. Zhu Xiaoxia abstained from voting for her interests in the matters to be approved at the two Board meetings.

3 Mr. Lin Lijun was appointed as the independent non-executive Director on 23 March 2016, and accordingly attended the Board meeting held after 23 March 2016.

Pursuant to Code Provision A.6.7 of CG Code, all non-executive Directors of the Company should attend general meetings of the Company. Other than Ms. Wang Huili, Mr. Wang Hairong, Mr. Weng Xiangwei and Mr. Lin Lijun who did not attend the annual general meeting of the Company held on 2 June 2016 and other than Ms. Wang Huili, Mr. Wang Hairong, Mr. Weng Xiangwei, Mr. Lui Wai Ming and Mr. Lin Lijun who did not attend the extraordinary general meeting of the Company held on 24 August 2016 due to other prior business engagements, other non-executive Directors (including independent non-executive Directors) of the Company attended the abovementioned two general meetings.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER ("CEO")

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Further, according to Article 84 of the Company's Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. The retiring Directors are to be those longest in office since their last election or reappointment, but will be eligible for re-election. At the same time, the Articles of Association of the Company granted the right to the Board to appoint any person as a Director either to fill a vacancy on the Board or join the Board. Any Director appointed to fill the vacancy shall hold office until the Company's first general meeting after the appointment and will be eligible for re-election at that general meeting. Any newly appointed Directors joining the Board shall hold office until the Company's first annual general meeting after the appointment and will be eligible for re-election at that general meeting. The duties of the Nomination Committee are to review the structure, size and composition of the Board, and to recommend individuals suitably qualified to become members of the Board to the shareholders at the annual general meeting for the election.

In accordance with article 83(3) of the Articles of Association, Ms. Zhu Xiaoxia, Mr. Lui Wai Ming and Mr. Lin Lijun shall hold office until the annual general meeting, and being eligible, offer themselves for re-election as Directors at the annual general meeting. Ms. Wu Wen and Mr. Wang Hairong shall retire by rotation, and being eligible, offer themselves for re-election as Directors at the annual general meeting. The above five directors were successfully re-elected as Directors at the annual general meeting convened on 2 June 2016.

INDUCTION AND CONTINUOUS DEVELOPMENT FOR DIRECTORS

Every new Director will be given formal, comprehensive and necessary induction information, to ensure a reasonable understanding of the Company's business and operation, and to fully understand the directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors will be updated as regard to the latest development of the relevant laws and regulatory systems so as to assist them in performing their duties.

DIRECTORS' CONTINUOUS TRAINING

Pursuant to Code Provision A.6.5 of CG Code, all Directors should participate the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. For the year ended 31 December 2016, all Directors of the Company received regular updates on the Listing Rules and corporate governance matters (including Ms. Wang Huimin, Ms. Wu Wen, Ms. Zhu Xiaoxia, Ms. Wang Huili, Mr. Weng Xiangwei, Mr. Wang Hairong, Dr. Wu Chun Wah, Mr. Lui Wai Ming and Mr. Lin Lijun).

BOARD COMMITTEES

Audit Committee

The Audit Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the Listing Rules and the CG Code. As at the date of this report, the Audit Committee comprised three independent non-executive Directors and one non-executive Director, Mr. Lui Wai Ming, Dr. Wu Chun Wah, Mr. Lin Lijun and Mr. Weng Xiangwei. Mr. Lui Wai Ming is Chairman of the Audit Committee.

The principal duties of the Audit Committee include:

- responsible for the appointment, re-appointment and removal of the independent auditor and provide recommendations to the Board; approving the remuneration of the independent auditor, monitoring the duties of the independent auditor and implementing the policy of the Company for engaging of independent auditor for provision of non-audit services;

- reviewing the annual and interim financial statements, monitoring the Company's financial control, internal control and risk management and the Company's financial and accounting policies, to ensure the execution of the above policies are in place;

- reviewing the complaint process of the Company dealing with financial reporting, internal control or other violations of laws and regulations; and

- reviewing the arrangement of the Company and pursuant to which employees of the Group can secretly raise concerns about any possible misconducts arising from financial reporting, internal control or other matters. To ensure proper arrangement is in place and a fair and independent investigation of such matters and appropriate follow-up actions will be taken by the Company.

For the year ended 31 December 2016, the Audit Committee has held two meetings to review the interim results and financial statements of the Company and its subsidiaries for the six months ended 30 June 2016. The attendance record of the members of the Audit Committee is set out in the table below:

Directors	Number of meetings attended/eligible to attend
Mr. Lui Wai Ming	2/2
Dr. Wu Chun Wah	2/2
Mr. Weng Xiangwei	2/2
Mr. Lin Lijun[1]	1/1

Note:

1 Mr. Lin Lijun was appointed as a member of the Audit Committee on 23 March 2016 and therefore attended the meeting of the Audit Committee convened after 23 March 2016.

The following was a summary of the primary work performed by the Audit Committee in 2016:

1. reviewed the Group's consolidated financial statements for the year ended 31 December 2015 and the annual results announcement with a recommendation to the Board for approval;

2. reviewed the Group's annual report for the year ended 31 December 2015 with a recommendation to the Board for approval;

3. reviewed the continuing connected transactions for the year ended 31 December 2015;

4. reviewed the Group's consolidated financial statements for the six months period ended 30 June 2016 and the interim results announcement with a recommendation to the Board for approval;

5. reviewed the Group's interim report for the six months period ended 30 June 2016 with a recommendation to the Board for approval; and

6. reviewed the internal audit report for the year 2015 and the first half of 2016 submitted by the Group's Internal Audit Department.

Remuneration Committee

The Remuneration Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the Listing Rules and the CG Code. As at the date of this report, the Remuneration Committee comprised three independent non-executive Directors and one executive Director, Dr. Wu Chun Wah, Mr. Lui Wai Ming, Mr. Lin Lijun and Ms. Wang Huimin. Dr. Wu Chun Wah is chairman of the Remuneration Committee.

The principal duties of the Remuneration Committee include formulating human resources management policies, reviewing the Company's compensation policies, and determining the remuneration package for the Company's executive Directors and senior management and advise the remuneration of non-executive Directors to the Board.

For the year ended 31 December 2016, the Remuneration Committee held two meetings to recommend the Board on the compensation policies and structure for all Directors and senior management as well as other relevant matters. The attendance record of the members of the Remuneration Committee is set out in the table below:

Directors	Number of meetings attended/eligible to attend
Dr. Wu Chun Wah	2/2
Ms. Wang Huimin	2/2
Mr. Lui Wai Ming[1]	1/1
Mr. Lin Lijun[2]	1/1

Notes:

1 Mr. Lui Wai Ming was appointed as a member of the Remuneration Committee on 23 March 2016, therefore attended the meeting of the Remuneration Committee convened after 23 March 2016.

2 Mr. Lin Lijun was appointed as a member of the Remuneration Committee on 23 March 2016, therefore attended the meeting of the Remuneration Committee convened after 23 March 2016.

The following was a summary of the primary work performed by the Remuneration Committee in 2016:

1. reviewed the proposal on remuneration of Mr. Lin Lijun, a newly appointed independent non-executive Director, with a recommendation to the Board for approval; and

2. reviewed the adjustment scheme of share options of the Company and plan of proposed distribution of share options to employees in 2016 and the approval of granting share options to the independent non-executive Directors of the Company, namely, Dr. Wu Chun Wah, Mr. Lui Wai Ming, Mr. Lin Lijun.

Nomination Committee

The Nomination Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the CG Code. As at the date of this report, the Nomination Committee comprised one executive Director and three independent non-executive Directors, namely Ms. Wang Huimin, Mr. Lui Wai Ming, Dr. Wu Chun Wah and Mr. Lin Lijun. Ms. Wang Huimin is the chairlady of the Nomination Committee. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, and making recommendations to the Board on the selection of individuals to fill in vacancy on the Board.

For the year ended 31 December 2016, the Nomination Committee has held one meeting. The attendance record of the member of the Nomination Committee is set out in the table below:

Directors	Number of meetings attended/eligible to attend
Ms. Wang Huimin	1/1
Dr. Wu Chun Wah	0/1
Mr. Lui Wai Ming	1/1
Mr. Lin Lijun[1]	0/0

Note:

1 Mr. Lin Lijun was appointed as a member of the Nomination Committee on 23 March 2016 and no meeting of the Nomination Committee was convened after 23 March 2016.

The following was a summary of the primary work performed by the Nomination Committee in 2016:

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

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

3. advised the issue of re-election of retiring Directors;

4. nominated Mr. Lin Lijun to act as the independent non-executive Director of the Board;

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

Risk Management Committee

The Risk Management Committee was established on 31 December 2015 with its terms of reference formulated in accordance with the Listing Rules. As at the date of this report, the Risk Management Committee comprised two executive Directors and one independent non-executive Director: Ms. Wang Huimin, Ms. Zhu Xiaoxia, and Dr. Wu Chun Wah. Ms. Wang Huimin is the chairlady of the Risk Management Committee. The principal duties of the Risk Management Committee overseeing the risk management system and risk tolerance capability of the Company, ensuring that the management has performed its duties to establish an effective internal control system, and considering major investigation findings on relevant risk management matters as delegated by the Board or on its own initiative and management's response to these findings.

For the year ended 31 December 2016, the attendance record of the members of the Risk Management Committee is set out in the table below:

Directors	Number of meetings attended/eligible to attend
Ms. Wang Huimin	1/1
Ms. Zhu Xiaoxia	1/1
Dr. Wu Chun Wah	1/1

In early 2017, all the members of the Risk Management Committee has further convened a meeting to further review the risk management of the Group for 2016.

The following was a summary of the primary work performed by the Risk Management Committee:

1. reviewed the Group's risk management system, including risk, capital and liquidity management framework, the Group's risk tolerance capability, its risk policies and standards, and relevant risk limits, including the parameters used and the methodology adopted, and the processes used for identifying and assessing risks;

2. approved risk policies and standards;

3. discussed the risk management system with the management and ensure that the management has performed its duties to establish an effective system. Discussion included the Company's resources for risk management, adequacy of qualifications and experiences of the employees, as well as adequacy of training courses and relevant budgets available to the employees;

4. reviewed material risk exposures of the Group, including market, credit, insurance, operational, liquidity, and economic and regulatory capital risks against the Group's risk measurement methodologies and management actions to monitor and control such exposures;

5. reviewed the standard for accurate and timely monitoring of material exposures and certain risk types of critical importance;

6. reviewed the scope and quality of management's ongoing monitoring of risks and the internal control systems, the work of the internal audit function;

7. reviewed the extent and frequency of communication of monitoring results which enables it to assess control of the Company and the effectiveness of risk management; and

8. reviewed and understood that there was no significant control failures or weaknesses identified.

Regarding how the Group has complied with the risk management and internal control code provisions, please refer to the paragraph headed "Risk Management and Internal Control" below.

Executive Committee

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2016, and they have to give true and fair opinion on the Group's affairs as well as the Group's results and cash flow. The Directors, after making all reasonable enquiries, confirmed that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its overall responsibility for establishing and maintaining a sufficient and effective risk management and internal control system to achieve the Group's strategic objectives and safeguard Shareholders' investment and the Group's assets, and reviews relevant achievements through the Audit Committee and the Risk Management Committee on an annual basis. The Board also understands that the system aims at management (instead of elimination) of the risk of failure of achieving business goals, and can only give reasonable (and non-absolute) guarantee of free of material misrepresentation or loss.

The Company adopted the three lines of defence model in the management of risk. Operational management personnel form the first line of defence and serves as the risk bearers. They are responsible for identifying, reporting and preliminarily managing risks in the daily operations. The second line of defence consists of risk management and operation standards review personnel who are responsible for monitoring efficient implementation of risk management measures by operational management personnel, assisting the person in charge of risks in defining remaining risks, and making sufficient information report to the Company. The internal audit function is the third line of defence and mainly responsible for checking and auditing the work performed by the first and second lines of defence and reporting the work results on the effectiveness of internal control systems in the last period to the Audit Committee and the Risk Management Committee at the regular annual meetings.

The Company will also continuously promote the design and implementation of good monitoring practices, optimise the internal monitoring system to reduce the possibility of risks, and reduce the effects of risk to an acceptable level, to facilitate the realisation of our operation, report and compliance goals.

The Board has conducted a review of the effectiveness of the internal control and risk management systems of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Board is of the opinion that the internal control and risk management systems of the Group are effective and adequate.

Inside information policy

The Board has adopted an inside information policy which contains the guidelines to the Directors, officers and certain relevant employees of the Group to ensure that inside information can be promptly identified, assessed and disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations.

COMPANY SECRETARY

Ms. Zhao Hailin acted as one of the joint company secretaries of the Company with Ms. Mok Ming Wai from 23 May 2016 to 28 October 2016. Since the resignation of Ms. Zhao as a joint company secretary of the Company on 28 October 2016, Ms. Mok who possess the requisite qualification and experience of a company secretary as required under Rule 3.28 and Rule 8.17 of the Listing Rules, remained as the company secretary of the Company.

Ms. Mok is a Director of KCS Hong Kong Limited and the head of listing services department, in performing her duties as the company secretary during the reporting period. For the year ended 31 December 2016, Ms. Mok Ming Wai has received not less than 15 hours of relevant professional training to update her knowledge and skill.

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs. Ms. Mok is not an employee of the Company.

Ms. Xia Hongye, the director of the Strategic Investment Department and Investor Relations Officer of the Company since 1 August 2016, has been assigned as the main contact person of the Company with Ms. Mok. Information in relation to the performance, financial position and other major developments and affairs of the Group as speedily delivered to Ms. Mok through the contact person assigned. The Company is in the course of identifying a suitable candidate with appropriate experience to fill the vacancy left by the resignation of Ms. Zhao as the joint company secretary.

REMUNERATION OF THE SENIOR MANAGEMENT

For the year ended 31 December 2016, the remuneration of senior management, other than CEO, is listed as below by band:

Band of remuneration (HKD)	No. of person
HK$1,000,000 and below	3
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	–

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, the annual audit fees paid to the external auditors of the Company amounted to RMB4.70 million. The Company did not pay the external auditors any non-audit fees.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with shareholders is the most important to improve investor relations and understanding of the Group's business, performance as well as strategy. The Company also recognizes the importance of nonselective and timely disclosure of information, which will enable shareholders and investors to make informed investment decisions.

To promote effective communication, the Company maintains a website at www.xiaonanguo.com where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for shareholders' and public access.

CONVENING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Any one or more shareholder holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings can convene extraordinary general meetings by depositing or sending a written requisition addressed to the Board or Company Secretary for the transaction of any business specified in such requisition. All such requisition should be sent to headquarter and principal place of business in the People's Republic of China at 777 Jiamusi Road, Yangpu District, Shanghai, the People's Republic of China, attention to the director of the Strategic Investment Department and Investor Relations Officer Ms. Xia Hongye.

Such meeting shall be held within two months after the deposit of such requisition. If the Board fails to convene such meeting within 21 days of the deposit of the requisition, the requisitionist(s) himself/themselves may convene the meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene the meeting will be reimbursed to the requisitionist(s) by the Company.

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

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

Shareholders can make enquiries to the Board by way of emails to: ir@xiaonanguo.com.

CHANGES OF CONSTITUTIONAL DOCUMENT

The Company's Memorandum and Articles of Association (as restated) were adopted by the Company on 8 June 2012 and came into effect from the date on which the Shares were listed on the Stock Exchange ("**Listing Date**"). During the year ended 31 December 2016, the Company has not made any changes to its Memorandum and Articles of Association.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at shareholder meetings, including the election of individual Directors. All resolutions proposed at the shareholders' meeting will be voted by poll in accordance with the Listing Rules. The result of the poll voting will be duly published on the Company's website at www.xiaonanguo.com and the HKEx website at www.hkex.com.hk after the general meeting.

EXECUTIVE DIRECTORS

Ms. WANG Huimin, aged 62, is the chairlady of the Board, CEO and an executive Director of the Company. Ms. Wang is the founder of the Company and primarily responsible for the overall corporate strategies and management of the Group. Ms. Wang has over 30 years of experience in the restaurant industry, and is currently the vice president of the China Cuisine Association and the China Hotel Association. Ms. Wang is one of the founders of Join Me Group (HK) Investment Company Limited and has been acting as a Director of JMU Limited (a company listed on the NASDAQ Stock Market, formerly known as Wowo Limited) since June 2015. Ms. Wang Huimin is the sister of Ms. Wang Huili and Mr. Wang Hairong.

Ms. WU Wen, aged 48, is an executive Director of the Company and is primarily responsible for construction and decoration work of all the Group's restaurants and other work required by the Board. Ms. Wu started her career with Xiao Nan Guo restaurants since her joining of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1993 where she was responsible for customer services related matters until 2008. During over 21 years with Xiao Nan Guo restaurants, Ms. Wu served various positions at the Company's wholly-owned subsidiaries which primarily focus on our restaurant business in Shanghai, including executive directors of Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. (上海浦東小南國餐飲有限公司) from 1997 to 2011 and Shanghai Jing'an Xiao Nan Guo Co., Ltd. (上海靜安小南國餐飲有限公司) from 2004 to 2008, respectively.

