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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

20TH

ANNIVERSARY

2018 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Chen Su-Yin
Mr. Zhang Chi (Ms. Li Jie 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. Li Jie 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

Conyers 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				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**4,734,080**	3,663,993	2,758,137	2,424,606	2,201,989
Restaurant level operating profit[1]	**897,642**	802,455	639,830	495,154	450,257
Profit before tax	**609,440**	542,787	473,122	323,120	186,043
Profit for the year attributable to owners of the Company	**462,478**	420,170	368,028	263,363	141,193

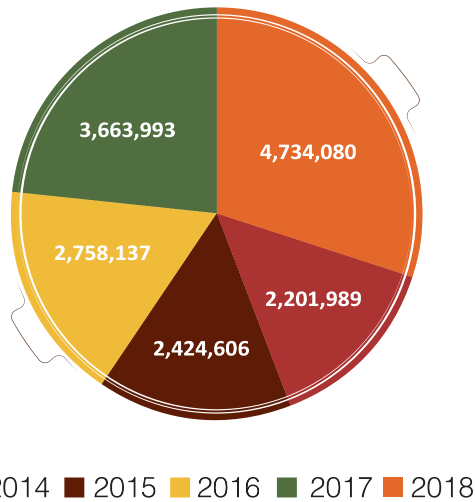
ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**1,214,492**	865,096	594,847	452,414	404,223
Current assets	**2,038,824**	1,980,496	1,717,757	1,511,717	1,277,927
Total assets	**3,253,316**	2,845,592	2,312,604	1,964,131	1,682,150
Equity and liabilities					
Total equity	**2,247,467**	1,985,531	1,716,308	1,480,483	1,273,866
Non-current liability	**11,692**	13,287	15,645	16,555	17,465
Current liabilities	**994,157**	846,774	580,651	467,093	390,819
Total liabilities	**1,005,849**	860,061	596,296	483,648	408,284
Total equity and liabilities	**3,253,316**	2,845,592	2,312,604	1,964,131	1,682,150
Net current assets	**1,044,667**	1,133,722	1,137,106	1,044,624	887,108
Total assets less current liabilities	**2,259,159**	1,998,818	1,731,953	1,497,038	1,291,331

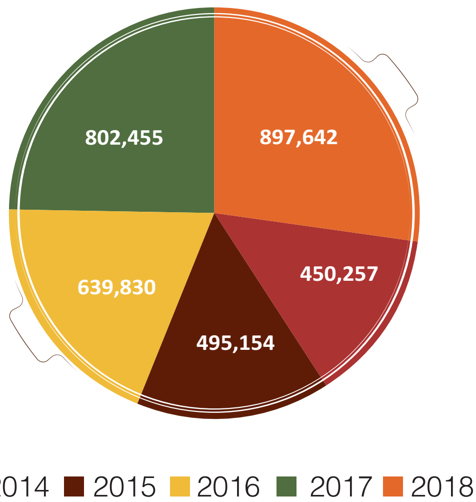
Note:

(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.

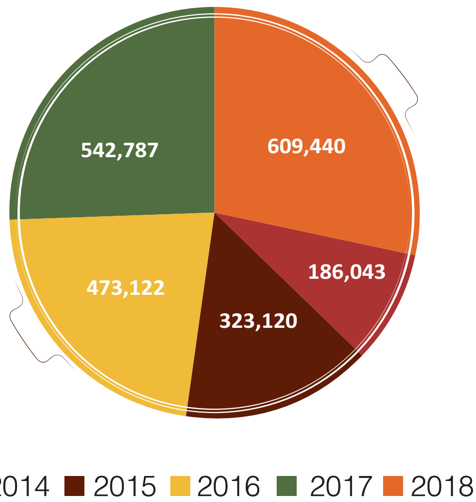
REVENUE
RMB'000



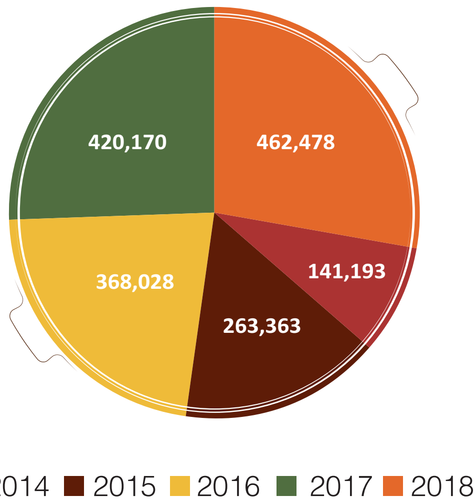
RESTAURANT LEVEL OPERATING PROFIT
RMB'000



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 2018.

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.

OVERVIEW

In 2018, in the face of the ever-changing economic environment, uncertainties looming over the China-US trade relationship and intensified competition in the catering (especially the hotpot) industry, the Group continued to maintain strong growth in same-store sales and profit for the fifth consecutive year since its listing by responding swiftly to market changes and implementing multi-dimensional strategy.

- Expanding the "Coucou" brand and improving the profitability of its business model: Leveraging on its unique compound operation model featuring distinct Taiwanese zen-like dining environment, exquisite menu items, Taiwan-style tea drinks as well as the fusion of hotpot and tea, Coucou has become the trend-setting brand for the medium to high-end hotpot market in China. Meanwhile, by optimizing the operation model of Coucou to deliver profit, the restaurant level profit increased from a loss of RMB24.4 million in 2017 to a profit of RMB64.8 million for the year. For a catering brand with an operation history of only three years, Coucou has attained a leading position in the market in terms of number of stores, sales growth and profitability.

- Exploring the delivery service market while promoting the hotpot delivery business: In order to improve the sales per unit area of the restaurants, in addition to hotpot delivery services, the Company introduced the instant hotpot brand — "XiaZhuXiaTang", which is expected to expand operation scope and extend business hours of Xiabuxiabu restaurants, laying a solid foundation for the Group's sustainable growth in the future. As at the end of 2018, the revenue generated from our delivery business increased by 203.3% as compared with last year. Looking ahead, we will continue to optimize our products and innovate our delivery business by leveraging our strengths in procurement, logistics and the density of our restaurants.

- With upgrade in consumption, the Group carried out various restaurant upgrading programs in different cities based on changes in the business environment. The Group has upgraded dining environment, dishes, serving of meals, utensils and services and the Group also upgraded the information systems in the restaurants, which helped to enhance our operation efficiency and also brought in different dining experience to our consumers. Such upgrading work not only contributed to the improvement of external environment, but also prepared for the future operation of afternoon tea and late-night snacks businesses.

- WeChat and CRM promotion initiatives: The Group engaged interactive themed marketing promotion campaigns and utilized online and social media outlets, including WeChat and Weibo, to launch a variety of initiatives to drive customer traffic and increase customer loyalty. In the future, Xiabuxiabu will focus on this kind of targeted promotional campaigns to improve accuracy and effectiveness of brand promotion.

- The Group also rolled out a number of other branding and promotional initiatives, including public welfare activities, to improve the profile and value of its brand, particularly to its target customers, and differentiate itself from its competitors.

Ho Kuang-Chi
Chairman

Hong Kong, 28 March 2019

BUSINESS REVIEW AND OUTLOOK

OVERVIEW

In 2018, the Group opened 168 Xiabuxiabu restaurants and 27 Coucou restaurants. As of 31 December 2018, the Group owned and operated 886 Xiabuxiabu restaurants in 108 cities over 20 provinces and in three centrally administered municipalities, namely Beijing, Tianjin and Shanghai, in China.

The Group's revenue grew by 29.2% from RMB3,664.0 million in 2017 to RMB4,734.1 million in 2018 primarily due to the Group's effort to expand its restaurant network and a nationwide same-store sales growth of 2.3%. Such growth, coupled with increases in various operating expenses resulted in a 11.9% growth in the Group's restaurant level operating profit from RMB802.5 million in 2017 to RMB897.6 million in 2018. As of 31 December 2018, the Group's net current assets decreased from RMB1,133.7 million as of 31 December 2017 to RMB1,044.7 million as of 31 December 2018 as a result of more construction work for more new store openings which led to higher capital expenditure.

REVENUE
RMB
4,734.1
MILLION

TOTAL
RESTAURANTS
934

As of 31 December 2018, the Group owned 48 Coucou restaurants in Jiangsu, Hubei, Hunan, Henan, Hebei, Shandong, Shanxi, Fujian, Shaanxi, Zhejiang and Guangdong provinces and Beijing and Shanghai municipalities. The Group managed to grow its revenue generated from the Coucou restaurants by 374.9% from RMB117.0 million in 2017 to RMB555.6 million in 2018, primarily due to continuous effort to expand the Coucou restaurant network. The Coucou restaurants also achieved restaurant level operating profit of RMB64.8 million in 2018 as compared with a loss of RMB24.4 million in 2017.

INDUSTRY REVIEW

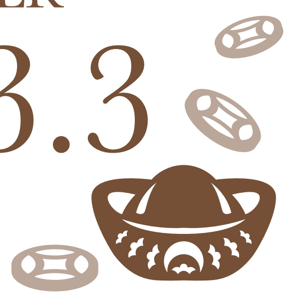
In 2018, China's domestic economy remained relatively stable even with the increasing uncertainty in the external environment. Domestic structural readjusting, transformation and upgrading had been the backbone to maintain the steady growth of the economy. China's GDP grew at a rate of 6.6% in 2018, and actual per capita disposable income of urban and rural areas grew by 6.5%, basically in line with economic growth. Consumer price index rose by 2.1%. The structural

SAME-STORE SALES GROWTH

2.3%

AVERAGE SPENDING PER CUSTOMER

RMB 53.3

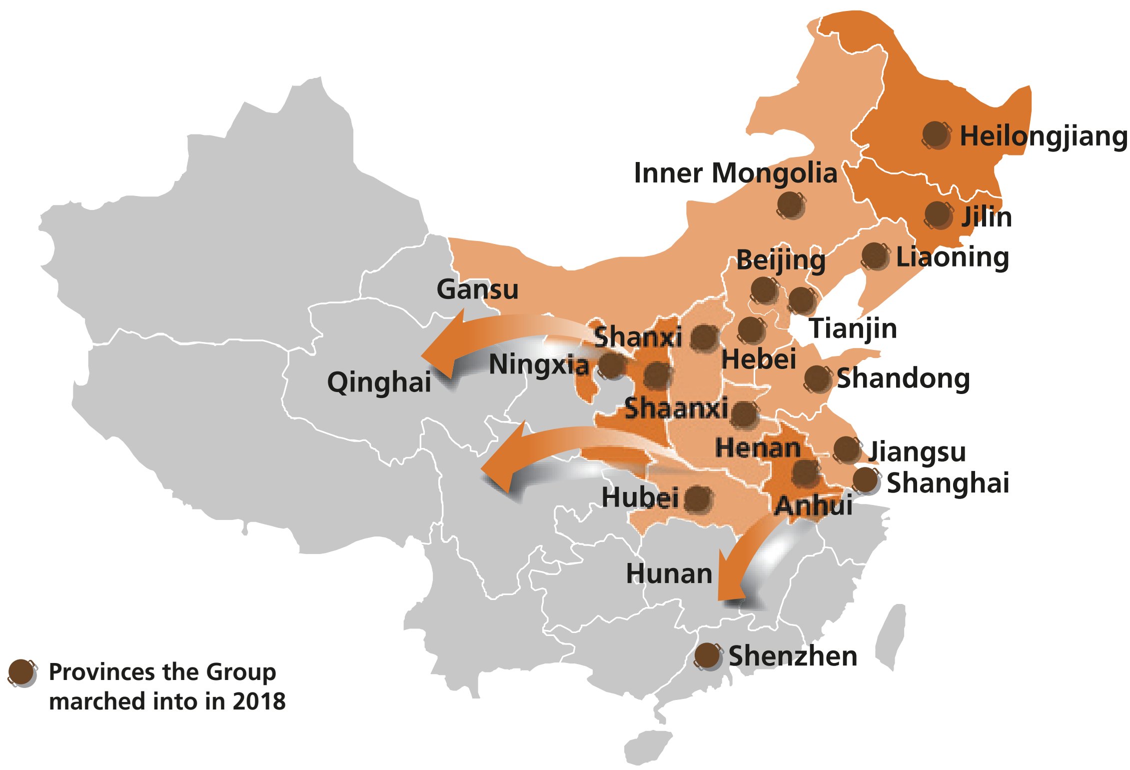


optimization in the service sector developed rapidly in 2018, which also contributed to the growth of China's economy. Service consumption has also accelerated while consumer's demand for services with higher quality and efficiency continued to grow.

