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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 520

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Chen Su-Yin
Mr. Zhang Chi (Ms. Chang Le as his alternate)

Independent Non-executive Directors

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

AUDIT COMMITTEE

Ms. Hsieh Lily Hui-yun *(Chairman)*
Mr. Zhang Chi (Ms. Chang Le as his alternate)
Mr. Hon Ping Cho Terence

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

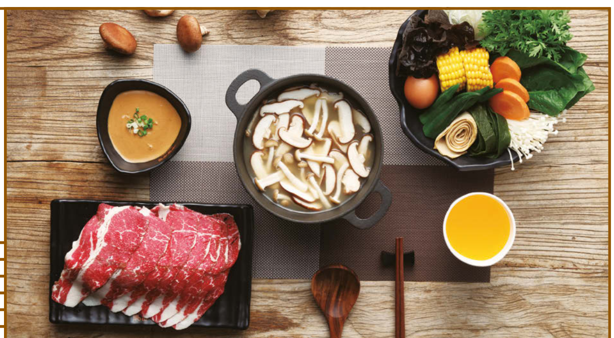
Mr. Hon Ping Cho Terence *(Chairman)*
Mr. Ho Kuang-Chi
Ms. Cheung Sze Man

COMPANY SECRETARY

Ms. Ng Sau Mei

AUTHORIZED REPRESENTATIVES

Mr. Ho Kuang-Chi
Ms. Ng Sau Mei



AUDITOR

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

COMPANY'S WEBSITE

www.xiabu.com

STOCK CODE

520

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Suncun Industrial Development Zone
Huangcun Town
Daxing District
Beijing
PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKS

Bank of Communications
China Merchants Bank
Shanghai Pudong Development Bank
Fubon Bank

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,663,993**	2,758,137	2,424,606	2,201,989	1,890,470
Restaurant level operating profit[1]	**802,455**	639,830	495,154	450,257	365,823
Profit before tax	**542,787**	473,122	323,120	186,043	184,708
Profit for the year attributable to owners of the Company	**420,170**	368,028	263,363	141,193	140,710

ASSETS AND LIABILITIES

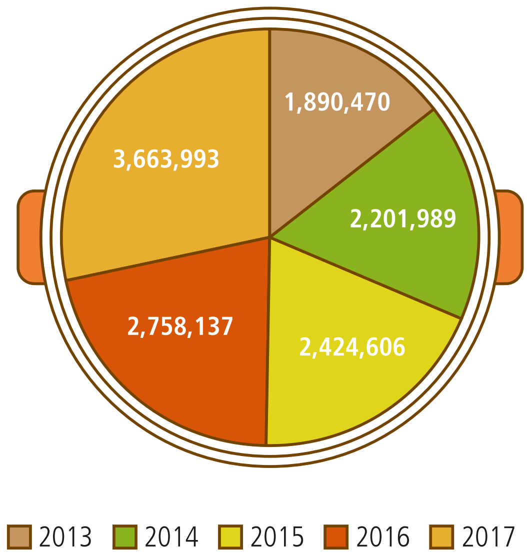
	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**865,096**	594,847	452,414	404,223	349,677
Current assets	**1,980,496**	1,717,757	1,511,717	1,277,927	491,662
Total assets	**2,845,592**	2,312,604	1,964,131	1,682,150	841,339
Equity and liabilities					
Total equity	**1,985,531**	1,716,308	1,480,483	1,273,866	537,417
Non-current liability	**13,287**	15,645	16,555	17,465	18,375
Current liabilities	**846,774**	580,651	467,093	390,819	285,547
Total liabilities	**860,061**	596,296	483,648	408,284	303,922
Total equity and liabilities	**2,845,592**	2,312,604	1,964,131	1,682,150	841,339
Net current assets	**1,133,722**	1,137,106	1,044,624	887,108	206,115
Total assets less current liabilities	**1,998,818**	1,731,953	1,497,038	1,291,331	555,792

Note:

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

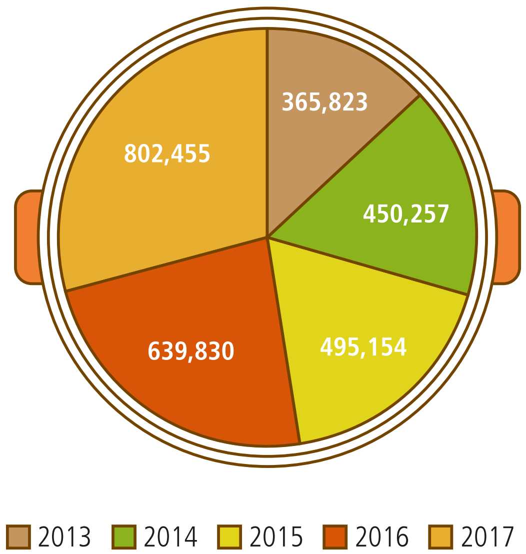
REVENUE

RMB'000



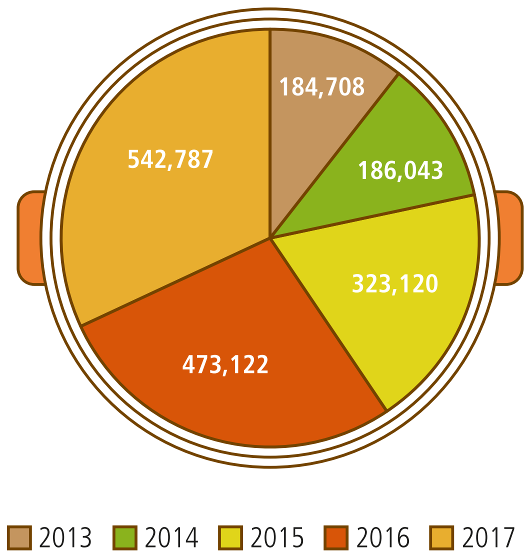
RESTAURANT LEVEL OPERATING PROFIT

RMB'000



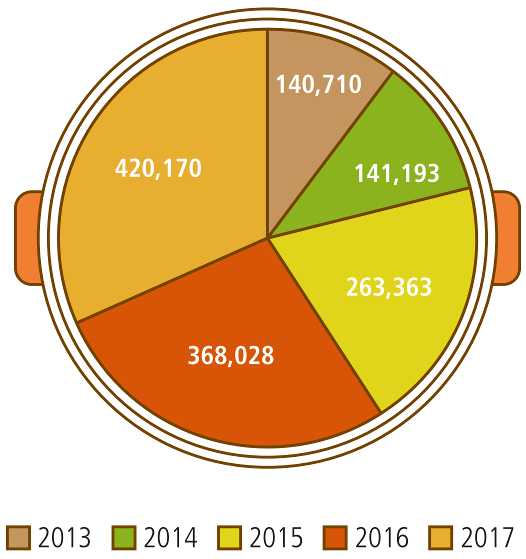
PROFIT BEFORE TAX

RMB'000



PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

RMB'000



CHAIRMAN'S STATEMENT

Mr. Ho Kuang-Chi
Chairman of the Board

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "**Company**" or "**Xiabuxiabu**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017.

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

2016 marked the first year for the implementation of our strategic goal of "1 thousand stores, 10 billion revenue and 1 billion profit", and the theme of the annual meeting reflects our short to mid-term development goal of "implementing reforms for future success and making progress towards strategic goal". The word "reform" means innovation, showcasing our persistent efforts to pursue for excellence. The above strategic goal represents our mission and goal for the mid-term development.

With the business philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", I am proud of the achievements we have accomplished. In particular, today Xiabuxiabu has developed from one single brand to diversified business undertakings under Xiabuxiabu Group, including our Coucou restaurants, food companies and delivery services, and Xiabuxiabu has built up a conglomeration operation.

After the starting afresh in 2016 and the unrelenting hard work in 2017, we no longer take the strategic goal as mission impossible. With our commitment and dedication, we are translating our business philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade" into reality.

Under the motto of "seizing market opportunities through reform", we are keen to reposition our business with an attitude of starting afresh, and embark on a journey of transformation and mode innovation.

Our aggressive efforts in transformation and upgrade demonstrate our commitment to business reform. Facing the intensified competition in the catering market and with the upgrade in consumers' experience, Xiabuxiabu planned early to capture market opportunities through buck-trend exploration and practice. Xiabuxiabu not only strives to upgrade its business mode, but also focus on brand upgrade, implementing full-round upgrade covering store decoration, promotion, menu, services and IT automation system. Developing from fast-food to trendy hotpot, we have turned from providing simple and functional food to hotpot services that deliver warmth and emotional comfort. Thus, the motto of "gaining market shares by transformation and upgrade" indicates the best results for our efforts.

CHAIRMAN'S STATEMENT

By accelerating the upgrading of our restaurants, the upgraded restaurants have made noticeable contribution to the same-store growth. The introduction of various versions of upgraded models has helped to diversify our business, developing from a brand that used to be located next to superstores into a brand that can serve both as full-service restaurants or fast food stores, with a flexible business mode enabling it to be operated in not only shopping malls, but also in communities, street side or train stations. As of 2017, Xiabuxiabu had a total of 738 stores, covering 79 cities over 13 provinces and in three centrally administered municipalities while serving approximately 80 million customers. While maintaining our efficient operation mode, our transformation has brought more added value, enhanced our bargaining power and increased investment value. We are able to achieve breakeven results within 3 months, while an investment payback period of about 16 months remains attracted in the investment market. In 2017, with high profit barrier, all competitors were left out of the Northern China market. Meanwhile, we explored to set up large-scale stores, broadening our property options for site selection. In Eastern China, we attempted to break regional constraints which represent the common issues in the catering industry and developed products catering to local taste. With assistance from big data research and promotion, the same-store sales growth was twice of the average national level with increase in profit. Our first-year operating results have inspired expectation of the capital market for our cross-regional performance. Our overall sales growth and double-digit growth in profit in 2017 will continue to lead the growth in the catering industry in the PRC or even in the Asia-pacific region. Xiabuxiabu (stock code: 520) has become the only catering brand with a market capitalization of over HK$15 billion in the Asia-pacific region.

As our second proprietary brand, Coucou demonstrates our commitment and competence in transformation. Either by the name or the business model, Coucou interprets the meaning of innovation and reform. Coucou has made a deep impression in the catering market with its amazing style, unique menu and profit model. By breaking the traditional business model of hotpot and Chinese restaurants, Coucou creates a delicate and harmonious compound operation model that defies all Chinese restaurants, enabling us to expand operation scope and extend business hours. Of course, we are still in the process of exploring the extension of the compound operation model. Besides the promotion of the romantic quality lifestyle with the fusion of hotpot and tea, Coucou continues to explore the introduction of afternoon tea and late-night snacks. Thus, Coucou restaurants are well received by the market. Under the business philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", Coucou has rapidly expanded its business presence to capture market shares, and has become an Internet popular store on the dianping.com and an attractive tenant candidate for commercial properties. As of the end of 2017, we had 21 Coucou restaurants, which were located in Beijing, Shanghai, Shenzhen, Hangzhou, Wuhan, Wuxi and Xi'an.

By transforming from fast-food stores to trendy hotpot restaurants and with the launch of Coucou restaurants, the hotpot industry chain of Xiabuxiabu Group has extended its business footprint across the whole market, covering consumer groups with spending per capita ranging from RMB40 to around RMB200. The tea business of Coucou restaurants has been also introduced into the new and upgraded stores of Xiabuxiabu. The promotion of the fusion of hotpot and tea within the Group brand is expected to drive growth in sales and profit and expand the horizontal development of Xiabuxiabu Group.

In response to changes in the delivery services market, we proactively brainstorm innovation ideas and feasible approaches to address the bottleneck issue of the hotpot business. Apart from our hotpot business, Xiabuxiabu has created unique solutions to capture market shares of the hotpot takeout and delivery services market. The introduction of "Xiazhuxiatang" (呷煮呷燙) creates additional revenue stream during the off-peak season for hotpot business (i.e. from April to September). Under the business philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", Xiabuxiabu has successfully innovated its takeout products, with the number of orders per pilot restaurant increasing to 100 orders per day.

The establishment of the food companies has stepped up competition at the condiment market, which will explore the blue ocean strategy in the red ocean. As for soup bases, seasoning sauces and products and compound condiments, Xiabuxiabu has developed 11 homemade products with unique flavors, which are designed to bring diversified tastes for the consumers. The food companies make great efforts to explore approaches to penetrate the market through a combination of traditional, modern and online channels. In addition, we will set up stores on Tmall and JD.com, which is expected to become a new growth driver.

Under the business philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", we spare no effort in pushing forward reform and transformation to cope with severe market competition, while we stick to our motto of success, i.e. "High quality derives from persistent efforts". In 2017, we upheld our commitment towards product and service quality by taking serious of every detail, and continued to build up our brand strength by providing consumers with super quality.

With our commitment to transformation and product quality, we are confident to achieve our strategic goal in future. Looking forward to 2018, taking product quality as our lifeline and upholding the philosophy of "seizing market opportunities through reform and gaining market shares by transformation and upgrade", we will continue to overcome challenges ahead and introduce more innovative ideas to consolidate our leading position in the catering industry, with an aim to develop into the brand with the highest market capitalization in the Asia-pacific catering industry.

Ho Kuang-Chi
Chairman

Hong Kong, 21 March 2018

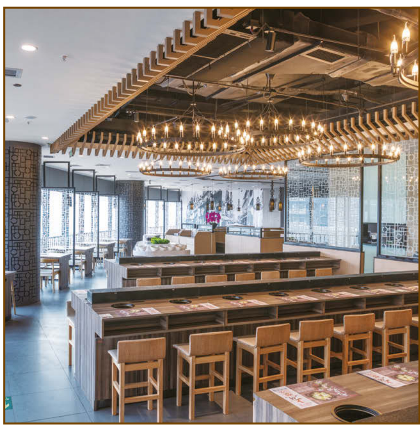
BUSINESS REVIEW AND OUTLOOK

OVERVIEW

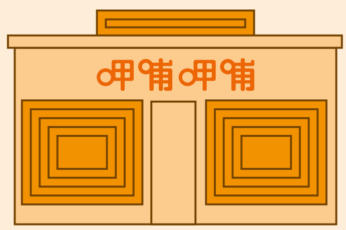
In 2017, the Group opened 136 Xiabuxiabu restaurants and 19 Coucou restaurants. The Group extended its restaurant network into Shenzhen in 2017. As of 31 December 2017, the Group owned and operated 738 Xiabuxiabu restaurants in 79 cities over 13 provinces and in three centrally administered municipalities, namely in Beijing, Tianjin and Shanghai, in China. The Group also owned 21 Coucou restaurants in Beijing, Shanghai, Hangzhou and Shenzhen as of the same date.

The Group managed to grow its revenue by 32.8% from RMB2,758.1 million in 2016 to RMB3,664.0 million in 2017 primarily due to the Group's effort to expand its restaurant network and a robust nationwide same-store sales growth of 8.5%, resulted in a 25.4% growth in the Group's restaurant level operating profit from RMB639.8 million in 2016 to RMB802.5 million in 2017. As of 31 December 2017, the Group's net current assets remained relatively stable at RMB1,133.7 million as compared with RMB1,137.1 million as of 31 December 2016.

Revenue RMB 3,664.0 million



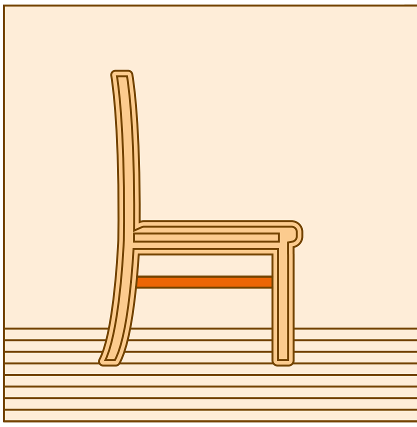
Total restaurants 759



The Group's overall profitability in 2017 was impacted by a substantial foreign exchange loss, as Renminbi appreciated against foreign currencies such as Hong Kong dollars and U.S. dollars. Net foreign exchange loss in 2017 was RMB26.7 million, compared with a gain of RMB29.1 million in 2016. In addition, the Group incurred equity-settled share-based expenses of RMB11.6 million in 2017, representing an increase of approximately 161.6% from RMB4.4 million in 2016, which was mainly attributable to the grant of restricted share units to directors and employees of the Group in May 2017. Without these factors, the Group's operational profitability demonstrated material improvement in 2017.