Ms. ZHU Xiaoxia, aged 46, is an executive Director of the Company. She has been acting as the vice president of the China Hotel Association since March 2006, and the Co-Chairperson of JMU Limited (a company listed on the NASDAQ Stock Market, formerly known as Wowo Limited and is mainly engaged in the operation of B2B e-commerce platform that provides food and other commodity supply chain services in the catering and hotel industry) since June 2015. Ms. Zhu has extensive experience in restaurant industry for around 22 years. She is one of the founders of Join Me Group (HK) Investment Company Limited and has been its chairlady since 2013. She has also been the chairlady of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. (浙江向陽漁港集團股份有限公司) since June 1998.

NON-EXECUTIVE DIRECTORS

Ms. WANG Huili, aged 59, is a non-executive Director of the Company. Ms. Wang Huili is a co-founder of the Group and has worked for Xiao Nan Guo restaurants for over 30 years since commencement of business of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1987 where she served as the manager in charge of its daily management until 2008. Ms. Wang Huili was an executive director of Shanghai Xiao Nan Guo Restaurant Co., Ltd. from January 2002 to July 2010 and was appointed as the supervisor of that company in July 2010. She also currently holds the directorship of WHM Japan Co., Ltd. and Shanghai Wen Hui Huju Opera Troupe (上海文慧滬劇團). Ms. Wang Huili is the sister of Ms. Wang Huimin and Mr. Wang Hairong.

Mr. WENG Xiangwei, aged 50, is a non-executive Director of the Company. Mr. Weng is the founder of Shining Capital Management Limited and has extensive experience in investment banking and private equity investment. Prior to that, Mr. Weng was an executive director at the corporate finance department and "Head of Mergers and Acquisitions, China" of Goldman Sachs (Asia) L.L.C. from January 2005 to January 2007, Mr. Weng served as the general manager in charge of corporate operations at Gome Electrical Appliances Holding Limited (stock code: 0493), a company listed on the Stock Exchange of Hong Kong. Mr. Weng also worked at Morgan Stanley's group of companies from June 1998 to January 2005. Mr. Weng received his bachelor's degree in physics from Peking University in 1989 and his Ph.D. degree in biophysics from University of California at Berkeley in 1996.

Mr. WANG Hairong, aged 54, is a non-executive Director of the Company. He was working at a number of the Group's restaurants in Shanghai, including Shanghai Xiao Nan Guo Restaurant (Hongqiao) (上海小南國大酒店虹橋店), Shanghai Xiao Nan Guo Restaurant (Huangpu) (黃埔區小南國大酒店) and Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. (上海浦東小南國餐飲有限公司). Mr. Wang is the younger brother of Ms. Wang Huimin and Ms. Wang Huili.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. WU Chun Wah, aged 52, is an independent non-executive Director of the Company. Dr. Wu has extensive experience in financial investment and corporate finance. He was the executive director and chief executive officer of Kirin Group Holdings Limited (麒麟集團控股有限公司, stock code: 8109), formerly known as Creative Energy Solutions Holdings Limited (科瑞控股有限公司), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, from July 2010 to December 2014. He was also the executive director of Incutech Investments Limited (now known as DT Capital Limited 鼎立資本有限公司, stock code: 356), a company listed on the main board of The Stock Exchange of Hong Kong Limited, from November 2007 to July 2014. Since 30 June 2016, Dr. Wu has been appointed as an independent non-executive director of Master Glory Group Limited (凱華集團有限公司) (a company listed on the main board of the Stock Exchange, stock code: 275). Dr. Wu holds a doctor degree in business administration and a master degree in corporate governance from the Hong Kong Polytechnic University. He also holds a master degree in business administration from Northeast Louisiana University, a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. He is a fellow member of the Hong Kong Institute of Directors, member of the Hong Kong Securities Institute, associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

Mr. LUI Wai Ming, aged 47, is an independent non-executive Director of the Company. Mr. Lui has extensive experience in auditing, accounting, investment, financial and corporate management for over 21 years. Mr. Lui is the chief financial officer of Hosa International Limited (stock code: 2200), a company listed on the main board of the Stock Exchange, since August 2015. He was an independent non-executive director of Tai Shing International (Holdings) Limited (stock code: 8103), a company listed on the Growth Enterprise Market of the Stock Exchange, from May 2014 to January 2016, and was an independent non-executive director of Golden Shield Holdings (Industrial) Limited (in liquidation) (stock code: 2123), a company listed on the main board of the Stock Exchange, from January 2015 to May 2015, during the period he focused on investigation into the outstanding audit issues and the legal proceedings, and the company is currently under liquidation. Mr. Lui holds an Executive Master Degree in Business Administration from Cheung Kong Graduate School of Business in the People's Republic of China. Mr. Lui is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. LIN Lijun, aged 43, is an independent non-executive Director of the Company. Mr. Lin is the founder of China Universal Asset Management Co, Ltd (匯添富基金管理有限公司), an award-winning and diverse asset management company at which he had served as the chief executive officer until April 2015. Mr. Lin has extensive experience in investment management as well risk management. Mr. Lin is currently an independent non-executive director of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (stock code: 600649), a company listed on the Shanghai Stock Exchange, and an independent non-executive director of Yunfeng Financial Group Limited (stock code: 376), a company listed on the main board of the Stock Exchange formerly known as Reorient Group Limited. In the past three years, he was also an independent director of Shanda Games Limited (盛大遊戲有限公司), a company with its American depositary shares used to be listed on NASDAQ (symbol: GAME). Mr. Lin holds a master's degree in business administration from Harvard University, a bachelor's degree and a master's degree in economics from Fudan University respectively.

SENIOR MANAGEMENT

Ms. XU Dongsheng, aged 41, is a vice president of the Company. She joined the Group in December 2015 and primarily takes charge of the operation and management of Chinese cuisine and western food business group. Ms. Xu has over 16 years of experience in catering and integrated hotel management areas. Prior to joining the Company, she was a president of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. (浙江向陽漁港集團股份有限公司) and also a president of Shanghai Dingyi Hotel Management Co., Ltd (上海小南國鼎怡酒店管理有限公司).

Mr. SUN Yong, aged 45, is the Company's vice president primarily responsible for mini-store brand business as well as development and construction related matters. Mr. Sun joined the Group in August 2011. Prior to that, he was a vice president at Shanghai Kungfu Fast Food Management Co., Ltd. (上海真功夫快餐管理有限公司) taking charge of construction and development from January 2008 to August 2011. From March 2001 to January 2008, Mr. Sun served various positions at Yum! Brands Inc. China Division, including development manager and development senior manager. Mr. Sun received his bachelor's degree in economics from Shanghai International Studies University in June 1995 and a diploma in management from China Europe International Business School in December 2005.

Mr. Wang Yihua, aged 48, is the vice president of the Company. He joined the Group in December 2016, mainly responsible for the management of strategic functions. Mr. Wang has extensive experience of more than 25 years in catering and comprehensive hotel management area. Before joining the Company, he held various positions, including deputy general manager, operation director, regional general manager and general manager in Zhejiang Sunward Fishery (浙江向陽漁港), Little Sheep (00968.HK), South Beauty (俏江南), Mangrove Resort World (紅樹林度假世界) and Baoneng Group (寶能集團).

Mr. WANG Shoudong, aged 40, is the chief financial officer of the Company and is primarily responsible for the finance department. He also served as secretary of the Board and joint company secretary from 7 July 2015 to 1 February 2016. He joined our Group in June 2011. Prior to joining the Group, Mr. Wang served various positions at Best Buy China where he served from January 2007 to May 2011, including Sr. Finance Operation Manager and Finance Manager . From July 1999 to January 2007, Mr. Wang served for finance department of Dazhong Transportation (Group) CO., LTD, a company listed on Shanghai Stock Exchange (Stock code: 600611). Mr. Wang obtained his bachelor's degrees in economics from Fudan University in July 1999, and his MBA degree from Fudan University in July 2007. Mr. Wang left the Company in October 2016.

CHANGE IN INFORMATION OF DIRECTORS

Save as below and in this annual report, there is no changes in information of Directors required to be disclosed for the year ended 31 December 2016 pursuant to Rule 13.51B(1) of the Listing Rules.

In respect of Ms. Wang Huimin's appointment as the executive Director, Ms. Wang has entered into a service agreement with the Company for a term of three years commencing from 4 July 2016. She is subject to retirement from office and re-election at the annual general meeting of the Company and vacation of office in accordance with the articles of association of the Company. Ms. Wang is entitled to a director's fee of RMB1,200,000 per annum for her appointment as an executive Director. The remuneration of Ms. Wang as the executive Director is determined by the Board with regard to her duties and responsibilities, the recommendation made by Remuneration Committee of the Board and the prevailing market conditions.

In respect of Ms. Wang's appointment as the chief executive officer of the Company, Ms. Wang also entered into a service agreement with the Company for a term of three years commencing from 31 December 2016. Such service agreement is, in the form of a supplemental agreement, incorporated into the said service agreement previously entered into between Ms. Wang and the Company. Ms. Wang will be entitled to remuneration of RMB3,000,000 per annum for her appointment as the chief executive officer. The remuneration is determined by the Board with regard to her duties and responsibilities, the recommendation made by the Remuneration Committee and the prevailing market conditions. Save as disclosed above, the other terms and conditions of the aforementioned service agreement remain unchanged.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Xiao Nan Guo Restaurants Holdings Limited (collectively "**Xiao Nan Guo**" or the "**Company**") is pleased to publish the first Environmental, Social and Governance Report (the "**ESG Report**"). The Company fully implemented the concept of sustainable development, carried out all kinds of policies and devoted to integrating environment and society into the Company's development plan in all the business and operating levels to strive for the establishment of harmonious and sustainable future for the stakeholders.

Scope of the Report

The ESG Report focused on the environmental and social performance of the Company's core business of 127 restaurant network in Mainland China and Hong Kong, from 1 January 2016 to 31 December 2016 (the "**Year**"). For details of corporate governance, please refer to the Corporate Governance Report of this report.

Reporting Framework

The ESG Report was prepared based on the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited ("**the Stock Exchange**").

Stakeholder Engagement

The preparation of the ESG Report, which was supported by employees from different departments, enabled us to have a better understanding of our current environmental and social development. The information we gathered were not only the summary of the environmental and social work carried out by the Company during 2016, but also the basis for us to develop short and long term sustainable development. Xiao Nan Guo will enhance the participation degree of the stakeholders through diversified channels in order to collect valuable and constructive suggestions and opinions for our development from stakeholders.

Information and Feedbacks

For detailed information about the environmental and corporate governance, please refer to the official website (http://www.xiaonanguo.com) and the annual report of Xiao Nan Guo. Your opinions will be highly valued by the Company. If you have any advices or suggestions, please email to ir@xiaonanguo.com.

ABOUT XIAO NAN GUO

As one of the largest multi-brands catering groups in China, Xiao Nan Guo was founded by chairlady and CEO Ms. Wang Huimin in 1987 and was listed on the Main Board of the Stock Exchange in 2012.

Since 2013, the Company has gradually implemented the strategy of multi-brands and constantly expanded the restaurant network. As at 31 December 2016, the Company has been operating 127 restaurants in Mainland China and Hong Kong. The main brands of the Company include Shanghai Min, Maison De L'Hui and the Dining Room that were created by the Company, and ORENO, Wolfgang Puck, The BOATHOUSE, Mai Chi Ling, Pokka Café and Tonkichi that were introduced.

In recent 30 years, upholding the core value "Pursue Excellence and Keep Innovating", Xiao Nan Guo keeps breaking the shackles of the self-created business models and leads the development with prospective strategy and commercial grade. Under the new market environment, Xiao Nan Guo focuses on catering industry chain, interacts with various international brands owners and consumers in the entire market within many aspects such as branding, suppliers and internet systems to achieve two-way communication among three parties and strive to improve, enhance and innovate the business model and related services and experience.

In the future development, Xiao Nan Guo will continue to pursue excellent quality food and beverages, and strive to bring happiness and satisfaction to consumers globally. As for the detailed information of the business of the Company, please refer to the Business Review of this report.

OUR ENVIRONMENT

As a responsible enterprise, Xiao Nan Guo fully understands the importance of environmental, social and economic sustainability to our business. Therefore, the concept of harmonious and sustainable development runs throughout our overall operation. In line with the corporate mission of changing the disadvantageous position of the Chinese food industry, Xiao Nan Guo will continue to provide safer and higher-quality food, and more thoughtful services, under the precondition of harmonious coexistence with the environment.

Xiao Nan Guo strictly abides by the relevant laws and regulations on environmental protection, such as the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law on Prevention and Control of Water Pollution of the People's Republic of China, and the Air Pollution Control Ordinance of Hong Kong and Water Pollution Control Ordinance of Hong Kong. The Company has engaged CECEP Environmental Consulting Group Limited as our environmental consultant in the course of our operations. CECEP Environmental Consulting Group Limited will assist us to conduct the data collection and analysis as the preparation for the disclosure of environmental key performance indicators of the Company in accordance with the requirement of the Stock Exchange. The data collection and analysis will not only help clarify the Company's current position, but also help formulate future development plans.

Environmental Considerations

The Company is committed to reducing indoor and outdoor air pollution as well as fulfilling our responsibilities on energy and water conservation, and waste management.

Reducing Air Pollution

The Company strictly controls the emission of oil fume according to the local air pollution regulations regarding oil fume ad cooking odor emissions, such as the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and Air Pollution Control Ordinance of Hong Kong, to fully comply with the standards for oil fume emission.

Xiao Nan Guo has taken a series of measures to minimize cooking oil fume and odor emission. All restaurants of Xiao Nan Guo have comprehensive exhaust emission system and air pollution control equipment, including mechanical ventilation system and oil fume exhaust filters. Mechanical air-exhausting and ventilation systems are also installed above the equipment that produces large amount of vapor in order to prevent condensation and drain off condensed water. This series of measures not only ensure good ventilation of the food processing areas, which is able to remove moist and polluted air, and prevent foods, utensils, processing equipment and facilities from contamination, but also provide a better work environment for kitchen employee. Moreover, these measures help avoid air pollution and odor nuisance on the neighboring residents.

Apart from reducing outdoor air pollution, Xiao Nan Guo also sets a high value on indoor pollution examination and control. In order to provide cleaner indoor air in our restaurants, from the beginning of the decoration, we have selected environmentally friendly paints.

To avoid damage to the ozone layer, Xiao Nan Guo selects non-ozone-depleting building materials, refrigeration equipment and air conditioners, such as refrigerators and air conditioners that use hydrofluorocarbons (HFC) and perfluorocarbons (PFC). Also, ozone-depleting thermal insulation and fire retardant materials are forbidden throughout the production process.

Energy and Water Conservation

The Company is committed to offering energy-saving and water-saving solutions to climate change while providing cleaner indoor air and comfortable dining environment to customers.

At the beginning of the design of all restaurants, Xiao Nan Guo selects energy-efficient light-emitting diodes (LED), energy-saving lamps and T5 lamps, to replace traditional lamps and incandescent lamps. The use of energy-efficient lighting equipments not only consumes less energy, but also generates less heat than the traditional lighting equipment, which reduces cooling load. We have also implemented energy saving measures at all restaurants, for example, shutting down ancillary equipment such as cooker hoods and lighting systems when cooking stoves are not in use. In some restaurants, we have installed automatic control devices in lighting and air-conditioning systems.

Besides, Xiao Nan Guo is also concerned about outdoor light pollution. Our restaurants are required to turn off outdoor lights during non-business hours at night.

Water plays an integral part in our business. In our restaurants, water is mainly used for cooking, cleaning and so on. Therefore, staff will be reminded in induction training about the water usage in our operation.

Waste Management

In the food processing areas, where waste or garbage may be generated, the Company has set up waste containers that are provided with a lid, and made of firm and watertight materials so as to prevent contamination of food, water supply and floor. These containers are also designed to avoid foul odor emission or wastewater overflow.

Non-hazardous waste of the restaurants can be divided into three categories, including old oil and waste oil, kitchen waste and waste paper. In accordance with the Company's Kitchen Oil Management System, all restaurants and central warehouse should install oil-separation tanks to separate waste oil and water as required, and set up special barrels to store old oil and waste oil. All old oil and waste oil in the branches and central warehouse are to be collected by government-certified professional waste oil recycling companies. The recycling process should be in accordance with the Company's Kitchen Oil Management System, which requires the responsible employees to fill out the Cooking Oil Management Table for each recycling. The kitchen waste produced by the restaurants and central warehouse is stored in special lidded-barrels, and recovered and processed by government-approved professional processing companies. The waste paper of restaurants is mainly carton that used to contain food. These cartons will be collected and processed by local recyclers and sent to paper mills for recycling.

The metal waste from the central warehouse originates from used or damaged processing equipment that cannot be repaired. Such waste will be collected by recyclers and recycled for other purposes.

At present, all of our plastic bags and disposable cutlery for take-away food are biodegradable materials. Our co-producers are manufacturer of food packaging materials with QS certification (National Industrial Products Production Permit).

Protecting Natural Resources and the Environment

The Company has been in strict compliance with all laws and regulations under local environmental authorities. While focusing on protecting natural resources and the environment, as a restaurant group, reducing and properly handling kitchen waste is our utmost concern and the most important effort to protect natural resources and the environment. Therefore, we make purchasing decisions by analyzing the food consumption of individual restaurants, and take strict measures in supply chain management, purchasing decision and quality control, to ensure that the deterioration of raw materials has been reduced at source.