OVERALL BUSINESS AND FINANCIAL PERFORMANCE

The Group's restaurant network

In 2018, the Group adhered to its restaurant network expansion plan and opened a total of 195 new restaurants, including 168 Xiabuxiabu restaurants and 27 Coucou restaurants. In addition, the Group closed a total of 20 restaurants in 2018 due to various commercial reasons. In aggregate, the Group's restaurants in operation increased by 175 in 2018. A substantial portion of the Group's revenue and restaurant level operating profit were derived 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			
	2018		2017	
	#	**%**	#	%
Beijing	**309**	**34.9**	282	38.2
Shanghai	**52**	**5.9**	50	6.8
Tianjin	**81**	**9.1**	66	8.9
Hebei[(1)]	**148**	**16.7**	130	17.6
Northeast China[(2)]	**102**	**11.5**	75	10.2
Other regions[(3)]	**194**	**21.9**	135	18.3
Total	**886**	**100**	738	100

(1) Including 17 cities in Hebei Province.

(2) Including 23 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 68 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hunan and Hubei 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	
	2018	2017
Net Revenue (in RMB thousands)		
Beijing	**1,925,145**	1,814,861
Shanghai	**216,330**	211,797
Tianjin	**317,011**	269,874
Hebei[(2)]	**682,930**	558,609
Northeast China[(3)]	**370,319**	271,100
Other regions[(4)]	**567,215**	365,374
Total	**4,078,950**	3,491,615

	As of or for the years ended 31 December	
	2018	2017
Average spending per customer (RMB)[(1)]		
Beijing	**55.4**	49.5
Shanghai	**52.5**	49.8
Tianjin	**52.6**	47.6
Hebei[(2)]	**51.5**	46.7
Northeast China[(3)]	**51.2**	46.2
Other regions[(4)]	**51.2**	47.1
Total	**53.3**	48.4
Seat turnover rate (X)[(5)]		
Beijing	**3.6**	4.0
Shanghai	**2.6**	2.7
Tianjin	**2.5**	3.0
Hebei[(2)]	**2.8**	3.0
Northeast China[(3)]	**2.4**	2.9
Other regions[(4)]	**1.8**	2.3
Total	**2.8**	3.3

(1) 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.

(2) Including 17 cities in Hebei Province.

(3) Including 23 cities in Heilongjiang, Jilin and Liaoning Provinces.

(4) Including 68 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hunan and Hubei Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

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

In 2018, 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 of Beijing continued to increase in absolute terms and as a percentage of the Group's total revenue in 2018, reaching approximately 52.8% of the Group's total revenue. On the other hand, average customer spending continued to increase in 2018, 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	
	2017	**2018**	2016	2017
Number of same-store (#)				
Beijing	**273**		238	
Shanghai	**49**		43	
Tianjin	**60**		50	
Hebei[1]	**122**		83	
Northeast China[2]	**72**		31	
Other regions[3]	**116**		61	
Total	**692**		506	

	Year ended 31 December		Year ended 31 December	
	2017	**2018**	2016	2017
Same-store sales (in RMB millions)[1]				
Beijing	**1,670.0**	**1,715.2**	1,477.0	1,603.6
Shanghai	**180.9**	**190.3**	159.9	189.4
Tianjin	**244.9**	**245.5**	206.3	218.9
Hebei[2]	**508.8**	**554.5**	382.7	427.4
Northeast China[3]	**248.7**	**238.5**	95.2	102.6
Other regions[4]	**335.6**	**312.6**	174.9	186.4
Total	**3,188.9**	**3,256.6**	2,495.9	2,728.3
Same-store sales growth (%)[1]				
Beijing	**2.7**		8.6	
Shanghai	**5.2**		18.5	
Tianjin	**0.3**		6.1	
Hebei[2]	**9.0**		11.7	
Northeast China[3]	**(4.1)**		7.7	
Other regions[4]	**(6.9)**		6.6	
Nationwide	**2.1**		9.3	

(1) Calculated based on revenue generated from all sales in the restaurants (including food, beverages and gifts, excluding delivery fees). Such calculation is in line with market practice but different from our previous calculations which only based on sales of food and beverages.

(2) Including 17 cities in Hebei Province.

(3) Including 23 cities in Heilongjiang, Jilin and Liaoning Provinces.

(4) Including 68 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hunan, Hubei Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

OUTLOOK FOR 2019

Business Outlook

In 2019, with the increase of per capita disposable income and the expansion of the middle class, millennials are increasingly focusing on the quality of products and services. Such changes lead to a more accelerated diversification-, specialization- and brand- oriented catering industry.

For these reasons, the Group intends to implement the following measures:

- *Brand red line*: The Group aims to live up to its motto of "quality comes from persistence" and maintain strict food safety and quality standards. The Group will further enforce strict control on food safety and quality, including: (i) continue to implement strict food safety and quality control system and assurance measures are enforced at all levels, including supply chains, logistics, food processing centers and restaurants; (ii) continue to strengthen the Group's centralized purchasing management system using bulk purchase; (iii) work exclusively with reputable and high quality suppliers worldwide; (iv) eliminate intermediaries in the supply chain and implement direct restaurant delivery from suppliers or our distribution centers; and (v) continue to self-evaluate and strictly monitor the Group's food safety and quality control standards and measures.

- *Brand enhancement*: Millennials pursuing "high quality" and "good experience" spending habit are becoming our main customers. In response to such demand, the Group launched the upgraded version of Xiabuxiabu 2.0 experience. In addition to an environmental upgrade, the Group has also upgraded its product mix, utensils, services, as well as enhanced our restaurant operations by the application of information technologies in our operations. The Group expects to give consumers the best value for money along with an overall experience upgrade.

- *Brand extension*: The scale of the delivery market is expected to continue to grow in the next three years. In view of this market capacity, the Group will continue to strengthen its presence in the market by expanding its hot pot delivery services and its food ingredients delivery in response to consumers pursuit for quality ingredients. In addition, in order to make up for the demand that is out of normal delivery hours and to increase market share, the Group will continue to expand the XiaZhuXiaTong business, offering the delivery of ready-to-eat food and beverage, and bring convenience for our consumers.

- *Brand coverage*: The Group will continue to expand its business based on the five-year strategic plan set up back in 2016. In 2019, the Group plans to maintain a rate of expansion similar to 2018. The Group plans to strengthen its leadership in the existing market and enhance market penetration at the same time. The Group will continue to put in more efforts in the development of newer markets such as Eastern China and further develop the Southern China market where the Group has just opened the first restaurant successfully. During the process of expansion, the Group will continue to focus on market research on newly developed regions and strengthen business development capability, marketing strategy, business operations and other collaborations, to ensure continued success in the Group's new stores in the emerging markets.

- *Brand digitalization*: In the "new catering" era, the integration of online and offline operations has become a new trend. With the mobile Internet penetrating into the lives of consumers and the millennials becoming the main consumers of the catering industry, the demand for online ordering and mobile payment has been growing steadily. In response to the trend, the Group takes advantage of online and offline integration to enhance consumer experience and further digitize dining experience in its restaurants.

- *Brand portfolio development*: The Group aspires to fully penetrate into all market segments. Coucou is the high-end brand of the Group, which mainly focuses on family and business dining occasions and fully demonstrates the characteristics of Taiwanese-style hospitality service. Coucou restaurants offer Taiwanese-style dining experiences with specialty dishes, service, ambience and create a unique dining experience which is widely acclaimed by consumers. With its strong brand recognition and reputation among customers, the Group believes Coucou will continue to accelerate the pace of expansion, to pursue high-quality, premium dining experiences, be well perceived by the high-end consumer groups.

- *Brand marketing*: The Group will enhance its brand image by launching a series of online and offline marketing campaigns to enhance its brand awareness. The Group's customer relationship management focuses on marketing activities to further enhance customer loyalty. The Group also plans to mobilize its nearly 80-million customer traffic, and to take advantage of its large customer base and work with well-known brands to launch joint promotion programs.

- *Brand organization management*: The Group strives to strengthen its organization and human resources management. In response to the ever changing market, the Group will strengthen the accountability system of the general managers of each market. At the same time, the Group plans to adopt a performance focused incentive mechanism, thereby improving the management capability of its major business operations managers.

- *Brand diversification*: The Group plans to launch condiment products under Xiabuxiabu brand. In recent years, Chinese consumers are placing increasing emphasis on food safety, quality, healthiness, flavor and tastes of high-end sauce and condiments products. In view of the strong potential of the market for these condiment products, the Company, through the establishment of its non wholly-owned subsidiary, Xiabuxiabu (China) Food Co. Ltd. (呷哺呷哺（中國）食品有限公司), plans to venture into the condiment product business, which supplements and complements the Group's principal catering service business and will further strengthen the brand of the Group.

Industry Outlook

In 2018, the major economic indicators are relatively stable. For the next year, there are still many variables in the external environment, with uncertainties and challenges ahead. The continued rising of protectionism poses a major challenge to the world economy.

Regarding economic growth in the following year, China's short-term economic growth mainly depends on three major demands. Looking at the key index in 2018, domestic demand is still the decisive driver of economic growth, consumption continued to be the pillar to support such growth, which ultimately determines whether consumption will continue to grow steadily in the following year.

As consumers' living standard improves, the development of the catering industry in the next few years will become crucial to the Group's future success. The increase of per capita disposable income and the expansion of the middle class are also contributing to the accelerated diversification, specialization and quality improvement in the catering industry. At the same time, consumers' increasing emphasis on the quality of product and service also leads to the change of consumer behavior from price-oriented to brand-oriented. In addition, as millennials are becoming the main consumer group in the catering industry, their unique consumption behaviors, such as emphasis on quality and brand name and preference for food delivery services, are also changing the competitive landscape of the industry. In the next year, companies in the catering industry will continue to focus on brand development, maintenance and enhancement and internal transformation to achieve an overall quality improvement of their operations. New dining experiences combined with the use of technologies have become the key growth factor of companies in the catering industry. The integration of online and offline business operations will become the future trend of development in the catering industry.

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 2017 to 2018:

	Year Ended 31 December				Year-on-Year
	2018		2017		**Change**
	RMB	**%**	RMB	%	%
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**4,734,080**	**100.0**	3,663,993	100.0	29.2
Other income	**44,009**	**0.9**	39,825	1.1	10.5
Raw materials and consumables used	**(1,784,481)**	**(37.7)**	(1,365,240)	(37.3)	30.7
Staff costs	**(1,167,868)**	**(24.7)**	(833,366)	(22.7)	40.1
Property rentals and related expenses	**(579,751)**	**(12.2)**	(441,242)	(12.0)	31.4
Utilities expenses	**(170,695)**	**(3.6)**	(131,559)	(3.6)	29.7
Depreciation and amortisation	**(221,117)**	**(4.7)**	(151,325)	(4.1)	46.1
Other expenses	**(288,767)**	**(6.1)**	(238,817)	(6.5)	20.9
Other gains and losses	**44,030**	**0.9**	518	0.0	8,400.0
Profit before tax	**609,440**	**12.9**	542,787	14.8	12.3
Income tax expense	**(147,468)**	**(3.1)**	(122,617)	(3.3)	20.3
Profit for the year	**461,972**	**9.8**	420,170	11.5	9.9
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss, net of income tax:					
Reversal of previously accumulated investment revaluation reserve upon disposal of debt instrument measured at fair value through other comprehensive income ("**FVTOCI**")	**69**	**0.0**	—	0.0	—
Fair value gain on available-for-sale ("**AFS**") investments during the year, net of tax	**—**	**0.0**	1,230	0.0	(100.0)
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment	**—**	**0.0**	(67)	(0.0)	(100.0)
Other comprehensive income for the year, net of income tax	**69**	**0.0**	1,163	0.0	(94.1)
Total comprehensive income for the year	**462,041**	**9.8**	421,333	11.5	9.7

	Year Ended 31 December				Year-on-Year
	2018		2017		**Change**
	RMB	**%**	RMB	%	**%**
	(In thousands, except for percentages and per share data)				
Profit (loss) for the year attributable to:					
Owners of the Company	**462,478**	**9.8**	420,170	11.5	10.1
Non-controlling interest	**(506)**	**(0.0)**	—	0.0	—
	461,972	**9.8**	420,170	11.5	9.9
Total comprehensive income (expense) attributable to:					
Owners of the Company	**462,547**	**9.8**	421,333	11.5	9.8
Non-controlling interest	**(506)**	**(0.0)**	—	0.0	—
	462,041	**9.8**	421,333	11.5	9.7
Earnings per share					
— basic (RMB cents)	**43.49**		39.33		
— diluted (RMB cents)	**42.81**		38.76		

Revenue

The Group's revenue increased by 29.2% from RMB3,664.0 million in 2017 to RMB4,734.1 million in 2018, primarily due to (i) the increase in the number of the Group's restaurants from 759 as of 31 December 2017 to 934 as of 31 December 2018 and (ii) the nationwide same-store sales growth of 2.3% for the Group. In particular, revenue generated from sales of Xiabuxiabu restaurants increased by 16.8% from RMB3,491.6 million in 2017 to RMB4,079.0 million in 2018. The Group opened 168 new Xiabuxiabu restaurants throughout China in 2018 to enhance its restaurant network. The Group also opened 27 new Coucou restaurants in Jiangsu, Hubei, Hunan, Henan, Hebei, Shandong, Shanxi, Fujian, Zhejiang, Beijing, Shanghai and Shenzhen in 2018.