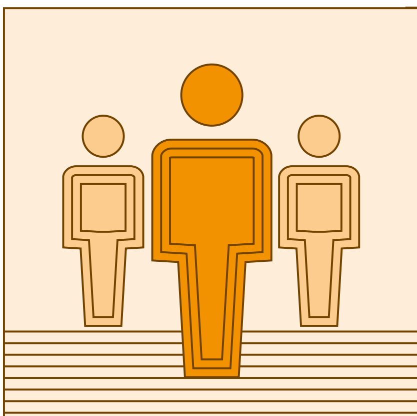
INDUSTRY REVIEW

In 2017, China's economy continued to grow with a stable yet reasonably impressive growth rate and other major indexes. In 2017, China's GDP grew by 6.9%. The increasingly consumption-driven economy in China drove the development of the catering service industry, especially the catering service segment focusing on the mass market. Hotpot restaurant chains and other casual dining restaurant chains enjoyed significant growth in revenue in 2017, according to the China Cuisine Association. In addition, major restaurant chains showed a significant presence in highly populated cities and areas. They continued to enhance operation



Same-store sales growth

8.5 %



Average spending per customer RMB

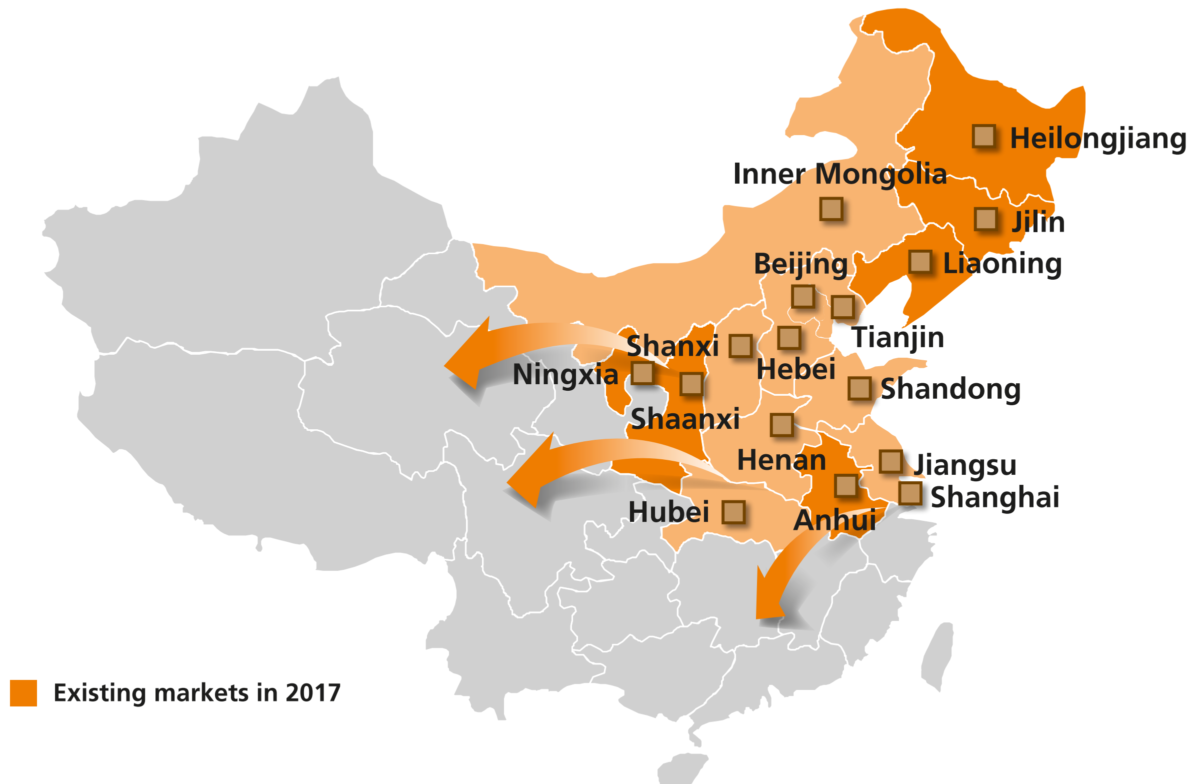
48.4

efficiency by chain operation and supply chain management, and many of these restaurant chains expanded their business to the food processing industry. The strong performance of the industry leaders raised the entry barrier to the catering service industry. Furthermore, the Internet continues to penetrate into the catering service industry and changes consumers' consumption behavior. As a result, the operation and marketing in the traditional service industry are expecting significant changes.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The Group's restaurant network

In 2017, the Group adhered to its restaurant network expansion plan and opened a total of 155 new restaurants including 136 Xiabuxiabu restaurants and 19 Coucou restaurants. In addition, the Group closed a total of 35 restaurants in 2017 due to commercial reasons. In aggregate, the Group's restaurants in operation increased by 120 in 2017. A substantial portion of the Group's revenue and restaurant level operating profit were devired from Xiabuxiabu restaurants.



Geographical breakdown of the Group's Xiabuxiabu restaurants

The table below sets forth the breakdown of the Group's system wide Xiabuxiabu restaurants by region as of the dates indicated:

	As of 31 December			
	2017		**2016**	
	#	%	#	%
Beijing	**282**	**38.2**	285	44.7
Shanghai	**50**	**6.8**	54	8.5
Tianjin	**66**	**8.9**	60	9.4
Hebei[(1)]	**130**	**17.6**	111	17.4
Northeast China[(2)]	**75**	**10.2**	49	7.7
Other regions[(3)]	**135**	**18.3**	78	12.3
Total	**738**	**100**	637	100.0

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

Key operational information for the Group's Xiabuxiabu restaurants

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

	As of or for the years ended 31 December	
	2017	**2016**
Revenue (in RMB thousands)		
Beijing	**1,814,861**	1,635,159
Shanghai	**211,797**	192,915
Tianjin	**269,874**	222,385
Hebei[(1)]	**558,609**	412,051
Northeast China[(2)]	**271,100**	109,348
Other regions[(3)]	**365,374**	178,252
Total	**3,491,615**	2,750,110

	As of or for the years ended 31 December	
	2017	**2016**
Seat turnover rate (X)[4]		
Beijing	**4.0**	4.0
Shanghai	**2.7**	2.4
Tianjin	**3.0**	3.1
Hebei[1]	**3.0**	3.2
Northeast China[2]	**2.9**	2.5
Other regions[3]	**2.3**	2.4
Total	**3.3**	3.4
Average spending per customer (RMB)[5]		
Beijing	**49.5**	48.6
Shanghai	**49.8**	50.0
Tianjin	**47.6**	46.3
Hebei[1]	**46.7**	45.3
Northeast China[2]	**46.2**	45.6
Other regions[3]	**47.1**	46.4
Total	**48.4**	47.7

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

(4) Calculated by dividing total customer traffic by total restaurant operation days and average seat count of Xiabuxiabu restaurants during the year.

(5) Calculated by dividing revenue generated from food and beverage sales of Xiabuxiabu restaurants for the year by total customer traffic of Xiabuxiabu restaurants for the year.

In 2017, in terms of restaurant count and revenue contribution, as the Group successfully implemented its nationwide expansion plan, the Group's revenue generated from restaurants outside Beijing increased in absolute terms and as a percentage of the Group's total revenue in 2017, reaching approximately 50% of the Group's total revenue. On the other hand, average customer spending continued to increase in 2017, primarily due to the increase in sales of newly launched menu items as the Group continued to optimize its product combinations and launch new products regularly.

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

	Year ended 31 December		Year ended 31 December	
	2016	**2017**	**2015**	**2016**
Number of same-store (#)				
Beijing	**238**		233	
Shanghai	**43**		52	
Tianjin	**50**		43	
Hebei[1]	**83**		74	
Northeast China[2]	**31**		23	
Other regions[3]	**61**		42	
Total	**506**		467	
Same-store sales (in RMB millions)				
Beijing	**1,474.6**	**1,589.4**	1,457.3	1,519.2
Shanghai	**159.5**	**188.3**	188.3	190.8
Tianjin	**206.0**	**216.0**	187.8	195.4
Hebei[1]	**382.3**	**423.7**	335.5	339.0
Northeast China[2]	**95.1**	**102.0**	60.4	56.8
Other regions[3]	**174.6**	**184.5**	107.3	105.7
Total	**2,492.1**	**2,703.9**	2,336.6	2,406.9
Same-store sales growth (%)				
Beijing	**7.8**		4.2	
Shanghai	**18.0**		1.3	
Tianjin	**4.9**		4.0	
Hebei[1]	**10.8**		1.0	
Northeast China[2]	**7.2**		(5.9)	
Other regions[3]	**5.7**		(1.5)	
Nationwide	**8.5**		3.0	

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

BUSINESS REVIEW AND OUTLOOK

In 2017, the Group's nationwide same-store sales for Xiabuxiabu restaurants increased by 8.5%, primarily due to (i) the effective promotion campaign, (ii) enhanced branding initiatives, (iii) restaurants upgrade, and (iv) the development of "Xiabu Fresh" delivery business by the Group.

As of 31 December 2017, the Group also owned 21 Coucou restaurants. As the Group opened its first Coucou restaurant in June 2016, its contribution to the Group's revenue and restaurant level operating profit for the year ended 31 December 2017 was still minimal. For the year ended 31 December 2017, the Group's revenue generated from Coucou restaurants accounted for approximately 3.2% of its total revenue. Due to the relatively high initial start up costs being incurred for new restaurants opening, and taking into consideration the 12 Coucou restaurants were opened in the fourth quarter of 2017, which resulted in a restaurant level operating loss of Coucou restaurants of RMB24.9 million in 2017.

OUTLOOK FOR 2018

Business Outlook

During 2018, the Group will continue its efforts to achieve its goal of becoming the leading operator of fast casual restaurant industry and maintaining its leading position as a hotpot restaurant chain operator in China. The Group intends to continue to pursue the following:

- *Additional growth drivers* – Based on its fast casual hotpot business, the Group endeavors to develop additional growth drivers, including "Coucou" restaurants, Xiabuxiabu 2.0 restaurant upgrade, and "Xiabu Fresh" delivery. The Group endeavors to shorten the construction time for the Xiabuxiabu 2.0 restaurant upgrade to improve the Group's operating results. The Group will accelerate its exploration on the "Xiabu Fresh" delivery business to fully utilize business hours during rush hours such as lunch and dinner time to improve its sales density. The Group will continue to collaborate with leading online and mobile meal ordering and delivery platforms to promote its "Xiabu Fresh" delivery business. The Group plans to continue to customize and optimize its menu to suit its new development. In particular, the Group plans to develop new menu items catering to the tastes and preferences of diners in eastern China to further boost its sales in such area. The Group plans to leverage the strong recognition of its Xiabuxiabu brand to further develop these additional business lines.

- *Expansion of restaurant network* – The Group will follow its five-year strategic plan to steadily expand the Group's business. In 2018, the Group plans to open about 100 new restaurants. The Group plans to consolidate its leading position and deepen its penetration in its existing markets. During the expansion, the Group will continue to focus on new markets research and create synergies among functions of the Group's internal departments such as business development, sales and marketing and operations departments so as to ensure the success of new restaurants when the Group ventures into mature and emerging markets. The Group focuses on tailoring the tastes and prices of its dishes to customers in different geographic areas.

- *Cost control* – The Group plans to further control its procurement cost while maintaining a stringent quality standard. The Group plans to further enhance its procurement system and devise tailored cost control measures for different categories of supplies. The Group endeavors to further optimize delivery route to enhance logistics efficiency. In addition, the Group determines to optimize the development process at the central food processing plant.

- *Promote brand image and recognition* – The Group will upgrade its brand image and undertake a series of online and offline marketing initiatives to help enhance the Group's brand recognition. Marketing with a focus on customer relationship management will also further increase customer loyalty. The Group also plans to fully utilize its approximately 80 million customer flow and initiate joint promotion programs with renowned brands in the area of big data.

- *Strengthen organization and human resources management* – In order to better understand the market, the Group will enhance its accountability system and encourage the proactivity of general manager of specific stores to take overall responsibility for daily restaurant operation and profit management of the specific store. The Group plans to enhance the management capabilities of its operational managers of its major business focuses, by adopting a management approach focused on business sectors to simplify management structure.

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

Industry Outlook

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

- *Stronger demand for mass-market oriented restaurants* – Demand for mass-market oriented restaurants is always rigid, offering value for money and convenience, these restaurants have gained stronger market recognition and well-liked by consumers. As China's economy pivots from an investment-led model to a more consumption-focused one, the Group expects China's catering service market, particularly the catering segment focusing on the mass market, will continue to experience strong growth.

- *Consolidation by restaurant chains* – China's catering service industry is likely to be more consolidated by chained restaurants with greater quality, stronger reputation and broader restaurant network.

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

- *Demand for dining convenience* – O2O dining, mobile apps for restaurants and dining, online and mobile order and delivery platforms, WeChat, customer relationship management system and other modern IT measurements to enable customers to order, make reservations, queue and pay through mobile devices or websites have become the prevailing trend in China's catering service market. Restaurant operators are under pressure to strengthen their information system management capability.

BUSINESS REVIEW AND OUTLOOK

- *Restaurants become more popular among commercial complexes operators* – As e-commerce continues to impact the retail business, restaurants' ability to bring people flow has become especially attractive for operators of commercial complexes. Such growing popularity is expected to affect the site selection strategy of catering service providers in 2018 and going forward.

- *Challenges* – China's catering service industry continues to face challenges including intensified competition among industry competitors, rising food costs, labor costs and rental increment.

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

The following table is a summary of the Group's consolidated statement of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from 2016 to 2017:

	Year Ended 31 December				Year-on-Year
	2017		2016		Change
	RMB	**%**	*RMB*	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**3,663,993**	**100.0**	2,758,137	100.0	32.8
Other income	**39,825**	**1.1**	31,496	1.1	26.4
Raw materials and consumables used	**(1,365,240)**	**(37.3)**	(979,258)	(35.5)	39.4
Staff costs	**(833,366)**	**(22.7)**	(651,956)	(23.6)	27.8
Property rentals and related expenses	**(441,242)**	**(12.0)**	(356,971)	(12.9)	23.6
Utilities expenses	**(131,559)**	**(3.6)**	(108,951)	(4.0)	20.8
Depreciation and amortisation	**(151,325)**	**(4.1)**	(113,968)	(4.1)	32.8
Other expenses	**(238,817)**	**(6.5)**	(146,947)	(5.3)	62.5
Other gains and losses	**518**	**0.0**	41,540	1.5	(98.8)
Profit before tax	**542,787**	**14.8**	473,122	17.2	14.7
Income tax expense	**(122,617)**	**(3.3)**	(105,094)	(3.8)	16.7
Profit for the year attributable to owners of the Company	**420,170**	**11.5**	368,028	13.3	14.2
Other comprehensive income:					
Item that may be reclassified subsequently to profit or loss:					
Fair value gain (loss) on available-for-sale (AFS) investments during the year, net of tax	**1,230**	**0.0**	(1,232)	(0.0)	194.4
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment	**(67)**	**(0.0)**	–	0.0	–
Profit and total comprehensive income for the year attributable to owners of the Company	**421,133**	**11.5**	366,796	13.3	14.8
Earnings per share					
Basic (RMB cents per share)	**39.33**		34.71		
Diluted (RMB cents per share)	**38.76**		34.48		

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The Group's revenue increased by 32.8% from RMB2,758.1 million in 2016 to RMB3,664.0 million in 2017, primarily due to (i) the increase in the number of the Group's restaurants from 639 as of 31 December 2016 to 759 as of 31 December 2017 and (ii) the nationwide same-store sales growth of 8.5% for Xiabuxiabu restaurants. In particular, revenue generated from food and beverage sales of Xiabuxiabu restaurants increased by 27.0% from RMB2,750.1 million in 2016 to RMB3,491.6 million in 2017. The Group opened 136 new Xiabuxiabu restaurants throughout China in 2017 to enhance the Group's restaurant network by opening stores in more desirable locations with heavy customer traffic. The Group also opened 19 new Coucou restaurants in Beijing, Shanghai, Hangzhou and Shenzhen in 2017.

Other income

The Group's other income increased by 26.4% from RMB31.5 million in 2016 to RMB39.8 million in 2017, primarily due to (i) an increase in delivery income for takeout orders from RMB4.3 million in 2016 to RMB12.7 million in 2017; and (ii) a government subsidy of approximately RMB6.3 million the Group received from the local government for the Group's local business development. There were no unfulfilled conditions in the period in which they were recognized. Such increase was partially offset by a decrease of interest income on bank deposits and available-for-sale investments from RMB17.9 million in 2016 to RMB13.9 million in 2017.

Raw materials and consumables used

The Group's raw materials and consumables costs increased by 39.4% from RMB979.3 million in 2016 to RMB1,365.2 million in 2017 as the scale of the Group's operations further increased, which included the number of the restaurants in the Group's network and the Group's system-wide sales. As a percentage of the Group's revenue, the Group's raw materials and consumables costs increased from 35.5% in 2016 to 37.3% in 2017, primarily due to the significant rise in purchase price of lamb.