Xiao Nan Guo has a relatively complete and sound office system. Other than information sharing and process approval, the system fully shares the human resource data and other information. The public office system highlights the Company's policies and brings the paperless office model to Xiao Nan Guo.

OUR EMPLOYEES

Xiao Nan Guo aims to build a professional team dedicated to providing customers with a comfortable environment and thoughtful dining services. The Company and the employee always work together and adhere to the enterprise mission of changing the disadvantaged position of Chinese food industry.

Employees' Profile

Employment policies and practices of the Company are in strict compliance with local employment laws and regulations, such as the Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China, and the Employment Ordinance of Hong Kong.

Xiao Nan Guo is committed to fair and equitable treatment of all employees in the aspects of recruitment, promotion, remuneration, dismissal, working hours, diversity and other benefits. In promotion, recruitment and other aspects, we lay emphasis on the diversity of employees, and attach more importance to the capacity and attitude of our employees. We follow the Labor Contract Law of the People's Republic of China and policies and regulations of the Company, and office employees and restaurants' employees implement the relevant working hour system.

In order to attract, motivate and retain talented people, Xiao Nan Guo has a set of comprehensive remuneration and benefit policies that provides employees with competitive salary and benefits. At the same time, based on a fair and equal promotion scheme, we evaluate employees' performance according to the performance management system and the performance improvement plan. All employees are entitled to a minimum of 5 days of annual leave, marriage leave, maternity leave, etc. Female employees can also enjoy paid breastfeeding leave 1 hour per day. In accordance with national laws and local government regulations, In the Mainland China, under the Labor Law, we provide social insurance for all mainland employees, as well as employer liability insurance, supplementary medical insurance and employee meals. In Hong Kong, according to the Employment Ordinance, such as The Mandatory Provident Fund Schemes Ordinance, the Employees Compensation Ordinance, we provide the Employees' Compensation Insurance Scheme and the MPF schemes for all Hong Kong employees. We also provide medical and dental insurance, staff meals and other benefits.

Xiao Nan Guo actively cooperates with training schools and other social service companies, and provides more employment opportunities through events such as district recruitment and seminar. We have developed relevant training systems and career development paths for employees in different departments, such as front desk employee, kitchen employee, and office employee. We arrange appropriate tasks and trainings based on employees' ability and needs, so that all employees can play to their strengths.

Protecting the Health and Safety of Employees

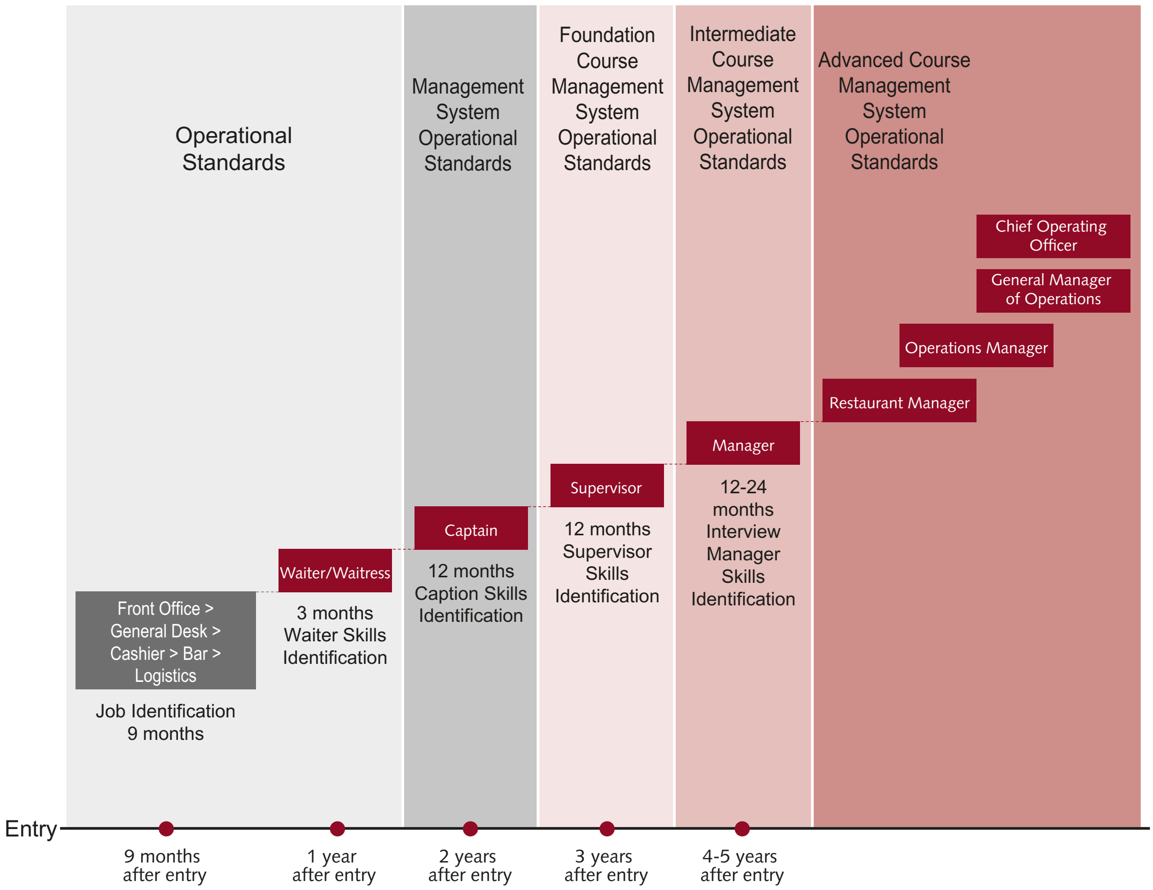
The health and safety of employees is of paramount importance to the Company. We strictly abide by the relevant laws and regulations, such as the Law of People's Republic of China on the Prevention and Control of Occupational Diseases and Occupational Safety and Health Ordinance of Hong Kong, which provide our employees with a safe and reliable work environment to avoid occupational hazards. We conduct induction training, safety awareness training and fire drills for each new employee to prevent safety accidents. And in our daily work, we promote healthy life style, to avoid occupational hazards.

As mentioned above, Xiao Nan Guo values the health of our employees. We not only provide a series of social insurance for all employees, but also offer supplementary health insurance, annual medical examination, employee meals, employee health certificate subsidies, and other benefits to safeguard the health of our employees (The benefits of different areas may be different).

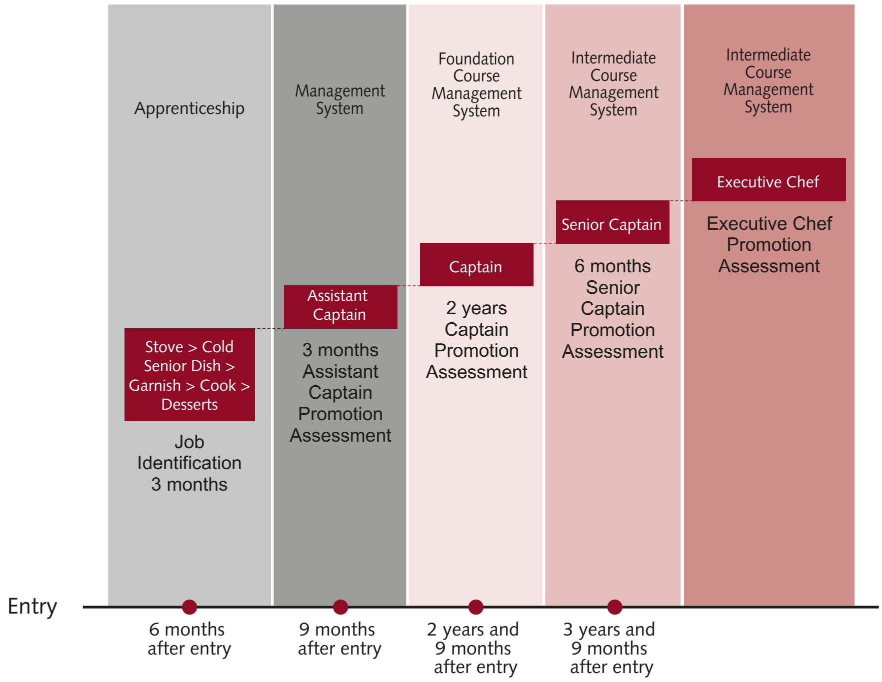
Employees' Training and Development

The Company is committed to providing a comprehensive on-the-job training program. According to the job descriptions and requirements, we arrange for on-the-job trainings to our employees to continuously improve their skills, and fully develop their potential. According to the job requirements of managers at all levels, we provide management training courses to our managers, through the measures of internal training or external training. We have set up clear and specific advancement requirements and a transparent promotion system for employees in different departments. Our training system and career development path are shown below:

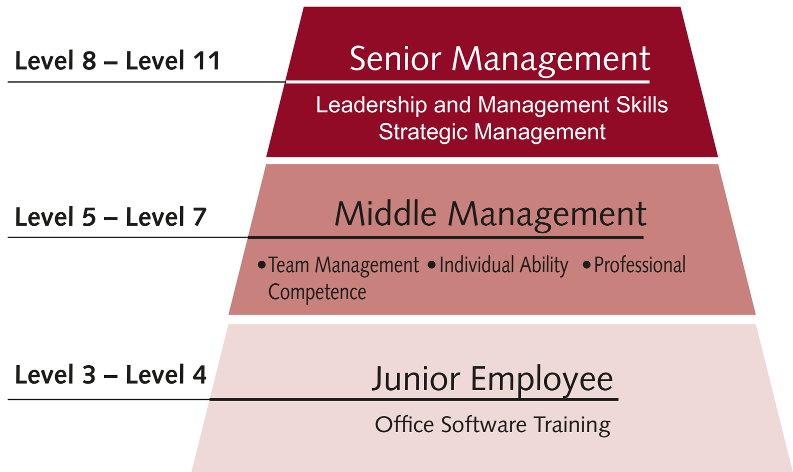
Front Office Employee



Kitchen Employee



Office Employee



OUR OPERATIONAL PROCESSES

Legal Department of Xiao Nan Guo is responsible for overseeing the Company's legal affairs and compliance with corporate policies. The departments, including Legal Department, Quality Control Department, Procurement Department and Executive Chef Office, have jointly developed the management system, related policies and guidelines to ensure complete documentation throughout the entire process from procurement of raw materials, central warehouse storage, transportation, restaurant storage and cooking, to delivery of the food to customers. The formulation of the management system, related policies and guidelines not only protects the interests of consumers, but also ensures the excellent quality of our products.

Policies and Regulations

The Company strictly abides by local laws and regulations, such as the Criminal Law of the People's Republic of China and Prevention of Bribery Ordinance of Hong Kong. Based on the relevant laws and regulations, we have developed detailed policies and procedures, and guided and encouraged our employees to respond positively to improper or unsafe behaviors. From 2013, we have adopted the Anti-fraud Policy, including but not limited to the following:

- Anti-corruption
- Anti-fraud
- Anti-bribery in procurement process
- Prohibiting data fraud
- Protecting consumers' privacy

In strict confidence, the Company encourages all employees to report any suspicious improper or unsafe behaviors, and is committed to protecting whistleblowers. Internal Review Department of Xiao Nan Guo will also investigate the improper or unsafe behaviors, and take corresponding remedial measures against the irregularities.

During the Year, Xiao Nan Guo and our employees did not initiate or be charged with any legal proceeding or litigation relating to corruption.

Supply Chain Management

Procurement Principles

The Company has set up multiple precautions in the supply chain to ensure food safety and quality. In accordance with the Company's food safety approaches of "Controlling at Source, Strictly Monitoring the Process, Laying Emphasis on Prevention, Law-abiding, Self-discipline, Safeguarding Business Integrity, and Providing Consumers with Healthy and Safe Food", we monitor key points in every process to ensure food safety.

Xiao Nan Guo has a rigorous process in supplier selection. Most of the food ingredients are procured by the headquarters. We choose the suppliers that have good reputation. We prefer suppliers that have internationally recognized food safety management systems and standards, such as ISO22000-certified suppliers. We not only value the supplier's qualification, but also require suppliers to provide the inspection reports from manufacturing facilities, quarantine certificates and other product certification documents of each batch of raw materials.

Selecting suppliers

As a responsible restaurant group, Xiao Nan Guo works closely with suppliers to maintain open communication, and reviews and audits the environmental hygiene of suppliers' manufacturing facilities, process control and the implementation of quality system such as CCP monitoring system. Especially for high-risk raw materials such as frozen poultry, we intend to implement "controlling at source" by monitoring raw materials.

Xiao Nan Guo has established an identity label for each raw material, which contains information such as food name, supplier, picture, weight. We also mark a clear timeline for every batch of raw materials including delivery time, receiving time, and shelf life. In doing so, we are able to deliver safe and high-quality food to our customers. And if any problem occurs in the process, we can easily retrieve the relevant information of the ingredients, so as to carry out a unified disposal of that batch of ingredients.

Central Warehouse Ensures the Quality of Raw Materials

Xiao Nan Guo insists on taking multi-pronged approaches to ensure that the raw materials stored in the central warehouses are high-quality and safe.

We institute a leadership team of food safety management, led by president of Chinese and Western Restaurant Business Company. The team consists of department heads of Technology Department, Food Safety and Security Department, Executive Chef Office, and other departments. The team is designed to carry out cross-department supervision and deliberate over food safety and other related issues.

The Company is in strict accordance with the Food Safety Management Procedures. Based on the analysis of Food Quality Assurance Department, we have set up the corresponding key control points of the central warehouse. Food Quality Assurance Department works with Procurement Department and Executive Chef Office as a three-level self-examination system, namely, self-examination and self-correction, departmental audit and unannounced inspection, to monitor the implementation of management procedures in the central warehouse and supply chain management, thereby ensuring the quality of raw materials in the central warehouse. We monitor the temperature and timeline of all products along the whole process, such as receiving, storing and transferring. Quality Management Department also regularly reviews the sanitary conditions of the central warehouse and the restaurants to ensure that all production areas meet health standards.

Transport Process

The majority of the Company's food ingredients are sourced centrally by the headquarters. Therefore, in addition to ensuring the storage safety of the central warehouse, transport process also requires strict control. As for the transport, we have developed the Cold-chain Vehicle Technical Standards and Operating Practices, and strictly complied with such Practices.

Transportation process of the Company includes the transport between central warehouses and restaurants, as well as transport between central warehouses. We have installed temperature recorders in all Cold-chain vehicles, which can automatically record the temperature data for our documentation.

Monitoring Food Safety in All Restaurants

Xiao Nan Guo has given priority to food safety, and all restaurants strictly enforce Food Safety Management Procedures. On top of the three-level self-examination system, namely self-examination and self-correction, departmental audit and unannounced inspection, we also abide by the approaches like self-examination by the restaurant itself, chef assistant supervision and inspection, to strictly control food safety.

The Company not only sets up special disinfection standards for restaurant facilities, equipment and tools, such as environmental standard for disinfection, disinfection standard for facilities and equipment, disinfection standard for chopping block, but also institutes private rooms for foods that require cleaner standard, such as cold dishes, and sashimi. Periodically, disinfectant is applied in such private rooms, and ultraviolet lights are also installed for disinfection. Specifically for processing cold dishes, we have installed ozone disinfection machines for saterfood .

Complaint Mechanism

Xiao Nan Guo has various ways of handling complaints, with a view to solving customers' problems in most rapid and direct way. Our ways of receiving complaints include restaurant complaints, hotline complaints, exchange platform complaints (such as WeChat public account) and third-party feedback (such as Dianping.com, Meituan.com). We sincerely embrace any complaints, carefully listen and record the reasons and demands for such complaints. With the customer's approval, we may record the name and contact information of the customer, and clearly indicate the approximate time required for investigation. For severe complaints, we notice the relative management, and after investigation, feedback will be delivered to the customer timely. We will conduct analysis based on customer complaints, and take corrective measures on important issues in time.

OUR COMMUNITY

Xiao Nan Guo is concerned about our communities. We not only focus on customers and stakeholders, but also expert to make our contribution to cultural heritage.

Caring about Customers

In all our restaurants, Xiao Nan Guo has installed barrier-free facilities, such as ramps, barrier-free toilets, and handrails to facilitate the elderly or the disabled. We provide special seats for infants and young children for more convenient parental caring. During the Year, we officially launched an App function named "Second Pay" to reduce the wait time in our Shanghai restaurants. By using the Internet to enhance the efficiency of the restaurant, we expected to improve customer experience.

Caring about Stakeholders

In addition to our customers, Xiao Nan Guo is committed to being in close contact with our stakeholders. Stakeholders can communicate with us through different channels and express their views and suggestions, so that our business may achieve continuous improvement and sustainable development.

Stakeholders	Communication Channels	Area of Concern
Shareholders	IR email, shareholders' meeting, annual performance meeting	Company operating status
Department employees	Department heads, internal review of relevant departments	Improper or unsafe behaviors acts
Customers	WeChat public account, restaurant complaints, hotline complaints	Customers' experience, service attitude, third-party feedback
Suppliers	Email, phone call	Company purchase demand, operation status

Awards

During the Year, the Company has won the following awards in recognition of the Company's contributions and efforts in various aspects.