Other income

The Group's other income increased by 10.5% from RMB39.8 million in 2017 to RMB44.0 million in 2018, primarily due to (i) an increase in sale of delivery business from RMB12.7 million in 2017 to RMB16.2 million in 2018 and (ii) a government subsidy of approximately RMB9.2 million received from the local government for the Group's local business development. There were no unfulfilled conditions in the year in which they were recognized.

Raw materials and consumables used

The Group's raw materials and consumables costs increased by 30.7% from RMB1,365.2 million in 2017 to RMB1,784.5 million in 2018 as the scale of the Group's operations further increased, including 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 remained relatively stable at 37.7% in 2018 as compared with 37.3% in 2017.

Staff costs

The Group's staff costs increased by 40.1% from RMB833.4 million in 2017 to RMB1,167.9 million in 2018, primarily due to an increase in the number of the Group's employees from 21,200 as of 31 December 2017 to 26,219 as of 31 December 2018, as well as an increase in per capita wages, which in turn was the result of an increase in the minimum wage and statutory social insurance in China. As a percentage of the Group's revenue, the Group's staff costs increased from 22.7% in 2017 to 24.7% in 2018, which was also the result of an increase in per capita wages. In 2018, 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 RMB12.6 million (2017: RMB11.6 million), representing an increase of approximately 8.6%.

Property rentals and related expenses

The Group's property rentals and related expenses increased by 31.4% from RMB441.2 million in 2017 to RMB579.8 million in 2018, primarily due to an increase in the number of the Group's restaurants. As a percentage of the Group's revenue, the Group's property rentals and related expenses remained relatively stable at 12.2% in 2018 as compared with 12.0% in 2017.

Utilities expenses

The Group's utilities expenses increased by 29.7% from RMB131.6 million in 2017 to RMB170.7 million in 2018 as the scale of the Group's operation in terms of number of restaurants continued to increase. As a percentage of the Group's revenue, utilities expenses remained stable at 3.6% in 2018 as in 2017.

Depreciation and amortization

The Group's depreciation and amortization increased by 46.1% from RMB151.3 million in 2017 to RMB221.1 million in 2018, 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 increased from 4.1% in 2017 to 4.7% in 2018.

Other expenses

The Group's other expenses increased by 20.9% from RMB238.8 million in 2017 to RMB288.8 million in 2018. As a percentage of the Group's revenue, the Group's other expenses decreased from 6.5% in 2017 to 6.1% in 2018. The increase in the Group's other expenses in absolute terms was primarily due to (i) an increase in advertising and other marketing expenses; (ii) an increase in logistic fee; and (iii) an increase in delivery expenses due to the expansion of Xiabu Fresh.

Other gains and losses

The Group's other gains significantly increased by more than eighty times from RMB0.5 million in 2017 to RMB44.0 million in 2018, primarily as a result of (i) a net foreign exchange gain of RMB8.8 million the Group recorded in 2018 as compared with a net foreign exchange loss of RMB26.7 million recorded in 2017, (ii) the loss on closure of restaurants decreased to RMB0.4 million in 2018 (2017: RMB1.5 million) and (iii) gains from changes in fair value of financial assets at fair value through profits or loss ("**FVTPL**") increased to RMB42.5 million in 2018 (2017: RMB38.2 million). As a percentage of the Group's revenue, other gains increased from 0.01% in 2017 to 0.9% in 2018.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by 12.3% from RMB542.8 million in 2017 to RMB609.4 million in 2018, and as a percentage of the Group's revenue, the Group's profit before tax decreased from 14.8% in 2017 to 12.9% in 2018.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB12.6 million (2017: RMB11.6 million), the Group's profit before tax would have increased by 12.2% from RMB554.4 million in 2017 to RMB622.0 million in 2018, and decreased from 15.1% in 2017 to 13.1% in 2018 as a percentage of the Group's revenue.

Income tax expense

The Group's income tax expenses increased by 20.3% from RMB122.6 million in 2017 to RMB147.5 million in 2018, 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 was at 22.6% in 2017 and 24.2% in 2018.

Profit for the year

As a result of the cumulative effect of the above factors, the Group's profit for the year attribute to owners of the Company increased by 10.1% from RMB420.2 million in 2017 to RMB462.5 million in 2018, and as a percentage of the Group's revenue, the Group's profit for the year decreased from 11.5% in 2017 to 9.8% in 2018.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB12.6 million (2017: RMB11.6 million), the Group's profit for the year attribute to owners of the Company would have increased by 10.0% from RMB431.8 million in 2017 to RMB475.1 million in 2018, and decreased from 11.8% in 2017 to 10.1% in 2018 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 Xiabuxiabu restaurants. In 2018, the Group managed to grow its revenue generated from the Coucou restaurants by 374.9% from RMB117.0 million in 2017 to RMB555.6 million in 2018, which accounted for approximately 12.0% of the total revenue of the Group in 2018, primarily due to continual effort to expand the Coucou restaurant network. Restaurant level operating profit turned from a loss of RMB24.9 million in 2017 to a profit of RMB64.8 million in 2018. Xiabuxiabu restaurants continued to contribute the largest source of revenue and restaurant level operating profit for the Group. The continual expanding of restaurants was one reason that drove revenue to grow rapidly in 2018, the fast expansion of the delivery business was another reason that helped deliver the growth. In 2018, in order to expand the delivery business, we (i) started our food ingredient delivery and instant hotpot business "XiaZhuXiaTang" that built up an emerging delivery business and increased our competitive advantage against the traditional hotpot delivery model; (ii) rapidly developed our geographical distribution focus, from only 5 cities in 2017 to 75 tier-one and two cities; and quickly obtained market share through the use of a huge amount of marketing activities. At the end of this year, sales revenue from the delivery business was nearly 203.3% of that of the last year. In 2018, as we moved into the 20th anniversary of Xiabuxiabu's operation, along with approximately 60% of upgraded stores, we strategically invested in larger branding and marketing fee, to fully promote the Xiabuxiabu brand and quality, especially targeting the millennial customers who look for premium quality, to showcase our quality and highlight the advantages of our quality ingredients such as the classic Ximen lamb, allowing our customers to have the opportunity to taste the high-quality ingredients and tastes from our main product line. We helped customers to understand the upgrade is not purely to decorate our restaurants to become an Internet sensation, it is also a full-scale upgrade from environment to the quality of ingredients, service upgrade to help the Company to win and obtain further goodwill and market share.

Although the management, especially the branding officer, realized that the above-mentioned marketing activities and promotion in our delivery business will affect the restaurant level operating profit to a certain extent, but such effort in enhancing our brand image in the long run will help Xiabuxiabu to lay down the foundation for future growth in market and goodwill exposure. This is why we need to start investing in advance, as 2018 is the strategic year where the brand and quality have been well-established. In fact, in relatively matured regions the sales and profits have started to grow at a similar pace. We believe as we promote the brand more in the newly developed regions, first we will see sales growth and then eventually growth in profits will follow soon after.

The table below sets forth the breakdown of revenue generated from Xiabuxiabu restaurants by geographical regions, each presented as a percentage of the total revenue generated therefrom for the periods indicated, as well as the geographical breakdown of the restaurant level operating profit generated from Xiabuxiabu restaurants, each presented as a percentage of the regional revenue generated therefrom for the periods indicated:

	Year ended 31 December			
	2018		2017	
	RMB	**%**	RMB	%
	(In thousands, except for percentages)			
Revenue:				
Beijing	**1,925,145**	**47.2**	1,814,861	52.0
Shanghai	**216,330**	**5.3**	211,797	6.0
Tianjin	**317,011**	**7.8**	269,874	7.7
Hebei(1)	**682,930**	**16.7**	558,609	16.0
Northeast China(2)	**370,319**	**9.1**	271,100	7.8
Other regions(3)	**567,215**	**13.9**	365,374	10.5
Total	**4,078,950**	**100.0**	3,491,615	100.0
Restaurant Level Operating Profit and Margin Performance(2):				
Beijing	**512,305**	**26.6**	526,308	29.0
Shanghai	**21,407**	**9.9**	27,890	13.2
Tianjin	**59,527**	**18.8**	59,449	22.0
Hebei(1)	**159,133**	**23.3**	136,627	24.5
Northeast China(2)	**46,863**	**12.7**	39,512	14.6
Other regions(3)	**33,573**	**5.9**	37,577	10.3
Total	**832,808**	**20.4**	827,363	23.7

(1) Including 17 cities in Hebei Province.

(2) Including 23 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 68 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hunan, Hubei 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 measure of the Group's operating performance and believes 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 52.0% in 2017 to 47.2% in 2018.

As a percentage of the Group's revenue generated from Xiabuxiabu restaurants, the Group's restaurant level operating profit generated therefrom decreased from 23.7% in 2017 to 20.4% in 2018 primarily attributable to increases in various operating expenses.

(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	
	2018	2017
	(In RMB thousands)	
Profit for the year attributable to owners of the Company	**462,478**	420,170
Equity-settled share-based payments	**12,634**	11,612
Adjusted net profit[1]	**475,112**	431,782

(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 2018, 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 2018, the Group had cash and cash equivalents of RMB1,340.7 million as compared with RMB1,452.9 million as of 31 December 2017, which primarily consisted of cash on hand and demand deposits and which were mainly denominated in Renminbi (as to 88.2%), Hong Kong dollars (as to 2.3%), and U.S. dollars (as to 9.5%).

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 2018, 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 2019 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**").

Financial assets at FVTPL

The Company subscribed for and held various short-term investments throughout the year ended 31 December 2018, 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 2018, 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 2018 were with a term ranging from 5 days to 181 days and an expected return rate ranging from 3.6% to 5.3% per annum. As of 31 December 2018, all Financial Products subscribed for by the Company in 2018 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 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 financial assets at FVTPL.

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 2018 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 2018. Save as otherwise disclosed in these announcements, there was no other single short-term investment 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 as of 31 December 2018.

The Group purchased additional products with an aggregate principal amount of RMB1,090.0 million from 1 January 2019 up to the date of this annual report which remained outstanding as at the date of this annual report. Save as disclosed in these announcements, no new financial products have been purchased by the Group up to the date of this annual report. Details of the subscription of such financial products subsequent to the Reporting Period and which constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules were disclosed in the announcements of the Company dated 11 January 2019, 14 January 2019, 16 January 2019 and 26 March 2019, respectively.

Indebtedness

As of 31 December 2018, 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 RMB491.6 million in 2018 in connection with new restaurant opening and re-decoration and furnishing of existing stores. In 2017, the Group made payment for the capital expenditures of RMB290.4 million. The Group's capital expenditure in 2018 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 2018, the Group opened a total of 195 new restaurants. As of 31 December 2018, the Company did not have any charge over its assets.