Staff costs

The Group's staff costs increased by 27.8% from RMB652.0 million in 2016 to RMB833.4 million in 2017, primarily due to an increase in the number of the Group's employees from 15,544 as of 31 December 2016 to 21,200 as of 31 December 2017, as well as an increase in per capita wages, which in turn was the result of an increase in the minimum hourly wage and statutory social insurance in China. As a percentage of the Group's revenue, the Group's staff costs decreased from 23.6% in 2016 to 22.7% in 2017, primarily as a result of the growth in revenue is greater than the growth in staff costs. In 2017, in connection with the pre-IPO share incentive plan adopted by the Company on 28 August 2009 (the "**Pre-IPO Share Incentive Plan**") and the restricted share unit scheme adopted by the Company on 28 November 2014 (the "**RSU Scheme**"), the Group incurred equity-settled share-based expenses of RMB11.6 million (2016: RMB4.4 million), representing an increase of approximately 161.6%, which was mainly attributable to the grant of restricted share units ("**RSUs**") in respect of an aggregate of 3,993,190 shares in May 2017.

Property rentals and related expenses

The Group's property rentals and related expenses increased by 23.6% from RMB357.0 million in 2016 to RMB441.2 million in 2017, primarily due to an increase in the number of the Group's restaurants. The increase in the Group's revenue outpaced the overall increase in the Group's property rentals and related expenses which was mainly attributable from a number of fixed rent arrangement secured for the Group's restaurants at relatively lower rental, and the Group's property rentals and related expenses decreased from 12.9% in 2016 to 12.0% in 2017 as a percentage of the Group's revenue.

Utilities expenses

The Group's utilities expenses increased by 20.8% from RMB109.0 million in 2016 to RMB131.6 million in 2017 as the scale of the Group's operation in terms of number of restaurants continued to increase. As a percentage of the Group's revenue, utilities expenses dropped to 3.6% in 2017 as compared with 4.0% in 2016.

Depreciation and amortization

The Group's depreciation and amortization increased by 32.8% from RMB114.0 million in 2016 to RMB151.3 million in 2017, primarily as a result of an increase in the Group's property, plant and equipment as the Group continued to open new restaurants and upgrade to Xiabuxiabu 2.0. As a percentage of the Group's revenue, depreciation and amortization remained stable at the 2016 level of 4.1%.

Other expenses

The Group's other expenses increased by 62.5% from RMB146.9 million in 2016 to RMB238.8 million in 2017. As a percentage of the Group's revenue, the Group's other expenses increased from 5.3% in 2016 to 6.5% in 2017. The increases in both absolute amount of the Group's other expenses and as a percentage of the Group's revenue were primarily due to (i) an increase in advertising and other marketing expenses; (ii) an increase professional service fee in connection with the upgrade and maintenance of our internal software; and (iii) an increase in delivery expenses due to the expansion of Xiabu Fresh.

Other gains and losses

The Group's other gains significantly decreased by 98.8% from RMB41.5 million in 2016 to RMB0.5 million in 2017, primarily as a result of (i) the decrease in the net foreign exchange gain recorded by the Company from RMB29.1 million in 2016 to RMB26.7 million in net foreign exchange loss in 2017 and (ii) the impairment loss recognised in respect of leasehold improvement of RMB7.7 million in 2017 (2016: RMB6.7 million). Such decrease was partially offset by an increase in the gains from changes in fair value of financial assets designated at fair value through profit or loss, which represent the short-term investment the Group made as part of the Group's treasury policy, from RMB22.5 million in 2016 to RMB38.2 million in 2017. As a percentage of the Group's revenue, other gains decreased from 1.5% in 2016 to 0.0% in 2017.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by 14.7% from RMB473.1 million in 2016 to RMB542.8 million in 2017, and as a percentage of the Group's revenue, the Group's profit before tax decreased from 17.2% in 2016 to 14.8% in 2017.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB11.6 million (2016: RMB4.4 million), the Group's profit before tax would have increased by 16.1% from RMB477.5 million in 2016 to RMB554.4 million in 2017, and decreased from 17.3% in 2016 to 15.1% in 2017 as a percentage of the Group's revenue.

Income tax expense

The Group's income tax expenses increased by 16.7% from RMB105.1 million in 2016 to RMB122.6 million in 2017, primarily as a result of the increase in the Group's taxable income. The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, remained relatively stable at 22.2% in 2016 and 22.6% in 2017.

Profit for the year

As a result of the cumulative effect of the above factors, the Group's profit for the year increased by 14.2% from RMB368.0 million in 2016 to RMB420.2 million in 2017, and as a percentage of the Group's revenue, the Group's profit for the year decreased from 13.3% in 2016 to 11.5% in 2017.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB11.6 million (2016: RMB4.4 million), the Group's profit for the year would have increased by 15.9% from RMB372.5 million in 2016 to RMB431.8 million in 2017, and decreased from 13.5% in 2016 to 11.8% in 2017 as a percentage of the Group's revenue. For further details, please refer to the section headed "Non-IFRS Measure – (b) Adjusted net profit" below.

Non-IFRS Measure

(a) Restaurant level operating profit

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group also uses restaurant level operating profit as an additional financial measure to evaluate the Group's financial performance at the restaurant level. Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses from the Group's revenue generated from food and beverage sales. As of 31 December 2017, the Group also owned 21 Coucou restaurants. As the Group opened its first Coucou restaurant in June 2016, its contribution to the Group's revenue and restaurant level operating profit for the year ended 31 December 2017 was still minimal. For the year ended 31 December 2017, the Group's revenue generated from Coucou restaurants accounted for approximately 3.2% of its total revenue, with restaurants level operating loss of RMB24.9 million in 2017 due to the relatively higher start up costs incurred for new Coucou restaurants opening.

Xiabuxiabu restaurants continued to be the largest source of revenue and restaurant level operating profit of the Group. The table below sets forth the breakdown of Group's revenue generated from Xiabuxiabu restaurants by geographical regions, each presented as a percentage of the Group's total revenue generated therefrom for the years indicated, as well as the geographical breakdown of the Group's restaurant level operating profit generated from Xiabuxiabu restaurants, each presented as a percentage of the Group's regional revenue generated therefrom for the years indicated:

	Year Ended 31 December			
	2017		**2016**	
	RMB	***%***	*RMB*	*%*
	(In thousands, except for percentages)			
Revenue:				
Beijing	**1,814,861**	**52.0**	1,635,159	59.4
Shanghai	**211,797**	**6.0**	192,915	7.0
Tianjin	**269,874**	**7.7**	222,385	8.1
Hebei(1)	**558,609**	**16.0**	412,051	15.0
Northeast China(2)	**271,100**	**7.8**	109,348	4.0
Other regions(3)	**365,374**	**10.5**	178,252	6.5
Total	**3,491,615**	**100.0**	2,750,110	100.0
Restaurant Level Operating Profit and Margin Performance(2):				
Beijing	**526,308**	**29.0**	447,389	27.4
Shanghai	**27,890**	**13.2**	13,010	6.7
Tianjin	**59,449**	**22.0**	52,109	23.4
Hebei(1)	**136,627**	**24.5**	105,812	25.7
Northeast China(2)	**39,512**	**14.6**	7,823	7.2
Other regions(3)	**37,577**	**10.3**	17,437	9.8
Total	**827,363**	**23.7**	643,580	23.4

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

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

As the Group successfully expanded into additional markets, the Group's revenue generated from Xiabuxiabu restaurants in Beijing decreased as a percentage of the Group's total revenue generated therefrom from 59.4% in 2016 to 52.0% in 2017.

In 2017, as a result of the Group's efforts in optimizing its menu and products combinations and controlling its procurement costs, in particular, the implementation of a more stringent control of bidding process for the procurement of food ingredients, as well as controlling its rental expenses for the Xiabuxiabu restaurants, the growth in the Group's restaurant level operating profit generated from Xiabuxiabu restaurants outpaced the growth in the Group's revenue generated therefrom. As a percentage of the Group's revenue generated from Xiabuxiabu restaurants, the Group's restaurant level operating profit generated therefrom increased from 23.4% in 2016 to 23.7% in 2017.

(b) Adjusted net profit

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

	Year ended 31 December	
	2017	**2016**
	(In RMB thousands)	
Profit for the year	**420,170**	368,028
Equity-settled share-based payments	**11,612**	4,439
Adjusted net profit	**431,782**	372,467

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

LIQUIDITY AND CAPITAL RESOURCES

In 2017, the Group financed its operations primarily through cash from the Group's operations. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, as well as the net proceeds received from the Company's initial public offering (the "**Global Offering**").

Cash and cash equivalents

As of 31 December 2017, the Group had cash and cash equivalents of RMB1,452.9 million as compared with RMB1,479.2 million as of 31 December 2016, which primarily consisted of cash on hand and demand deposits and which were mainly denominated in Renminbi (as to 76.0%), Hong Kong dollars (as to 1.6%), and U.S. dollars (as to 22.4%).

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

Net proceeds from the Global Offering (including the partial exercise of the over-allotment option on 9 January 2015), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to an aggregate of approximately HK$1,043.5 million, comprising HK$1,001.5 million raised from the Global Offering and HK$42.0 million raised from the issue of shares pursuant to the partial exercise of the over-allotment option. Up to 31 December 2017, the Company utilized approximately 2.8%, or HK$29.1 million of the net proceeds from the Global Offering to provide funding for the Group's working capital and other general corporate purposes, including the payment of the Group's staff costs and professional service fees. The Group had not yet utilized any net proceeds from the global offering to fund its expansion plan as the Group had to date applied its available internal financial resources to fund its expansion plan. The remaining net proceeds has been deposited into short-term demand deposits and money market instruments such as short-term financial products issued by reputable commercial banks as well as bonds. In 2018 and in the upcoming years, the Group will continue to utilize the net proceeds from the Global Offering and for purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 5 December 2014 (the "**Prospectus**").

Short-term investments

The Company subscribed for and held various short-term investments throughout the year ended 31 December 2017, which mainly represented short-term investments in financial products ("**Financial Products**") issued by Bank of Communications Co., Ltd., China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd. and Fubon Bank (China) Co., Ltd. The Financial Products were not principal protected nor with pre-determined or guaranteed return. The Company generally subscribed for the Financial Products on a revolving basis, which means that the Company would subscribe for additional Financial Products when the terms of certain Financial Products previously subscribed for by the Company expired. As of 31 December 2017, all the Financial Products had expired, thus the Group did not have any short-term investments as of that date.

The Financial Products which the Company subscribed for during the year ended 31 December 2017 were with a term ranging from 4 days to 197 days and an expected return rate ranging from 2.85% to 5.00% per annum. As of 31 December 2017, all Financial Products subscribed for by the Company in 2017 had been fully redeemed or matured and the Group had totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. The gain the Group realized from the Financial Products which was recorded as gains from changes in fair value of financial assets designated at fair value through profit or loss amounted to approximately RMB38.2 million for the year ended 31 December 2017.

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

Subscriptions of Financial Products were made for treasury management purpose to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity. Generally, the Company had in the past selected short-term financial products issued by reputable commercial banks that had relatively low associated risk. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the Group's business needs, operating activities and capital expenditures even after making the investments in such Financial Products. Although the Financial Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and are also in line with the internal risk management, cash management and investment policies of the Group as the Company had, in the past, totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. In addition, the Financial Products were with flexible redemption terms or a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group to earn an attractive rate of return. However, in accordance with the relevant accounting standards, the Financial Products are accounted for as short-term investments.

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

Details of subscriptions of Financial Products during the year ended 31 December 2017 which constituted notifiable transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") were disclosed in the relevant discloseable transaction announcements published by the Company in 2017. Save as otherwise disclosed in these announcements, there was no other single short-term investment, including those accounted for as available-for-sale investments and short-term investments, in the Group's investment portfolio that was considered a significant investment as none of the investments has a carrying amount that account for more than 5% of the Group's total assets.

Indebtedness

As of 31 December 2017, the Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection thereof.

Capital expenditures

The Group made payment for the capital expenditures representing the purchase of property, plant and equipment of RMB290.4 million in 2017 in connection with new restaurant opening and re-decoration and furnishing of existing stores. In 2016, the Group made payment for the capital expenditures of RMB137.0 million. The Group's capital expenditure in 2017 was funded primarily by cash generated from its operating activities. In particular, after considering the Group's restaurant opening plan, the Group funded the opening of new restaurants that the Group planned to fund with the net proceeds from the Global Offering with its existing cash instead. In 2017, the Group opened a total of 155 new restaurants. As of 31 December 2017, the Company did not have any charge over its assets.

Contingent liabilities and guarantees

As of 31 December 2017, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against the Group.

Material acquisitions and future plans for major investment

During the year ended 31 December 2017, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

EMPLOYEE AND STAFF COSTS

As of 31 December 2017, the Group had a total of 21,200 employees. In particular, 129 employees worked at the Group's food processing facilities, 1,934 were responsible for restaurant management and 18,208 were restaurant staff.

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

For the year ended 31 December 2017, the total staff costs of the Group (including salaries, bonuses, social insurances, provident funds and share incentive schemes) amounted to RMB833.4 million, representing approximately 22.7% of the total revenue of the Group.

Pursuant to the Pre-IPO Share Incentive Plan, options to subscribe for an aggregate of 14,392,042 shares (representing approximately 1.34% of the total issued share capital of the Company as at the date of this annual report) granted by the Company under the Pre-IPO Share Incentive Plan remained outstanding as of 31 December 2017. The Company has also adopted the RSU Scheme which became effective upon the date of listing of the Company. Computershare Hong Kong Trustees Limited has been appointed as the trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme (the "**RSU Trustee**"). During the year ended 31 December 2017, the RSU Trustee purchased an aggregate of 1,498,000 shares at a total cash consideration of approximately HK$10,540,000 on-market to hold on trust for the benefit of the participants of the RSU Scheme (the "**RSU Participants**") pursuant to the rules of the RSU Scheme and the trust deed entered into between the Company and the RSU Trustee. Such shares will be used as awards for relevant RSU Participants upon the grant and vesting of restricted share units ("**RSUs**"). On 8 May 2017, the chairman of the Board, the chief executive officer of the Company and 19 employees of the Group were granted RSUs in respect of an aggregate of 3,993,190 shares. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs. As of 31 December 2017, RSUs in respect of an aggregate of 6,242,724 shares (representing approximately 0.58% of the total issued share capital of the Company as at the date of this annual report) granted by the Company under the RSU Scheme remained outstanding. Further details of the Pre-IPO Share Incentive Plan and the RSU Scheme, together with, among others, the details of the options granted under the Pre-IPO Share Incentive Plan and the RSUs granted under the RSU Scheme, are set out in the section headed "Directors' Report" in the this annual report.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.087 per share, amounting to approximately a total of RMB92.79 million for the year ended 31 December 2017 (the "**2017 Final Dividend**"), representing approximately 40% of the Group's net profit for the six months ended 31 December 2017. The 2017 Final Dividend is intended to be paid out of the Company's share premium account and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ho Kuang-Chi (賀光啓), aged 54 , is the Chairman of the Board and an executive Director. He was appointed as our Director on 14 May 2008 and is primarily responsible for formulating the overall development strategies and business plans of our Group. Mr. Ho is also a director of each of the subsidiaries of our Group. Mr. Ho has over 19 years of experiences in the food and beverage industry. Mr. Ho founded our business in 1998 and continues to oversee the management of our operations and business. He established our first restaurant in Beijing in 1999 and has guided our operations and business in adhering to quality and innovation in our operations since our establishment. Mr. Ho was awarded the "Most Influential Entrepreneur of Food and Beverage Industry in China in 2015 (2015年度中國餐飲最具影響力企業家)" and the "Most Influential Entrepreneur of Hotpot Industry in China in 2015 (2015年度中國火鍋行業最具影響力企業家)" by China Cuisine Association (中國烹飪協會). Mr. Ho also serves as a director of the Eighth Session of the Board of Directors of Beijing Overseas Friendship Association and has been the Vice Chairman of the Beijing Association of Taiwanese-Invested Enterprises. Mr. Ho is the husband of Ms. Chen Su-Yin, our non-executive Director.

Ms. Yang Shuling (楊淑玲), aged 56, is our chief executive officer and an executive Director. She joined Xiabuxiabu Fast Food Chain Management Co., Ltd. in 1998 as an accountant and has subsequently continued to serve our Group as our finance manager, deputy general manager, executive vice president and president and has gained over 19 years of experiences in the food and beverage industry and also in operations management. Ms. Yang was appointed as a Director on 3 November 2008 and as the chief executive officer in March 2013 and is primarily responsible for overseeing the management and strategic development of our Group. Ms. Yang is also a director of each of the subsidiaries of our Group. Prior to joining our Group, Ms. Yang has served as statistics officer and accounting officer in certain Beijing enterprises. She obtained secondary technical education in finance and accounting.

Non-executive Directors

Ms. Chen Su-Yin (陳素英), aged 54, is a non-executive Director. She was appointed to our Board on 12 December 2012 and is primarily responsible for providing strategic advices and guidance on the business development of our Group. Ms. Chen is also a director of each of the subsidiaries of our Group. Ms. Chen has continued to provide guidance on the range and variety of foods offered and the enhancement of the tastes and flavors of our foods and the development of our dipping sauces and our hot and spicy soup base since our establishment. Our hot and spicy soup base was awarded "Beijing Specialty Cuisine" by Beijing Cuisine Association. Ms. Chen graduated from Taipei Ching-Chwan Commercial High School in June 1981. Ms. Chen is the wife of Mr. Ho Kuang-Chi.