Reward Plan/Activities	Issuing Bodies	Awards
2016 China Financing Listed Company Award	China Financial Market	Best Brand Value Award
China Chain Food Industry Development Conference	China Hospitality Association	2016 Top 50 of Food and Beverage Group with Chinese Characteristics 2016 the Excellent Chinese Chains Restaurant Brand
The 5th "Food Safety and Public Health Seven Star Award of China"	First Finance and Yikang Group	Seven Star Enterprise Quality Excellence Award
Food and Beverage Industry Development Conference	Chinese Cuisine Association	2015 China's Top 10 Restaurant Brand 2015 China's Top 100 Catering Enterprise

Cultural Heritage

Xiao Nan Guo values cultural heritage. Our Chairlady and CEO Ms. Wang Huimin was invited to participate in a large gourmet program of Chinese Flavor- Seeking for Heirloom Dishes on CCTV Comprehensive Channel from 2015 to 2016. The program centered on Seeking for Heirloom Dishes, which was designed to seek for the Chinese flavor hidden in typical streets or marketplaces. The program showcased the legendary and touching stories and the unique skills of the heirloom dishes to the audience. It also highlighted the national characteristics of Chinese people: hard-working, thrifty, and innovative. Chinese food culture is a great cultural product with Chinese features. Xiao Nan Guo is duty-bound to promote the Chinese food culture. Therefore, we will continue to make unremitting efforts to inherit the Chinese food culture and realize our mission of pursuing the highest quality of food and beverage and bringing the happiness and satisfaction to global customers.

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

To the shareholders of Xiao Nan Guo Restaurants Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Xiao Nan Guo Restaurants Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 62 to 153, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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**") issued by the International Accounting Standards Board ("**IASB**") 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 ("**HKICPA**"). 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 HKICPA's *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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS *(continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Estimates relating to impairment testing of property, plant and equipment	
The Group operates restaurant chain stores in Mainland China, Hong Kong and other regions. As at 31 December 2016, the carrying value of property, plant and equipment including leasehold improvements and furniture, fixtures and equipment was RMB585,231,000. The valuation of the associated property, plant and equipment is important to our audit due to the amount as well as the judgement involved in the assessment of the recoverability of the invested amounts. Such judgement focuses predominantly on future store performance, which is, amongst others, dependent on the expected store traffic, food and service quality, and the competitive landscape in local markets. Management assesses, on an annual basis, whether there are triggering events or indicators indicating potential impairment. As of 31 December 2016, the impairment of property, plant and equipment amounted to RMB42,256,000.	Our audit procedures included, amongst others, an evaluation of the Group's policies and procedures to identify indicators of potential impairment of assets related to underperforming stores. We also involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long term growth rate. We paid specific attention to the forecasts with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective stores and the business development plan.
Further details are contained in Note 13 to the financial statements.	
Estimation and disclosure with respect to deferred tax assets	
As of 31 December 2016, the deferred tax assets recognised in the consolidated statement of financial position amounted to RMB82,266,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available to utilise the deferred tax assets. As of 31 December 2016, deferred tax assets have not been recognised for accumulated tax losses of RMB150,511,000. The process of estimating the future taxable profits available was complex and involved estimates and judgements that were affected by future actual operation, tax regulations, market or economic conditions.	We evaluated and tested management assessment on available taxable profits by, among others, comparing to the Group's business plans approved by those charged with governance, expected future profit forecasts, associated growth rates, historical financial and tax information. We also involved our tax specialists in the review of the current tax position, tax planning strategies and potential tax reconciliation adjustments to check the compliance with tax regulations. We checked the relevant disclosures of deferred tax assets and unrecognised temporary differences.
Further details are contained in Note 26 to the financial statements.	

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment of the carrying value of goodwill and acquired intangible assets	
Under IFRSs, the Group is required to perform an impairment test for goodwill. The carrying value of goodwill and acquired intangible assets of (customer relationship, favourable contract and trademark) amounted to RMB13,532,000 and RMB32,918,000 as at 31 December 2016, respectively. The impairment test is based on the recoverable value of the respective cash-generating units ("**CGU**") to which the goodwill or acquired intangible assets are assigned to. Management's assessment process is complex and highly judgemental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate applied. Further details are contained in Note 14 and Note 15 to the financial statements.	Our audit procedures included, among others, involving our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long term growth rate. We assessed the useful lives of the acquired intangible assets with definite lives to determine if they remained appropriate in the context of the expected future period of economic consumption. We paid specific attention to the forecasts with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGU and the business development plan. We also focused on the adequacy of the Group's disclosures of goodwill and acquired intangible assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

- 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 the Audit Committee 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.

We also provide the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
REVENUE	5	**2,001,001**	2,035,177
Cost of sales		**(567,072)**	(629,768)
Gross profit		**1,433,929**	1,405,409
Other income and gain	5	**46,665**	44,041
Selling and distribution expenses		**(1,217,982)**	(1,256,272)
Administrative expenses		**(164,484)**	(183,312)
Other expenses		**(23,693)**	(91,468)
Finance costs	7	**(14,023)**	(12,357)
PROFIT/(LOSS) BEFORE TAX	6	**60,412**	(93,959)
Income tax expense	10	**(26,166)**	(4,458)
PROFIT/(LOSS) FOR THE YEAR		**34,246**	(98,417)
Attributable to:			
Owners of the Company		**34,975**	(93,242)
Non-controlling interests		**(729)**	(5,175)
		34,246	(98,417)
Earnings/(loss) per share attributable to ordinary equity holders of the Company			
Restated			Restated
– Basic	12	**RMB2.0 cents**	RMB(6.3) cents
– Diluted	12	**RMB2.0 cents**	RMB(6.3) cents

Year ended 31 December 2016

	Year ended 31 December 2016 RMB'000	2015 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**34,246**	(98,417)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**19,813**	3,732
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**19,813**	3,732
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:		
Equity investments designated as fair value through other comprehensive (loss)/income:		
Changes in fair value	**(122,928)**	2,042
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods	**(122,928)**	2,042
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(103,115)**	5,774
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(68,869)**	(92,643)
Attributable to:		
Owners of the Company	**(68,140)**	(87,468)
Non-controlling interests	**(729)**	(5,175)
	(68,869)	(92,643)

Consolidated Statement of Financial Position

31 December 2016

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**675,545**	721,712
Goodwill	14	**13,532**	12,674
Intangible assets	15	**43,707**	35,468
Non-current financial assets	17	**224,470**	19,990
Long-term rental deposits	16	**107,379**	98,518
Deferred tax assets	26	**80,407**	84,526
Pledged deposits	22	**40,000**	60,000
Loan to a non-controlling shareholder	32/a.2	**47,498**	44,487
Other long-term receivables	32/b	**30,413**	31,836
Total non-current assets		**1,262,951**	1,109,211
CURRENT ASSETS			
Inventories	18	**37,509**	54,116
Trade receivables	19	**26,654**	25,677
Prepayments, deposits and other receivables	20	**205,039**	168,434
Financial asset at fair value through profit or loss	21	**242**	227
Pledged deposits	22	**20,000**	20,000
Cash and cash equivalents	22	**233,390**	169,024
Total current assets		**522,834**	437,478
CURRENT LIABILITIES			
Trade payables	23	**66,841**	117,889
Interest-bearing bank loans	25	**203,532**	291,099
Tax payable		**21,365**	15,963
Other payables and accruals	24	**277,372**	198,503
Deferred income		**3,478**	5,221
Total current liabilities		**572,588**	628,675
NET CURRENT LIABILITIES		**(49,754)**	(191,197)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,213,197**	918,014

31 December 2016

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Long-term defer payment	32/b	**30,413**	31,836
Long-term payables	16	**81,578**	71,371
Interest-bearing bank loans	25	**138,283**	43,217
Deferred tax liabilities	26	**481**	708
Total non-current liabilities		**250,755**	147,132
Net assets		**962,442**	770,882
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**18,393**	12,035
Reserves	30	**871,938**	687,864
		890,331	699,899
Non-controlling interests		**72,111**	70,983
Total equity		**962,442**	770,882

Wang Huimin
Director

Zhu Xiaoxia
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

		Attributable to owners of the Company												
	Notes	Issued capital RMB'000 (Note 28)	Share premium RMB'000 (Note 30)	Capital redemption reserves RMB'000 (Note 28)	Capital reserve RMB'000 (Note 30)	Merger reserve RMB'000 (Note 30)	Statutory surplus reserve RMB'000 (Note 30)	Exchange fluctuation reserve RMB'000 (Note 30)	Share option reserve RMB'000 (Note 30)	Financial asset revaluation reserve RMB'000 (Note 30)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of 1 January 2016		12,035	472,827	27	59,478	(69,246)	13,836	(12,597)	20,004	2,042	201,493	699,899	70,983	770,882
Profit/(Loss) for the year		–	–	–	–	–	–	–	–	–	34,975	34,975	(729)	34,246
Other comprehensive income for the year:														
Changes in fair value of financial assets, net of tax		–	–	–	–	–	–	–	–	(122,928)	–	(122,928)	–	(122,928)
Exchange differences related to foreign operations		–	–	–	–	–	–	19,813	–	–	–	19,813	–	19,813
Total comprehensive income for the year		–	–	–	–	–	–	19,813	–	(122,928)	34,975	(68,140)	(729)	(68,869)
Issue of Shares		6,358	254,322	–	–	–	–	–	–	–	–	260,680	–	260,680
Acquisition of non-controlling interests		–	–	–	(1,801)	–	–	–	–	–	–	(1,801)	1,801	–
Disposal of a subsidiary	33	–	–	–	–	–	–	–	–	–	–	–	56	56
Shares issue expenses		–	(3,307)	–	–	–	–	–	–	–	–	(3,307)	–	(3,307)
Appropriation for reserve funds		–	–	–	–	–	223	–	–	–	(223)	–	–	–
Equity-settled share option arrangements	29	–	–	–	–	–	–	–	3,000	–	–	3,000	–	3,000
As of 31 December 2016		18,393	723,842*	27*	57,677*	(69,246)*	14,059*	7,216*	23,004*	(120,886)*	236,245*	890,331	72,111	962,442

		Attributable to owners of the Company													
	Notes	Issued capital RMB'000 (Note 29)	Share premium RMB'000 (Note 30)	Treasury shares RMB'000 (Note 28)	Capital redemption reserve RMB'000 (Note 28)	Capital reserve RMB'000 (Note 30)	Merger reserve RMB'000 (Note 30)	Statutory surplus reserve RMB'000 (Note 30)	Exchange fluctuation reserve RMB'000 (Note 30)	Share option reserve RMB'000 (Note 30)	Financial asset revaluation reserve RMB'000 (Note 30)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As of 1 January 2015		12,062	475,538	(2,711)	–	59,771	(69,246)	13,238	(16,329)	14,504	–	295,333	782,160	6,494	788,654
Loss for the year		–	–	–	–	–	–	–	–	–	–	(93,242)	(93,242)	(5,175)	(98,417)
Other comprehensive income for the year:															
Changes in fair value of financial assets, net of tax		–	–	–	–	–	–	–	–	–	2,042	–	2,042	–	2,042
Exchange differences related to foreign operations		–	–	–	–	–	–	–	3,732	–	–	–	3,732	–	3,732
Total comprehensive income for the year		–	–	–	–	–	–	–	3,732	–	2,042	(93,242)	(87,468)	(5,175)	(92,643)
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	82,803	82,803
Acquisition of non-controlling interests		–	–	–	–	(2,598)	–	–	–	–	–	–	(2,598)	–	(2,598)
Disposal of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	(3,998)	(3,998)
Appropriation for reserve funds		–	–	–	–	–	–	598	–	–	–	(598)	–	–	–
Cancellation of shares	28(b)	(27)	(2,711)	2,711	27	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling shareholders		–	–	–	–	2,305	–	–	–	–	–	–	2,305	243	2,548
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(9,384)	(9,384)
Equity-settled share option arrangements	29	–	–	–	–	–	–	–	–	5,500	–	–	5,500	–	5,500
As of 31 December 2015		12,035	472,827*	–	27*	59,478*	(69,246)*	13,836*	(12,597)*	20,004*	2,042*	201,493*	699,899	70,983	770,882

* These reserve accounts comprise the consolidated reserves of RMB871,938,000 (2015: RMB687,864,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**60,412**	(93,959)
Adjustments for:			
Finance costs	7	**14,023**	12,357
Interest income	5	**(4,133)**	(3,797)
Dividend income from non-current financial assets	5	**(800)**	(2,652)
Depreciation	13	**168,374**	184,273
Amortisation of intangible assets	15	**4,443**	3,155
Amortisation of other long-term assets	6	**–**	157
Loss on disposal of items of property, plant and equipment	6	**9,113**	9,931
Loss on disposal of items of intangible assets	6	**–**	343
Loss on acquisition of non-current financial assets		**4,031**	–
(Loss)/gain on disposal of a subsidiary	6	**2,621**	(5)
Impairment of property, plant and equipment		**2,019**	66,743
Equity-settled share option expense	6	**3,000**	5,500
		263,103	182,046
Decrease/(increase) in inventories		**16,050**	(522)
Increase in trade receivables		**(3,309)**	(3,328)
(Increase)/decrease in prepayments, deposits and other receivables		**(18,589)**	26,358
(Decrease)/increase in trade payables		**(48,377)**	7,966
(Decrease)/increase in other payables and accruals		**(12,433)**	16,647
Increase in long-term rental deposits		**(8,861)**	(16,564)
Increase in long-term payables		**10,207**	3,084
(Decrease)/increase in deferred income		**(1,743)**	4,380
Cash generated from operations		**196,048**	220,067
Income tax paid		**(16,581)**	(20,150)
Net cash flows from operating activities		**179,467**	199,917

Year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(136,260)**	(168,600)
Loan to non-controlling shareholder		**–**	(51,259)
Repayment of loan to a non-controlling shareholder		**–**	9,384
Payment for acquisition of a non-controlling interests		**–**	(2,598)
Payment for acquisition of a subsidiary	32	**–**	(74,164)
Purchase of non-current financial assets		**(216,948)**	(7,167)
Proceeds from disposal of non-current financial assets		**–**	1,000
Dividends received from non-current financial assets	5	**–**	2,652
Disposal of a subsidiary		**625**	–
Payment for acquisition of a subsidiary		**(1,789)**	–
Interest received		**4,133**	3,797
Net cash flows used in investing activities		**(350,239)**	(286,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**232,373**	–
Share issue expenses		**(3,307)**	–
Increase in pledged time deposits		**20,000**	(80,000)
Repayment of bank loans		**(318,139)**	(165,219)
Proceeds from new bank loans		**321,000**	259,774
Dividend paid to non-controlling shareholders		**–**	(9,384)
Capital contribution from non-controlling shareholders		**–**	2,548
Interest paid		**(14,023)**	(12,357)
Net cash flows from/(used in) financing activities		**237,904**	(4,638)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**67,132**	(91,676)
Cash and cash equivalents at beginning of year		**169,024**	269,305
Effect of foreign exchange rate changes, net		**(2,766)**	(8,605)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**233,390**	169,024
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**219,737**	143,521
Time deposits with maturity of less than three months, not pledged	22	**13,653**	25,503
Cash and cash equivalents as stated in the statement of cash flows		**233,390**	169,024

1. CORPORATE AND GROUP INFORMATION

Xiao Nan Guo restaurants holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered address is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of chain restaurants in Mainland China, Hong Kong and other regions. There were no significant changes in the nature of the Group's principal activities during the year.