Contingent liabilities and guarantees

As of 31 December 2018, 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 2018, 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 2018, the Group had a total of 26,219 employees. In particular, 131 employees worked at the Group's food processing facilities, 2,389 were responsible for restaurant management, 22,634 were restaurant staff and 1,065 were administrative 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 2018, the total staff costs of the Group (including salaries, bonuses, social insurances, provident funds and share incentive schemes) amounted to RMB1,167.9 million, representing approximately 24.7% of the total revenue of the Group.

Pursuant to the Pre-IPO Share Incentive Plan, options to subscribe for an aggregate of 10,457,709 shares (representing approximately 0.97% 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 2018. The Company has also adopted the RSU Scheme which became effective upon the date of listing of the Company (the "**Listing Date**"). 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 2018, the RSU Trustee purchased an aggregate of 4,672,500 shares at a total cash consideration of approximately HK$59.8 million 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**"). As of 31 December 2018, RSUs in respect of an aggregate of 5,458,290 shares (representing approximately 0.51% 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, will be set out in the section headed "Directors' Report" in the Company's 2018 annual report to be issued in due course.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.096 per share, amounting to approximately a total of RMB101.2 million for the year ended 31 December 2018 (the "**2018 Final Dividend**"), representing approximately 40% of the Group's net profit for the six months ended 31 December 2018. The 2018 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 55, 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 20 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 57, 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 20 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 55, 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 43, 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. Li Jie (李潔), aged 38, was appointed as an alternate Director to Mr. Zhang Chi with effect from 30 June 2018. Ms. Li is currently an Operating Vice President at General Atlantic as part of the firm's Resources Group and focuses on providing financial and analytical expertise to the portfolio companies in China. Prior to joining General Atlantic in 2018, Ms. Li was the Chief Financial Officer at Global Logistic Properties (GLP) in the Financial Services segment. Prior to that, she was the Chief Financial Officer of Yunmanman (YMM), a logistic platform start-up company. Ms. Li also has over 10 years financial due diligence experience with PricewaterhouseCoopers Transaction Services in China and Australia merger and acquisition markets. Ms. Li earned her bachelor degree in international journalism from the Shanghai International Studies University as well as a second degree in civil law from Fudan University in July 2002.

Independent Non-executive Directors

Ms. Hsieh Lily Hui-yun (謝慧雲), aged 64, 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 a 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 59, 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 served as 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) from December 2016 to September 2018. He is also an independent non-executive director of Jimu Group Limited (a company listed on 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 48, 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 49, 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 include 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 2018.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

In 2018, the Group opened 168 Xiabuxiabu restaurants and 27 Coucou restaurants. As of 31 December 2018, the Group owned and operated 886 Xiabuxiabu restaurants in 108 cities over 20 provinces and in three centrally administered municipalities, namely Beijing, Tianjin and Shanghai, in China. The Group also owned 48 Coucou restaurants in Jiangsu, Hubei, Hunan, Henan, Hebei, Shandong, Shanxi, Fujian, Shaanxi, Zhejiang and Guangdong provinces and Beijing and Shanghai municipalities as of the same date.

Performance of the Group's Restaurants

The Group's revenue grew by 29.2% from RMB3,664.0 million in 2017 to RMB4,734.1 million in 2018 primarily due to the Group's effort to expand its restaurant network and a nationwide same-store sales growth of 2.3%, resulted in a 11.9% growth in the Group's restaurant level operating profit from RMB802.5 million in 2017 to RMB897.6 million in 2018. 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 2018.

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 2018.

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

No material events were undertaken by the Group subsequent to 31 December 2018.

Outlook for 2019

In 2019, 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 2018 and the status 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 132.

FINAL DIVIDEND

The Board recommends the payment of the 2018 Final Dividend of RMB0.096 per share for the year ended 31 December 2018 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 24 May 2019. The 2018 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 24 May 2019. The 2018 Final Dividend, if approved by the Shareholders at the AGM, will be paid on or about 14 June 2019 to those Shareholders whose names appear on the register of members of the Company on 4 June 2019.

DIVIDEND POLICY

Pursuant to the dividend policy adopted by the Company, distributions of dividends are determined at the discretion of the Board. In determining whether any distribution shall be made and the amount of dividends, the Board shall take into account the Company's results of operations, cash flows, financial condition, capital requirements, business plans and prospects and any other conditions which the Board deems relevant. Any declaration and payment as well as the amount of dividends will be subject to compliance with the Company's constitutional documents and companies law of the Cayman Islands.

The Company will evaluate its dividend policy and distributions made in any particular year in light of its financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2018 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 2018 are set out in Note 30 to the consolidated financial statements.

DONATION

Donations made by the Group during the year ended 31 December 2018 amounted to RMB445,856 (2017: RMB28,758).

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 2018.

For details of the Shares purchased by the RSU Trustee for the purpose of the RSU Scheme during the year ended 31 December 2018, 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 3.72% of the total issued Shares as at the date of this annual report).

As at 31 December 2018, Options to subscribe for an aggregate of 10,457,709 Shares (representing approximately 0.97% 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 2018, 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 2018 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 2018	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)[1]	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2018
Director									
Yang Shuling	Executive Director and Chief Executive Officer	700,000	31 August 2009	0.84	350,000	15.84	—	—	350,000
		1,782,400	17 May 2011	1.79	891,200	15.94	—	—	891,200
		2,297,498	24 December 2012	1.84	1,148,748	16.14	—	—	1,148,750
		3,240,710	21 March 2014	2.78	529,631	16.28	—	—	2,711,079
		8,020,608			**2,919,579**		**—**	**—**	**5,101,029**

Name of Option holder	Position held with the Group	Number of Shares represented by the Options at 1 January 2018	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)[1]	Cancelled during the year	Lapsed during the year	Number of Shares represented by the Options at 31 December 2018
Senior management members of the Group									
Zhao Yi	Chief Financial Officer	**1,931,629**	21 March 2014	2.78	**303,739**	**13.40**	**—**	**—**	**1,627,890**
17 other employees of the Group		444,500	31 August 2009	0.84	121,250	10.56	—	—	323,250
		752,512	17 May 2011	1.79	31,484	13.57	—	—	721,028
		979,353	24 December 2012	1.84	281,986	12.51	—	—	697,367
		2,263,440	21 March 2014	2.78	276,295	11.85	—	—	1,987,145
		4,439,805			**711,015**		**—**	**—**	**3,728,790**
Total		1,144,500	31 August 2009	0.84	471,250	14.48	—	—	673,250
		2,534,912	17 May 2011	1.79	922,684	15.86	—	—	1,612,228
		3,276,851	24 December 2012	1.84	1,430,734	15.43	—	—	1,846,117
		7,435,779	21 March 2014	2.78	1,109,665	14.39	—	—	6,326,114
		14,392,042			**3,934,333**		**—**	**—**	**10,457,709**

Note:

(1) As a result of the exercise of the Options under the Pre-IPO Share Incentive Plan during the year ended 31 December 2018, a total of 3,934,333 Shares had been issued in 2018 and the total funds received by the Company with respect to the exercise of such Options amounted to RMB7,764,874.

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 2018, 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 2018, the remaining life of the RSU Scheme is approximately six 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 3.92% 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 2018, the RSU Trustee purchased an aggregate of 4,672,500 Shares at a total cash consideration of approximately HK$59.8 million 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 5,458,290 Shares, representing approximately 0.51% of the total issued Shares of the Company as of the date of this annual report, remained 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.

As of 31 December 2018, RSUs in respect of an aggregate of 5,458,290 Shares, representing approximately 0.51% of the total issued Shares of the Company as of the date of this annual report, remained outstanding. Details of the RSUs granted under the RSU Scheme and outstanding as of 31 December 2018 and details of the vesting period and the movements in RSUs during the year ended 31 December 2018 are set out below:

Name of grantees of RSU	Position held with the Group	Number of Shares represented by RSUs at 1 January 2018	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 2018
Directors								
Ho Kuang-Chi	Chairman of the Board and Executive Director	985,967	8 May 2017	—	—	—	—	985,967
Yang Shuling	Executive Director and Chief Executive Officer	1,273,859	17 November 2016	—	318,464	—	—	955,395
		985,967	8 May 2017	—	—	—	—	985,967
Sub-total		3,245,793		—	318,464	—	—	2,927,329
Employees of the Group								
18 other employees of the Group		1,257,489	17 November 2016	—	302,803	46,265	—	908,421
		1,739,442	8 May 2017	—	—	116,902	—	1,622,540
Sub-total		2,996,931		—	302,803	163,167	—	2,530,961
Total		**6,242,724**		**—**	**621,267**	**163,167**	**—**	**5,458,290**

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	Non-executive Director
Ms. Chang Le (resigned with effect from 30 June 2018)	Alternate Director to Mr. Zhang Chi
Ms. Li Jie (appointed with effect from 30 June 2018)	Alternate Director to Mr. Zhang Chi
Ms. Hsieh Lily Hui-yun	Independent Non-executive Director
Mr. Hon Ping Cho Terence	Independent Non-executive Director
Ms. Cheung Sze Man	Independent Non-executive Director

In accordance with the article 84(1) of the articles of association of the Company, Mr. Ho Kuang-Chi, Ms. Yang Shuling and Ms. Chen Su-Yin shall retire by rotation at the AGM and they being eligible, offer themselves for re-election.

None of Mr. Ho Kuang-Chi, Ms. Yang Shuling and Ms. Chen Su-Yan 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 2018, 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	41.81%
	Beneficiary of a trust	985,967	0.09%
Ms. Yang Shuling(3)	Beneficial owner	12,997,767	1.21%
	Beneficiary of a trust	1,941,362	0.18%
Ms. Chen Su-Yin(2)(4)	Interest of spouse	450,985,967	41.90%

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 7,896,738 Shares and Options representing 5,101,029 underlying Shares granted to her under the Pre-IPO Share Incentive Plan and RSUs representing 1,941,362 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 2018, the Company had 1,076,393,275 issued Shares.

(b) Interests in other members of the Group

So far as the Directors are aware, as at 31 December 2018, 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 2018, 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 2018, the following persons (other than the Directors or the chief executive of the Company) have interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of Shares or securities held[(1)]	Approximate percentage of interest[(5)]
Ying Qi PTC Limited[(2)]	Trustee of a trust	450,000,000	41.81%
Ying Qi Investments Limited[(2)]	Beneficial owner	450,000,000	41.81%
Gap (Bermuda) Limited[(3)]	Interest of controlled corporation	207,000,000	19.23%
General Atlantic Genpar (Bermuda), L.P.[(3)]	Interest of controlled corporation	207,000,000	19.23%
General Atlantic Partners (Bermuda) II, L.P.[(3)]	Interest of controlled corporation	207,000,000	19.23%
General Atlantic Singapore Fund Interholdco Ltd.[(3)]	Interest of controlled corporation	207,000,000	19.23%
General Atlantic Singapore Fund Pte. Ltd.[(3)]	Beneficial owner	207,000,000	19.23%
Hillhouse Capital Management, Ltd.[(4)]	Investment Manager	57,720,500	5.36%
Gaoling Fund, L.P.[(4)]	Beneficial owner	55,920,000	5.20%

Notes:

(1) All interests stated are long positions.

(2) Ying Qi PTC Limited, the trustee of the Ying Qi Trust, in its capacity as trustee holds the entire issued share capital of Ying Qi Investments Limited. The Ying Qi Trust is a discretionary trust established by Mr. Ho Kuang-Chi (as the settlor) and the beneficiary of which includes Mr. Ho Kuang-Chi. Accordingly, each of Mr. Ho Kuang-Chi 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 207,000,000 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, L.P.. Gaoling Fund, L.P. and YHG Investment, L.P. held 55,920,000 Shares and 1,800,500 Shares, respectively. Accordingly, Hillhouse Capital Management, Ltd. is deemed to be interested in the 55,920,000 Shares held by Gaoling Fund, L.P. and 1,800,500 Shares held by YHG Investment, L.P. by virtue of the SFO.

(5) As at 31 December 2018, the Company had 1,076,393,275 issued Shares.

(6) Pursuant to Section 336 of the SFO, the Shareholders are required to file a disclosure of interests form when certain criteria are fulfilled. When a shareholding in the Company changes, it is not necessary for the Shareholder to notify the Company and the Stock Exchange unless several criteria have been fulfilled, therefore a Shareholder's latest shareholding in the Company may be different from the shareholding filed with the Company and the Stock Exchange.

Save as disclosed above, as at 31 December 2018, 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 2018.