Mr. Zhang Chi (張弛), aged 42, is a non-executive Director. He was appointed to our Board with effect from 23 August 2017 and is primarily responsible for providing strategic advice and guidance on the business development of our Group. Mr. Zhang is a Managing Director at General Atlantic, which he joined in May 2016. Mr. Zhang heads General Atlantic's business in China. Prior to joining General Atlantic, Mr. Zhang was a Global Partner and Managing Director at The Carlyle Group, where he focused on investment opportunities in Asia from 2006 to 2016. Mr. Zhang has served on the board of directors of various portfolio companies of General Atlantic. He is currently an independent director of 58.com Inc. (a company listed on the New York Stock Exchange ("**NYSE**") (symbol: WUBA)), and serves on the board of directors of Zhejiang New Century Hotel Management Group Co., Ltd. (浙江開元酒店管理股份有限公司, a private portfolio company in which General Atlantic invested) and Ocean Link (鷗翎投資, a private investment platform set up by General Atlantic and Ctrip). Prior to joining General Atlantic, he has previously served as a non-executive director of Fang Holdings Limited (formerly known as SouFun Holdings Limited and a company listed on NYSE (symbol:

SFUN)) from September 2015 to May 2016, a non-executive director of Yashili International Holdings Ltd (a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1230)) from October 2010 to August 2013 and a non-executive director of New Century Asset Management Limited (the manager of New Century Real Estate Investment Trust, a real estate investment trust listed on the Stock Exchange (stock code: 1275)) from June 2013 to May 2016. He has also previously served on the board of directors of certain private portfolio companies of The Carlyle Group, including China Literature Limited (formerly known as China Reading Limited and a company currently listed on the Stock Exchange (stock code: 772)), Plateno Group, Crystal Orange Hotel Group and AnNeng Logistics Group, until 2016. Before joining The Carlyle Group in 2006, Mr. Zhang was a Vice President of the Investment Banking Division of Credit Suisse (Hong Kong) Limited. Prior to that, he was a Vice President in the Investment Banking Division at China International Capital Corporation Limited in Beijing. Mr. Zhang obtained his Bachelor degree in Economics from HeFei University of Technology (合肥工業大學) in July 1997 and Master of Arts degree in Economics from Shanghai University of Finance and Economics (上海財經大學) in January 2000.

Ms. Chang Le (常樂), aged 35, was appointed as an alternate Director to Mr. Zhang Chi with effect from 23 August 2017. Ms. Chang joined General Atlantic in 2007 and is currently a principal at General Atlantic and is based in Hong Kong. She focuses on investments in the retail and consumer and healthcare sectors in Greater China. Ms. Chang currently serves as a non-executive director of Tenfu (Cayman) Holdings Company Limited (a company listed on the Stock Exchange (stock code: 6868)). Prior to joining General Atlantic, Ms. Chang spent two years at McKinsey & Company, where she was a business analyst in the corporate finance group. Ms. Chang earned her Bachelor of Business Administration degree from The Chinese University of Hong Kong in December 2005.

Independent Non-executive Directors

Ms. Hsieh Lily Hui-yun (謝慧雲), aged 63, is an independent non-executive Director. She was appointed to our Board on 28 November 2014. She has over 30 years of experience in the auditing and accounting in various industries, including food retailing, manufacturing and processing, public utilities and airlines. Ms. Hsieh joined YUM! China in 1996 and was the chief financial officer of YUM! China from 2000 to 2012. Before joining YUM! China, she worked with Kraft Foods (Asia Pacific) Ltd., Pillsbury Canada and China Airlines. Ms. Hsieh served as an independent non-executive director of Dongpeng Holdings Company Limited (former stock code: 3386) from November 2013 until it was delisted from the Main Board of the Stock Exchange in June 2016 and as a non-executive director of Little Sheep Group Limited (former stock code: 968) from November 2009 until it was delisted from the Main Board of the Stock Exchange in February 2012. Ms. Hsieh received an Master's degree in Business Administration from University of Toronto in June 1980 and the title of Certified Management Accountant (CMA) in July 1985.

Mr. Hon Ping Cho Terence (韓炳祖), aged 58, is an independent non-executive Director. He was appointed to our Board on 28 November 2014. Mr. Hon has over 30 years of experience in accounting, treasury and financial management. He is the chief financial officer and the company secretary of DTXS Silk Road Investment Holdings Company Limited (a company listed on the Main Board of the Stock Exchange with stock code: 620). He is also an independent non-executive director of Jimu Group Limited (a company listed on the GEM of the Stock Exchange with stock code: 8187, formerly known as Ever Smart International Holdings Limited) since 11 December 2017. Mr. Hon was the Chief Financial Officer and the Company Secretary of Auto Italia Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code: 720) from June 2013 to March 2016. Prior to joining Auto Italia Holdings Limited, Mr. Hon was appointed to various senior financial positions in a number of companies listed on the Main Board of the Stock Exchange. From December 2010 to September 2012, he was the chief financial officer and a member of executive committee of China Dongxiang (Group) Co., Ltd. (stock code: 3818). From September 2008 to December 2010, Mr. Hon was the chief financial officer of K. Wah Construction Materials Limited, a subsidiary of Galaxy Entertainment Group Limited (stock code: 27). Mr. Hon served as the group finance director from March 2006 to February 2008 and as the group treasurer and general manager of the finance department from June 2001 to February 2006 of TOM Group Limited (stock code: 2383). From February 1996, he was the company secretary of Ng Fung Hong Limited, a company then listed on the Stock Exchange (former stock code: 318) until it was delisted from the Main Board of the Stock Exchange in June 2001. Prior to this, Mr. Hon worked with KPMG, an international accounting firm for more than seven years since 1985. He is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Hon obtained his Master's degree in Business Administration (Financial Services) from The Hong Kong Polytechnic University in August 2004.

Ms. Cheung Sze Man (張詩敏), aged 47, is an independent non-executive Director. She was appointed to our Board on 28 November 2014. Ms. Cheung has accumulated audit experience in an international accounting firm and has substantial experiences in corporate finance, accounting and human resource management by holding senior positions in private and public listed companies. She has also served as directors of listed companies in Hong Kong. She was an executive director of China Ocean Shipbuilding Industry Group Limited (stock code: 651 and formerly known as Wonson International Holdings Ltd), a company listed on the Main Board of the Stock Exchange, from November 2006 to November 2007. She was an executive director of ITC Properties Group Limited (stock code: 199 and formerly known as Cheung Tai Hong), a company listed on the Main Board of the Stock Exchange, from May 2004 to May 2005. She also served as the independent non-executive director of 21 Holdings Limited (stock code: 1003 and currently known as Huanxi Media Group Limited), a company listed on the Main Board of the Stock Exchange, from November 2011 to April 2014. Ms. Cheung is a member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Cheung graduated from the University of Auckland in New Zealand with a Bachelor of Commerce degree and a Bachelor of Arts degree in May 1995. She also obtained a Master of Business Administration degree from the University of Bradford in the United Kingdom in July 2012.

Senior Management

Ms. Zhao Yi (趙怡), aged 48, is the Chief Financial Officer of our Group. Ms. Zhao joined our Group on 12 November 2012 and is primarily responsible for the audit, accounting, financial management and IT related matters of our Group. Ms. Zhao has more than 20 years of experience in accounting and corporate finance and business management in multi-national companies, such as The East Asiatic Company (China) Limited, PepsiCo Food Co., Unilever Service Co., Ltd., Sony Ericsson Group and McDonald's, where she had taken up financial analysis, budgeting, auditing and management roles. Prior to joining our Group, the major roles and positions undertaken by Ms. Zhao includes serving as the Commercial Manager of Unilever Service Co., Ltd. from October 2001 to October 2004, the chief operating officer of Sony Ericsson Mobile Communications (China) Co., Ltd. mainly responsible for strategic planning and the establishment of operating system from June 2005 to February 2009 and the Financial Director of McDonald's in Northern China Region from June 2009 to October 2012. Ms. Zhao obtained a Master's degree in Business Administration in Business Management from Newport University of the United States in May 2003, and her Bachelor's degree in International Finance from China Institute of Finance (currently known as School of International Finance of the University of International Business and Economics) in July 1993.

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group, for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

In 2017, the Group opened 136 Xiabuxiabu restaurants and 19 Coucou restaurants. The Group extended its restaurant network into Shenzhen in 2017. As of 31 December 2017, the Group owned and operated 738 Xiabuxiabu restaurants in 79 cities over 13 provinces and in three centrally administered municipalities, namely Beijing, Tianjin and Shanghai, in China. The Group also owned 21 Coucou restaurants in Beijing, Shanghai, Hangzhou and Shenzhen as of the same date.

Performance of the Group's Restaurants

The Group managed to grow its revenue by 32.8% from RMB2,758.1 million in 2016 to RMB3,664.0 million in 2017 primarily due to the Group's effort to expand its restaurant network and a robust nationwide same-store sales growth of 8.5%, resulted in a 25.4% growth in the Group's restaurant level operating profit from RMB639.8 million in 2016 to RMB802.5 million in 2017. See "Business Review and Outlook – Key Operational Information for the Group's Restaurants" for further details on the performance of the Group's restaurants.

Relationship with Suppliers

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

Relationship with Customers

As a restaurant chain, the Group has a large and diverse customer base. The Group's revenue derived from its five largest customers accounted for less than 30% of our total revenue for the year ended 31 December 2017.

Relationship with Employees

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

Environmental Policy

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

Licenses, Regulatory Approvals and Compliance Record

The Group had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits from relevant regulatory authorities for all of its restaurants opened in 2017.

Principal Risks and Uncertainties

Principal risks and uncertainties the Group faces include:

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

Subsequent Event

Particulars of important events affecting the Group that have occurred since the year ended 31 December 2017 are stated in Note 33 to the consolidated financial statements.

Outlook for 2018

In 2018, the Group will continue its efforts to achieve its goal of becoming the leading operator of fast casual restaurant industry and maintaining its leading position as a hotpot restaurant chain operator in China. In particular, the Group plans to explore additional growth drivers, improve its same-store sales, further expand its restaurant network, control its costs, strengthen organization and human resources management and maintain stringent food safety and quality standard.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2017 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 62 to 123.

FINAL DIVIDEND

The Board recommends the payment of the 2017 Final Dividend of RMB0.087 per share for the year ended 31 December 2017 to be paid out of the Company's share premium account, which is subject to the approval of the Company's shareholders (the "**Shareholders**") at the AGM to be held on 25 May 2018. The 2017 Final Dividend will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 4 June 2018. The 2017 Final Dividend, if approved by the Shareholders at the AGM, will be paid on or about 14 June 2018 to those Shareholders whose names appear on the register of members of the Company on 4 June 2018.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statements of changes in equity.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are set out in Notes 24 and 25 to the consolidated financial statements and the paragraph headed "Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme" below, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 30 to the consolidated financial statements.

DONATION

Donations made by the Group during the year ended 31 December 2017 amounted to RMB28,758 (2016: RMB60,500).

FINANCIAL SUMMARY

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

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

For details of the Shares purchased by the RSU Trustee for the purpose of the RSU Scheme during the year ended 31 December 2017, please refer to the section headed "Pre-IPO Share Incentive Plan and Restricted Share Unit Scheme – Restricted Share Unit Scheme" below and Note 25 to the consolidated financial statements.

PRE-IPO SHARE INCENTIVE PLAN AND RESTRICTED SHARE UNIT SCHEME

Pre-IPO Share Incentive Plan

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

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

Each Award is evidenced by an award agreement, which shall contain the terms for such Award, as well as any other terms, provisions, or restrictions that may be imposed on the Award, and in the case of Options, any Shares subject to the Option, and in each case subject to the applicable provisions and limitations of the Pre-IPO Share Incentive Plan. The maximum number of Shares which may be issued and/or delivered pursuant to all Awards granted under the Pre-IPO Share Incentive Plan must not exceed 40,000,000 Shares (representing approximately 3.73% of the total issued Shares as at the date of this annual report).

As at 31 December 2017, Options to subscribe for an aggregate of 14,392,042 Shares (representing approximately 1.33% of the total issued Shares as at the date of this annual report) have been granted by the Company and are outstanding under the Pre-IPO Share Incentive Plan. No Share Award has been granted or agreed to be granted under the Pre-IPO Share Incentive Plan since the adoption of the plan.

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

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

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

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

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

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

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

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

All of the Options granted under the Pre-IPO Share Incentive Plan were granted in four different tranches on 31 August 2009, 17 May 2011, 24 December 2012 and 21 March 2014. As at 31 December 2017, there are altogether 19 Option holders including an executive Director and the Chief Executive Officer of the Company, the Chief Financial Officer of the Company and 17 other employees of the Group. Details of the Options granted under the Pre-IPO Share Incentive Plan and outstanding as at 31 December 2017 and details of the vesting period, exercise period and the exercise price are set out below:

Name of Option holder	Position held with the Group	Number of Shares represented by the Options at 1 January 2017	Date of grant	Exercise price (RMB)	Exercised during the year	Weighted average closing price of the Shares immediately before the dates on which the Options were exercised (HKD)(3)	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2017
Director									
Yang Shuling	Executive Director and Chief Executive Officer	1,050,000	31 August 2009	0.84	350,000	4.79	–	–	700,000
		3,564,800	17 May 2011	1.79	1,782,400	6.86	–	–	1,782,400
		4,594,994	24 December 2012	1.84	2,297,496	9.83	–	–	2,297,498
		3,437,973	21 March 2014	2.78	197,263	9.51	–	–	3,240,710
		12,647,767			**4,627,159**		**–**	**–**	**8,020,608**

Name of Option holder	Position held with the Group	Number of Shares represented by the Options at 1 January 2017	Date of grant	Exercise price (RMB)	Exercised during the year	Weighted average closing price of the Shares immediately before the dates on which the Options were exercised (HKD)[3]	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2017
Senior management members of the Group									
Zhao Yi	Chief Financial Officer	**2,006,629**	21 March 2014	2.78	**75,000**	**5.10**	**–**	**–**	**1,931,629**
17 other employees of the Group		987,250	31 August 2009	0.84	312,750	6.46	220,000	10,000	444,500
		1,673,996	17 May 2011	1.79	626,494	6.89	294,990	–	752,512
		2,112,561	24 December 2012	1.84	714,258	7.47	418,950	–	979,353
		3,247,421	21 March 2014	2.78	192,061	7.59	791,920	–	2,263,440
		8,021,228			**1,845,563**		**1,725,860**	**10,000**	**4,439,805**
Total		2,037,250	31 August 2009	0.84	662,750	5.58	220,000	10,000	1,144,500
		5,238,796	17 May 2011	1.79	2,408,894	6.87	294,990	–	2,534,912
		6,707,555	24 December 2012	1.84	3,011,754	9.27	418,950	–	3,276,851
		8,692,023	21 March 2014	2.78	464,324	8.00	791,920	–	7,435,779
		22,675,624			**6,547,722**		**1,725,860**	**10,000**	**14,392,042**

Note:

(1) As a result of the exercise of the Options under the Pre-IPO Share Incentive Plan during the year ended 31 December 2017, a total of 6,547,722 Shares had been issued in 2017 and the total funds received by the Company with respect to the exercise of such Options amounted to RMB11,701,078.34.

Details of movements in the Options under the Pre-IPO Share Incentive Plan are also set out in Note 25 to the consolidated financial statements.

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

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

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

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

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

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

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

No further Options have been granted under the Pre-IPO Share Incentive Plan after the Listing Date. Save as disclosed above, during the year ended 31 December 2017, no Options have been exercised by the holders, nor have any of the Options lapsed or been cancelled.

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

Restricted Share Unit Scheme

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

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

The RSU Scheme will be valid and effective for a period of ten years, commencing from the Listing Date, being 17 December 2014 (unless it is terminated earlier in accordance with its terms) (the "**RSU Scheme Period**"). As at 31 December 2017, the remaining life of the RSU Scheme is approximately seven years.

The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) must not exceed 42,174,566 Shares, being 4% of the total number of Shares in issue as at the Listing Date (the "**RSU Scheme Limit**") and approximately 3.93% of the total issued Shares of the Company as at the date of this annual report. The RSU Scheme Limit may be refreshed from time to time subject to prior approval from the Shareholders in general meeting, provided that the total number of Shares underlying the RSUs granted following the date of approval of the refreshed limit (the "**New Approval Date**") under the limit as refreshed from time to time must not exceed 4% of the number of Shares in issue as of the relevant New Approval Date. Shares underlying the RSUs previously granted under the RSU Scheme (including RSUs that have lapsed or been canceled in accordance with the rules of the RSU Scheme) prior to such New Approval Date will not be counted for the purpose of calculating the limit as refreshed.