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. 上海浦東小南國餐飲有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Xiao Nan Guo Restaurant Co., Ltd. 上海小南國餐飲有限公司	PRC	RMB30,000	–	100	(1)
Shanghai Xinqu Xiao Nan Guo Restaurant Management Co., Ltd. 上海新區小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Beijing Xiao Nan Guo Restaurant Management Co., Ltd. 北京小南國餐飲管理有限公司	PRC	RMB2,000	–	100	(1)
Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. 上海虹梅小南國餐飲有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Changning Xiao Nan Guo Restaurant Co., Ltd. 上海長寧小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Hongkou Xiao Nan Guo Restaurant Co., Ltd. 上海虹口小南國餐飲有限公司	PRC	RMB500	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Nanjing Xiao Nan Guo Huimin Restaurant Co., Ltd. 南京小南國匯珉餐飲有限公司	PRC	RMB500	–	100	(1)
Suzhou Ligongdi Xiao Nan Guo Restaurant Co., Ltd. 蘇州李公堤小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Dalian Shidai Xiao Nan Guo Restaurant Co., Ltd. 大連時代小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Huangpu Xiao Nan Guo Restaurant Management Co., Ltd. 上海黃浦小南國餐飲管理有限公司	PRC	RMB1,000	–	100	(1)
Ningbo Haishu Xiao Nan Guo Restaurant Management Co., Ltd. 寧波市海曙小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Nanjing Jiangning Xiao Nan Guo Restaurant Co., Ltd. 南京市江寧區小南國餐飲有限公司	PRC	RMB1,000	–	100	(1)
Shanghai Songjiang Xiao Nan Guo Restaurant Co., Ltd. 上海松江小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Xinyi Xiao Nan Guo Restaurant Management Co., Ltd. 上海昕怡小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Baoshan Xiao Nan Guo Restaurant Co., Ltd. 上海寶山小南國餐飲有限公司	PRC	RMB500	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd. 深圳市小南國餐飲管理有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Zhabei Xiao Nan Guo Restaurant Management Co., Ltd. 上海閘北小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Tianjin Hui Zhi Nan Restaurant Management Co., Ltd. 天津慧之南餐飲管理有限公司	PRC	RMB500	–	100	(1)
Wuxi Hui Zhi Nan Restaurant Co., Ltd. 無錫慧之南餐飲有限公司	PRC	RMB500	–	100	(1)
Chengdu Hui Zhi Nan Restaurant Co., Ltd 成都慧之南餐飲管理有限公司	PRC	RMB5,000	–	100	(1)
Shenyang Xiao Nan Guo Restaurant Co., Ltd 瀋陽小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Huimin Xiao Nan Guo Restaurant Co., Ltd. 上海慧珉小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Putuo Xiao Nan Guo Restaurant Management Co., Ltd. 上海普陀小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Xiao Nan Guo Oreno Restaurant Management Co., Ltd. 上海俺的小南國餐飲管理有限公司	PRC	RMB7,000	–	100	(1)
Shanghai Huijie Restaurant Management Co., Ltd. 上海慧捷餐飲管理有限公司	PRC	RMB1,000	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Shanghai Xiao Nan Guo Rifeng Restaurant Management Co., Ltd. 上海小南國日豐餐飲管理有限公司	PRC	RMB20,000	–	100	(1)
Shanghai Chuanjie Restaurant Management Co., Ltd. 上海船捷餐飲管理有限公司	PRC	RMB30,000	–	100	(1)
Shanghai Xiao Nan Guo Nutritional Food Co., Ltd. 上海小南國營養餐食品有限公司	PRC	RMB3,000	–	100	(2)
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. 上海小南國海之源餐飲管理有限公司	PRC	RMB450,000	–	100	(3)
Xiao Nan Guo Management Co., Ltd. 小南國管理有限公司	Hong Kong	HK$0.2	–	100	(4)
Xiao Nan Guo Management (Kowloon) Limited 小南國管理（九龍）有限公司	Hong Kong	HK$10	–	100	(4)
Xiao Nan Guo (Causeway Bay) Management Limited 小南國（銅鑼灣）管理有限公司	Hong Kong	HK$300	–	100	(4)
Xiao Nan Guo (Kowloon Bay) Management Limited 小南國（九龍灣）管理有限公司	Hong Kong	HK$10	–	100	(4)
Xiao Nan Guo (Shatin) Management Limited 小南國（沙田）管理有限公司	Hong Kong	HK$10	–	100	(4)
Xiao Nan Guo (One Peking) Management Limited 小南國（北京道）管理有限公司	Hong Kong	HK$0.001	–	100	(4)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities (Notes)
Million Rank (HK) Limited (Formerly named Pokka Corporation (HK) Limited)	Hong Kong	HK$16,000	–	65	(4)
Million Rank (Macau) Limited (Formerly named Pokka Coffee (Macau) Ltd.)	Macau	MOP200	–	65	(5)
Xiao Nan Guo Holdings Limited 小南國控股有限公司	Hong Kong	HK$330.2	–	100	(6)
Xiao Nan Guo Holdings Limited	BVI	US$10	100	–	(6)
Xiao Nan Guo (Hong Kong) Restaurant Group Limited	BVI	US$0.00001	100	–	(6)
King Merit Corporation Limited 煌智有限公司	Hong Kong	HK$0.01	–	100	(6)
Oreno Xiao Nan Guo International (Hong Kong) Limited	Hong Kong	HK$7,600	–	100	(6)
Shanghai Mizhilian Restaurant Management Co., Ltd. 上海米芝蓮餐飲管理有限公司	PRC	RMB200	–	50	(7)
Shanghai Yan Meng Information and Technology Development Co., Ltd. (Formerly known as Shanghai Xiao Nan Guo Technology and Information Development Co., Ltd.) 上海焱萌信息科技發展有限公司 (原名：上海小南國科技信息發展有限公司)	PRC	RMB10,000	–	100	(8)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Notes of the principal activities:

(1) Operation of restaurant chain stores in Mainland China
(2) Trading and sale of pre-packaged food in the PRC
(3) Restaurant management and operation of Chinese restaurant chain stores in Mainland China
(4) Operation of restaurant chain stores in Hong Kong
(5) Operation of restaurant chain stores in Macau
(6) Investment holding
(7) Rendering of management services and franchise operation
(8) Rendering of IT technology services and sale of software

The Group acquired POKKA HK in 2015, details of which are included in Note 32. The Group disposed of a subsidiary in 2016, details of which are included in Note 33.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**"). They have been prepared under the historical cost convention except for a financial asset at fair value through profit or loss and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Net current liability

As at 31 December 2016, the current liabilities of the Group exceeded its current assets by approximately RMB49,754,000. In the opinion of the Directors, the net current liability position was mainly caused by capital investment on newly opened stores. The Directors have prepared these financial statements on a going concern basis based on the cash flow which indicated the Group will generate sufficient operating cash inflows to meet its financial obligations when they fall due.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
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 IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

1 Initial application on 1 January 2016

Other than as further explained below regarding the impact of early adoption of IFRS 9, the adoption of the new and revised IFRSs has had no significant financial impact on these financial statements.

The Group has elected to early adopt the final version of IFRS 9 since 1 January 2016.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. Instead of classifying financial assets into four categories, IFRS 9 requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

As a result of the early application of IFRS 9, the Group has changed the accounting policy retrospectively with respect to the classification and measurement of financial assets. Instead of classifying financial assets into four categories, the Group has classified financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss. A financial asset is subsequently measured at amortised cost or fair value.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The classification and measurement category for each class of financial assets at the date of initial application were as follows:

Financial asset	Notes	Measurement category Original (IAS 39)	New (IFRS 9)	Carrying amount Original (IAS 39) RMB'000	New (IFRS 9) RMB'000	Difference
Non-current financial assets						
U.S. listed equity investments	(a)	Available-for-sale at fair value	Financial assets at fair value through other comprehensive income	5,890	5,890	–
Unlisted equity investments	(a)	Available-for-sale at cost	Financial assets at fair value through other comprehensive income	14,100	14,100	–
Financial asset at fair value through profit or loss	(b)	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	227	227	–
Long term pledged deposits	(c)	Loans and receivables	Financial assets at amortised cost	60,000	60,000	–
Loan to a non-controlling shareholder	(c)	Loans and receivables	Financial assets at amortised cost	44,487	44,487	–
Long-term rental deposits	(c)	Loans and receivables	Financial assets at amortised cost	98,518	98,518	–
Other long-term receivables	(c)	Loans and receivables	Financial assets at amortised cost	31,836	31,836	–
Trade receivables	(c)	Loans and receivables	Financial assets at amortised cost	25,677	25,677	–
Financial assets included in prepayments, deposits and other receivables	(c)	Loans and receivables	Financial assets at amortised cost	98,740	98,740	–
Pledged deposits	(c)	Loans and receivables	Financial assets at amortised cost	20,000	20,000	–
Cash and cash balances	(c)	Loans and receivables	Financial assets at amortised cost	169,024	169,024	–
Total financial assets				**568,499**	**568,499**	**–**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(a) At the date of initial application all the Group's equity investments as listed in Note 17 to the financial statements were designated as financial assets at fair value through other comprehensive income which were previously classified as available-for-sale financial assets under IAS 39 and not held for trading.

The adoption of IFRS 9 on the accounting for these equity investments does not have an effect on the comparatives presented given that there was no impairment or disposal of these investments in the prior year. Other than the dividend income, the subsequent changes in the fair values of these investments shall be recognised in other comprehensive income and cannot be subsequently recycled to profit or loss.

(b) At the date of initial application, the Group's financial assets at fair value through profit or loss continued to be measured at fair value through profit or loss. The adoption of IFRS 9 on these financial assets has had no material financial impact on the financial position or performance of the Group given that these financial assets are held for trading.

(c) Other financial assets continue to be measured at amortised cost upon the initial application of IFRS 9.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Except for IFRS 9, the Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
Amendments to IFRS 10 and and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates and Joint Ventures*[2]

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

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

The IASB issued amendments to IFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

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

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents restaurant decoration and machinery and other assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

The Group initially recognises financial assets at which the Group becomes a party to the contractual provisions of the instruments.

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are classified, at initial recognition, as debt instruments at amortised cost, debt instruments, derivatives and equity instruments at fair value through profit or loss and equity instruments designated as measured at fair value through other comprehensive income (with gains and losses remaining in other comprehensive income, without recycling).

This classification depends on whether the financial asset is a debt or equity investment. A financial asset is classified as a debt instrument at amortised cost, if:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

All other financial assets are measured at fair value through profit or loss, except that, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss is expensed in the statement of profit or loss.

Subsequent measurement

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

Debt instruments at amortised cost

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

Debt instruments, derivatives and equity instruments at fair value through profit or loss

A gain or loss on a debt investment, derivatives and equity instruments that are subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss in the period in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Equity instruments designated as measured at fair value through other comprehensive income

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present unrealised and realised fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Group is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, interest-bearing bank loans, other loans, and other financial liabilities.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The net fair value gain or loss recognised in the consolidated statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IFRS 9 are satisfied. No financial liabilities have been designated as fair value through profit or loss by the Group.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sales, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred income

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from restaurant operations, when catering services have been provided to customers;

(b) from the sale of foods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the foods sold;

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

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

(e) dividend income from non-current financial assets, is recognised when the right to receive payment established; and

(f) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

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

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

For awards that do not ultimately vest, because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme. Details of the central pension scheme are set out in Note 27 below.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 2% and 8% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group (RMB) at the exchange rates prevailing at the end of the reporting period, and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases as lessee on its restaurant chain stores. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the landlords retain all the significant risks and rewards of ownership of these properties which are leased to the Group on operating leases.

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

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

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

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB13,532,000 (2015: RMB12,674,000). Further details are given in Note 14.

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

Estimation uncertainty *(continued)*

Impairment of non-financial assets (other than goodwill)

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

Useful lives of property and equipment

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property and equipment. This estimate is based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised tax losses at 31 December 2016 and 2015 were RMB35,238,000 and RMB37,324,000, respectively. Further details are contained in note 26 to the financial statements.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer taste or competitor actions. Management reassesses these estimates at each reporting date.

Impairment of receivables

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

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

Estimation uncertainty *(continued)*

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2016 was RMB14,100,000 (2015: RMB14,100,000) which was equal to related investment cost. Further details are included in Note 17.b to the financial statements.

Deferred income

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

4. OPERATING SEGMENT INFORMATION

On 7 January 2015, since the Group completed the acquisition of Pokka Corporation (HK) Limited and its subsidiary Pokka Coffee (Macau) Ltd. (collectively referred to as "**POKKA HK**"), the Group has the following two reportable operating segments based on their brands and services:

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

(b) POKKA HK Business (the business acquired in January 2015 which includes main brands: Pokka Café and Tonkichi)

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

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

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2016

	Xiao Nan Guo RMB'000	POKKA HK RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,691,237	309,764	2,001,001
Revenue from continuing operations			2,001,001
Segment results	75,663	2,937	78,600
Reconciliation:			
Elimination of intersegment results			60
Dividend income from non-current financial assets			800
Equity-settled share option expense			(3,000)
Interest income			4,133
Finance costs			(14,023)
Loss on disposal of a subsidiary			(2,621)
Corporate and other unallocated expenses			(3,537)
Profit before tax			60,412
Segment assets	952,326	493,671	1,445,997
Reconciliation:			
Elimination of intersegment receivables			(34,251)
Corporate and other unallocated assets			374,039
Total assets			1,785,785
Segment liabilities	383,769	110,164	493,933
Reconciliation:			
Elimination of intersegment payables			(34,251)
Corporate and other unallocated liabilities			363,661
Total liabilities			823,343
Other segment information:			
Depreciation and amortisation	149,657	23,160	172,817
Capital expenditure*	131,640	8,878	140,518

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2015

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

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

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Mainland China	**1,374,891**	1,438,888
Hong Kong	**607,533**	554,840
Others	**18,577**	41,449
	2,001,001	2,035,177

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

(b) Non-current assets

	31 December	31 December
	2016	2015
	RMB'000	RMB'000
Mainland China	**593,265**	615,418
Hong Kong	**246,129**	251,366
Others	**769**	1,588
	840,163	868,372

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

Information about a major customer

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2016 and 2015, segment information is not presented in accordance with IFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue		
Restaurant operations	**1,982,795**	2,021,115
Other revenue	**18,206**	14,062
	2,001,001	2,035,177
Other income		
Government grants	**25,373**	24,082
Dividend income from non-current financial assets	**800**	2,652
Membership fee income	**5,849**	5,990
Bank interest income	**4,133**	3,797
Management fee income	**3,230**	4,836
Foreign exchange differences, net	**595**	–
Compensation income for a store early terminated operation	**4,900**	–
Service fee income	**–**	1,350
Others	**1,785**	1,329
	46,665	44,036
Gain		
Gain on disposal of a subsidiary	**–**	5
	46,665	44,041

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cost of inventories consumed		**567,072**	629,768
Depreciation	13	**168,374**	184,273
Amortisation of intangible assets	15	**4,443**	3,155
Amortisation of other long-term assets		**–**	157
Minimum lease payments underoperating leases on buildings		**368,272**	367,868
Auditors' remuneration		**4,700**	3,109
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**455,796**	496,606
Equity-settled share option expense		**3,000**	5,500
Defined contribution pension schemes		**112,836**	118,178
		571,632	620,284
Foreign exchange differences, net		**(595)**	2,197
Bank interest income	5	**(4,133)**	(3,797)
Loss on disposal of items of property and equipment		**9,113**	9,931
Loss on disposal of items of intangible assets		**–**	343
Impairment of property, plant and equipment		**2,019**	66,743
Loss on acquisition of a non-current financial assets		**4,031**	–
Loss/(gain) on disposal of a subsidiary	33	**2,621**	(5)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2016 RMB'000	2015 RMB'000
Interest on bank loans	**14,937**	12,766
Less: Interest capitalised	**(914)**	(409)
	14,023	12,357

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Fees	**691**	440
Other emoluments:		
Salaries, allowances and benefits in kind	**1,039**	2,701
Equity-settled share-based payment	**–**	456
Pension scheme contributions	**–**	114
	1,039	3,271
	1,730	3,711

(a) Independent non-executive directors

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

	2016	2015
	RMB'000	RMB'000
Mr. Wang Yu	**–**	52
Mr. Tsang Henry Yuk Wong	**–**	53
Mr. Wang Chiwei	**–**	156
Mr. Wu Chun Wah	**249**	109
Mr. Lui Wai Ming	**249**	70
Mr. Lin Lijun	**193**	–
	691	440

During the year ended 31 December 2015, 500,000 share options were granted to Mr. Tsang Henry Yuk Wong in respect of his services to the Group, which were forfeited subsequently, further details of which were set out in Note 29 to the financial statements. Except for those options granted to Mr. Tsang Henry Yuk Wong, there were no emoluments payable to the independent non-executive directors in 2016 and 2015.

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

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

Mr. Wang Yu and Mr. Tsang Henry Yuk Wong were appointed as independent non-executive directors in 2011 and resigned on 4 June 2015. Mr. Wang Chiwei was appointed as an independent non-executive director in 2011 and resigned on 31 December 2015.

Mr. Wu Chun Wah was appointed as an independent non-executive director on 4 June 2015. Mr. Lui Wai Ming was appointed as an independent non-executive director and the chairman of the Audit Committee on 18 August 2015. Mr. Lin Lijun was appointed as an independent non-executive director on 23 March 2016.

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share-based payment RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2016				
Executive directors:				
Ms. Wang Huimin	**1,039**	**–**	**–**	**1,039**
Ms. Wu Wen	**–**	**–**	**–**	**–**
Ms. Zhu Xiaoxia	**–**	**–**	**–**	**–**
	1,039	**–**	**–**	**1,039**
Year ended 31 December 2015				
Executive directors:				
Ms. Wang Huimin	–	–	–	–
Ms. Wu Wen	–	–	–	–
Ms. Zhu Xiaoxia	–	–	–	–
Mr. Kang Jie	2,701	410	114	3,225
	2,701	410	114	3,225

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

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

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

(c) Non-executive directors

Ms. Wang Huili and Mr. Weng Xiangwei were appointed as non-executive directors in 2010. Mr. Wang Hairong was appointed as a non-executive director in 2012. There were no fees or other emoluments payable to them during the years ended 31 December 2016 and 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director (also the chief executive) for the years ended 31 December 2016 and 2015, details of whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining four (2015: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,202**	3,566
Equity-settled share-based payment	**87**	320
Pension scheme contributions	**209**	518
	2,498	4,404

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December	
	2016	2015
Nil to HK$1,000,000	**3**	–
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**–**	1
	4	4

During the year ended 31 December 2015, share options were granted to the four non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are set out in Note 29 to the financial statements. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures. No share options were granted in the year ended 31 December 2016.

10. INCOME TAX

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current – Mainland China charged for the year	**16,063**	13,537
Current – Hong Kong and elsewhere charged for the year	**4,857**	2,997
Deferred tax (Note 26)	**5,246**	(12,076)
Total tax charge for the year	**26,166**	4,458

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

Hong Kong profits tax has been provided at the rate of 16.5% (2015:16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

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

According to the Macau Complementary Tax ("**MCT**") Law, taxable profits below MOP600,000 are exempted from tax, and taxable profits over MOP600,000 are subject to the rate of 12%.