During the year ended 31 December 2018, the purchases of food ingredients and other supplies from the Group's five largest suppliers accounted for 20% 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 2018 accounted for 7% 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 2018.

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 2018.

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 2018, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB523.9 million (2017: RMB702.2 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 2018.

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 2018 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 allotted 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 2018, 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 2019 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. It is expected to be fully utilized within next five years.

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 the second half of 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, 28 March 2019

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 2018, 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. Li Jie 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 27 to 29 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 2018 was approximately RMB10.8 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 2018 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 2018 is set out below:

Remuneration band	**Number of senior management member**
HKD1,000,001 to HKD1,500,000	—
HKD1,500,001 to HKD2,000,000	2
HKD4,500,001 to HKD5,000,000	1

During the year ended 31 December 2018, 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 an associate director 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 2018.

Each of the Directors attended various trainings in 2018, 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 2018, 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 2017 annual report, 2017 annual results announcement, 2018 interim report, 2018 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 2018.

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	4	4*
Ms. Hsieh Lily Hui-yun	4	4
Mr. Hon Ping Cho Terence	4	4
Ms. Cheung Sze Man	4	4

* Four meetings were attended by his alternate Directors, Ms. Chang Le (who resigned with effect from 30 June 2018) and Ms Li Jie (who was appointed with effect from 30 June 2018).

In 2018, the Company convened and held one general meeting, being the 2017 annual general meeting held on 25 May 2018. All of the then Directors attended the 2017 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 2018, the Audit Committee held two meetings to consider the Company's 2017 annual report, 2017 annual results announcement, 2018 interim report, 2018 interim results announcement and the report on audit plan for the year of 2018 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 2018.

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	2	2*

* Two meetings were attended by his alternate Directors, Ms. Chang Le (who resigned with effect from 30 June 2018) and Ms. Li Jie (who was appointed with effect from 30 June 2018).

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 2018, 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 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 2018.

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.

Nomination Process

The Company has adopted a nomination policy (the "**Nomination Policy**"), which sets out the approach to guide the Nomination Committee in relation to the selection, appointment and re-appointment of the Directors.

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process as set out in the Nomination Policy:

(i) the Nomination Committee will, giving the consideration to the current composition, diversity and size of the Board, develop a list of desirable skills, perspectives and experience at the outset to focus the search effort on suitable candidates;

(ii) the Nomination Committee may consult any source it deems appropriate in identifying or selecting suitable candidates, such as referrals from existing Directors, advertisements, recommendations from an independent agency firm and proposals from Shareholders;

(iii) the Nomination Committee may adopt any process it deems appropriate in evaluating the suitability of the candidates, such as conducting interviews, background checks, presentations and third-party reference checks;

(iv) upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

(v) the Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment; and

(vi) the Board will have the final authority in determining the selection of nominees and all appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be).

Board Diversity Policy

The Company has formulated and adopted the board diversity policy (the "**Board Diversity Policy**") for compliance with the Listing Rules and the code provisions of the Code concerning the diversity of Board members. The Board Diversity Policy sets out the approach adopted by the Board regarding diversity of Board members.

The Board continuously seeks to enhance its effectiveness and to maintain the highest standards of corporate governance and recognizes diversity at Board level as an essential element in maintaining competitive advantage and sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how. 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. As of the date of this annual report, a majority of the members of the Board are female.

The Board strives to ensure that it has the appropriate balance of skills, experience, knowledge and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective.

Nomination Criteria

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.

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 2018, the Remuneration Committee held two meetings to review the remuneration of the Directors and senior management as well as the policy and structure of the remuneration for the Directors and senior management.

The table below sets out the details of meeting attendance of each member of the Remuneration Committee during the year ended 31 December 2018.

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 2018.

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 2018, 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 2018, the fees paid/payable to Deloitte Touche Tohmatsu for the audit of the financial statements of the Group were RMB2.85 million.

Fees paid/payable to Deloitte Touche Tohmatsu for non-audit services provided to the Group in the year were RMB0.42 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 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimated 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 2018, 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 Boards hall 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 31/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 2018 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 131, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 2018 and the significant management estimation involved in determining the recoverable amounts of leasehold improvements. The Group recorded leasehold improvements of RMB766,834,000 as at 31 December 2018, and impairment loss amounting to RMB7,448,000 was recognized for the year ended 31 December 2018. 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: • Inquiring the management on their determination of impairment indication and their method used for the 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.

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		For the year ended 31 December	
		2018	2017
	Notes	**RMB'000**	RMB'000
Revenue	5	**4,734,080**	3,663,993
Other income	6	**44,009**	39,825
Raw materials and consumables used		**(1,784,481)**	(1,365,240)
Staff costs		**(1,167,868)**	(833,366)
Property rentals and related expenses		**(579,751)**	(441,242)
Utilities expenses		**(170,695)**	(131,559)
Depreciation and amortisation		**(221,117)**	(151,325)
Other expenses		**(288,767)**	(238,817)
Other gains and losses	7	**44,030**	518
Profit before tax	8	**609,440**	542,787
Income tax expense	9	**(147,468)**	(122,617)
Profit for the year		**461,972**	420,170
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Reversal of previously accumulated investment revaluation reserve upon disposal of debt instrument measured at fair value through other comprehensive income ("FVTOCI")		**69**	—
Fair value gain on available-for-sale ("AFS") investments during the year, net of tax		**—**	1,230
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment		**—**	(67)
Other comprehensive income for the year, net of income tax		**69**	1,163
Total comprehensive income for the year		**462,041**	421,333

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	For the year ended 31 December 2018 RMB'000	 2017 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**462,478**	420,170
Non-controlling interest		**(506)**	—
		461,972	420,170
Total comprehensive income (expense) attributable to:			
Owners of the Company		**462,547**	421,333
Non-controlling interest		**(506)**	—
		462,041	421,333
Earnings per share			
— basic (RMB cents)	10	**43.49**	39.33
— diluted (RMB cents)	10	**42.81**	38.76

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		As at 31 December	
		2018	2017
	Notes	**RMB'000**	RMB'000
Non-current assets			
Property, plant and equipment	13	**911,088**	599,053
Intangible assets		**1,723**	1,119
Lease prepayments for land use right	14	**47,218**	48,538
Deferred tax assets	15	**134,110**	129,926
Rental deposits	16	**120,353**	86,460
		1,214,492	865,096
Current assets			
Inventories	17	**390,381**	326,783
Trade and other receivables and prepayments	18	**307,751**	168,052
AFS investment		**—**	32,765
Bank balances and cash	19	**1,340,692**	1,452,896
		2,038,824	1,980,496
Current liabilities			
Trade payables	20	**295,870**	269,163
Accrual and other payables	21	**551,281**	468,625
Income tax payables		**101,760**	100,547
Contract liability	22	**43,651**	—
Deferred income	23	**1,595**	8,439
		994,157	846,774
Net current assets		**1,044,667**	1,133,722
Total assets less current liabilities		**2,259,159**	1,998,818

As at 31 December 2018

		As at 31 December	
		2018	2017
	Notes	**RMB'000**	RMB'000
Non-current liability			
Deferred income	23	**11,692**	13,287
Net assets		**2,247,467**	1,985,531
Capital and reserves			
Share capital	24	**174**	173
Share premium and reserves		**2,241,265**	1,985,358
Equity attributable to owners of the Company		**2,241,439**	1,985,531
Non-controlling interest		**6,028**	—
Total equity		**2,247,467**	1,985,531

The consolidated financial statements on pages 62 to 131 were approved and authorized for issue by the board of Directors on 28 March 2019 and are signed on its behalf by:

Mr. Ho Kuang-Chi
Director

Ms. Yang Shuling
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the company									
	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	Non-controlling interest RMB'000	Total RMB'000
At 1 January 2017	172	1,009,109	17,869	29,091	(24,556)	(1,232)	685,855	1,716,308	—	1,716,308
Profit for the year	—	—	—	—	—	—	420,170	420,170	—	420,170
Other comprehensive income for the year	—	—	—	—	—	1,163	—	1,163	—	1,163
Profit and total comprehensive income for the year	—	—	—	—	—	1,163	420,170	421,333	—	421,333
Recognition of equity-settled share-based payments	—	—	11,612	—	—	—	—	11,612	—	11,612
Effect of forfeited share option	—	—	(1,465)	—	—	—	1,465	—	—	—
Exercise of issued share option	1	17,782	(5,450)	—	—	—	—	12,333	—	12,333
Payments of dividends (Note 12)	—	(166,864)	—	—	—	—	—	(166,864)	—	(166,864)
Purchase of treasury share under restricted share unit scheme ("RSU Scheme") (Note ii)	—	—	—	—	(9,191)	—	—	(9,191)	—	(9,191)
At 31 December 2017	173	860,027	22,566	29,091	(33,747)	(69)	1,107,490	1,985,531	—	1,985,531
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**462,478**	**462,478**	**(506)**	**461,972**
Other comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**69**	**—**	**69**	**—**	**69**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**69**	**462,478**	**462,547**	**(506)**	**462,041**
Recognition of equity-settled share-based payments	**—**	**—**	**12,634**	**—**	**—**	**—**	**—**	**12,634**	**—**	**12,634**
Exercise of issued share option	**1**	**11,577**	**(3,802)**	**—**	**—**	**—**	**—**	**7,776**	**—**	**7,776**
Exercise of RSU Scheme	**—**	**(1,049)**	**(2,657)**	**—**	**3,706**	**—**	**—**	**—**	**—**	**—**
Payments of dividends (Note 12)	**—**	**(176,528)**	**—**	**—**	**—**	**—**	**—**	**(176,528)**	**—**	**(176,528)**
Purchase of treasury share under RSU Scheme (Note ii)	**—**	**—**	**—**	**—**	**(50,521)**	**—**	**—**	**(50,521)**	**—**	**(50,521)**
Capital injection from non-controlling interest	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,534**	**6,534**
At 31 December 2018	**174**	**694,027**	**28,741**	**29,091**	**(80,562)**	**—**	**1,569,968**	**2,241,439**	**6,028**	**2,247,467**

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 2018, the Company acquired 4,672,500 (2017:1,498,000) shares from the market with consideration of HK$59,818,000 equivalent to approximately RMB50,521,000, (2017:HK$10,540,000, equivalent to approximately RMB9,191,000) for 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 2018

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Operating activities		
Profit before tax	**609,440**	542,787
Adjustments for:		
Depreciation of property, plant and equipment	**218,591**	150,025
Impairment loss of property, plant and equipment	**7,448**	7,738
Reversal of impairment loss of rental deposit	**(1,596)**	1,145
Release of lease prepayments for land use right	**1,320**	534
Amortisation of intangible assets	**1,206**	766
Recognition of equity-settled share-based payments	**12,634**	11,612
Interest income	**(4,952)**	(11,621)
Interest income on AFS investment	**—**	(2,255)
Interest income on debt instrument at FVTOCI	**(933)**	—
Interest income on financial asset at amortised cost	**(3,830)**	—
Gain from changes in fair value of financial assets at fair value through profit or loss ("FVTPL")	**(42,458)**	(38,217)
Investment loss (income) from reversing of investment revaluation reserve	**69**	(67)
Government grant released from deferred income	**(1,595)**	(3,813)
Foreign exchange (gain) loss, net	**(8,789)**	26,356
Loss on disposal of property, plant and equipment, net	**656**	644
Loss on disposal of intangible assets, net	**237**	—
Operating cash flows before movements in working capital	**787,448**	685,634
Movements in working capital		
Increase in inventories	**(63,598)**	(202,268)
Increase in trade receivables	**(24,803)**	(1,966)
Increase in other receivables	**(121,860)**	(79,552)
Increase in rental deposits	**(32,225)**	(28,616)
Increase in trade payables	**26,707**	101,803
Increase in accrual and other payables	**34,929**	58,484
(Decrease) increase in deferred income	**(6,844)**	5,524
Increase in contract liability	**43,651**	—
Cash generated from operations	**643,405**	539,043
Income taxes paid	**(150,439)**	(143,663)
Net cash from operating activities	**492,966**	395,380

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Investing activities		
Interests income received	**13,173**	15,208
Purchase of financial assets at FVTPL	**(3,610,670)**	(3,788,800)
Proceeds from financial assets at FVTPL	**3,653,128**	3,827,017
Disposal of AFS investment	**—**	18,845
Proceeds from disposal of debt instrument at FVTOCI	**32,696**	—
Purchase of financial assets at amortised cost	**(241,861)**	—
Proceeds from disposal of financial assets at amortised cost	**247,726**	—
Purchases of property, plant and equipment	**(491,591)**	(290,362)
Proceeds from disposal of property, plant and equipment	**587**	143
Purchase of intangible assets	**(2,047)**	(755)
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	**(398,859)**	(242,682)
Financing activities		
Dividend paid	**(176,528)**	(166,864)
Cash from exercise of share option	**7,776**	12,333
Payment for purchase of ordinary shares (Note 25)	**(50,561)**	(167)
Capital injection from non-controlling interest	**6,534**	—
Net cash used in financing activities	**(212,779)**	(154,698)
Net decrease in cash and cash equivalents	**(118,672)**	(2,000)
Cash and cash equivalents at the beginning of the year	**1,452,896**	1,479,208
Effect of foreign exchange rate changes, net	**6,468**	(24,312)
Cash and cash equivalents at the end of the year represented by bank balances and cash	**1,340,692**	1,452,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by IASB for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

2.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The Group recognizes revenue from the following major sources which arise from contracts with customers:

- restaurant operations
- sales of the condiment products and other goods

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 3 and 5 respectively.