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

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

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

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

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

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

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

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

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

The Company has appointed Computershare Hong Kong Trustees Limited as the RSU Trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme. During the year ended 31 December 2017, the RSU Trustee purchased an aggregate of 1,498,000 Shares at a total cash consideration of approximately HK$10,540,000 on-market to hold on trust for the benefit of the RSU Participants pursuant to the RSU Scheme and the RSU Trust Deed. As of the date of this annual report, the 6,242,724 Shares, representing approximately 0.58% of the total issued Shares of the Company as of the date of this annual report, remains to be held by the RSU Trustee. Pursuant to the RSU Trust Deed, notwithstanding that the RSU Trustee is the legal registered holder of the Shares held upon trust pursuant to the RSU Scheme, the RSU Trustee shall refrain from exercising any voting rights attached to such Shares held by it under the trust.

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

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

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

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

On 8 May 2017, the Chairman of the Board, the Chief Executive Officer of the Company and 20 employees of the Group were granted RSUs in respect of an aggregate of 3,993,190 Shares. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs.

As of 31 December 2017, RSUs in respect of an aggregate of 6,242,724 Shares, representing approximately 0.58% of the total issued Shares of the Company as of the date of this annual report, remains outstanding. Details of the RSUs granted under the RSU Scheme and outstanding as of 31 December 2017 and details of the vesting period and the movements in RSUs during the year ended 31 December 2017 are set out below:

Name of grantees of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 January 2017	Date of grant	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Number of Shares represented by RSUs at 31 December 2017
Directors								
Ho Kuang-Chi	Chairman of the Board and Executive Director	–	8 May 2017[1]	985,967	–	–	–	985,967
Yang Shuling	Executive Director and Chief Executive Officer	1,273,859	17 November 2016	–	–	–	–	1,273,859
		–	8 May 2017[1]	985,967	–	–	–	985,967
Sub-total		1,273,859		1,971,934	–	–	–	3,245,793
Employees of the Group								
22 other employees of the Group		1,637,061	17 November 2016	–	–	379,572	–	1,257,489
		–	8 May 2017[1]	2,021,256	–	281,814	–	1,739,442
Sub-total		1,637,061		2,021,256	–	661,386	–	2,996,931
Total		**2,910,920**		**3,993,190**	**–**	**661,386**	**–**	**6,242,724**

Note:

(1) The closing price of the Shares on 8 May 2017, being the trading day immediately preceding the date on which the 3,993,190 RSUs were granted, was HK$6.99 per Share.

Details of movements in the RSUs under the RSU Scheme are also set out in Note 25 to the consolidated financial statements.

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

Subject to the satisfactory performance of the grantees, the RSUs granted on 17 November 2016 to each of the grantees shall be vested in accordance with the vesting schedule as follows:

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

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

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

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

In addition, the RSUs granted on 8 May 2017 to each of the grantees shall be vested in accordance with the vesting schedule as follows:

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

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

(iii) as to 25% of the RSUs on 1 April 2021; and

(iv) as to the remaining 25% of the RSUs on 1 April 2022.

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

DIRECTORS

The Directors of the Company during the year were:

Directors

Name	Position
Mr. Ho Kuang-Chi	Chairman of the Board and Executive Director
Ms. Yang Shuling	Chief Executive Officer and Executive Director
Ms. Chen Su-Yin	Non-executive Director
Mr. Zhang Chi (appointed with effect from 23 August 2017)	Non-executive Director
Ms. Chang Le (appointed with effect from 23 August 2017)	Alternate Director to Mr. Zhang Chi
Mr. Wei Ke (resigned with effect from 23 August 2017)	Non-executive Director
Ms. Hsieh Lily Hui-yun	Independent Non-executive Director
Mr. Hon Ping Cho Terence	Independent Non-executive Director
Ms. Cheung Sze Man	Independent Non-executive Director

In accordance with article 83(3) of the articles of association of the Company, Mr. Zhang Chi, who was appointed as a non-executive Director by the Board with effect from 23 August 2017 to fill a casual vacancy, shall hold office until the AGM and, being eligible, offers himself for re-election.

In accordance with the article 84(1) of the articles of association of the Company, Ms. Hsieh Lily Hui-yun, Mr. Hon Ping Cho Terence and Ms. Cheung Sze Man shall retire by rotation at the AGM and they being eligible, offer themselves for re-election.

None of Mr. Zhang Chi, Ms. Hsieh Lily Hui-yun, Mr. Hon Ping Cho Terence and Ms. Cheung Sze Man has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

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

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

Save as the related party transactions as disclosed in Note 29 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this Directors' Report, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of its connected entity had a material interest, whether directly or indirectly, and no transaction, arrangement or contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholders or any of its subsidiaries, subsisted at the end of the year or at any time during the year.

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

(a) Interests of Directors and Chief Executive of the Company

As at 31 December 2017, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

Name of Director/ Chief Executive	Capacity/ Nature of interest	Number of underlying Shares[1]	Approximate percentage of shareholding[5]
Mr. Ho Kuang-Chi[2]	Founder of a discretionary trust	450,000,000	41.96%
	Beneficiary of a trust	985,967	0.09%
Ms. Yang Shuling[3]	Beneficial owner	12,997,767	1.21%
	Beneficiary of a trust	2,259,826	0.21%
Ms. Chen Su-Yin[2][4]	Interest of spouse	450,985,967	42.05%

Notes:

(1) All interests stated are long positions.

(2) The Ying Qi Trust, a discretionary trust established by Mr. Ho Kuang-Chi (as the settlor) for the benefit of Mr. Ho Kuang-Chi and with Ying Qi PTC Limited acting as the trustee, holds the entire issued share capital of Ying Qi Investments Limited. Accordingly, Mr. Ho Kuang-Chi is deemed to be interested in the 450,000,000 Shares held by Ying Qi Investments Limited. Mr. Ho Kuang-Chi is also interested in RSUs representing 985,967 Shares held on trust on his behalf by the RSU Trustee which can be exercised for nil consideration and are subject to vesting.

(3) Ms. Yang Shuling is interested in 4,977,159 Shares and Options representing 8,020,608 underlying Shares granted to her under the Pre-IPO Share Incentive Plan and RSUs representing 2,259,826 Shares held on trust on her behalf by the RSU Trustee which can be exercised for nil consideration. Both the Options and RSUs are subject to a vesting schedule.

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

(5) As at 31 December 2017, the Company had 1,072,458,942 issued Shares.

(b) Interests in other members of the Group

So far as the Directors are aware, as at 31 December 2017, the following person is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Total share capital held by the shareholder	Approximate percentage of interest
Xiabuxiabu (China) Food Holdings Co., Limited[1]	Mr. Ho Kuang-Chi[2]	US$400,000	40%

Notes:

(1) Xiabuxiabu (China) Food Holdings Co., Limited is a 60%-owned subsidiary of the Company. Xiabuxiabu (China) Food Holdings Co., Limited wholly-owns Xiabuxiabu (HK) Food Holdings Co., Limited, which in turn wholly-owns Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司). Accordingly, Mr. Ho Kuang-Chi is deemed to be interested in each of Xiabuxiabu (HK) Food Holdings Co., Limited and Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司).

(2) Ms. Chen Su-Yin is the wife of Mr. Ho Kuang-Chi and is deemed to be interested in the 40% interest in Xiabuxiabu (China) Food Holdings Co., Limited, and in turn Xiabuxiabu (HK) Food Holdings Co., Limited and Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司), which are interested by Mr. Ho Kuang-Chi under the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Shares or securities held[1]	Approximate percentage of interest[6]
Ying Qi PTC Limited[2]	Trustee of a trust	450,000,000 (L)	41.96%
Ying Qi Investments Limited[2]	Beneficial owner	450,000,000 (L)	41.96%
Gap (Bermuda) Limited[3]	Interest of controlled corporation	275,000,000 (L)	25.64%
General Atlantic Genpar (Bermuda), L.P.[3]	Interest of controlled corporation	275,000,000 (L)	25.64%
General Atlantic Partners (Bermuda) II, L.P.[3]	Interest of controlled corporation	275,000,000 (L)	25.64%
General Atlantic Singapore Fund Interholdco Ltd.[3]	Interest of controlled corporation	275,000,000 (L)	25.64%
General Atlantic Singapore Fund Pte. Ltd.[3]	Beneficial owner	275,000,000 (L)	25.64%
Hillhouse Capital Management, Ltd.[4]	Investment Manager	57,720,500 (L)	5.38%
Gaoling Fund, L.P. [4]	Beneficial owner	55,920,000 (L)	5.21%
Morgan Stanley[5]	Interest of controlled corporation	61,014,545 (L) 10,490,746 (S)	5.69% 0.98%

Notes:

(1) The letter "L" denotes the person's long position in such shares, while the letter "S" denotes the person's short position in such shares.

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

(3) The sole shareholder of General Atlantic Singapore Fund Pte. Ltd ("**GASF**") is General Atlantic Singapore Fund Interholdco Ltd. ("**GA Interholdco**") and the controlling shareholder of GA Interholdco is General Atlantic Partners (Bermuda) II, L.P. ("**GAP LP**"). The general partner of GAP LP is General Atlantic Genpar (Bermuda), L.P. ("**GA GenPar**") and the general partner of GA GenPar is Gap (Bermuda) Limited. Accordingly, each of GA Interholdco, GAP LP, GA GenPar and Gap (Bermuda) Limited is deemed to be interested in the 275,000,000 Shares held by GASF by virtue of the SFO.

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

(5) Morgan Stanley held interests in the Company through various of its direct and indirect controlled entities.

(6) As at 31 December 2017, the Company had 1,072,458,942 issued Shares.

Save as disclosed above, as at 31 December 2017, the Directors or chief executive of the Company are not aware of any other person, not being a Director or chief executive of the Company, who has an interest or short position in the Shares or the underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

As a restaurant chain, we have a large and diverse customer base. Our revenue derived from our five largest customers accounted for less than 30% of our total revenue for the year ended 31 December 2017.

During the year ended 31 December 2017, the purchases of food ingredients and other supplies from the Group's five largest suppliers accounted for 26% of the Group's total purchases from all suppliers for the same period. The purchases from the Group's single largest supplier for the year ended 31 December 2017 accounted for 11% of the Group's total purchases from all suppliers for the same period. All of our five largest suppliers are independent third parties. None of our Directors, any of their close associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers during the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 28 to the consolidated financial statements.

PUBLIC FLOAT

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

AUDITOR

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

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB702.2 million (2016: RMB888.9 million).

BANK AND OTHER LOANS

The Group did not have any short-term or long-term bank borrowings or other loans as at 31 December 2017.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PERMITTED INDEMNITY PROVISION

Subject to applicable laws, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, pursuant to the articles of association of the Company. Such provisions were in force throughout the year ended 31 December 2017 and are currently in force. The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 17 December 2014, the Company's Shares were listed on the Main Board of the Stock Exchange. A total of 227,100,000 Shares were issued at HK$4.70 per Share for a total of approximately HK$1,067.4 million. Furthermore, on 9 January 2015, the joint global coordinators to the Global Offering partially exercised the over-allotment option granted by the Company under the Global Offering and pursuant to which the Company had issued and alloted an aggregate of 9,436,500 additional Shares at HK$4.70 per Share for a total of approximately HK$44.4 million. The net proceeds raised by the Company from the Global Offering (including the partial exercise of the over-allotment option on 9 January 2015), after deducting the underwriting commission and other expenses in connection with the Global Offering, which the Company received amounted to an aggregate of approximately HK$1,043.5 million, comprising HK$1,001.5 million raised from the Global Offering and HK$42.0 million raised from the issue of Shares pursuant to the partial exercise of the over-allotment option. Up to 31 December 2017, the Company utilized approximately 2.8%, or HK$29.1 million of the net proceeds from the Global Offering to provide funding for the Group's working capital and other general corporate purposes, including the payment of the Group's staff costs and professional service fees. The Group had not yet utilized any net proceeds from the Global Offering to fund its expansion plan as the Group had to date applied its available internal financial resources to fund its expansion plan. The remaining net proceeds had been deposited into short-term demand deposits and money market instruments such as short-term financial products issued by reputable commercial banks as well as bonds.

In 2018 and in the upcoming years, the Group will continue to utilize the net proceeds from the Global Offering for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

CONNECTED TRANSACTIONS

On 30 April 2017, Xiabuxiabu Restaurant Management Co., Ltd. ("**Xiabu Beijing**", an indirect wholly-owned subsidiary of the Company) entered into a renewed lease agreement with Xiabuxiabu Fast Food Chain Management Co., Ltd. ("**Xiabu Fast Food**", a company wholly-owned by Mr. Ho Kuang-Chi ("**Mr. Ho**"), a substantial Shareholder and an executive Director, and is therefore a connected person of the Company) to lease the factory located at Suncun Industrial Development Zone, Huangcun Town, Daxing District, Beijing, PRC with a total area of 7,066.75 square meters for a term of three years commencing on 1 May 2017. The leased property is used for industrial purpose and which is utilized by Xiabu Beijing as the food processing plant and warehouse. The monthly rental under the renewed lease agreement is RMB100,000 for the period commencing from 1 May 2017 and ending on 30 April 2020. The transactions under the lease agreement and the renewal agreement constitute de minimis continuing connected transactions under Rule 14A.76(1) of the Listing Rules. The transactions under the renewed lease agreement also constitute related party transactions of the Company under IFRS, details of which are set out in Note 29 to the consolidated financial statements.

On 18 October 2016, the Company and Mr. Ho entered into a joint venture agreement (the "**JV Agreement**") pursuant to which the Company and Mr. Ho agreed to establish a joint venture company, to be named Xiabuxiabu (China) Food Holdings Co., Limited (呷哺呷哺(中國)食品控股有限公司) (the "**JV Company**"), in the Cayman Islands. Pursuant to the JV Agreement, the Company and Mr. Ho committed to invest US$1,000,000 into the JV Company by subscribing for its shares upon the formation of the JV Company; the Company and Mr. Ho have agreed to contribute US$600,000 and US$400,000, which shall represent 60% and 40% of the total issued share capital of the JV Company, respectively. The Company and Mr. Ho committed to invest US$10,000,000 into the JV Company by subscribing for its shares and/or providing shareholders' loans to the JV Company in proportion to their respective shareholdings as the business of the JV Company develops, among which the Company and Mr. Ho committed to further invest US$6,000,000 and US$4,000,000, respectively. After the said further investment, the shareholding of each of the Company and Mr. Ho in the JV Company will remain unchanged. Pursuant to the JV Agreement, in May 2017 the JV Company established a wholly-owned operating subsidiary in the PRC, named Xiabuxiabu (China) Food Co., Limited (呷哺呷哺(中國)食品有限公司) (the "**JV Subsidiary**"), to engage in the research, development, production and sale of soup bases, dipping sauces, seasoning sauces and products and various compound condiments, and products with gift-wrapping and limited editions (the "**Condiment Products**") which target mid- to high-end customers. Pursuant to the JV Agreement, the Company shall enter into a licensing agreement with the JV Subsidiary, pursuant to which the Company shall grant to the JV Subsidiary an exclusive and non-transferable right and license to use certain trademarks owned by the Company in connection with the production and sale of Condiment Products. Details of the licensing arrangement, including but not limited to the trademarks of the Company subject to the license and the royalty payable by the JV Subsidiary, are still to be determined as of the date of this annual report. It is currently expected that the licensing agreement with the JV Subsidiary will be entered in early 2019.

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

By order of the Board
Ho Kuang-Chi
Chairman

Hong Kong, 21 March 2018

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2017, the Company has complied with the applicable code provisions of the Code as set out in Appendix 14 to the Listing Rules.

BOARD OF DIRECTORS

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

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

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

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

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

Each of the executive Directors has entered into a service contract with the Company on 28 November 2014, which was renewed in 2017 for a further term of three years. The Company has issued letters of appointment to each of the non-executive Directors, namely Ms. Chen Su-Yin on 28 November 2014 which was renewed in 2017 for a further term of three years, and Mr. Zhang Chi on 22 August 2017, respectively, and also to the independent non-executive Directors on 28 November 2014, which were renewed in 2017 for a further term of three years. The principal particulars of these service contracts and letters of appointment are (a) for a term of three years commencing from 28 November 2017 for all Directors except Mr. Zhang Chi's term of appointment is three years commencing from 23 August 2017 and (b) subject to termination in accordance with their respective terms. The term of the service contracts and the letters of appointment may be renewed in accordance with the articles of association of the Company and the applicable Listing Rules.

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowances and other benefits in kind) payable to the Directors for the year ended 31 December 2017 was approximately RMB10.0 million.

The remuneration of the Directors is determined with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of the Group. Details of the remuneration of the Directors for 2017 are set out in Note 11 to the consolidated financial statements. In addition, pursuant to code provision B.1.5 of the Code, the annual remuneration of members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration band	Number of senior management member
HKD1,000,001 to HKD1,500,000	1
HKD2,000,001 to HKD2,500,000	1
HKD4,500,001 to HKD5,000,000	1

During the year ended 31 December 2017, the Company has three independent non-executive Directors, which meets the requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board and should not be less than three.

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

Directors have access to the services of the company secretary to ensure that the Board procedures are followed. The company secretary of the Company is Ms. Ng Sau Mei. Ms. Ng Sau Mei is a senior manager of TMF Hong Kong Limited, and is responsible for provision of corporate secretarial and compliance services to listed company clients. Her primary corporate contact person at the Company is Ms. Zhao Yi, the Chief Financial Officer of the Company. In compliance with Rule 3.29 of the Listing Rules, Ms. Ng Sau Mei has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2017.