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Group and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, is as follows:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before tax	**60,412**	(93,959)
Tax at the statutory tax rate of 25% (2015: 25%)	**15,103**	(23,490)
Lower tax rates for specific provinces or enacted by local authorities	**(346)**	(719)
Income not subject to tax	**(135)**	(227)
Expenses not deductible for tax	**7,339**	3,664
Tax losses not recognised during the year	**13,246**	18,452
Temporary differences not recognised during the year	**548**	6,778
Tax losses from previous periods utilised with assets disposal	**(9,589)**	–
	26,166	4,458

11. DIVIDENDS

No interim dividend was declared and no final dividend was proposed for 2016 and 2015.

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

The calculation of the basic earnings per share amount for the year ended 31 December 2016 is based on the consolidated profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 1,793,678,450 (31 December 2015: 1,471,936,177 (restated)) in issue throughout the year, as adjusted to reflect the bonus element of 737,677,000 rights issue on 18 July 2016. Details of the rights issue are included in Note 28(c).

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

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

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**34,975**	(93,242)
Shares		Restated
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**1,793,678,450**	1,471,936,177
Effect of dilution – weighted average number of ordinary shares**:		
Share options	**–**	–
Number of ordinary shares used in the diluted earnings per share calculation	**1,793,678,450**	1,471,936,177

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

** Since the exercise prices of these options exceed the average market price of ordinary shares during the year, there was no dilutive effect as of 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016						
At 31 December 2015 and 1 January 2016:						
Cost	77,958	971,110	274,919	6,609	8,560	1,339,156
Accumulated depreciation	(2,361)	(377,851)	(155,031)	(4,112)	–	(539,355)
Impairment	–	(63,987)	(14,102)	–	–	(78,089)
Net Carrying amount	75,597	529,272	105,786	2,497	8,560	721,712
At 1 January 2016, net of						
Accumulated depreciation	75,597	529,272	105,786	2,497	8,560	721,712
Additions	–	69,283	16,121	960	43,567	129,931
Depreciation provided during the year	(2,514)	(125,713)	(39,489)	(658)	–	(168,374)
Disposals	–	(13,035)	(2,859)	(5)	–	(15,899)
Disposal of a subsidiary (Note 33)	–	(506)	(591)	–	–	(1,097)
Impairment	–	(1,717)	(302)	–	–	(2,019)
Transfers	–	34,876	7,834	–	(42,710)	–
Exchange realignment	4,958	4,518	1,753	62	–	11,291
At 31 December 2016, net of accumulated depreciation and impairment	78,041	496,978	88,253	2,856	9,417	675,545
At 31 December 2016:						
Cost	83,234	1,052,985	298,965	7,647	9,417	1,452,248
Accumulated depreciation	(5,193)	(522,702)	(201,761)	(4,791)	–	(734,447)
Impairment	–	(33,305)	(8,951)	–	–	(42,256)
Net Carrying amount	78,041	496,978	88,253	2,856	9,417	675,545

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

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015						
At 31 December 2014 and 1 January 2015:						
Cost	–	891,043	200,800	6,455	9,147	1,107,445
Accumulated depreciation	–	(305,325)	(99,799)	(4,976)	–	(410,100)
Impairment	–	(7,692)	(3,654)	–	–	(11,346)
Net carrying amount	–	578,026	97,347	1,479	9,147	685,999
At 1 January 2015, net of accumulated depreciation	–	578,026	97,347	1,479	9,147	685,999
Additions	–	91,817	38,661	726	25,982	157,186
Acquisition of a subsidiary (Note 32)	73,380	31,045	23,562	881	–	128,868
Depreciation provided during the year	(2,290)	(132,387)	(49,002)	(594)	–	(184,273)
Disposals	–	(7,856)	(2,033)	(42)	–	(9,931)
Impairment	–	(56,295)	(10,447)	(1)	–	(66,743)
Transfers	–	20,708	5,861	–	(26,569)	–
Exchange realignment	4,507	4,214	1,837	48	–	10,606
At 31 December 2015, net of accumulated depreciation and impairment	75,597	529,272	105,786	2,497	8,560	721,712
At 31 December 2015:						
Cost	77,958	971,110	274,919	6,609	8,560	1,339,156
Accumulated depreciation	(2,361)	(377,851)	(155,031)	(4,112)	–	(539,355)
Impairment	–	(63,987)	(14,102)	–	–	(78,089)
Net carrying amount	75,597	529,272	105,786	2,497	8,560	721,712

At 31 December 2016, the building, of Million Rank (HK) Limited, of which the Company indirectly holds 65% equity interest, with a net carrying amount of approximately RMB78,041,000 (31 December 2015: RMB75,597,000) was pledged to secure bank loans granted to Million Rank (HK) Limited (Note 25).

As at 31 December 2016 the balance of impairment provision was RMB42,256,000, which included RMB37,852,000 that has been written off during the year with disposed (2015: RMB2,531,000), an impairment provision of RMB2,666,000 which was reversed in the year ended 31 December 2016 (2015: Nil) and an impairment provision of RMB4,685,000 which was recognised in the year ended 31 December 2016 (2015: RMB66,743,000).

14. GOODWILL

	RMB'000
At 1 January 2015:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2015, net of accumulated impairment	–
Acquisition of a subsidiary (Note 32)	11,930
Exchange realignment	744
At 31 December 2015	12,674
At 31 December 2015:	
Cost	12,674
Accumulated impairment	–
Net carrying amount	12,674
At 1 January 2016:	
Cost	**12,674**
Accumulated impairment	**–**
Net carrying amount	**12,674**
Cost at 1 January 2016, net of accumulated impairment	**12,674**
Exchange realignment	**858**
At 31 December 2016	**13,532**
At 31 December 2016:	
Cost	**13,532**
Accumulated impairment	**–**
Net carrying amount	**13,532**

14. GOODWILL *(continued)*

Impairment testing of goodwill

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

POKKA HK Business cash-generating unit

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

Assumptions were used in the value in use calculation of the POKKA HK Business cash-generating unit for 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

Sensitivity to changes in assumptions

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

15. INTANGIBLE ASSETS

31 December 2016

	Customer relationship RMB'000 a)	Favourable contract RMB'000 b.1)	Trademark RMB'000 b.2)	Software RMB'000	Total RMB'000
Cost at 1 January 2016, net of accumulated amortisation	6,479	15,608	10,734	2,647	35,468
Additions	–	–	–	10,587	10,587
Amortisation provided during the year	(744)	(670)	(584)	(2,445)	(4,443)
Exchange realignment	414	974	707	–	2,095
At 31 December 2016	6,149	15,912	10,857	10,789	43,707

31 December 2015

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

a) The customer relationship is amortised over 10 years, which is management's best estimation of its beneficial life.

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

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

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

16. LONG-TERM RENTAL DEPOSITS AND LONG-TERM PAYABLES

The long-term rental deposits represent the rental deposits paid to various landlords with lease terms that will expire more than one year after the end of the reporting period.

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

17. NON-CURRENT FINANCIAL ASSETS

	Notes	**31 December 2016**	31 December 2015	% of the equity interest hold by the Group
		RMB'000	RMB'000	
U.S. listed equity investments, at fair value through other comprehensive income:				
Wowo Limited	a	**205,640**	–	9.82%
Zhongju Limited Partnership Enterprise	a	**4,730**	5,890	2.943%
		210,370	5,890	
Unlisted equity investments, at fair value through other comprehensive income:				
Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd.	b	**100**	100	10%
Yancheng Guanhua Aquatic Products Co., Ltd.	b	**10,000**	10,000	24.01%
Shanghai Zhong Hong Kuai Jian Brand Management Co., Ltd.	b	**4,000**	4,000	16.67%
		14,100	14,100	
		224,470	19,990	

17. NON-CURRENT FINANCIAL ASSETS *(continued)*

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

a. In 2015, Shanghai Xiao Nan Guo, an indirect wholly-owned subsidiary of the Company, the general partner of Zhongju Limited Partnership Enterprise ("**Zhongmin GP**") and other investors, which are independent third parties of the Company (the "**Other Zhongju Investors**") entered into a limited partnership agreement ("**Zhongju LP Agreement**") for the establishment of the Zhongju Limited Partnership Enterprise ("**Zhongju LPE**"), and pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agreed to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total registered capital, equivalent to 0.44% of the issued share capital of Wowo Limited). A decrease in fair value for the year ended 31 December 2016 of RMB870,000 (2015: increase in fair value of RMB2,042,000) was recognised in other comprehensive loss/income. An accumulated increase in fair value as of 31 December 2016 with an amount of RMB1,172,000 (31 December 2015: RMB2,042,000) was recognised in other comprehensive loss/income.

   The Group entered into the share purchase agreement dated 7 June 2016 to acquire an aggregate of 141,914,880 ordinary shares of Wowo Limited, representing approximately 9.82% of the issued share capital of Wowo Limited at HK$2.60 per share, for an aggregate consideration of HK$368,396,837. The completion of the acquisition is conditional upon the completion of the Rights Issue, which was completed on 18 July 2016 and with details stated in Note 28. The net proceeds raised from the Rights Issue will be used to pay the consideration of the acquisition. On 8 August 2016, the circular in connection with the acquisition was issued by the Company. The transaction had been approved by the extraordinary general meeting of the Company held on 24 August 2016. On 8 September 2016, the transaction was completed and initially recognised as RMB327,698,000 after net-off an investment loss of RMB4,031,000. After this acquisition, the Group held approximately 10.26% of the issued share capital of Wowo Limited in total.

   Management designated the equity investment as a financial asset at fair value through other comprehensive income upon initial application of IFRS 9 on 1 January 2016, as management considered it a strategic investment for developing the food-industry B2B business in the future. The fair value of the listed equity securities is determined by reference to published quotation as at 31 December 2016. A decrease in fair value for the year ended 31 December 2016 of RMB122,058,000 (2015: Nil) was recognised in other comprehensive loss/income. An accumulated decrease in fair value as of 31 December 2016 with an amount of RMB122,058,000 (31 December 2015: Nil) was recognised in other comprehensive loss/income.

17. NON-CURRENT FINANCIAL ASSETS *(continued)*

b. On 29 June 2013, the Group acquired a 24.01% equity interest in an unlisted aquatic company with approximately RMB10,000,000. As stated in Note 3, the Group considers that it lacks significant influence on Yancheng Guanhua Aquatic Products Co., Ltd. ("**Yancheng Guanhua**") even though it owns more than 20% of the voting rights. This is because the Group has failed to obtain representation on Yancheng Guanhua's board of directors and cannot exercise significant influence on its financial and operating decisions. In 2016, Yancheng Guanhua declared dividends of RMB800,000 to the Company. The prepayment balance of RMB2,516,000 (31 December 2015: RMB10,312,000) to Yancheng Guanhua was included in prepayments, deposits and other receivables as at 31 December 2016.

On 15 July 2015, the Group acquired a 20% equity interest in Shanghai Zhong Hong Kuai Jian Brand Management Co.,Ltd., an unlisted brand management company with approximately RMB4,000,000. The equity investment was subsequently diluted to 16.67% due to added share capital from other investors. On 4 January 2006, the Group acquired a 10% equity interest in Shanghai Pudong Xiao Nan Guo Casual Dining Management Co., Ltd., an unlisted brand management company with approximately RMB100,000.

Management designated the equity investments as financial assets at fair value through other comprehensive income upon initial application of IFRS 9 on 1 January 2016, as management considered them strategic investments in the long run. The fair values of the unlisted equity securities are determined by reference to the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. No change in fair value for the year ended 31 December 2016 (31 December 2015: nil) or accumulated change in fair value as of 31 December 2016 (31 December 2015: nil), respectively, had been recognised in other comprehensive income.

18. INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Food and beverages, and other operating items for restaurant operations, at cost	**37,509**	54,116

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 1 month	**18,307**	16,537
1 to 2 months	**2,792**	3,035
2 to 3 months	**1,030**	2,412
Over 3 months	**4,525**	3,693
	26,654	25,677

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Deposits and other receivables		**110,081**	73,722
Prepaid expense		**22,761**	29,525
Amounts due from companies owned by the Controlling Shareholder		**50,110**	42,010
Amount due from a director of major subsidiaries in Hong Kong		**319**	243
Receivables from a non-controlling interest (Note 32b)	(i)	**7,914**	3,026
Prepayments		**13,854**	19,908
		205,039	168,434

(i) The balance of receivables from a non-controlling interest consisted of the current portion of long-term receivables with amount of RMB5,367,000 as mentioned in Note 32b, the interest receivables of the loan to non-controlling interest with an amount of RMB2,037,000 as mentioned in Note 32a.2 and other short-term receivables.

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

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

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Financial asset at fair value through profit or loss	**242**	227

The above investment was classified as held for trading and was, upon initial recognition, designated by the Group as a financial asset at fair value through profit or loss. The fair value for the above investment as at 31 December 2016 was determined based on the quoted price from a creditworthy bank.

22. CASH AND CASH EQUIVALENTS

	31 December 2016 RMB'000	31 December 2015 RMB'000
Cash and bank balances	**219,737**	143,521
Time deposits with original maturity of less than three months	**33,653**	45,503
Time deposits with original maturity of over three months	**40,000**	60,000
	293,390	249,024
Less: Pledged time deposits for bank loans		
– Current portion	**(20,000)**	(20,000)
– Non-current portion	**(40,000)**	(60,000)
Cash and cash equivalents	**233,390**	169,024

Included RMB60,000,000 of time deposits which were pledged for bank loans borrowed by the Company, for details please refer to Note 25(a).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to RMB254,862,000 (2015: RMB202,801,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE PAYABLES

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within 3 months	**62,400**	116,019
3 months to 1 year	**2,048**	400
Over 1 year	**2,393**	1,470
	66,841	117,889

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

24. OTHER PAYABLES AND ACCRUALS

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Payroll and welfare payables		**53,813**	56,565
Taxes other than corporate income tax		**4,177**	11,091
Other payables for construction in progress		**28,222**	38,784
Accruals and other payables		**73,292**	78,004
Payable related to the acquisition of a non-current financial asset	17	**105,906**	–
Current portion of the long term defer payment	32b	**3,578**	1,676
Advances from customers		**8,384**	12,383
		277,372	198,503

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

25. INTEREST-BEARING BANK LOANS

		31 December 2016			31 December 2015		
		Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans – unsecured		**4.79**	**2017**	**80,000**	5.06	2016	80,000
Bank loans – unsecured	(c)			**–**	Hibor+2.50	2018	36,303
Bank loans – unsecured	(c)			**–**	Hibor+2.75	2018	25,716
Bank loans – secured	(a)	**4.35**	**2017**	**18,000**	–	–	–
Bank loans – unsecured				**–**	COF+2.50	2016	41,890
Bank loans – unsecured		**COF+1.00**	**2017**	**62,000**	Libor+1.50	2016	64,908
Bank loans – secured	(a)	**Hibor+2.30**	**2017**	**36,675**	Hibor+2.30	2016	35,858
Current portion of long term bank loans – secured*	(b)	**Hibor+1.70**	**2017**	**2,385**	Hibor+1.70	2016	2,234
Current portion of long term bank loans – secured*	(b)	**Hibor+2.45**	**2017**	**4,472**	Hibor+2.45	2016	4,190
				203,532			291,099
Non-current							
Bank loans – secured	(d)	**7.95**	**2018**	**99,000**	–	–	–
Bank loans – secured	(b)	**Hibor+1.70**	**2022**	**29,220**	Hibor+1.70	2022	29,603
Bank loans – secured	(b)	**Hibor+2.45**	**2020**	**10,063**	Hibor+2.45	2020	13,614
				138,283			43,217
				341,815			334,316
Analysed into:							
Bank loans repayable:							
Within one year or on demand				**203,532**			291,100
In the second year				**99,000**			6,423
In the third to seventh years, inclusive				**39,283**			36,793
				341,815			334,316

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

(a) The bank loans borrowed by the Company are secured by the pledge of certain of the Group's time deposits amounting to RMB60,000,000, and included RMB20,000,000 that has been released on 4 January 2017 to match with the loan balance.

(b) The bank loans borrowed by POKKA HK are secured by POKKA HK's building, which had a net carrying value of approximately RMB78,041,000 at the end of the reporting period (2015: RMB75,597,000).

(c) The balances are included in current liabilities as the bank has an overriding right to call for cash cover on demand at any time without further reference to the Group and to demand settlement of any balance owing by the Group to the bank.

(d) The entrusted bank loan is borrowed from Wuhu Gefei Asset Management Co., Ltd. through Bank of Shanghai by the Company and are secured by the Controlling Shareholder, Ms. Wang Huimin, the Company and three subsidiaries of the Company as well as the operating income right of the Group's four restaurants located in Shanghai Disney Resort.