Summary of effects arising from initial application of IFRS 15

The impact of transition to IFRS 15 on retained profits at 1 January 2018 and the impact of applying IFRS 15 on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the year is immaterial.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current liabilities				
Accrual and other payables	21	468,625	(10,371)	458,254
Contract liability	22	—	17,215	17,215
Deferred income	23	8,439	(6,844)	1,595

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

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

Summary of effects arising from initial application of IFRS 15 *(continued)*

At the date of initial application, included in the total deferred income and accrual and other payables, RMB6,844,000 related to the customer loyalty programme and RMB10,371,000 related to prepaid cards and advance from customers, were reclassified to contract liabilities upon application of IFRS 15.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	**As reported** RMB'000	**Adjustments** RMB'000	**Amounts without application of IFRS 15** RMB'000
Current liabilities				
Accrual and other payables	21	551,281	28,455	579,736
Contract liability	22	43,651	(43,651)	—
Deferred income	23	1,595	15,196	16,791

As at 31 December 2018, contract liability represent the balance of unredeemed performance obligation relating to the customer loyalty programme and prepaid cards and advance from customers.

2.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

2.2 IFRS 9 Financial Instruments *(continued)*

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	AFS investment	**Debt instrument at FVTOCI**
	RMB'000	RMB'000
Closing balance at 31 December 2017 — IAS 39	32,765	—
Effect arising from initial application of IFRS 9:		
Reclassification from AFS	(32,765)	32,765
Opening balance at 1 January 2018	—	32,765

AFS investment

From AFS debt investments to FVTOCI

At the date of initial application of IFRS 9, the listed bonds with a fair value of RMB32,765,000 was reclassified from AFS investment to debt instruments at FVTOCI, as this investments is held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of this investment is solely payment of principal and interest on the principal amount outstanding. Related fair value losses of RMB69,000 continued to accumulate in the FVTOCI reserve as at 1 January 2018.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the credit-quality level of the counterparties. The credit risk on the trade receivables had not increased significantly since the initial recognition.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables and bank balances, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the Group's average loss rate when considering the impairment of financial assets is insignificant, and no additional credit loss allowance was recognized.

Except as described above, the application of other amendments to IFRSs in the current period have no material effect on the amounts reported and disclosures set out in these condensed consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	**IFRS 15** RMB'000	**IFRS 9** RMB'000	**1 January 2018 (Restated)** RMB'000
Current assets				
AFS Investment	32,765	—	(32,765)	—
Debt instrument at FVTOCI	—	—	32,765	32,765
Current Liabilities				
Accrual and other payables	468,625	(10,371)	—	458,254
Contract liability	—	17,215	—	17,215
Deferred income	8,439	(6,844)	—	1,595

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1. Effective for annual periods beginning on or after 1 January 2019
2. Effective for annual periods beginning on or after a date to be determined
3. Effective for annual periods beginning on or after 1 January 2021
4. Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5. Effective for annual periods beginning on or after 1 January 2020

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

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

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.

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 recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest 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, and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group had non-cancellable minimum operating lease commitments of RMB2,790,211,000 as disclosed in Note 26, which are not reflected in the consolidated statements of financial position. The Directors expect that the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's right-of-use assets and related lease liability. The combination of straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the statement of profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognized over the lease term.

In addition, the Group currently considers refundable rental deposits paid of RMB120,353,000 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(CONTINUED)*

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

IFRS 16 Leases *(continued)*

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect to apply IFRS 16 retrospectively with cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative. The Group will recognize the right-of-use asset at the date of initial application at an amount equal to the lease liability, which is measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application, and adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

The Group intends to elect to apply this interpretation retrospectively with cumulative effect of initially applying this interpretation recognized at the date of initial application without restating comparative information, the cumulative effect of initially applying this interpretation will be recognized as an adjustment to the opening balance of retained earnings.

The Directors anticipate that the application of IFRIC 23 will have no material impact on the consolidated financial statements upon initial application.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRS Standards and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

- 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)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognizes 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

The Group generates revenues from restaurant operation and sales of condiment products and other goods.

For restaurant operation for which the control of services is transferred at a point in time, revenue is recognized when the related services have been rendered to customers.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) *(continued)*

Revenue from the sales of condiment products and other goods for which the control of goods is transferred at a point in time, is recognized when the goods are delivered and titles have passed.

For promotion service and delivery service for takeout orders for which the control of service is transferred at a point in time, revenue is recognized when the related services have been rendered to customers.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

The Group operates a customer loyalty programme through which reward credits are granted to the customers on consuming in the restaurants that entitle them to consume by offsetting the reward credits on future purchases and consumptions in the restaurants. These reward credits provide a right to consume by offsetting the reward credits to customers that they would not receive without future purchases and consumptions in the restaurants. The promise to provide the right to the customer is therefore a separate performance obligation.

The transaction price is allocated between the restaurant operation service provided and the reward credits on a relative stand-alone selling price basis. The stand-alone selling price of each reward credit is estimated based on the right to be given when the reward credits are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience.

Revenue recognition (prior to 1 January 2018)

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 recognized 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 recognized when the goods are delivered and titles have passed.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition (prior to 1 January 2018) *(continued)*

Sales of goods that result in award credits for customers, 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 credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed. Such consideration is not recognized as revenue at the time of the initial sale transaction — but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Revenue from restaurant operations service is recognized when the related services have been rendered to customers.

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

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.

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 recognized as an expense on a straight-line basis over the lease term. Contingent rental arising under operating leases are recognized 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)*

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 recognized 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 recognized in profit or loss in the period in which they arise.

Government grants

Government grants are not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the Group recognizes 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 recognized 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 recognized 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 recognized as an expense when employees have rendered service entitling them to the contribution.

Short-term employee benefits

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

A liability is recognized 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 recognized 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 recognized 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 recognized in equity-settled share-based payments reserve will be transferred to retained earnings.

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 recognized 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 recognized 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 derecognized 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 recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 recognized 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 derecognized 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 recognized in profit or loss in the period when the asset is derecognized.

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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 recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of tangible and intangible assets *(continued)*

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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized 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 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.

Deferred tax

Deferred tax is recognized 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 recognized for all taxable temporary differences. Deferred tax assets are generally recognized 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 recognized 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 recognized 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 recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

Deferred tax *(continued)*

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

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

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 recognized 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 recognized 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.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade 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 market place.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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 recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) *(continued)*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognized in profit or loss. All other changes in the carrying amount of these debt instruments are recognized in OCI and accumulated under the heading of investments revaluation reserve. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) *(continued)*

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) *(continued)*

(i) Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date.

A debt instrument is determined to have low credit risk if (i) the debt instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of investment grade as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) *(continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) *(continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognized through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, AFS financial assets and receivables. 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 recognized and derecognized on a trade 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.

(i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

(i) Financial assets at FVTPL (continued)

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- 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
- 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 stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss included any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 31.

(ii) 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 except for unquoted equity investments whose fair value cannot be reliably measured. 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 recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) *(continued)*

(iii) Receivables

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

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

The carrying amount of 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 recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (before application of IFRS 9 on 1 January 2018) (continued)

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized 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 recognized, the previously recognized 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 recognized.

Derecognition of financial assets

The Group derecognizes 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 entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the AFS revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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 recognized at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

***Equity instruments** (continued)*

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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 recognized 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.

The following are the key assumptions 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)*

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 recognized 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 2018, the carrying amounts of leasehold improvements are approximate RMB766,834,000. Details are disclosed in Note 13.

Deferred tax assets

Deferred tax assets are recognized 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 recognized, 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 2018, deferred tax assets recognized are approximately RMB134,110,000 (2017: RMB129,926,000), in which RMB111,767,000 (31 December 2017: RMB111,767,000) is from deductable temporary difference of royalty expense (details reference to Note 9). No deferred tax asset has been recognized on the tax losses of RMB30,711,000 (2017: RMB49,903,000) due to the unpredictability of future profit streams. Further details are contained in Note 15.

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	
	2018	2017
	RMB'000	RMB'000
Restaurant operations	**4,623,340**	3,599,065
Sales of the condiment products	**57,693**	34,040
Sales of other goods	**53,047**	30,888
	4,734,080	3,663,993

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.

The transaction allocated to the remaining performance obligation (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognizing revenue are as follow:

	Customer loyalty scheme	**Prepaid cards**	**Advance from customer**
	RMB'000	RMB'000	RMB'000
Within one year	12,869	26,251	2,204
More than one year but not more than two year	2,327	—	—
Total	15,196	26,251	2,204

The customer loyalty points have a twelve months to twenty-nine months' valid period after the grant of award credits based on different types of loyalty programmes and can be redeemed anytime within the valid period at customers' discretion. The amounts disclosed above represent the Group's expectation on the timing of redemption made by customers.

The Group issued the prepaid cards which have no expiration and can be utilized in the future consumption in restaurants at customers' discretion. The amounts disclosed above represent the Group's expectation on the timing of utilization made by customers.

6. OTHER INCOME

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income on:		
— bank deposits	**4,952**	11,621
— financial asset at amortised cost	**3,830**	—
— debt instrument at FVTOCI	**933**	—
— AFS investment	**—**	2,255
Promotion service income	**2,710**	1,873
Government grant		
— subsidy received (Note)	**7,568**	2,536
— release from deferred income (Note 23)	**1,595**	3,813
Delivery income	**16,247**	12,737
Others	**6,174**	4,990
	44,009	39,825

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 recognized.

7. OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment, net	**(656)**	(644)
Loss on disposal of intangible assets, net	**(237)**	—
Foreign exchange gain (loss), net	**8,789**	(26,749)
Reversal of investment revaluation reserve on disposal of AFS investment	**—**	67
Loss from disposal of debt instrument at FVTOCI	**(69)**	—
Loss on closure of restaurants	**(403)**	(1,490)
Impairment loss reversal (recognized) on rental deposit	**1,596**	(1,145)
Impairment loss recognized in respect of leasehold improvement	**(7,448)**	(7,738)
Gain from changes in fair value of financial assets at FVTPL	**42,458**	38,217
	44,030	518

8. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**218,591**	150,025
Amortisation of intangible assets	**1,206**	766
Release of lease prepayments for land use right	**1,320**	534
Total depreciation and amortisation	**221,117**	151,325
Operating lease rentals in respect of		
— rented premises (minimum lease payments)	**21,120**	14,116
— restaurants		
— minimum lease payments	**475,993**	364,806
— contingent rent (Note)	**82,638**	62,320
	558,631	427,126
Total property rentals and related expenses	**579,751**	441,242
Directors' emoluments (Note 11)	**10,816**	9,968
Other staff cost		
Salaries and other allowance	**1,073,755**	759,670
Equity-settled share-based payments	**5,790**	5,644
Retirement benefit contribution	**77,507**	58,084
Total staff costs	**1,167,868**	833,366
Auditor's remuneration	**2,850**	2,620

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	
	2018	2017
	RMB'000	RMB'000
Enterprise income tax ("EIT")		
Current tax in the PRC	**151,281**	158,496
Withholding EIT-current year	**371**	15,343
Deferred tax (Note 15)	**(4,184)**	(51,222)
Total income tax recognized in profit or loss	**147,468**	122,617

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The Company's subsidiary, Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. ("Xiabu Hong Kong"), incorporated in Hong Kong is qualifying for the two-tiered profits tax rates regime. Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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 recognized 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.