Each of the Directors attended various trainings in 2017, including the trainings for the reporting procedures and disclosure obligations regarding notifiable and connected transactions under the Listing Rules, for the disclosure of interests obligations under the SFO, for the Director's duties and responsibilities and continuous obligations and for the Model Code, etc. The Company will continue to arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

During the year ended 31 December 2017, the Board held four meetings to discuss and approve, among others, the overall strategies and policies of the Company, as well as to review and approve the Company's 2016 annual report, 2016 annual results announcement, 2017 interim report, 2017 interim results announcement and the payment of interim dividend.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2017.

Director	Number of Board meetings requiring attendance	Number of Board meetings attended
Mr. Ho Kuang-Chi	4	4
Ms. Yang Shuling	4	4
Ms. Chen Su-Yin	4	4
Mr. Zhang Chi (appointed with effect from 23 August 2017) (1)	2	2
Ms. Chang Le (appointed as an alternate Director to Mr. Zhang Chi with effect from 23 August 2017)	–	–
Mr. Wei Ke (resigned with effect from 23 August 2017) (1)	2	2
Ms. Hsieh Lily Hui-yun	4	4
Mr. Hon Ping Cho Terence	4	4
Ms. Cheung Sze Man	4	4

Note:

(1) During the year ended 31 December 2017, there were two meetings of the Board held before the resignation of Mr. Wei Ke as a non-executive Director and there were two meetings of the Board held after the appointment of Mr. Zhang Chi (and Ms. Chang Le as Mr. Zhang Chi's alternate) as a non-executive Director.

In 2017, the Company convened and held one general meeting, being the 2016 annual general meeting held on 26 May 2017. All the then Directors attended the 2016 annual general meeting.

CORPORATE GOVERNANCE FUNCTIONS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

During the year ended 31 December 2017, the Audit Committee held two meetings to consider the Company's 2016 annual report, 2016 annual results announcement, 2017 interim report, 2017 interim results announcement and the report on audit plan for the year of 2017 by Deloitte Touche Tohmatsu, the external auditor of the Company. The Audit Committee also assessed the risk management and internal control measures of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2017.

Director	Number of meetings requiring attendance	Number of meetings attended
Ms. Hsieh Lily Hui-yun	2	2
Mr. Hon Ping Cho Terence	2	2
Mr. Zhang Chi (appointed with effect from 23 August 2017) (1)	1	1
Mr. Wei Ke (resigned with effect from 23 August 2017) (1)	1	1

Note:

(1) During the year ended 31 December 2017, there was one meeting of the Audit Committee held before the resignation of Mr. Wei Ke as a member of the Audit Committee and there was one meeting of the Audit Committee held after the appointment of Mr. Zhang Chi as a member of the Audit Committee.

NOMINATION COMMITTEE

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

During the year ended 31 December 2017, the Nomination Committee held two meetings to review the Board structure, the board diversity policy, the independence of the independent non-executive Directors and to review and recommend for the Board's approval on the appointment of non-executive Director and alternate Director as well as the re-election of the retiring Directors.

The table below sets out the details of meeting attendance of each member of the Nomination Committee during the year ended 31 December 2017.

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

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

REMUNERATION COMMITTEE

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

During the year ended 31 December 2017, the Remuneration Committee held two meetings to review the remuneration of the Directors (including those newly appointed during the year) and senior management as well as the policy and structure of the remuneration for the Directors and senior management and to consider the grant of RSUs to two executive Directors and to key employees and recommended to the Board for approval.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2017.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2017.

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

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

During the year ended 31 December 2017, the Company has strictly implemented the above internal control policies and measures relating to restaurants opening and their operations, and had strictly complied with and fulfilled the relevant undertakings provided by the Company with respect to the opening of new restaurants as more particularly described in the section headed "Business – Licenses, Regulatory Approvals and Compliance Record – Fire Safety – Rectification Measures" in the Prospectus. In particular, the Group has obtained all the relevant material official licenses and permits prior to the opening of restaurants.

EXTERNAL AUDITOR

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

For the year ended 31 December 2017, the fees paid/payable to Deloitte Touche Tohmatsu for the audit of the financial statements of the Group were RMB2.6 million.

Fees paid/payable to Deloitte Touche Tohmatsu for non-audit services provided to the Group in the year were RMB0.6 million. The non-audit services conducted include consultancy on tax issues of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditor about its reporting responsibilities on the financial statements is set out on pages 57 to 61 of this annual report. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

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

Procedures to identify, evaluate and manage significant risks

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

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

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

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

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

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

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

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

During the year ended 31 December 2017, the Board has reviewed the effectiveness of the internal control and risk management systems of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions, as well as the effectiveness of the internal audit functions of the Company. The review was made by discussions with the management of the Company, its external and internal auditors and the assessment conducted by the Audit Committee. The Board believes that the existing risk management and internal control systems are adequate and effective, in particular, for financial reporting and Listing Rules compliance.

SHAREHOLDERS

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

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

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

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017 and up to the date of this annual report, there has been no change to the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company (www.xiabu.com) and that of the Stock Exchange.

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 62 to 123, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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.

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

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

Key audit matter	How our audit addressed the key audit matter
Impairment of leasehold improvements	
We identified the impairment of leasehold improvements as a key audit matter due to the significance of the balance on the consolidated statement of financial position as at 31 December 2017 and the significant management estimation involved in determining the recoverable amounts of leasehold improvements. The Group recorded leasehold improvements of RMB503,126,000 as at 31 December 2017, and impairment loss amounting to RMB7,738,000 is recognised for the year ended 31 December 2017. As disclosed in Note 4 to the consolidated financial statements, that management determined whether leasehold improvements are impaired requires an estimation of the recoverable amount of individual assets or the cash generating units to which the assets belongs using a value in use calculation. Management's estimation is primarily based on the cash flow projections and the discount rate.	Our procedures in relation to impairment of leasehold improvements included: • Testing the internal controls over impairment assessment of leasehold improvements; • Evaluating the appropriateness of the valuation methodology and assumption of discount rate used in determining the recoverable amount; • Evaluating the appropriateness of other key assumptions and inputs, including the growth rate of revenue and major costs (include raw materials and consumables used, staff costs and property rental) to revenue ratio by comparing to historical performance and relevant operation plans.

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

OTHER INFORMATION

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

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

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

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		For the year ended 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
Revenue	5	**3,663,993**	2,758,137
Other income	6	**39,825**	31,496
Raw materials and consumables used		**(1,365,240)**	(979,258)
Staff costs		**(833,366)**	(651,956)
Property rentals and related expenses		**(441,242)**	(356,971)
Utilities expenses		**(131,559)**	(108,951)
Depreciation and amortisation		**(151,325)**	(113,968)
Other expenses		**(238,817)**	(146,947)
Other gains and losses	7	**518**	41,540
Profit before tax	8	**542,787**	473,122
Income tax expense	9	**(122,617)**	(105,094)
Profit for the year attributable to owners of the Company		**420,170**	368,028
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale (AFS) investments during the year, net of tax		**1,230**	(1,232)
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment		**(67)**	–
Profit and total comprehensive income for the year attributable to owners of the Company		**421,333**	366,796
Earnings per share			
– basic (RMB cents per share)	10	**39.33**	34.71
– diluted (RMB cents per share)	10	**38.76**	34.48

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
Non-current assets			
Property, plant and equipment	13	**599,053**	398,700
Intangible assets		**1,119**	1,241
Lease prepayments for land use right	14	**48,538**	22,476
Available-for-sale investment	15	**–**	35,071
Deferred tax assets	16	**129,926**	78,704
Rental deposits	17	**86,460**	58,655
		865,096	594,847
Current assets			
Inventories	18	**326,783**	124,515
Trade and other receivables and prepayments	19	**168,052**	96,347
Available-for-sale investment	15	**32,765**	17,687
Bank balances and cash	20	**1,452,896**	1,479,208
		1,980,496	1,717,757
Current liabilities			
Trade payables	21	**269,163**	167,360
Accrual and other payables	22	**468,625**	341,600
Tax payables		**100,547**	70,371
Deferred income	23	**8,439**	1,320
		846,774	580,651
Net current assets		**1,133,722**	1,137,106
Total assets less current liabilities		**1,998,818**	1,731,953

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	As at 31 December 2017 RMB'000	2016 RMB'000
Non-current liability			
Deferred income	23	**13,287**	15,645
Net assets		**1,985,531**	1,716,308
Capital and reserves			
Share capital	24	**173**	172
Reserves		**1,985,358**	1,716,136
Total equity		**1,985,531**	1,716,308

The consolidated financial statements on pages 62 to 123 were approved and authorized for issue by the board of Directors on 21 March 2018 and are signed on its behalf by:

Mr. Ho Kuang-Chi	**Ms. Yang Shuling**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share Capital RMB'000	Share premium RMB'000	Equity-settled share-based payments reserve RMB'000	Statutory surplus reserve RMB'000 (Note i)	Treasury share reserve RMB'000	Investments revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	172	1,005,193	17,741	29,078	–	–	428,299	1,480,483
Profit for the year	–	–	–	–	–	–	368,028	368,028
Other comprehensive expense for the year	–	–	–	–	–	(1,232)	–	(1,232)
Profit and total comprehensive (expense) income for the year	–	–	–	–	–	(1,232)	368,028	366,796
Recognition of equity-settled share-based payments	–	–	4,439	–	–	–	–	4,439
Effect of forfeited share option before vesting	–	–	(3,216)	–	–	–	3,216	–
Exercise of issued share option	–	3,916	(1,095)	–	–	–	–	2,821
Payments of dividends (Note 12)	–	–	–	–	–	–	(113,675)	(113,675)
Appropriation of statutory surplus reserve	–	–	–	13	–	–	(13)	–
Purchase of treasury share under restricted share unit scheme (Note ii)	–	–	–	–	(24,556)	–	–	(24,556)
Balance at 31 December 2016	**172**	**1,009,109**	**17,869**	**29,091**	**(24,556)**	**(1,232)**	**685,855**	**1,716,308**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**420,170**	**420,170**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,230**	**–**	**1,230**
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment	**–**	**–**	**–**	**–**	**–**	**(67)**	**–**	**(67)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,163**	**420,170**	**421,333**
Recognition of equity-settled share-based payments	**–**	**–**	**11,612**	**–**	**–**	**–**	**–**	**11,612**
Effect of forfeited share option before vesting	**–**	**–**	**(1,465)**	**–**	**–**	**–**	**1,465**	**–**
Exercise of issued share option	**1**	**17,782**	**(5,450)**	**–**	**–**	**–**	**–**	**12,333**
Payments of dividends (Note 12)	**–**	**(166,864)**	**–**	**–**	**–**	**–**	**–**	**(166,864)**
Purchase of treasury share under restricted share unit scheme (Note ii)	**–**	**–**	**–**	**–**	**(9,191)**	**–**	**–**	**(9,191)**
Balance at 31 December 2017	**173**	**860,027**	**22,566**	**29,091**	**(33,747)**	**(69)**	**1,107,490**	**1,985,531**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Notes:

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

(ii) During the year ended 31 December 2017, the Company acquired its existing shares of 1,498,000 (2016:7,954,500) from the market with consideration of HK$10,540,000 (equivalent to approximately RMB9,191,000, 2016: HK$28,780,000, equivalent to approximately RMB24,556,000) for the restricted share unit scheme (the "RSU Scheme") approved on 28 November 2014 by the board of directors of the Company. Further details are disclosed in Note 25.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before tax	**542,787**	473,122
Adjustments for:		
Depreciation of property, plant and equipment	**150,025**	112,724
Impairment loss recognised in respect of leasehold impairment	**7,738**	6,694
Release of lease prepayments for land use right	**534**	534
Amortisation of intangible assets	**766**	710
Recognition of equity-settled share-based payments	**11,612**	4,439
Interest income	**(11,621)**	(15,537)
Gains from interests income of AFS investments	**(2,255)**	(2,382)
Gain from changes in fair value of financial assets at fair value through profit or loss	**(38,217)**	(22,546)
Investment income from reversing of investment revaluation reserve	**(67)**	–
Government grant released from deferred income	**(3,813)**	(910)
Foreign exchange loss (gain), net	**26,356**	(27,735)
Reversal of impairment loss recognised on rental deposit	**(451)**	(898)
Loss on disposal of property, plant and equipment, net	**644**	2,998
Impairment loss recognised on rental deposit	**1,596**	783
Operating cash flows before movements in working capital	**685,634**	531,996
Movements in working capital		
Increase in inventories	**(202,268)**	(20,646)
(Increase) decrease in trade receivables	**(1,966)**	7,519
Increase in other receivables	**(79,552)**	(36,380)
Increase in rental deposits	**(28,616)**	(11,558)
Decrease in provisions for the probable losses of the pending lawsuits	**–**	(1,106)
Increase in trade payables	**101,803**	18,375
Increase in accrual and other payables	**58,484**	9,941
Increase (decrease) in deferred income	**5,524**	(3,018)
Cash generated from operations	**539,043**	495,123
Income taxes paid	**(143,663)**	(100,079)
Net cash generated from operating activities	**395,380**	395,044

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cash flows from investing activities		
Interests income received	**15,208**	16,461
Purchase of financial assets at fair value through profit or loss	**(3,788,800)**	(4,779,400)
Proceeds from financial assets at fair value through profit or loss	**3,827,017**	4,801,946
Purchase of available-for-sale investments	**–**	(51,609)
Disposal of available-for-sale investment	**18,845**	–
Purchases of property, plant and equipment	**(290,362)**	(136,960)
Proceeds from disposal of property, plant and equipment	**143**	289
Purchase of intangible assets	**(755)**	(967)
Proceeds from disposal of intangible assets	**111**	–
Increase in lease prepayments for land use right	**(27,139)**	–
Government grant received on assets	**3,050**	–
Net cash used in investing activities	**(242,682)**	(150,240)
Cash flows from financing activities		
Dividend paid	**(166,864)**	(113,675)
Cash from exercise of share option	**12,333**	2,821
Payment for repurchase of ordinary shares	**–**	(24,556)
Amounts prepaid to the restricted share units (RSU) trustee for purchase of ordinary shares (Note 25)	**(167)**	(10,037)
Net cash used in financing activities	**(154,698)**	(145,447)
Net (decrease) increase in cash and cash equivalents	**(2,000)**	99,357
Cash and cash equivalents at the beginning of the year	**1,479,208**	1,354,497
Effect of foreign exchange rate changes, net	**(24,312)**	25,354
Cash and cash equivalents at the end of the year represented by bank balances and cash	**1,452,896**	1,479,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

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

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to IFRSs and Interpretations mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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

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

IFRS 9 Financial Instruments

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

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

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

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

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

IFRS 9 Financial Instruments *(continued)*

Classification and measurement:

Listed debt instruments classified as available-for-sale investments carried at fair value as disclosed in Note 15: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debentures are derecognised or reclassified (except in the case of reclassifications to the amortised cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date).

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables, other receivables, and rental deposits. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

In 2016, the International Accounting Standards Board ("IASB") issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

IFRS 16 Leases

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

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

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

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

IFRS 16 Leases *(continued)*

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

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB2,002,396,000 as disclosed in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB86,460,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payment under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustment are considered as additional lease payment. Adjustments to refundable rental deposits paid would be include in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on HKEX ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

(i) has power over the investee;

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

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

The 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 listed above.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Restaurant operations and provision of catering services

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

Sales of goods that result in award credits or coupon for customers for next sales transaction, under the Group's customer loyalty scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credit or coupon granted. The consideration allocated to the award credits or coupon is measured by reference to the fair value of the awards or coupon for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction-but is deferred and recognised as revenue when the award credits or coupon are redeemed and the Group's obligations have been discharged or expired.

Revenue from promotion service and delivery service for takeout orders are recognised when these services are provided.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

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

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

Government grants

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options and restricted share units granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 25 to the Group's consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (equity-settled share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instrument expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled share-based payments reserve.

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

Leasing

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

The Group as lessee

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

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as operating lease.

The lease payments for leasehold land that is accounted for as an operating lease is presented as "lease prepayments for land use right" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

Trademark	10 years
Software	3 years

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

Derecognition of intangible assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of tangible and intangible assets

At the end of the year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

Taxation

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

Current tax

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

Deferred tax

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

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

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 profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date/settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method

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

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

Loans and receivables

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

Financial assets at FVTPL

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

AFS financial assets

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

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

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

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

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

(iii) it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or

(iv) disappearance of an active market for that financial asset because of financial difficulties.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets *(continued)*

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity instruments *(continued)*

Derecognition

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in entity is recognised in profit or loss.