26. DEFERRED TAX

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

Deferred tax liabilities

31 December 2016

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Fair value change of non-current financial assets investment RMB'000	Total RMB'000
At 1 January 2016	513	724	681	1,918
Deferred tax charged to the statement of profit or loss during the year (Note 10)	878	(165)	–	713
Deferred tax charged to other comprehensive income	–	–	(291)	(291)
Gross deferred tax liabilities at 31 December 2016	1,391	559	390	2,340

26. DEFERRED TAX *(continued)*

Deferred tax assets

31 December 2016

	Impairment of fixed assets RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2016	5,494	9,710	7,415	25,793	37,324	85,736
Deferred tax credited/(charged) to the statement of profit or loss (Note 10)	(227)	3,422	1,630	(6,209)	(2,086)	(3,470)
Gross deferred tax assets at 31 December 2016	5,267	13,132	9,045	19,584	35,238	82,266

For presentation purposes, RMB1,859,000 of both deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	82,266
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,859)
	80,407

26. DEFERRED TAX *(continued)*

Deferred tax liabilities

31 December 2015

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

Deferred tax assets

31 December 2015

	Impairment of fixed assets RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2015	60	6,690	7,441	17,373	41,047	72,611
Acquisition of a subsidiary (Note 32)	–	615	–	–	–	615
Deferred tax credited/(charged) to the statement of profit or loss (Note 10)	5,434	2,405	(26)	8,420	(3,723)	12,510
Gross deferred tax assets at 31 December 2015	5,494	9,710	7,415	25,793	37,324	85,736

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

26. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

As at 31 December 2016, the Group had accumulated tax losses arising in Mainland China of RMB150,511,000 (2015: RMB97,527,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 5% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB482,996,000 and RMB408,446,000 at 31 December 2016 and 2015, respectively.

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

27. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the state regulations of the PRC, the subsidiaries in Mainland China participate in a defined contribution pension scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries are required to make contributions to the local social security bureau at 12% to 21% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "**MPF Ordinance**"), the subsidiaries in Hong Kong have participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to their Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

28. SHARE CAPITAL

Shares

	31 December 2016 RMB'000	31 December 2015 RMB'000
Authorised:		
Ordinary shares of HK$0.01 each	**10,000,000,000**	10,000,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	**2,213,031,000**	1,475,354,000
Equivalent to RMB'000	**18,393**	12,035

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Capital redemption reserve RMB'000	Total RMB'000
At 1 January 2015	1,478,826,000	12,062	475,538	–	487,600
Share options cancelled (Note (b))	(3,472,000)	(27)	(2,711)	27	(2,711)
At 31 December 2015 and 1 January 2016	1,475,354,000	12,035	472,827	27	484,889
Shares issued (Note (c))	737,677,000	6,358	251,015	–	257,373
At 31 December 2016	2,213,031,000	18,393	723,842	27	742,262

Notes:

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

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

(c) The Company announced to implement the rights issue on the basis of one rights Share for every two shares at the subscription price of HK$0.41 per rights share on 7 June 2016. The net proceeds raised from the Rights Issue will be used to pay the consideration of the acquisition of 9.82% of the issued share capital of Wowo Limited. On 18 July 2016, 737,677,000 rights shares have been issued, with net proceeds of HK$298,611,000 (equivalent to RMB257,373,000). Immediately after completion of the Rights Issue, the total issued and fully paid shares of the Company was 2,213,031,000.

29. SHARE-BASED PAYMENTS

The rights issue of shares on the basis of one share for every two existing shares was completed on 18 July 2016. As a result of the completion of the Rights Issue, the Company made adjustments to the exercise price and the number of outstanding share options granted by the Company pursuant to the terms of the "Pre-IPO Share Option Scheme" and the "Share Option Scheme". There are two pre-IPO share option schemes (the "**Pre-IPO Share Option Schemes**") adopted by the company on 10 February 2010 and 15 March 2011 (amended to 10 August 2011) and a share option scheme ("**the Share Option Scheme**") adopted by the company on 4 July 2012.

(1) Pre-IPO Share Option Schemes

Two share option schemes (the "**Pre-IPO Schemes**") were approved pursuant to the resolutions passed by the Company's board of directors on 10 February 2010 and 15 March 2011 (subsequently amended on 10 August 2011), respectively. According to the Pre-IPO Schemes, the directors may invite directors of the group companies, senior management and other eligible participants to take up share options of the Company. The Pre-IPO Schemes became effective on 10 February 2010 and 15 March 2011, respectively. Options granted become vested after certain employment periods ranging from one to four years, while the grantees are required to complete the service till the vesting date. Some batches of share options were also conditional upon the achievement of performance conditions. The exercise price of share options is determinable by the directors.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of RMB0.99 or RMB1.09, RMB1.17 in total by the grantee after exercise price adjustment due to the Rights Issue (RMB1 or RMB1.1, RMB1.175 before the adjustment). The exercise period of the share options granted commences after a vesting period of one to four years and ends on a date which is 10 years from the date of offer of the share options or the expiry dates of the Pre-IPO Schemes, if earlier.

The following share options were outstanding under the Pre-IPO Schemes during the years ended 31 December 2016 and 2015:

	Year ended 31 December 2016	
	Weighted average exercise price per share RMB	Number of options '000
At 1 January 2016		30,407
Adjustment for share issue		181
Forfeited during the year	1.070	(8,780)
At 31 December 2016		21,808

29. SHARE-BASED PAYMENTS *(continued)*

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

The following share options were outstanding under the Pre-IPO Schemes during the years ended 31 December 2016 and 2015:

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

No share options were exercised during the years ended 31 December 2016 and 2015.

The exercise prices and exercise periods of the share options under the Pre-IPO Schemes outstanding as at 31 December 2016 are as follows:

Number of options '000	Exercise price (after adjustment due to the Rights Issue) RMB per share	Exercise period
8,155	0.99	1 January 2012 to 11 February 2020
181	0.99	1 January 2012 to 21 June 2020
1,043	0.99	1 January 2012 to 1 September 2020
1,165	1.09	1 January 2012 to 15 December 2020
6	1.09	1 January 2012 to 26 January 2021
1,375	1.09	1 January 2012 to 22 March 2021
1,129	1.09	1 January 2012 to 22 March 2021
1,184	1.09	1 July 2012 to 1 July 2021
84	1.09	1 July 2012 to 1 July 2021
2,984	1.09	1 July 2012 to 12 August 2021
401	1.17	1 July 2012 to 12 August 2021
1,336	1.17	1 January 2013 to 15 January 2022
2,765	1.17	1 January 2013 to 15 May 2022
21,808		

29. SHARE-BASED PAYMENTS *(continued)*

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

137,620,000 share options have been granted under this scheme, which have been vested during 2011 to 2015, the vesting period. There were no share options granted under the Pre-IPO Schemes after 4 July 2012, the Company's listing date. The Group recognised no share option expense under the Pre-IPO Schemes during the year ended 31 December 2016 (31 December 2015: RMB1,139,000).

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

During the year ended 31 December 2011, a director of the Company agreed to replace 15,797,820 share options (the "**Original Share Options**") granted to him under the Pre-IPO Schemes, and the Company issued 25,000,000 ordinary shares (the "**Compensation Shares**") to Affluent Harvest Limited, a wholly-owned subsidiary, which will transfer the Compensation Shares to the director for a consideration of RMB1.175 per share in the following manner:

i. Conditional upon the initial public offering and listing of the Company's shares on the Stock Exchange, 15,000,000 shares will be transferred from the investment holding company to the director in four equal instalments by 1 July 2012, 2013, 2014 and 2015, respectively.

ii. Conditional upon the Listing and the achievement of certain performance conditions for each of the four years ended 31 December 2014, 10,000,000 shares will be transferred to the director in four equal instalments by 1 July 2012, 2013, 2014 and 2015, respectively. Subsequently, 8,750,000 shares have been repurchased and cancelled, pursuant to the resolution of the board of directors of the Company, given the performance conditions were not met.

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

(2) Share Option Scheme

The Company adopted a share option scheme which became effective on 4 July 2012. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

The Board may, at its absolute discretion, offer an option to eligible participants to subscribe for the shares of the Company at an exercise price and subject to other terms under the Share Option Scheme. The total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 147,500,000, being 10% of the total number of the Shares in issue at the time when dealings of the Shares first commence on the Stock Exchange.

The total number of the Shares issued and to be issued upon the exercise of the options granted or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Group (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 4 July 2012.

The exercise prices under this scheme were of HK$0.99 or HK$1.29, HK$1.49 after exercise price adjustment due to the Rights Issue (HK$1 or HK$1.3, HK$1.5 before the adjustment)

29. SHARE-BASED PAYMENTS *(continued)*

(2) Share Option Scheme *(continued)*

The following share options were outstanding under the Share Option Scheme during the years ended 31 December 2016 and 2015:

	Year ended 31 December 2016 Weighted average exercise price per share HK$	Number of options '000
At 1 January 2016		**47,486**
Forfeited during the year	**1.317**	**(17,341)**
Adjustment for Share Issue		**277**
At 31 December 2016		**30,422**

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

No share options under the Share Option Scheme were exercised during the years ended 31 December 2016 and 2015.

The exercise period of the share options granted commences after a vesting period of four years and ends on a date which is 10 years from the date of offer of the share options or the expiry dates of the Share Option Scheme, if earlier.

29. SHARE-BASED PAYMENTS *(continued)*

(2) Share Option Scheme *(continued)*

The exercise prices and exercise periods of the share options under the Share Option Scheme outstanding as at 31 December 2016 are as follows:

Number of options '000	**Exercise price (after adjustment due to the Rights Issue)** HK$ per share	**Exercise period**
9,465	1.49	23 August 2013 to 22 August 2023
6,330	1.49	1 July 2015 to 29 June 2024
5,583	1.29	1 July 2015 to 29 June 2024
2,996	1.29	1 January 2016 to 31 December 2024
6,048	0.99	1 January 2016 to 31 December 2024
30,422		

The Group recognised a share option expense of RMB3,000,000 (2015: RMB4,361,000) during the year ended 31 December 2016.

The fair value of all equity-settled share options under the Share Option Scheme granted during the year ended 31 December 2016 was estimated as at the date of grant using a binomial model, taking into account the following:

	Year ended 31 December 2015	**Year ended 31 December 2016**
Dividend yield (%)	0.00%	**0.00%**
Expected volatility (%)	37.20%-37.44%	**37.20%-37.44%**
Risk-free interest rate (%)	1.36%-1.90%	**1.36%-1.90%**
Maturity date	31 December 2024	**31 December 2024**
Weighted average exercise price (HK$ per share)	1.10	**1.10**

As at 31 December 2016, the Company had 21,808,000 and 30,422,000 share options outstanding under the Pre-IPO Schemes and the Share Option Scheme, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 52,230,000 additional ordinary shares of the Company and additional share capital of RMB467,197 and share premium of RMB59,024,387 (before issue expenses).

30. RESERVES

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

(i) Share premium

Share premium account represents the amount paid by shareholders for capital injection in excess of its nominal value.

(ii) Merger reserve

Merger reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the Reorganisation over the carrying amount of the investments in these subsidiaries.

(iii) Capital reserve

The Group's capital reserve mainly represents the fair value of the equity interest in Xiao Nan Guo Holdings Limited transferred to the Company from its holding company with no consideration as part of the Reorganisation and the additional contribution made by the shareholders of the Company's subsidiaries and, in the case of acquisition of an additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the book value of the non-controlling interest acquired.

(iv) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of the group companies, companies that are domiciled in the PRC are required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

Statutory surplus reserve is non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

(vi) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in Note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(vii) Financial asset revaluation reserve

Financial asset revaluation reserve comprises all revaluation changes arising from the non-current financial asset investment.

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

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

	Notes	2016	2015
Percentage of equity interest held by non-controlling interests:			
Oreno Xiao Nan Guo International (Hong Kong) Limited	a	–	32%
Shanghai Mizhilian Restaurant Management Co., Ltd.	b	**50%**	50%
King Merit (Macau) Limited	c	–	30%
Million Rank Limited	d	**35%**	35%

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Oreno Xiao Nan Guo International (Hong Kong) Limited	**(844)**	(2,995)
Shanghai Mizhilian Restaurant Management Co., Ltd.	**94**	(1,285)
King Merit (Macau) Limited	**71**	(255)
Million Rank Limited	**(50)**	(640)
	(729)	(5,175)
Accumulated balances of non-controlling interests at the reporting date:		
Oreno Xiao Nan Guo International (Hong Kong) Limited	–	(957)
Shanghai Mizhilian Restaurant Management Co., Ltd.	**(618)**	(712)
King Merit (Macau) Limited	–	(127)
Million Rank Limited	**72,729**	72,779
	72,111	70,983

a. Oreno Xiao Nan Guo International (Hong Kong) Limited was incorporated in February 2014. On 30 April 2016, the Group purchased 32% of Oreno Xiao Nan Guo International (Hong Long) Limited from its non-controlling shareholder, 俺の株式会社, with the consideration of HK$1.

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

c. On 29 February 2016, the Group disposed of King Merit (Macau) Limited, a 70% indirectly-owned subsidiary of the Company, to its non-controlling shareholder, Mr. Li Risheng, an independent third party of the Group. For details, please refer to Note 33.

d. Million Rank Limited was acquired in 2015. For details, please refer to Note 32.

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

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

	Shanghai Mizhilian Restaurant Management Co., Ltd. RMB'000	**Million Rank Limited RMB'000**
2016		
Revenue	**14,258**	**309,764**
Total expenses	**(14,070)**	**(309,908)**
Gain/(loss) for the year	**188**	**(144)**
Total comprehensive income/(loss) for the year	**188**	**(144)**
Current assets	**25,248**	**161,513**
Non-current assets	**2,526**	**196,435**
Current liabilities	**29,010**	**73,874**
Non-current liabilities	**–**	**48,367**
Cash and cash equivalents	**–**	**18,722**

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

32. BUSINESS COMBINATION

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

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

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

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

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

32. BUSINESS COMBINATION *(continued)*

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

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

The purchase price payment arrangement is as follows:

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

a.1 The HK$151,000,000 (equivalent to RMB119,079,000) has been paid by MRL through Bright Charm's subscription price for its subscription of shares in MRL and was derived from the bank loan. The bank loan with a balance of HK$41,000,000 (equivalent to RMB36,675,000) as at 31 December 2016 (31 December 2015 HK$42,800,000 equivalent to RMB35,858,000) was secured by the pledge of certain of the Group's time deposits amounting to RMB40,000,000. (31 December 2015: RMB80,000,000).

a.2 The HK$65,000,000 (equivalent to RMB51,259,000) constitutes part of the subscription price to be paid by Rosy Metro for its subscription of shares in MRL, and was derived from the loan provided by POKKA HK. For financing purposes, Pokka HK entered into a facility agreement, amounted to HK$65,000,000 (equivalent to RMB51,259,000), with a commercial bank on 15 December 2014. The bank loans borrowed by POKKA HK are secured by mortgages over POKKA HK's building with a net carrying value of approximately RMB78,041,000 at 31 December 2016 (31 December 2015: RMB75,597,000). The loans to Rosy Metro, non-controlling shareholder of the Group, are secured as shown in Note d below mentioned, bearing annual interest rate at no more than 5% and should be repaid in the next three years since 30 March 2015, the draw-down date.

The outstanding loan balance due from Rosy Metro was HK$53,100,000, equivalent to RMB47,498,000 and RMB44,487,000 as at 31 December 2016 and 31 December 2015 respectively. Related interest income receivables amounted to RMB2,037,000 as at 31 December 2016 (2015: RMB872,000).

32. BUSINESS COMBINATION *(continued)*

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

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

   The MRL has paid the first instalment of HK$2,000,000 (equivalent to RMB1,676,000) to the seller with certain charged shares released in January 2016. Included in the outstanding defer payment balance with an amount of HK$38,000,000 (equivalent to RMB33,991,000), HK$4,000,000 (equivalent to RMB3,578,000) was stated as the current portion of the long term defer payment.

   The outstanding long-term receivables balance due from Rosy Metro was HK$40,000,000, equivalent to RMB35,780,000 and RMB31,544,000 as at 31 December 2016 and 31 December 2015 respectively. The financial statements of the Group stated RMB5,367,000 (31 December 2015: RMB1,676,000) as current portion of the long-term receivables.

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

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

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

33. DISPOSAL OF A SUBSIDIARY

On 29 February 2016, the Group disposed of King Merit (Macau) Limited, a 70% indirectly-owned subsidiary of the Company, to its non-controlling shareholder, Mr. Li Risheng, an independent third party of the Group.

	2016 RMB'000
Net liabilities disposed of:	
Property, plant and equipment	1,097
Inventories	557
Trade receivables	2,582
Prepayments, deposits and other receivables	287
Cash and cash equivalents	3,585
Trade payables	(2,671)
Other payables and accruals	(5,944)
Less: non-controlling interests	56
	(451)
Waive of receivables due from King Merit (Macau) Limited	7,282
	6,831
Satisfied by:	
Cash and cash equivalents	4,210
Loss on disposal of a subsidiary	2,621

34. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office and restaurant properties under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from 3 to 12 years.

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within one year	278,423	261,650
In the second to fifth years, inclusive	795,232	668,904
After five years	269,748	202,524
	1,343,403	1,133,078

35. COMMITMENTS

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**29,500**	76,502

36. RELATED PARTY TRANSACTIONS

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

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Fee income from the provision of food processing service	(i)	**281**	439
Management fee income	(ii)	–	3,829
Management fee expense	(iii)	–	693
Sub-contracting fee expense	(iv)	–	59
Property rental expense	(v)	**11,392**	13,358
Integrated property management expense	(vi)	**1,230**	168
Purchase of goods and service	(vii)	**40,153**	25,732
Sales of goods and service	(viii)	**20,570**	23,134
Actual spending of Pre-paid Cards	(ix)	**67,257**	120,621
Commission paid for Pre-paid Cards	(ix)	**721**	1,287
Transfer of equity	(x)	–	4,000
Disposal of assets	(xi)	–	30,306

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes:

(i) The Group made purchases on behalf of certain related companies and charged a processing fee based on a pre-determined flat rate mutually agreed by both parties, for the period commencing from 1 January 2012 to 31 December 2014 which has been extended to 31 December 2017 in 2015.