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 RMB1,503 million as at 31 December 2018 (2017:RMB1,063 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. INCOME TAX EXPENSE *(CONTINUED)*

In the years from 2008 to 2014, the PRC subsidiary with endorsement of respective PRC taxation authority made royalty payments to Xiabu Hong Kong according to the trademark license agreement and such payments made were field in the annual tax return as deductible tax expenses of the PRC subsidiary for each of the relevant years. The payment of royalty to Xiabu Hong Kong has been withheld from year 2015 as the endorsement of respective PRC taxation authority is pending. In the opinion of the Director, the Group would get the endorsement from the tax authority and finish the process of remitting the payments in a foreseeable future. Deferred tax assets have therefore been recognized for the tax deductible royalty expenses according to the trademark license agreement and the prevailing PRC tax regulations in previous years. The Group has been in the process of getting the consent and endorsement from the respective PRC taxation authority for making the royalty payments out of the PRC subsidiary and settling the withholding tax according to the prevailing tax regulations in the PRC. At the end of each of the reporting period, the Directors consider the effect of changes in facts and circumstances or of new information in the context of applicable tax laws relevant to the above-mentioned uncertain tax treatment and reflect the effect of uncertainty for such uncertain tax treatment at the best estimate. As of 31 December 2018, the deferred tax assets and withholding income tax regarding to the deductible royalty expenses have been remeasured based on those assessments accordingly.

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	
	2018	2017
	RMB'000	RMB'000
Profit before tax	**609,440**	542,787
Tax calculated at applicable domestic tax rates at 25%	**152,360**	135,697
Tax effect of different tax rate on intra-group royalty income and interest income subject to withholding tax	**(556)**	(23,015)
Effect of different tax rates of company operating in other jurisdictions	**(4,731)**	9,714
Tax effect of expenses not deductible for tax purposes	**4,942**	7,121
Tax effect of tax losses and deductible temporary differences not recognized	**7,525**	10,330
Utilisation of tax losses	**(12,072)**	(8,319)
Recognition of tax losses and deductible temporary differences previously not recognized	**—**	(8,911)
Income tax expense	**147,468**	122,617

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	
	2018	2017
	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	**462,478**	420,170

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	
	2018	2017
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,063,420**	1,068,366
Effect of dilutive potential ordinary shares	**16,793**	15,534
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,080,213**	1,083,900

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 2018					
	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)	942	—	—	—	2,032	2,974
Ms. Yang Shuling (楊淑玲女士) (Note i)	205	1,800	—	—	4,812	6,817
Sub-total	1,147	1,800	—	—	6,844	9,791
Non-executive directors:						
Ms. Chen Su-Yin (陳素英女士)	205	—	—	—	—	205
Mr. Zhang Chi (張弛先生) (Note ii)	205	—	—	—	—	205
Sub-total	410	—	—	—	—	410
Independent non-executive directors:						
Ms. Hsieh Lily Hui-yun (謝慧雲女士)	205	—	—	—	—	205
Mr. Hon Ping Cho Terence (韓炳祖先生)	205	—	—	—	—	205
Ms. Cheung Sze Man (張詩敏女士)	205	—	—	—	—	205
Sub-total	615	—	—	—	—	615
Total						10,816

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

	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

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.

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 on 23 August 2017.

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

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

Of the five employees with the highest emoluments in the Group, two were the directors of the Company for the years ended 31 December 2018 (2017: two), whose emoluments are included in the disclosures above. The emoluments of the remaining three (2017: three) individuals for the year were as follows:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**3,567**	3,507
Equity-settled share-based payments	**3,494**	3,435
Contributions to retirement benefits scheme	**47**	53
	7,108	6,995

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

	For the year ended 31 December	
	2018	2017
HKD1,000,001 to HKD1,500,000	**—**	1
HKD1,500,001 to HKD2,000,000	**2**	—
HKD2,000,001 to HKD2,500,000	**—**	1
HKD4,500,001 to HKD5,000,000	**1**	1
Total	**3**	3

During the years ended 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	RMB'000
Dividends recognized as distributions during the year	**176,528**	166,864

On 21 March 2018, the Company declared a dividend of RMB0.087 per share with total dividends of RMB92,785,000 to shareholders for the year ended 31 December 2017. The dividend was paid in June 2018.

On 27 August 2018, the Company declared a dividend of RMB0.078 per share with total dividends of RMB83,743,000 to shareholders for the six months ended 30 June 2018. The dividend was paid in October 2018.

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.

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2018 of RMB0.096 per share, amounting to approximately RMB101,248,000 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 24 May 2019. The 2018 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 at its middle rate of exchange prevailing on 24 May 2019. The dividend has not been included as a liability in these consolidated financial statements.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machineries	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2017	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
Additions	**—**	**—**	**4,276**	**51**	**48,015**	**486,975**	**539,317**
Transfer	**—**	**466,348**	**—**	**—**	**—**	**(466,348)**	**—**
Disposals	**—**	**(5,979)**	**(102)**	**(477)**	**(7,068)**	**—**	**(13,626)**
At 31 December 2018	**45,902**	**1,540,671**	**16,677**	**5,223**	**138,725**	**37,226**	**1,784,424**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	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 recognized before	—	(1,105)	—	—	—	—	(1,105)
Impairment loss recognized in profit or loss	—	7,738	—	—	—	—	7,738
At 31 December 2017	14,711	577,176	5,743	3,617	58,433	—	659,680
Charge for the year	**2,273**	**195,192**	**1,322**	**692**	**19,112**	**—**	**218,591**
Eliminated on disposals	**—**	**(3,564)**	**(49)**	**(453)**	**(5,902)**	**—**	**(9,968)**
Eliminated impairment recognized before	**—**	**(2,415)**	**—**	**—**	**—**	**—**	**(2,415)**
Impairment loss recognized in profit or loss	**—**	**7,448**	**—**	**—**	**—**	**—**	**7,448**
At 31 December 2018	**16,984**	**773,837**	**7,016**	**3,856**	**71,643**	**—**	**873,336**
CARRYING AMOUNT							
At 31 December 2018	**28,918**	**766,834**	**9,661**	**1,367**	**67,082**	**37,226**	**911,088**
At 31 December 2017	31,191	503,126	6,760	2,032	39,345	16,599	599,053

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 2018, 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% (2017: 17.05%) in relation to leasehold improvement.

After the assessment, the recoverable amount was calculated based on value in use, and the impairment of RMB7,448,000 was recognized during the year 2018.

The impairment loss recognized 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	
	2018	2017
	RMB'000	RMB'000
Cost:		
At beginning of the year	**53,843**	26,704
Additions	**—**	27,139
At the end of the year	**53,843**	53,843
Accumulated amortisation:		
At beginning of the year	**4,228**	3,694
Charge for the year	**1,320**	534
At the end of the year	**5,548**	4,228
Carrying amount at the end of the year	**48,295**	49,615

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

Analysed for reporting purposes as:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current portion included in trade and other receivables (Note 18)	**1,077**	1,077
Non-current portion	**47,218**	48,538
	48,295	49,615

15. DEFERRED TAX ASSETS

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

	Tax losses	**Deferred income**	**Contract liability**	**Allowance for doubtful debts**	**Impairment of leasehold improvement**	**Accrued royalty expense not paid**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	—	4,211	—	44	484	72,122	1,843	78,704
Credit to profit or loss	7,107	1,129	—	373	2,848	39,645	120	51,222
At 31 December 2017	7,107	5,340	—	417	3,332	111,767	1,963	129,926
Credit to profit or loss	2,900	(2,018)	3,456	(417)	1,258	—	(995)	4,184
At 31 December 2018	**10,007**	**3,322**	**3,456**	**—**	**4,590**	**111,767**	**968**	**134,110**

15. DEFERRED TAX ASSETS *(CONTINUED)*

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

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Unrecognized tax losses	**30,711**	49,903
Deductible temporary differences		
Contract liability	**1,371**	—
Deferred income	**—**	367
	32,082	50,270

The unrecognized tax losses will be expired as follow:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
2021	**—**	8,952
2022	**1,952**	40,951
2023	**8,702**	—
Indefinite	**20,057**	—
	30,711	49,903

At the end of the reporting period, the Group has unused tax losses of RMB70,739,000.00 (31 December 2017:RMB78,331,000) available for offset against future profits. A deferred tax asset has been recognized in respect of RMB40,028,000 (31 December 2017: RMB28,428,000) of such losses. No deferred tax asset has been recognized in respect of the remaining RMB30,711,000 (31 December 2017: RMB49,903,000) due to the unpredictability of future profit streams.

16. RENTAL DEPOSITS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Rental deposits	**120,353**	88,128
Less: allowance for doubtful debts	**—**	(1,668)
Net of rental deposits	**120,353**	86,460

Movement in the allowance for doubtful debts:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**1,668**	857
Impairment losses recognized on refundable rental deposits	**—**	1,596
Impairment losses reversed	**(1,596)**	(451)
Amounts written off as uncollectible	**(72)**	(334)
At the end of the year	**—**	1,668

17. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Food and beverage	**333,175**	286,435
Other materials	**36,951**	23,164
Consumables	**20,255**	17,184
	390,381	326,783

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**38,657**	13,854
Prepaid operating expenses	**76,634**	44,071
Prepayments to suppliers	**6,030**	—
Current portion of lease prepayments for land use right	**1,077**	1,077
Interest receivable	**53**	7,341
Amounts prepaid to the RSU trustee for purchase of ordinary shares (Note 25)	**1,053**	1,013
Prepayments for value-added tax	**164,918**	85,588
Other receivables	**19,329**	15,108
Total trade and other receivables and prepayments	**307,751**	168,052

As at 31 December 2018 and 1 January 2018, trade receivables from payment platforms amounted to RMB38,657,000 and RMB13,854,000 respectively.

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	
	2018	2017
	RMB'000	RMB'000
Within 60 days	**38,657**	13,854

At the end of the reporting period, there is no trade receivable that has expired but not impaired.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 31.

19. BANK BALANCES AND CASH

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash and bank balances denominated in:		
— RMB	**1,182,302**	1,103,789
— USD	**127,905**	325,767
— HKD	**30,485**	23,340
	1,340,692	1,452,896

Bank balances carried interest at prevailing market rates which range from 0.01% to 3.05% (2017: 0.1% to 0.35%) per annum as at 31 December 2018.

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

20. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on 60-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	
	2018	2017
	RMB'000	RMB'000
Within 60 days	**290,088**	262,946
61 to 180 days	**1,709**	3,371
181 days to 1 year	**302**	1,928
Over 1 year	**3,771**	918
	295,870	269,163

21. ACCRUAL AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Construction fee payables	**212,075**	164,349
Staff cost payable	**128,792**	104,398
Deposits from suppliers	**54,351**	33,042
Rental payables	**40,102**	42,204
Accrued operating expenses	**31,872**	36,580
Other PRC tax payables	**30,283**	29,930
Advance from customers	**—**	10,371
Others	**53,806**	47,751
	551,281	468,625

22. CONTRACT LIABILITY

	31/12/2018	1/1/2018
	RMB'000	RMB'000
		(Note i)
Customer loyalty programme (Note ii)	**15,196**	6,844
Prepaid cards and advance from customers (Note iii)	**28,455**	10,371
	43,651	17,215
Current	**43,651**	17,215

Notes:

(i) The amounts in this column are after the adjustments from the application of IFRS 15.

(ii) Customer loyalty programme

The contract liability of customer loyalty programme was recognized along with the restaurant services provided during each reporting period. As at 31 December 2018, the balance of RMB15,196,000 (as at 31 December 2017: RMB6,844,000) represents the unredeemed performance obligation relating to the customer loyalty programme.

(iii) Prepaid cards and advance from customers

The prepaid cards and advance from customers of the Group are refundable. However, no material refund liabilities were recognized during each reporting period since the management of the Group expects the amounts to be refunded in the future reporting periods is insignificant.

22. CONTRACT LIABILITY *(CONTINUED)*

The following table shows how much of the revenue recognized in the current year relates to carried-forward contract liabilities. There was no revenue recognized as at 31 December 2018 that related to performance obligations that were satisfied in a prior year.