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

Treasury shares

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty *(continued)*

Impairment of leasehold improvements

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

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

As at 31 December 2017, the carrying amounts of leasehold improvements are approximate RMB503,126,000. Details are disclosed in Note 13.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable temporary difference and taxable profit will be available. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the timing and level of future taxable profits together with future tax planning strategies. Where the expectation is different from the original estimates, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimates are changed. As at 31 December 2017, deferred tax assets recognised are approximately RMB129,926,000 (2016: RMB78,704,000), in which RMB111,767,000 (31 December 2016: RMB72,122,000) is from deductible temporary difference of royalty expense (details reference to Note 9) and no deferred tax asset has been recognised on the tax losses of RMB49,903,000 (2016: RMB70,655,000) due to the unpredictability of future profit streams. Further details are contained in Note 16.

5. REVENUE AND SEGMENT INFORMATION

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Restaurant operations	**3,599,065**	2,758,137
Sales of the condiment products	**34,040**	–
Sales of other goods	**30,888**	–
	3,663,993	2,758,137

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

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

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

6. OTHER INCOME

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest income on:		
– bank deposits	**11,621**	15,537
– AFS investments	**2,255**	2,382
	13,876	17,919
Promotion service income	**1,873**	1,067
Government grant		
– subsidy received (note)	**2,536**	4,394
– release from deferred income (Note 23)	**3,813**	910
	6,349	5,304
Delivery income for takeout orders	**12,737**	4,270
Others	**4,990**	2,936
	39,825	31,496

Note:

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

7. OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment, net	**(644)**	(2,998)
Foreign exchange (loss) gain, net	**(26,749)**	29,116
Reversal of previously accumulated investment revaluation reserve on disposal of AFS	**67**	–
Loss on closure of restaurants	**(1,490)**	(545)
Reversal of impairment loss recognised on rental deposit	**451**	898
Impairment loss recognised on rental deposit	**(1,596)**	(783)
Impairment loss recognised in respect of leasehold improvement	**(7,738)**	(6,694)
Gains from changes in fair value of financial assets at FVTPL	**38,217**	22,546
	518	41,540

8. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**150,025**	112,724
Amortisation of intangible assets	**766**	710
Release of lease prepayments for land use right	**534**	534
Total depreciation and amortisation	**151,325**	113,968
Operating lease rentals in respect of		
– rented premises (minimum lease payments)	**14,116**	9,671
– restaurants		
– minimum lease payments	**364,806**	318,200
– contingent rent (Note)	**62,320**	29,100
	427,126	347,300
Total property rentals and related expenses	**441,242**	356,971
Directors' emoluments (Note 11)	**9,968**	6,267
Other staff cost		
Salaries and other allowance	**759,670**	597,083
Equity-settled share-based payments	**5,644**	2,173
Retirement benefit contribution	**58,084**	46,433
Total staff costs	**833,366**	651,956
Auditor's remuneration	**2,620**	2,880

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

9. INCOME TAX EXPENSE

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Enterprise income tax ("EIT")		
Current tax in the PRC	**158,496**	120,465
Withholding EIT-current year	**15,343**	12,393
Under provision in prior years	**–**	3,211
Deferred tax (Note 16)	**(51,222)**	(30,975)
Total income tax recognised in profit or loss	**122,617**	105,094

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

The Company's subsidiary, Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. ("Xiabu Hong Kong"), incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% on estimated assessable profit and no taxable profit derived from Xiabu Hong Kong for the years ended 31 December 2017 and 2016. Under the Law of the PRC on Enterprise Income Tax ("EIT Law") effective from 1 January 2008 and Implementation Regulation of the EIT Law, the statutory EIT rate of PRC subsidiaries of the Company is 25%.

Further, in the PRC, withholding income tax of 10% is generally imposed on assessable profits earned by foreign entities from the PRC. With respect to the trademark license agreement entered into between Xiabu Hong Kong and the PRC subsidiary in 2008, Xiabu Hong Kong has recognised taxable royalty income with reference to a predetermined percentage over the revenue earned by the PRC subsidiary and accordingly the royalty income is subjected to the withholding tax of 10% in the PRC.

In the years of 2008 to 2014, the PRC subsidiary with endorsement of respective PRC tax bureau made royalty payments to Xiabu Hong Kong according to the trademark license agreement and such payments made were recognised as deductible tax expenses of the PRC subsidiary for each of the relevant year. The payment of royalty to Xiabu Hong Kong has been suspended from year 2015 as the endorsement of respective PRC tax bureau is pending. Deferred tax assets have therefore been recognised for the tax deductible royalty expenses according to the trademark license agreement and the prevailing PRC tax regulations as in previous years. As at 31 December 2017, the PRC subsidiary has recorded an accrual of accumulated royalty expenses of RMB447,067,000 (31 December 2016: RMB288,488,000) for payments yet to be made. The Group has been in the process of getting the consent and endorsement from respective PRC tax bureau for making the payments out of the PRC subsidiary and settling the withholding tax according to the prevailing tax regulations in the PRC. In the opinion of the Director, the Group would get the endorsement from authorities for finishing the process of remitting the payments in a foreseeable future. Accordingly a deferred tax asset of totalling RMB111,767,000 has been recognised in the consolidated financial statements as at 31 December 2017 (31 December 2016: RMB72,122,000).

9. INCOME TAX EXPENSE *(CONTINUED)*

Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the accumulated undistributed profits of the PRC subsidiary amounting to RMB1,063 million as at 31 December 2017 (2016: RMB726 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before tax	**542,787**	473,122
Tax calculated at applicable domestic tax rates at 25%	**135,697**	118,281
Tax effect of different tax rate on intra-group royalty income and interest income subject to withholding tax	**(23,015)**	(18,589)
Effect of different tax rates of company operating in other jurisdictions	**9,714**	(4,297)
Tax effect of expenses not deductible for tax purposes	**7,121**	6,955
Tax effect of tax losses and deductible temporary differences not recognised	**10,330**	3,627
Utilisation of tax losses	**(8,319)**	(4,094)
Recognition of tax losses and deductible temporary differences previously not recognised	**(8,911)**	–
Under provision in respect of prior year	**–**	3,211
Income tax expense	**122,617**	105,094

10. EARNINGS PER SHARE

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Earnings for the purposes of calculating basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**420,170**	368,028

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

	For the year ended 31 December	
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,068,366**	1,060,147
Effect of dilutive potential ordinary shares	**15,534**	7,216
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,083,900**	1,067,363

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID EMPLOYEES

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

	For the year ended 31 December 2017					
	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefits scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Mr. Ho Kuang-Chi (賀光啓先生)	952	–	–	–	1,320	2,272
Ms. Yang Shuling (楊淑玲女士) (Note i)	208	1,800	–	–	4,648	6,656
Sub-total	1,160	1,800	–	–	5,968	8,928
Non-executive directors:						
Ms. Chen Su-Yin (陳素英女士)	208	–	–	–	–	208
Mr. Zhang Chi (張弛先生) (Note ii)	69	–	–	–	–	69
Mr. Wei Ke (魏可先生) (Note ii)	139	–	–	–	–	139
Sub-total	416	–	–	–	–	416
Independent non-executive directors:						
Ms. Hsieh Lily Hui-yun (謝慧雲女士)	208	–	–	–	–	208
Mr. Hon Ping Cho Terence (韓炳祖先生)	208	–	–	–	–	208
Ms. Cheung Sze Man (張詩敏女士)	208	–	–	–	–	208
Sub-total	624	–	–	–	–	624
Total						9,968

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

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

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

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

11. EMOLUMENTS OF DIRECTORS AND CHIEF EXECUTIVE AND FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

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

Note:

(i) Ms. Yang Shuling is also the chief executive officer of the Group and her emoluments disclosed above include those for services rendered by her as the chief executive officer.

(ii) Mr. Wei Ke has resigned as a non-executive director of the Company, a member of the Audit Committee and also from all other positions with the Company and its subsidiaries on 23 August 2017.

Mr. Zhang Chi has been appointed as a non-executive director of the Company and a member of the Audit Committee on 23 August 2017.

Of the five employees with the highest emoluments in the Group, two were the directors of the Company for the years ended 31 December 2017 (2016: one), whose emoluments are included in the disclosures above. The emoluments of the remaining three (2016: four) individuals for the year were as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and allowances	**3,507**	4,492
Equity-settled share-based payments	**3,435**	701
Contributions to retirement benefits scheme	**53**	57
	6,995	5,250

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

	For the year ended 31 December	
	2017	2016
HKD1,000,001 to HKD1,500,000	**1**	3
HKD2,000,001 to HKD2,500,000	**1**	1
HKD4,500,001 to HKD5,000,000	**1**	–
Total	**3**	4

During the years ended 31 December 2017 and 2016, no Directors waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the Directors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Dividends recognised as distributions during the year	**166,864**	113,675

On 28 March 2017, the Company declared a dividend of RMB0.086 per share with total dividends of RMB91,582,000 to shareholders for the year ended 31 December 2016. The dividend was paid in June 2017.

On 22 August 2017, the Company declared a dividend of RMB0.070 per share with total dividends of RMB75,282,000 to shareholders for the six months ended 30 June 2017. The dividend was paid in October 2017.

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

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

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of RMB0.087 per share, amounting to approximately RMB92,786,000 to be paid out of the Company's share premium amount, which is subject to the approval by the shareholders at the forthcoming general meeting, to be held on 25 May 2018. The 2017 final dividend will be declared in RMB and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited as its middle rate of exchange prevailing on 4 June 2018. The dividend has not been included as a liability in these consolidated financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machineries RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2016	45,902	592,494	8,767	4,716	75,587	4,933	732,399
Additions	–	–	336	1,940	16,341	169,079	187,696
Transfer	–	161,160	–	–	–	(161,160)	–
Disposals	–	–	–	(940)	(11,399)	–	(12,339)
At 31 December 2016	45,902	753,654	9,103	5,716	80,529	12,852	907,756
Additions	–	–	3,447	483	22,683	332,290	358,903
Transfer	–	328,543	–	–	–	(328,543)	–
Disposals	–	(1,895)	(47)	(550)	(5,434)	–	(7,926)
At 31 December 2017	**45,902**	**1,080,302**	**12,503**	**5,649**	**97,778**	**16,599**	**1,258,733**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	**10,165**	**332,916**	**4,049**	**4,027**	**47,533**	**–**	**398,690**
Charge for the year	**2,273**	**98,241**	**827**	**313**	**11,070**	**–**	**112,724**
Eliminated on disposals	**–**	**–**	**–**	**(893)**	**(8,159)**	**–**	**(9,052)**
Impairment loss recognised in profit or loss	**–**	**6,694**	**–**	**–**	**–**	**–**	**6,694**
At 31 December 2016	**12,438**	**437,851**	**4,876**	**3,447**	**50,444**	**–**	**509,056**
Charge for the year	**2,273**	**133,482**	**868**	**671**	**12,731**	**–**	**150,025**
Eliminated on disposals	**–**	**(790)**	**(1)**	**(501)**	**(4,742)**	**–**	**(6,034)**
Eliminated impairment recognised before	**–**	**(1,105)**	**–**	**–**	**–**	**–**	**(1,105)**
Impairment loss recognised in profit or loss	**–**	**7,738**	**–**	**–**	**–**	**–**	**7,738**
At 31 December 2017	**14,711**	**577,176**	**5,743**	**3,617**	**58,433**	**–**	**659,680**
CARRYING AMOUNT							
At 31 December 2017	**31,191**	**503,126**	**6,760**	**2,032**	**39,345**	**16,599**	**599,053**
At 31 December 2016	**33,464**	**315,803**	**4,227**	**2,269**	**30,085**	**12,852**	**398,700**

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

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

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

As at 31 December 2017, in view of the unfavourable future prospects of some restaurants, there was indication that the related leasehold improvement may suffer an impairment loss. The management of the Group has conducted impairment testing. The discount rate in measuring the amount of value in use was 17.05% (2016: 18.91%) in relation to leasehold improvement.

After the assessment, the recoverable amount is calculated based on value in use, and the impairment of RMB7,738,000 was recognised during the year 2017.

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

14. LEASE PREPAYMENTS FOR LAND USE RIGHT

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cost:		
At beginning of the year	**26,704**	26,704
Additions	**27,139**	–
At the end of the year	**53,843**	26,704
Accumulated amortisation:		
At beginning of the year	**3,694**	3,160
Charge for the year	**534**	534
At the end of the year	**4,228**	3,694
Carrying amount at the end of the year	**49,615**	23,010

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

Analysed for reporting purposes as:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current portion included in trade and other receivables (Note 19)	**1,077**	534
Non-current portion	**48,538**	22,476
	49,615	23,010

15. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Listed investments:		
Debt instruments listed in HKEX (Note)	**32,765**	52,758

Analysed for reporting purposes as:

Current	**32,765**	17,687
Non-current	**–**	35,071
	32,765	52,758

Note:

Listed debenture comprise:

(i) Principal amount of RMB35,700,000 with fixed interest rate of 5.5% per annum, which is measured at fair value, will be matured on 5 June 2018.

(ii) Principal amount of RMB18,290,000 with fixed interest rate of 6.375% per annum, has been matured in September 2017, and investments revaluation reserve recognised before, amounting to RMB67,000 has been recognised as gains upon the derecognition.

16. DEFERRED TAX ASSETS

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

	Tax losses RMB'000	Deferred income RMB'000	Allowance for doubtful debts RMB'000	Impairment of leasehold improvement RMB'000	Accrued expense not paid RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	–	5,098	669	–	41,938	24	47,729
Credit (charge) to profit or loss	–	(887)	(625)	484	32,003	–	30,975
At 31 December 2016	–	4,211	44	484	73,941	24	78,704
Credit to profit or loss	7,107	1,129	373	2,848	39,765	–	51,222
At 31 December 2017	7,107	5,340	417	3,332	113,706	24	129,926

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

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Unrecognised tax losses	**49,903**	70,655
Deductible temporary differences		
Accrued expenses	**–**	1,656
Deferred income	**367**	120
Impairment loss on rental deposit	**–**	681
Impairment of leasehold improvement	**–**	4,758
	50,270	77,870

16. DEFERRED TAX ASSETS *(CONTINUED)*

The unrecognised tax losses will be expired as follow:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
2017	**–**	16,734
2018	**–**	27,176
2020	**–**	17,793
2021	**8,952**	8,952
2022	**40,951**	–
	49,903	70,655

At the end of the reporting period, the Group has unused tax losses of RMB78,331,000 (31 December 2016: RMB70,655,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB28,428,000 (31 December 2016: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB49,903,000 (31 December 2016: RMB70,655,000) due to the unpredictability of future profit streams.

17. RENTAL DEPOSITS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Rental deposits	**88,128**	59,512
Less: allowance for doubtful debts	**(1,668)**	(857)
Net of rental deposits	**86,460**	58,655

17. RENTAL DEPOSITS *(CONTINUED)*

Movement in the allowance for doubtful debts:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**857**	1,083
Impairment losses recognised on refundable rental deposits	**1,596**	783
Impairment losses reversed	**(451)**	(898)
Amounts written off as uncollectible	**(334)**	(111)
At the end of the year	**1,668**	857

18. INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Food and beverage	**286,435**	98,141
Other materials	**23,164**	16,020
Consumables	**17,184**	10,354
	326,783	124,515

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**13,854**	11,888
Prepaid operating expenses	**44,071**	27,865
Prepayments to suppliers	**–**	3,727
Current portion of lease prepayments for land use right	**1,077**	534
Interest receivable	**7,341**	8,673
Amounts prepaid to the RSU trustee for purchase of ordinary shares (Note 25)	**1,013**	10,037
Prepayments for value-added tax	**85,588**	26,740
Other receivables	**15,108**	6,883
Total trade and other receivables and prepayments	**168,052**	96,347

The Group allows an average credit period of 1-60 days to its trade customers. The credit period provided to customers can vary based on a number of factors including nature of operations and the Group's relationship with the customer.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 60 days	**13,854**	11,888

Movement in the allowance for doubtful debts

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**–**	1,706
Amounts written off as uncollectible	**–**	(1,706)
At the end of the year	**–**	–

At the end of the reporting period, there are no trade receivables that have expired but not impaired.

20. BANK BALANCES AND CASH

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and bank balances denominated in:		
– RMB	**1,103,789**	1,039,062
– USD	**325,767**	326,866
– HKD	**23,340**	113,280
	1,452,896	1,479,208

Bank balances carried interest at prevailing market rates which range from 0.1% to 0.35% (2016: 0.01% to 0.35%) per annum as at 31 December 2017.

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

21. TRADE PAYABLES

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 60 days	**262,946**	163,559
61 to 180 days	**3,371**	964
181 days to 1 year	**1,928**	1,930
Over 1 year	**918**	907
	269,163	167,360

22. ACCRUAL AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Staff cost payable	**104,398**	102,045
Accrued operating expenses	**36,580**	39,590
Construction fee payables	**164,349**	95,808
Rental payables	**42,204**	31,446
Other PRC tax payables	**29,930**	19,509
Advance from customers	**10,371**	760
Deposits from suppliers	**33,042**	19,910
Others	**47,751**	32,532
	468,625	341,600

23. DEFERRED INCOME

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Customer loyalty programme (i)	**6,844**	1,320
Government grant (ii)	**14,882**	15,645
	21,726	16,965
Current	**8,439**	1,320
Non-current	**13,287**	15,645
	21,726	16,965

Notes:

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

(ii) The deferred income represents the subsidies granted by government in relation to acquisition or construction of non-current assets. During the year ended 31 December 2017, government subsidies of RMB3,050,000 were received. The deferred income is released over the useful lives of the relevant assets, the release of deferred income was RMB3,813,000 for the year ended 31 December 2017 (2016: RMB910,000).