(ii) The Group entered into integrated management service agreements with Xiao Nan Guo (Group) Co., Ltd., a company owned by the Controlling Shareholder, pursuant to which the Group has agreed to provide integrated management services to Xiao Nan Guo (Group) Co., Ltd. for the period commencing from 1 July 2010 to 31 December 2014 and extended to 31 December 2017 in 2014, for a monthly service fee of RMB250,000. On 8 January 2016, the Company and Xiao Nan Guo (Group) Co., Ltd. entered into a termination agreement to early terminate the framework integrated service agreement with effect from 1 January 2016.

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

(iii) The Group entered into an operation management service agreement with Shanghai Sushang Restaurant Management Co., Ltd. ("**Shanghai Sushang**"), a company owned by the Controlling Shareholder, pursuant to which Shanghai Sushang has agreed to provide operation management services to the Group for the period commencing from 1 April 2015 to 31 December 2017 with a monthly service fee charged as 15% of Shanghai Sushang's revenue. No service fee was charged during the year ended 31 December 2016 (31 December 2015: RMB693,000).

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

(v) Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. ("**Hongqiao XNG**"), a company owned by the Controlling Shareholder, leases restaurant premises to the Group for an annual rental fee of RMB4,000,000, which was determined with reference to the market rental rate, for a period of five years commencing 1 July 2008 and the lease period has been extended to 31 December 2017 in 2014. During the year ended 31 December 2016, the actual rental charged by Hongqiao XNG was RMB4,000,000 (31 December 2015: RMB4,000,000).

The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd. to lease office premises for the period commencing from 1 July 2012 and the lease period has been extended to 31 December 2017 in 2014, based on a market price mutually agreed by both parties. The actual fee charged during the year ended 31 Dec 2016 was RMB2,983,000, with a service fee included (31 December 2015: RMB2,887,000).

The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd. to lease a banquet hall as a restaurant for the period commencing from 16 September 2012 to 31 December 2014 and extended the lease period to 31 December 2017 in 2014, at a rental fee based on a market price mutually agreed by both parties. During the year ended 31 December 2016, the rental charged by Xiao Nan Guo (Group) Co., Ltd. was RMB4,409,000 (31 December 2015: RMB6,471,000).

(vi) The Group entered into a service agreement with Xiao Nan Guo (Group) Co., Ltd. for the period commencing from 1 January 2015 to 31 December 2017, pursuant to which Xiao Nan Guo (Group) has agreed to provide property management service to the Group for a monthly service fee of RMB102,500 for the year 2016. During the year ended 31 December 2016, the rental charged by Xiao Nan Guo (Group) Co., Ltd. was RMB1,230,000 (31 December 2015: RMB168,000).

36. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(vii) The Group entered into a hotel coupon purchase agreement with WH Ming Hotel, a hotel owned by the Controlling Shareholder, for a term of one year (the "**Coupon Purchase Agreement**") in 2013. Pursuant to the Coupon Purchase Agreement, the Group agreed to purchase hotel coupons at an agreed price which would enable the Group to attain a gross margin rate of not lower than 25% of its selling price. In 2014, the Coupon Purchase Agreement has been revised with a term of three years. Pursuant to the revised Coupon Purchase Agreement, the Group agreed to purchase hotel coupons at a discounted price. There was no transaction conducted during the year ended 31 December 2016 (31 December 2015: Nil).

The Group entered into a procurement framework agreement with Zhongmin Supply Chain, a company indirectly owned by the Controlling Shareholder, pursuant to which the Group has agreed to procure raw ingredients used for restaurant operations from Zhongmin Supply Chain, for the period commencing from 1 July 2015 to 30 June 2016 and extended to 31 May 2019 on 22 July 2016. The Group has procured raw ingredients of RMB40,153,000 from Zhongmin in 2016 (2015: RMB25,732,000). The pricing of such raw ingredients shall be determined with reference to the costs for such raw ingredients and the prevailing market price and procurement quantity of similar raw ingredients.

(viii) The Group provided banquet food to WH Ming Hotel, a hotel owned by the Controlling Shareholder, upon request for banquet arrangements at the hotel premises for the customers of WH Ming Hotel. The price of banquet food sold to WH Ming Hotel shall be decided by the Group, and shall not be lower than 75% of the selling price of the food in the menu of the Group. The agreement commenced from 1 January 2014 to 31 December 2016. The income generated from banquet food provided to WHM Hotel Amounted to RMB20,349,000 during the year ended 31 December 2016 (31 December 2015: RMB22,435,000).

The Group sold gift boxes to Xiao Nan Guo (Group) Co., Ltd. amounting to RMB221,000 based on market prices (31 December 2015: RMB699,000).

(ix) The Group entered into a Pre-paid Cards Agreement in 2014 with Shanghai Xiao Nan Guo Enterprises Service Information Development Limited ("**XNG Information Development**"), a company indirectly owned by Wang Bai Xuan Tiffany, who is the daughter of the Controlling Shareholder of the Company. Pursuant to the agreement, the Pre-paid Cards can be used at the Shanghai Min Restaurants, the WH Ming Hotel as well as other businesses operated by the Controlling Shareholder. The actual spending is the amount which the Pre-paid Card holders have actually spent at the Shanghai Min Restaurants via the Pre-paid Cards, which amounted to RMB67,257,000 (31 December 2015: RMB120,621,000). The commission rate payable to XNG Information Development shall be 1% of the actual dining expenses, which amounted to RMB721,000 (31 December 2015: RMB1,287,000), of a Pre-paid Card holder for every bill (before discount (if any)) at the Shanghai Min Restaurants.

(x) The Group has entered into an Equity Transfer Agreement with the Controlling Shareholder to purchase 20% equity interest held in 上海眾橫快建品牌管理有限公司 in June 2015, with a total consideration of RMB4,000,000.

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

36. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transaction with a related party

(i) The Group entered into a trademark licensing agreement with Xiao Nan Guo (Group) Co., Ltd. pursuant to which Xiao Nan Guo (Group) Co., Ltd. had granted the Group an exclusive licence to use its registered trademarks for no consideration.

(ii) Xiao Nan Guo (Group) Co., Ltd., a company controlled by the Controlling shareholder, had guaranteed certain bank loans with an amount of RMB150,149,000 lent to the Group by buildings with a net carrying value of RMB80,000,000 as at 31 December 2015. As at 31 December 2016, the guarantee has been released. Further details are included in Note 25 (a) to the financial statements.

(iii) The Controlling Shareholder, Ms. Wang Huimin, had guaranteed certain bank loans made to the Group of up to RMB99,000,000 as at 31 December 2016 (31 December 2015: Nil), as further detailed in Note 25 (b) to the financial statements.

(iv) In 2015, Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd.,("**Shanghai Hai Zhi Yuan**"), an indirect wholly-owned subsidiary of the Company, Zhongmin GP and the Other Zhongju Investors entered into the Zhongju LP Agreement for the establishment of Zhongju Limited Partnership Enterprise, and pursuant to which Shanghai Hai Zhi Yuan (as one of the limited partners) agreed to invest RMB3,168,000 in Zhongju Limited Partnership Enterprise (representing approximately 2.943% of the relevant total registered capital).

(c) Outstanding balances with related parties

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

The amounts due from non-controlling shareholder are disclosed in other receivables, other long-term receivables and the loan to non-controlling shareholder to the financial statements. The details were disclosed in Note 20 and Note 32 to the financial statements.

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**3,450**	6,899
Equity-settled share-based payment	**87**	730
Total compensation paid to key management personnel	**3,537**	7,629

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

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2016

Financial assets

	Financial asset at fair value through profit or loss RMB'000	Non-current financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Non-current financial assets	–	224,470	–	224,470
Long-term rental deposits	–	–	107,379	107,379
Loan to a non-controlling shareholder	–	–	47,498	47,498
Other long-term receivables	–	–	30,413	30,413
Trade receivables	–	–	26,654	26,654
Financial assets included in prepayments, deposits and other receivables	–	–	143,806	143,806
Financial asset at fair value through profit or loss	242	–	–	242
Pledged deposits	–	–	60,000	60,000
Cash and cash equivalents	–	–	233,390	233,390
	242	224,470	649,140	873,852

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term defer payment	30,413
Long-term payables	81,578
Trade payables	66,841
Financial liabilities included in other payables and accruals	230,138
Interest-bearing bank loans	341,815
	750,785

37. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2015

Financial assets

	Financial asset at fair value through profit or loss RMB'000	Non-current financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Non-current financial assets	–	19,990	–	19,990
Long-term rental deposits	–	–	98,518	98,518
Loan to a non-controlling shareholder	–	–	44,487	44,487
Other long-term receivables	–	–	31,836	31,836
Trade receivables	–	–	25,677	25,677
Financial assets included in prepayments, deposits and other receivables	–	–	98,740	98,740
Financial asset at fair value through profit or loss	227	–	–	227
Pledged deposits	–	–	80,000	80,000
Cash and cash equivalents	–	–	169,024	169,024
	227	19,990	548,282	568,499

Financial liabilities

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The following table provides the fair value measurement hierarchy of the Company's financial instruments measured at fair value as at 31 December 2016:

Financial assets measured at fair value

As at 31 December 2016

	Fair value measurements categorised into			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial asset at fair value through profit or loss	–	242	–	242
Unlisted equity investment, at fair value	–	–	14,100	14,100
Listed equity investment, at fair value	210,370	–	–	210,370
	210,370	242	14,100	224,712

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

The fair value of the financial asset at fair value through profit or loss is derived from quoted prices in active markets.

The fair value of the listed equity investment through other comprehensive income is based on quoted market prices.

The fair value of the unlisted equity investment through other comprehensive income falls within Level 3 of the fair value hierarchy due to the significant unobservable inputs used in the valuation. The following table shows the valuation techniques used in the determination of fair values of the unlisted equity investments.

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Discounted cash flow method	Discount rate	6.50% to 8.00%	10% increase (decrease) in expected yield would result in increase (decrease) in fair value by RMB153,000

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in Note 2.4 to the financial statements.

Foreign currency risk

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

None of the Group's sales or purchases for the year ended 31 December 2016 (2015: Nil) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's loans when they are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group.

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

	Increase/ (decrease) in U.S. dollar rate %	**Increase/ (decrease) in (loss)/profit before tax** RMB'000
2016		
If RMB strengthens against US$	**(5)**	**(27)**
If RMB weakens against US$	**5**	**27**
2015		
If RMB strengthens against US$	(5)	3,205
If RMB weakens against US$	5	(3,205)

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

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

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from interest-bearing financial assets and liabilities. The Group's interest-bearing financial assets and liabilities comprise primarily cash at banks and interest-bearing bank borrowings. Management closely monitors the interest rate exposure and assesses its impact on the Group's performance.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in (loss)/profit before tax RMB'000
2016		
If interest rate increases	**50**	**(1,208)**
If interest rate decreases	**(50)**	**1,208**
2015		
If interest rate increases	50	(1,582)
If interest rate decreases	(50)	1,582

Credit risk

The Group trades with a large number of diversified customers and trading terms are mainly on cash and credit card settlement, and hence, there is no significant concentration of credit risk.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, non-current financial assets, long-term rental deposits, loan to a non-controlling shareholder, other long-term receivables, trade receivables, financial assets at fair value through profit or loss, pledged deposits and financial assets included in prepayments, deposits and other receivables included in the consolidated financial statements arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Receivables from Rosy Metro had a total balance of HK$30,967,000 (equivalent to RMB27,700,000) according to deterred payment schedule mentioned in Note 32. But the receivables are mortgaged by the 35% equity interest of MRL held by Rosy Metro. In the event that Rosy Metro may fail to fulfil these obligations, the Company and Bright charm shall purchase or cause a third party to purchase the shares held by Rosy Metro. In the option of the directors, the receivables and limited credit risk.

As at 31 December 2016 and 2015, all pledged deposits, bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. As at 31 December 2016 and 2015, the Group had bank loans of RMB341,815,000 and RMB334,316,000, respectively. The directors review the Group's working capital and capital expenditure requirements and consider the liquidity risk is manageable.

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

31 December 2016

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	63,704	152,805	116,457	19,501	352,467
Trade payables	4,441	62,400	–	–	–	66,841
Financial liabilities included in other payables and accruals	230,138	–	–	–	–	230,138
Long-term defer payment	–	–	–	30,413	–	30,413
Long-term payables	–	–	–	81,578	–	81,578
	234,579	126,104	152,805	228,448	19,501	761,437

31 December 2015

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

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

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the reporting periods.

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Interest-bearing bank loans	**341,815**	334,316
Trade payables	**66,841**	117,889
Other payables and accruals	**277,372**	198,503
Less: Cash and cash equivalents	**(233,390)**	(169,024)
Net debt	**452,638**	481,684
Equity attributable to owners of the Company	**894,031**	699,899
Capital and net debt	**1,346,669**	1,181,583
Gearing ratio	**33.61%**	40.77%

40. CONTINGENT LIABILITIES

As at 31 December 2016, neither the Group nor the Company had any significant contingent liabilities (31 December 2015: Nil).

41. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Company or by the Group after 31 December 2016.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**866,412**	635,620
Total non-current assets	**866,412**	635,620
CURRENT ASSETS		
Cash and cash equivalents	**1,582**	767
Other receivables	**29,567**	12,543
Total current assets	**31,149**	13,310
CURRENT LIABILITIES		
Other payables and accruals	**105,906**	–
Interest-bearing bank loans	**98,675**	64,908
Total current liabilities	**204,581**	64,908
NET CURRENT LIABILITIES	**(173,432)**	(51,598)
TOTAL ASSETS LESS CURRENT LIABILITIES	**692,980**	584,022
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**–**	35,858
Total non-current liabilities	**–**	35,858
Net assets	**692,980**	548,164
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**18,393**	12,035
Reserves (Note 30)	**674,587**	536,129
Total equity	**692,980**	548,164

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

Note:

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

	Share premium RMB'000	Treasury shares RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Financial asset revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	**472,827**	**–**	**27**	**59,312**	**(7,950)**	**20,004**	**–**	**(8,091)**	**536,129**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13,708**	**–**	**(122,058)**	**(7,207)**	**(115,557)**
Issue of shares	**254,322**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**254,322**
Share issue expenses	**(3,307)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,307)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**–**	**3,000**	**–**	**–**	**3,000**
At 31 December 2016	**723,842**	**–**	**27**	**59,312**	**5,758**	**23,004**	**(122,058)**	**(15,298)**	**674,587**
At 1 January 2015	475,538	(2,711)	–	59,312	(10,513)	14,504	–	652	536,782
Total comprehensive income for the year	–	–	–	–	2,563	–	–	(8,743)	(6,180)
Issue of shares	–	–	–	–	–	–	–	–	–
Cancellation of shares	(2,711)	2,711	27	–	–	–	–	–	27
Equity-settled share option arrangements	–	–	–	–	–	5,500	–	–	5,500
At 31 December 2015	472,827	–	27	59,312	(7,950)	20,004	–	(8,091)	536,129

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2017.

Five Years Financial Summary

RMB'000	2012	2013	2014	2015	**2016**
Revenue	1,332,298	1,385,911	1,544,199	2,035,177	**2,001,001**
Cost of sales	(424,536)	(458,756)	(509,272)	(629,768)	**(567,072)**
Gross profit	907,762	927,155	1,034,927	1,405,409	**1,433,929**
Other income and gains	45,966	40,006	46,616	44,041	**46,665**
Selling and distribution costs	(689,186)	(829,998)	(931,853)	(1,256,272)	**(1,217,982)**
Administrative expenses	(106,006)	(113,005)	(127,812)	(183,312)	**(164,484)**
Other expenses	(397)	(10,686)	(7,746)	(91,468)	**(23,693)**
Finance costs	(6,125)	(7,671)	(6,015)	(12,357)	**(14,023)**
PROFIT BEFORE TAX	152,014	5,801	8,117	(93,959)	**60,412**
Income tax expense	(33,484)	(5,130)	(7,085)	(4,458)	**(26,166)**
PROFIT FOR THE YEAR FROM THE CONTINUING BUSINESS	118,530	671	1,032	(98,417)	**34,246**
Profit from non-continuing business	–	–	–	–	**–**
Profit for the Year	118,530	671	1,032	(98,417)	**34,246**
Attributable to:					
Owners of the Company	118,530	1,075	566	(93,242)	**34,975**
Non-controlling interests	–	(404)	466	(5,175)	**(729)**
Total non-current assets	704,386	824,319	849,426	1,109,211	**1,262,951**
Total current assets	614,033	541,857	508,080	437,478	**522,834**
Total current liabilities	458,134	530,843	506,188	628,675	**572,588**
Total assets net of current liabilities	860,285	835,333	851,318	918,014	**1,213,197**
Total non-current liabilities	40,018	52,061	62,664	147,132	**250,755**
Net assets	820,267	783,272	788,654	770,882	**962,442**