	Customer loyalty programmes RMB'000	**Prepaid cards** RMB'000
Revenue recognized that was included in the contract liability balance at the beginning of the year	6,844	10,371

23. DEFERRED INCOME

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Customer loyalty programme (Note i)	—	6,844
Government grant (Note ii)	**13,287**	14,882
	13,287	21,726
Current	**1,595**	8,439
Non-current	**11,692**	13,287
	13,287	21,726

Notes:

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

(ii) The deferred income represents subsidies granted by the government in relation to acquisition or construction of non-current assets. The deferred income is released over the useful lives of the relevant assets, the release of deferred income was RMB1,595,000 for the year ended 31 December 2018 (2017: RMB3,813,000).

24. SHARE CAPITAL

Issued and fully paid-up:

	As at 31 December 2018 USD'000	2017 USD'000
Share capital of US$0.000025 each	**27**	27

	RMB'000	RMB'000
Presented as:		
Ordinary shares	**174**	173

	As at 31 December 2018 '000	2017 '000
Number of shares:		
Fully paid ordinary shares	**1,076,393**	1,072,459

Ordinary shares

	Authorized shares		Issued capital	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
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
Exercise of issued share option	—	—	3,934	1
Balance at 31 December 2018	**2,000,000**	**336**	**1,076,393**	**174**

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 schemes

	The year ended 31 December							
	2018				2017			
Share option tranches	**Tranche A**	**Tranche B**	**Tranche C**	**Tranche D**	Tranche A	Tranche B	Tranche C	Tranche D
Share options granted to								
Director	**350,000**	**891,200**	**1,148,750**	**2,711,079**	700,000	1,782,400	2,297,498	3,240,710
Other key management personnel	**—**	**—**	**—**	**1,627,890**	—	—	—	1,931,629
Other staff	**323,250**	**721,028**	**697,367**	**1,987,145**	444,500	752,512	979,353	2,263,440
Outstanding as at the end of the year	**673,250**	**1,612,228**	**1,846,117**	**6,326,114**	1,144,500	2,534,912	3,276,851	7,435,779

(iii) The movement of share options

	The year ended 31 December			
	2018		2017	
Share options	**Number of options**	**Weighted average exercise price RMB**	Number of options	Weighted average exercise price RMB
Balance at beginning of the year	**14,392,042**	**2.20**	22,675,624	2.10
Forfeited during the year	**—**	**—**	(1,735,860)	2.13
Exercised during the year	**(3,934,333)**	**1.98**	(6,547,722)	1.88
Balance at end of the year	**10,457,709**	**2.28**	14,392,042	2.20
Exercisable at end of the year	**6,165,382**		4,698,722	

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 recognized in profit or loss, with a corresponding adjustment to the equity-settled share-based payments reserve.

The Group recognized the total expense of RMB2,474,000 for the year ended 31 December 2018 (2017: RMB2,105,000) 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 2018, the RSU Trustee has purchased an aggregate of 4,672,500 shares (2017:1,498,000 shares) with consideration of HK$59,818,000, equivalent to approximately RMB50,521,000 (2017:HK$10,540,000, equivalent to approximately RMB9,191,000) 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 2018, 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
March	517,000	14.5	15.5	7,809
May	1,158,000	14.0	13.4	15,690
September	2,997,500	12.9	11.1	36,319

As at 31 December 2018, amounts about RMB1,053,000 (31 December 2017: RMB1,013,000) were held by the RSU Trustee to purchase ordinary shares from the market in the forthcoming period according to the instruction of the Company.

ii. Details of granted RSUs

RSUs tranche	Number of options granted	Grant date	Expiry date	Fair value at grant date	Vesting period
				HKD	
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.

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

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

ii. Details of granted RSUs *(continued)*

The following table discloses the movement of the Company's RSU granted to the selected participants for the year ended 31 December 2018 and outstanding at 31 December 2018:

RSU tranches	Outstanding at 1 January 2018	Number of Awarded Shares Exercised during the year	Forfeited during the year	Outstanding at 31 December 2018
RSUs granted to				
Director	3,245,793	(318,464)	—	2,927,329
Other key management personnel	1,395,239	(185,291)	—	1,209,948
Other staff	1,601,692	(117,512)	(163,167)	1,321,013
Total	6,242,724	(621,267)	(163,167)	5,458,290

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 recognized in profit or loss, with a corresponding adjustment to the equity-settled share-based payments reserve.

The Group recognized the total expense of RMB10,160,000 for the year ended 31 December 2018 (2017:RMB9,507,000) 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 **2018** **RMB'000**	 2017 RMB'000
Minimum lease payments under operating leases:		
Within one year	**572,231**	444,069
In the second to fifth year	**1,855,482**	1,283,472
After five years	**362,498**	274,855
	2,790,211	2,002,396

26. OPERATING LEASES *(CONTINUED)*

The Group as lessee *(continued)*

The above operating lease payments commitments represent rental payable by the Group for warehouse and premises leased for restaurants.

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	
	2018	2017
	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	**27,141**	1,363

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 2018 amounted to RMB77,507,000 (2017: RMB58,084,000).

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	
	2018	2017
	RMB'000	RMB'000
Expense on property leasing	**1,200**	1,260

As at 31 December 2018, the commitment for future minimum lease payments under non-cancellable operating lease with Xiabu Fast Food was RMB1,600,000 (2017: RMB2,800,000).

(c) Emoluments of key management personnel of the Group

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Short term employee benefits	**1,565**	1,325
Post-employment benefit	**23**	32
Equity-settled share-based payments	**2,593**	2,630
	4,181	3,987

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 2018, 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	Proportion ownership interest/ voting power attributable to the Company 31 December 2018 %	31 December 2017 %	Principal activities
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)	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
Xiabuxiabu (HK) Food Holdings Co. Ltd (呷哺呷哺（香港）食品控股有限公司) ("Food (HK)")	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) (Note iv)	The PRC 27 May 2017	Registered capital US$10,000,000	**60**	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**	100	Investment holding
Xiabuxiabu Restaurant Management (Tianjin) Co, Ltd.* (呷哺呷哺餐飲管理（天津）有限公司)	The PRC 29 December 2017	Registered capital USD20,000,000	**100**	100	Operating restaurant
Coucou (Tianjin) Restaurant Management Co., Ltd.* (湊湊（天津）餐飲管理有限公司)	The PRC 10 May 2018	Registered capital USD30,000,000	**100**	100	Operating restaurant

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

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

Notes:

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

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

(iii) 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) Xiabuxiabu (China) Food Co. Ltd. which is directly held by Food (HK) with registered capital of USD10,000,000. USD2,100,000 and USD1,000,000 were paid by Food (HK) and Mr. Ho Kuang-Chi respectively in 2018.

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Categories of the financial instruments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Financial assets:		
Financial assets at amortised cost	**1,398,731**	—
AFS investment	**—**	32,765
Loans and receivables (including cash and bank balances)	**—**	1,489,199
Financial liabilities:		
Amortised cost	**616,102**	697,487

Financial risk management objectives and policies

The Group's major financial instruments include AFS investment, 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.

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

Financial risk management objectives and policies *(continued)*

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	
	2018	2017
	RMB'000	RMB'000
USD	**127,978**	492,899
HKD	**30,485**	56,056

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% (2017:5%) increase and decrease in RMB against relevant foreign currency. 5% (2017:5%) 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	
	2018	2017
	RMB'000	RMB'000
Profit for the year		
USD	**6,125**	24,160
HKD	**1,520**	2,799

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

Financial risk management objectives and policies *(continued)*

Sensitivity analysis *(continued)*

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 19), which carry prevailing market interest. The Group currently does not have a specific policy to manage their interest rate risk but will closely monitor their interest rate risk exposure in the future.

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2018 RMB'000
Other income	
Financial assets at amortised cost	**8,782**

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2017 RMB'000
Other income	
Loans and receivables (including bank balances and cash)	11,621

Interest rate sensitivity analysis

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

Credit risk and impairment assessment

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 recognized financial assets as stated in the consolidated statements of financial position (including trade receivables, other receivables and bank balances and cash).

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

Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

The management of the Group considers bank balances that are deposited with state-owned banks or financial institutions with high credit rating to be low credit risk financial assets. In addition, trade receivables in connection with bills settled through payment platforms such as Unionpay, Alipay or WeChat Pay are also with high credit rating and no past due history. The management of the Group considers these assets are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers as at December 31, 2018 and 2017, and accordingly, no loss allowance was recognized as at December 31, 2018 and 2017.

In determining the ECL for other receivables, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example the Group has considered the consistently low historical default rate and concluded that credit risk inherent in the Group's outstanding other receivables is insignificant. The management of the Group has assessed that other receivables have not had a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, no impairment has been recognized.

There has been no change in the estimation techniques or significant assumptions made throughout the year ended December 31, 2018 and 2017.

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 2018, the Group had cash generated from operating activities of approximately RMB492,966,000 (2017: RMB395,380,000). The Group expects to meet its other obligations from operating cash flows.

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.

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

Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

	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 2018					
Financial liabilities					
Trade payables	**288,656**	**5,324**	**1,890**	**295,870**	**295,870**
Accrual and other payables	**155,673**	**41,989**	**122,570**	**320,232**	**320,232**
Total	**444,329**	**47,313**	**124,460**	**616,102**	**616,102**
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

Fair value of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. As at December 31, 2017, the AFS investment was categorised into Level 1 of the fair value hierarchy.

There were no transfers between Levels 1 and 2 during the year.

32. CAPITAL RISK MANAGEMENT

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

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

The management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of the management, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt of redemption of existing debt.

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current asset		
Investment in subsidiaries	**126,386**	103,748
Amounts due from a subsidiary	**131,270**	124,977
	257,656	228,725
Current assets		
Interest receivable	**54**	7,341
Amounts due from subsidiaries	**119,957**	115,256
Amounts prepaid to the RSU Trustee for purchase of ordinary shares (Note 25)	**1,053**	1,013
Bank balances and cash	**145,850**	353,134
	266,914	476,744
Current liabilities		
Other payables	**467**	3,099
	467	3,099
Net current liabilities	**266,447**	473,645
Total assets less current liabilities	**524,103**	702,370
Net assets	**524,103**	702,370
Capital and reserves		
Share capital	**174**	173
Reserves	**523,929**	702,197
Total equity	**524,103**	702,370

33. STATEMENT OF FINANCIAL POSITION AND RESERVES 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 2017	172	1,009,109	17,869	(24,556)	(113,571)	889,023
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 RSU Scheme	—	—	—	(9,191)	—	(9,191)
Balance at 31 December 2017	173	860,027	22,566	(33,747)	(146,649)	702,370
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**28,372**	**28,372**
Exercise of issued share option	**1**	**11,577**	**(3,802)**	**—**	**—**	**7,776**
Exercise of issued RSU Scheme	**—**	**(1,049)**	**(2,657)**	**3,706**	**—**	**—**
Recognition of equity-settled share-based payments	**—**	**—**	**12,634**	**—**	**—**	**12,634**
Payment of dividends	**—**	**(176,528)**	**—**	**—**	**—**	**(176,528)**
Purchase of treasury share under RSU Scheme	**—**	**—**	**—**	**(50,521)**	**—**	**(50,521)**
Balance at 31 December 2018	**174**	**694,027**	**28,741**	**(80,562)**	**(118,277)**	**524,103**

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**4,734,080**	3,663,993	2,758,137	2,424,606	2,201,989
Profit before income tax	**609,440**	542,787	473,122	323,120	186,043
Income tax expenses	**(147,468)**	(122,617)	(105,094)	(59,757)	(44,850)
Profit for the year	**461,972**	420,170	368,028	263,363	141,193
Other comprehensive income (expense) for the year	**69**	1,163	(1,232)	—	—
Total comprehensive income for the year	**462,041**	421,333	366,796	263,363	141,193
Total comprehensive income for the year attributable to					
Owners of the Company	**462,547**	421,333	366,796	263,363	141,193
Non-controlling interest	**(506)**	—	—	—	—

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,253,316**	2,845,592	2,312,604	1,964,131	1,682,150
Total liabilities	**1,005,849**	860,061	596,296	483,648	408,284
Net assets	**2,247,467**	1,985,531	1,716,308	1,480,483	1,273,866