24. SHARE CAPITAL

Issued and fully paid-up:

	As at 31 December	
	2017	2016
	USD'000	USD'000
Share capital of US$0.000025 each	**27**	27
	RMB'000	RMB'000
Presented as:		
Ordinary shares	**173**	172

	As at 31 December	
	2017	2016
	'000	'000
Number of shares:		
Fully paid ordinary shares	**1,072,459**	1,065,912

Ordinary shares

	Authorized shares		Issued capital	
	Number of shares '000	**Amount RMB'000**	**Number of shares '000**	**Amount RMB'000**
Balance at 31 December 2015	2,000,000	336	1,064,186	172
Exercise of issued share option	–	–	1,726	–
Balance at 31 December 2016	2,000,000	336	1,065,912	172
Exercise of issued share option	–	–	6,547	1
Balance at 31 December 2017	**2,000,000**	**336**	**1,072,459**	**173**

25. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

(1) Share Option Schemes

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

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

Share option tranche	Number of options granted	Grant date	Expiry date	Exercise price	Fair value at grant date	Vesting period
Share option tranche A	4,233,000	31/08/2009	31/08/2019	0.84	0.33	25% for each of 4 years after 12 months from the date of qualified IPO
Share option tranche B	11,795,228	17/05/2011	17/05/2021	1.79	0.90	25% for each of 4 years after 12 months from the date of qualified IPO
Share option tranche C	9,670,361	24/12/2012	24/12/2022	1.84	1.10	25% for each of 4 years after 12 months from the date of qualified IPO
Share option tranche D Schedule I	3,207,461	21/03/2014	21/03/2024	2.78	1.19	25% for each of 4 years after 24 months from the date of qualified IPO
Schedule II	5,717,140	21/03/2014	21/03/2024	2.78	1.22	25% for each of 4 years after 36 months from the date of qualified IPO
Schedule III	6,664,542	21/03/2014	21/03/2024	2.78	1.24	25% for each of 4 years after 48 months from the date of qualified IPO

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

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

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

(1) Share Option Schemes *(continued)*

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

	The year ended 31 December							
	2017				2016			
Share option tranches	**Tranche A**	**Tranche B**	**Tranche C**	**Tranche D**	Tranche A	Tranche B	Tranche C	Tranche D
Share options granted to								
Director	**700,000**	**1,782,400**	**2,297,498**	**3,240,710**	1,050,000	3,564,800	4,594,994	3,437,973
Other key management personnel	**–**	**–**	**–**	**1,931,629**	–	–	–	2,006,629
Other staff	**444,500**	**752,512**	**979,353**	**2,263,440**	987,250	1,673,996	2,112,561	3,247,421
Outstanding as at the end of the year	**1,144,500**	**2,534,912**	**3,276,851**	**7,435,779**	2,037,250	5,238,796	6,707,555	8,692,023

(iii) The movement of share options

	The year ended 31 December			
	2017		2016	
Share options	**Number of options**	**Weighted average exercise price RMB**	Number of options	Weighted average exercise price RMB
Balance at beginning of the year	**22,675,624**	**2.10**	30,793,620	2.18
Forfeited during the year	**(1,735,860)**	**2.13**	(6,392,228)	2.62
Exercised during the year	**(6,547,722)**	**1.88**	(1,725,768)	1.60
Balance at end of the year	**14,392,042**	**2.20**	22,675,624	2.10
Exercisable at end of the year	**4,698,722**		6,637,561	

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

(1) Share Option Schemes *(continued)*

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

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

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

At the end of each year, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimate, if any, is recognised in profit or loss, with a corresponding adjustment to the equity-settled share-based payments reserve.

The Group recognised the total expense of RMB2,105,000 for the year ended 31 December 2017 (2016: RMB3,810,000) in relation to share options granted by the Company.

(2) Restricted Share Unit Scheme

On 28 November 2014, a RSU Scheme of the Company was approved and adopted by the shareholders of the Company. The RSU Scheme will be valid and effective for a period of ten years, commencing from the date, on which the shares of the Company are first listed on the main board of HKEX ("Listing Date"), being 17 December 2014 (unless it is terminated earlier in accordance with its terms) (the "RSU Scheme Period").

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

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

(2) Restricted Share Unit Scheme *(continued)*

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

i. Purchase of treasury share under the RSU Scheme

During the year ended 31 December 2017, the RSU Trustee has purchased an aggregate of 1,498,000 shares (2016: 7,954,500 shares) with consideration of HK$10,540,000, equivalent to approximately RMB9,191,000 (2016: HK$28,780,000, equivalent to approximately RMB24,556,000) from the market. The shares will be held on trust for the benefit of the RSU participants pursuant to the RSU Scheme and the trust deed. The shares so purchased will be used as awards for relevant participants in the RSU Scheme (the "RSU Participants")

During the year ended 31 December 2017, the Company purchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	HK$'000
January	118,000	4.90	4.90	580
June	1,380,000	7.20	7.19	9,960

As at 31 December 2017, amounts about RMB1,013,000 (31 December 2016: RMB10,037,000) were held by the RSU Trustee to purchase ordinary shares from the market in the forthcoming period according to the instruction of the Company.

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

(2) Restricted Share Unit Scheme *(continued)*

ii. Details of granted RSUs

RSUs tranche	Number of options granted	Grant date	Expiry date	Fair value at grant date HKD	Vesting period
RSUs tranche A	2,910,920	17/11/2016	17/11/2026	4.83	25% for each of 4 years after 01/04/2018
RSUs tranche B	3,993,190	08/05/2017	08/05/2027	6.99	25% for each of 4 years after 01/04/2019

The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs. The RSUs shall be exercisable over a period of ten years commencing from the date on which the RSUs are granted.

The following table discloses the movement of the Company's RSU granted to the selected participants for the year ended 31 December 2017 and outstanding at 31 December 2017:

		Number of Awarded Shares		
RSU tranches	**Outstanding at 1 January 2017**	**Granted during the year**	**Forfeited during the year**	**Outstanding at 31 December 2017**
RSUs granted to				
Director	1,273,859	1,971,934	–	3,245,793
Other key management personnel	741,164	654,075	–	1,395,239
Other staff	895,897	1,367,181	(661,386)	1,601,692
Total	2,910,920	3,993,190	(661,386)	6,242,724

At the end of each year, the Group revises its estimates of the number of RSUs that are expected to vest ultimately. The impact of the revision of the estimate, if any, is recognised in profit or loss, with a corresponding adjustment to the equity-settled share-based payments reserve.

The Group recognised the total expense of RMB9,507,000 for the year ended 31 December 2017 (2016: RMB629,000) in relation to RSUs granted by the Company this year.

26. OPERATING LEASES

The Group as lessee

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Minimum lease payments under operating leases:		
Within one year	**444,069**	338,425
In the second to fifth year	**1,283,472**	917,075
After five years	**274,855**	202,889
	2,002,396	1,458,389

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

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

27. CAPITAL COMMITMENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**1,363**	5,191

28. RETIREMENT BENEFITS SCHEME CONTRIBUTIONS

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year ended 31 December 2017 amounted to RMB58,084,000 (2016: RMB46,433,000).

29. RELATED PARTY TRANSACTIONS

(a) Name and relationship

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

(b) Related party transactions

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Expense on property leasing	**1,260**	1,380

At 31 December 2017, the commitment for future minimum lease payments under non-cancellable operating lease with Xiabu Fast Food was RMB2,800,000 (2016: RMB460,000).

(c) Emoluments of key management personal of the Group

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Short term employee benefits	**1,325**	1,325
Post-employment benefit	**32**	20
Equity-settled share-based payments	**2,630**	701
	3,987	2,046

No Director's emoluments are included above, further details of the Directors' emoluments are include in Note 11.

30. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

During the year ended 31 December 2017, the Company has interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and paid ordinary share capital/ registered capital	Equity interest attributable to the Company		Principal activities
			31 December 2017 %	31 December 2016 %	
Xiabu Hong Kong (Note iii)	Hong Kong 16 May 2008	Ordinary share capital HK$1	**100**	100	Investment holding
Xiabuxiabu Restaurant Management Co., Ltd.* (呷哺呷哺餐飲管理有限公司) ("Xiabu Beijing")(Note i)	The PRC 16 September 2008	Registered capital RMB55,000,000	**100**	100	Operating restaurant
Xiabuxiabu Restaurant Management (Shanghai) Co., Ltd.* (呷哺呷哺餐飲管理(上海)有限公司) ("Xiabu Shanghai") (Note i)	The PRC 10 June 2010	Registered capital US$1,000,000	**100**	100	Operating restaurant
Coucou (China) Holdings Co., Ltd. (湊湊(中國)控股有限公司) ("Coucou (China)") (Note iii)	British Virgin Islands 5 March 2015	Ordinary share capital US$1	**100**	100	Investment holding
Coucou (HK) Holdings Co., Ltd. (湊湊(香港)控股有限公司) ("Coucou (HK)")	Hong Kong 18 March 2015	Ordinary share capital HK$1	**100**	100	Investment holding
Coucou Restaurant Management Co., Ltd.* (湊湊餐飲管理有限公司) (Note i) (Note iv)	The PRC 19 August 2015	Paid Registered capital RMB51,919,000	**100**	100	Operating restaurant
XiabuXiabu (Shanghai) Industrial Co., Ltd.* (呷哺呷哺(上海)實業有限公司)	The PRC 14 July 2015	Paid registered capital RMB100,000	**100**	100	Investment holding
Xiabuxiabu (China) Food Holdings Co.Ltd. ("Xiabu (China) Food") (Note iii) (呷哺呷哺(中國)食品控股有限公司)	Cayman Islands 28 October 2016	Ordinary share capital US$1,000,000	**60**	60	Investment holding

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

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and paid ordinary share capital/ registered capital	Equity interest attributable to the Company		Principal activities
			31 December 2017 %	31 December 2016 %	
Xiabuxiabu (HK) Food Holdings Co.Ltd (呷哺呷哺(香港)食品控股有限公司)	Hong Kong 9 November 2016	Ordinary share capital HK$100	**60**	60	Investment holding
Xiabuxiabu (China) Food Co.Ltd* (呷哺呷哺(中國)食品有限公司)	The PRC 27 May 2017	Registered capital US$10,000,000	**60**	–	Food Sales
Beijing Xiabuxiabu Technology Company Co, Ltd* (北京呷哺呷哺技術開發有限公司)	The PRC 10 August 2017	Registered capital RMB1,000,000	**100**	–	Investment holding

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

Notes:

(i) The entities are wholly-owned foreign enterprises.

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

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

(iv) Coucou Restaurant Management Co., Ltd. is the wholly-owned subsidiary of Coucou (HK) with registered capital of RMB80,000,000. RMB11,754,000 and RMB40,165,000 were paid by Coucou (HK) in 2016 and 2017.

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of the financial instruments

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and bank balances)	**1,489,199**	1,506,652
AFS investments	**32,765**	52,758
Financial liabilities:		
Amortised cost	**697,487**	488,691

Financial risk management objectives and policies

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

Market risk

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

Foreign currency risk management

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

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

	Assets	
	As at 31 December	
	2017	2016
	RMB'000	RMB'000
USD	**492,899**	529,275
HKD	**56,056**	124,513

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

Financial risk management objectives and policies *(continued)*

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the USD and HKD against RMB.

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Profit for the year		
USD	**24,160**	25,949
HKD	**2,799**	6,226

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

Interest rate risk

The Group is exposed to cash flow interest risk in relation to variable-rate bank balances (see Note 20), which carry prevailing market interest. The Group currently does not have a specific policy to manage their interest rate risk but will closely monitor their interest rate risk exposure in the future.

Interest rate sensitivity analysis

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

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

Financial risk management objectives and policies *(continued)*

Credit risk

As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

The Group trades with a large number of individual customers, they normally settle the payments through cash, Alipay, Wechat pay or credit card; the Group does not have significant credit risk exposure to any single individual customer. Alipay and Wechat pay are settled in 1 to 3 days and the Group confirms the trading amount with them everyday. For the trade receivables due from the shopping malls, the Group monitors the credit risk on an ongoing basis and credit evaluations are performed on the shopping malls requiring credit over a certain amount. In addition, the receivable balances are also monitored on ongoing basis. Hence, the management of the Company believes that the Group's credit risk is significantly reduced.

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

Liquidity risk

The Group monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management relies on the cash generated from operating activities as the main source of liquidity. For the year end 31 December 2017, the Group had cash generated from operating activities of approximately RMB395,380,000, (2016: RMB395,044,000). The Group expects to meet its other obligations from operating cash flows.

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

Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

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

	On demand or within one month RMB'000	**Over 1 month but within 3 months RMB'000**	**Over 3 months but within 1 year RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amount RMB'000**
As at 31 December 2017					
Financial liabilities					
Trade payables	**250,717**	**17,409**	**1,037**	**269,163**	**269,163**
Accrual and other payables	**308,532**	**87,296**	**32,496**	**428,324**	**428,324**
Total	**559,249**	**104,705**	**33,533**	**697,487**	**697,487**

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

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

Financial risk management objectives and policies *(continued)*

Fair value of financial instruments

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

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

Financial assets	**Fair value as at (RMB'000)**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	31 December 2017	31 December 2016		
AFS investments	**32,765**	52,758	Level 1	Quoted bid price in an active market.

32. CAPTIAL RISK MANAGEMENT

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

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

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

33. SUBSEQUENT EVENTS

Subsequent to 31 December 2017, the Group had the following subsequent event:

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 has been declared by the Directors, details are set out in Note 12.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current asset		
Investment in subsidiaries	**103,748**	89,760
Amounts due from a subsidiary	**124,977**	132,682
	228,725	222,442
Current assets		
Interest receivable	**7,341**	8,673
Amounts due from subsidiaries	**115,256**	87,217
Amounts prepaid to the RUS Trustee for purchase of ordinary shares (Note 25)	**1,013**	10,037
Bank balances and cash	**353,134**	562,281
	476,744	668,208
Current liabilities		
Other payables	**3,099**	1,627
	3,099	1,627
Net current liabilities	**473,645**	666,581
Total assets less current liabilities	**702,370**	889,023
Net assets	**702,370**	889,023
Capital and reserves		
Share capital	**173**	172
Reserves (Note)	**702,197**	888,851
Total equity	**702,370**	889,023

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

Note:

	Attribute to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Equity-settled share-based payments reserve RMB'000	Treasury share reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	172	1,005,193	17,741	–	(57,045)	966,061
Profit and total comprehensive income for the year	–	–	–	–	53,933	53,933
Effect of forfeited share option before vesting	–	–	(3,216)	–	3,216	–
Exercise of issued share option	–	3,916	(1,095)	–	–	2,821
Recognition of equity-settled share-based payments	–	–	4,439	–	–	4,439
Payment of dividends	–	–	–	–	(113,675)	(113,675)
Purchase of treasury share under restricted share unit scheme	–	–	–	(24,556)	–	(24,556)
Balance at 31 December 2016	172	1,009,109	17,869	(24,556)	(113,571)	889,023
Loss and total comprehensive expense for the year	–	–	–	–	(34,543)	(34,543)
Effect of forfeited share option before vesting	–	–	(1,465)	–	1,465	–
Exercise of issued share option	1	17,782	(5,450)	–	–	12,333
Recognition of equity-settled share-based payments	–	–	11,612	–	–	11,612
Payment of dividends	–	(166,864)	–	–	–	(166,864)
Purchase of treasury share under restricted share unit scheme	–	–	–	(9,191)	–	(9,191)
Balance at 31 December 2017	173	860,027	22,566	(33,747)	(146,649)	702,370

35. APPROVAL OF CONSOLICATED FINANCIAL STATEMENT

The consolidated financial statements were approved by the board of directors and authorised for issuance on 21 March 2018.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,663,993**	2,758,137	2,424,606	2,201,989	1,890,470
Profit before income tax	**542,787**	473,122	323,120	186,043	184,708
Income tax expenses	**(122,617)**	(105,094)	(59,757)	(44,850)	(43,998)
Profit for the year attributable to owners of the Company	**420,170**	368,028	263,363	141,193	140,710
Other comprehensive income (expense) for the year	**1,163**	(1,232)	–	–	–
Profit and total comprehensive income for the year attributable to owners of the Company	**421,333**	366,796	263,363	141,193	140,710

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December,				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,845,592**	2,312,604	1,964,131	1,682,150	841,339
Total liabilities	**860,061**	596,296	483,648	408,284	303,922
Net assets	**1,985,531**	1,716,308	1,480,483	1,273,866	537,417