上海 小南国 SHANGHAI MIN

DOUTOR

MAISON DE L'HUI 慧公馆

俺の ORENO DINING BAR FRENCH + ITALIAN

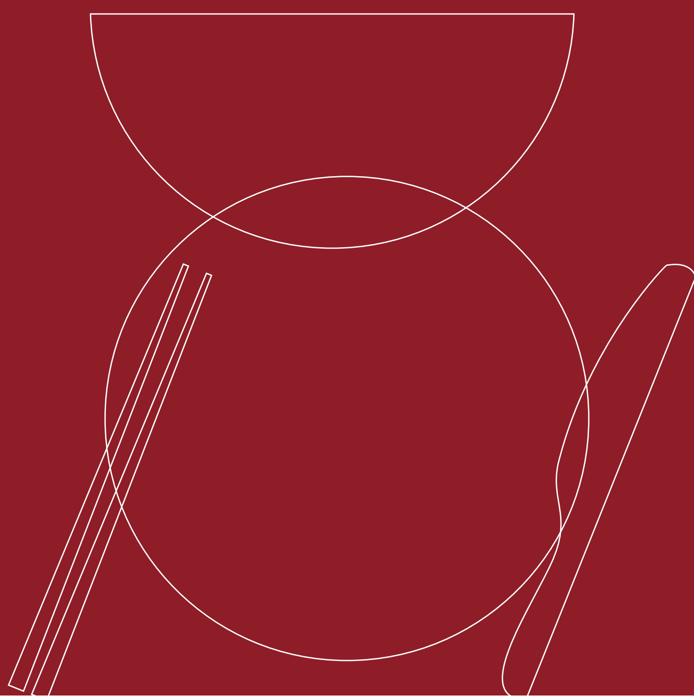
南小馆 the dining room

香港米芝蓮 HK Mai Chi Ling

WOLFGANG PUCK

以食为天

Tan'Sh Global Food Group Co., Limited



2018
ANNUAL REPORT

國際天食集團有限公司
TANSH Global Food Group Co., Ltd
Incorporated in the Cayman Islands with limited liability
Stock Code: 3666

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Huimin *(Chairlady)*
Mr. Sun Yong *(Chief Executive Officer)*[1, 4]
Ms. Zhu Xiaoxia

Non-executive Directors

Ms. Wang Huili
Ms. Wu Wen[2]

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. Leung Suet Lun[3]

AUTHORIZED REPRESENTATIVES

Ms. Wang Huimin
Mr. Sun Yong

AUDIT COMMITTEE

Mr. Lui Wai Ming *(Chairman)*
Dr. Wu Chun Wah
Mr. Lin Lijun

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

EXECUTIVE COMMITTEE

Ms. Wang Huimin *(Chairlady)*
Mr. Sun Yong *(Chief Executive Officer)*[4]
Ms. Zhu Xiaoxia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 801-802, Shui On Centre,
No. 6-8 Harbour Road,
Wan Chai, Hong Kong

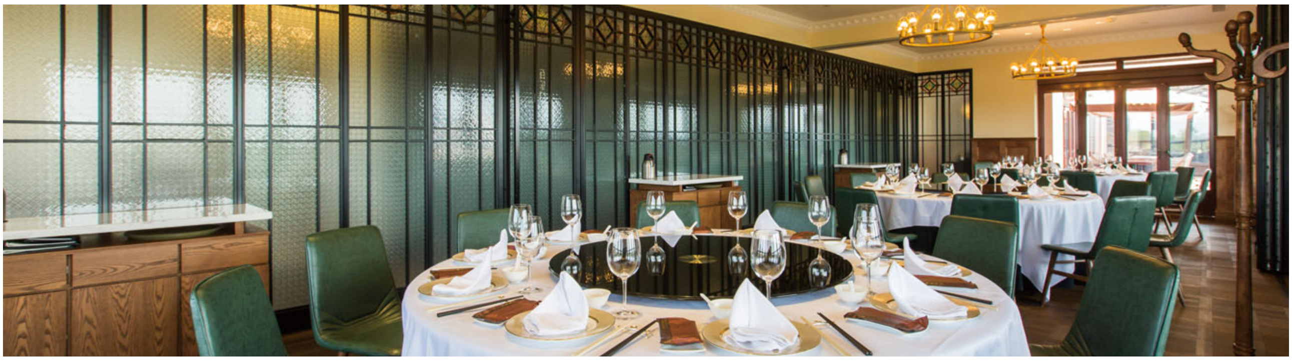
HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

2F, East Bldg., 777 Jiamusi Road,
Yangpu District, Shanghai
The People's Republic of China

REGISTERED OFFICE

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

1. Mr. Sun Yong was appointed as the executive director and the chief executive officer on 6 December 2018.
2. Ms. Wu Wen was re-designated from the executive director to the non-executive director on 15 March 2018.
3. Ms. Leung Suet Lun was appointed as the company secretary on 6 December 2018.
4. Mr. Sun Yong was appointed as a member of the executive committee of the board of directors on 6 December 2018.



PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

AUDITOR

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

STOCK CODE

03666

COMPANY'S WEBSITE

www.tanshglobal.com

INVESTOR RELATIONS

Mr. Ding Yuli
Email: ir@tanshglobal.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change
	2018	2017	increase/(decrease)
Revenue (RMB'000)	**1,497,589**	1,637,197	(8.5%)
Gross profit[1] (RMB'000)	**1,068,625**	1,186,132	(9.9%)
Gross margin[2]	**71.4%**	72.4%	(1.0%)
(Loss)/profit for the year (RMB'000)	**(79,596)**	101,938	(178.1%)
Net profit margin[3]	**(5.3%)**	6.2%	(11.5%)
(Loss)/earnings Per Share – Basic (RMB cents)	**(3.4)**	4.6	(173.9%)
Total assets (RMB'000)	**1,213,341**	1,622,801	(25.2%)
Net assets (RMB'000)	**666,768**	900,405	(25.9%)
Cash and cash equivalents (RMB'000)	**413,220**	305,224	35.4%
Net cash[4] (RMB'000)	**223,537**	(108,278)	306.4%
Account receivables turnover days[5] (days)	**4.5**	5.1	(11.8%)
Accounts payable turnover days[6] (days)	**79.6**	41.2	93.2%
Inventory turnover days[7] (days)	**18.7**	25.3	(26.1%)
Cash cycle[8] (days)	**(56.4)**	(10.8)	422.2%
Gearing ratio[9]	**6.5%**	25.4%	(18.9%)
Return on equity[10]	**(10.2%)**	10.9%	(21.1%)
Return on total asset[11]	**(5.6%)**	6.0%	(11.6%)
Number of restaurants[12] (as at 31 December)	**99**	98	(1.0%)

Notes:

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

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

3 Net profit margin is calculated as profit for the year divided by revenue.

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

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

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

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

8 Equivalent to account receivable turnover days + inventory turnover days – accounts payable turnover days.

9 Equivalent to net debts over capital and net debts.

10 Equivalent to net profit over annual average equity.

11 Equivalent to net profit over annual average total assets.

12 The number of restaurants as at 31 December 2017 excluding 23 stores of Million Rank (HK) Limited ("**Million Rank (HK)**") and Mai Chi Ling licenced stores.

DIRECTORS' REPORT

The board (the "**Board**") of Directors (the "**Director(s)**") of the TANSH Global Food Group Co., Ltd (the "**Company**") is pleased to present its report and the audited financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

The Board recommends the payment of a 2018 final dividend of RMB0.023 per share (approximately HK$0.026 per share) for the year ended 31 December 2018, 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 ("**AGM**"), which will be held on 28 June 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 middle rate of exchange between RMB and HKD as quoted by The People's Bank of China in the previous week before the date of the final dividend declaration.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders to attend the AGM to be held on 28 June 2019, the register of members of the Company will be closed from 25 June 2019 to 28 June 2019, both days inclusive, during which no transfer of shares will be registered. In order to be eligible to attend the AGM, all share transfers, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrar in Hong Kong (the "**Hong Kong Share Registrar**"), Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 24 June 2019.

If the proposal of 2018 final dividend is approved by shareholders at the forthcoming AGM, the register of members of the Company will be closed from 17 July 2019 to 19 July 2019, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed 2018 final dividend, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on 15 July 2019. The 2018 final dividend, if approved by the Company's shareholders at the forthcoming AGM, will be paid on or about 31 July 2019 to those shareholders whose names appear on the register of members of the Company on 19 July 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, none of the Group's sales to the 5 largest customers amounted to 30% or more of the Group's revenue. In 2018, total purchases attributed to the 5 largest suppliers and the largest supplier of the Group were approximately 38.6% and 20.8% of the total purchases respectively.

During the year, other than Ms. Zhu Xiaoxia who indirectly held 48.75% interests in the second largest supplier Shanghai Zhongmin Supply Chain Management Co., Ltd. (approximately 3.5% of the total purchases) and Ms. Wang Huimin who indirectly held 48.75% interests in the second largest supplier Shanghai Zhongmin Supply Chain Management Co., Ltd. (approximately 3.5% of the total purchases), none of the Directors, their associates or Shareholders who to the best knowledge of the Directors own 5% interest above of the issued shares of the Company has any beneficial interest in any of the Group's 5 largest suppliers or customers.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements of the Company's share capital and share options are set out in notes 29 and 30 to the financial statements respectively. The Company currently adopted two share option schemes. The purpose of these share option schemes is to enable the Group to grant options to the eligible participants as rewards or incentives for their contribution to the Group.

(1) Pre-IPO share option schemes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

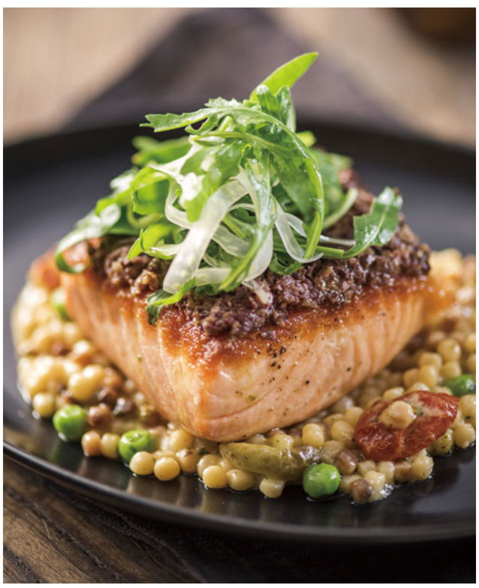
(1) 25% shall vest if the Company's net profit for the year ended 31 December 2014 reaches a specified target;

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

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

Each option granted under the Pre-IPO Share Option Schemes is exercisable within 10 years from the date on which such option becomes vested. For details of the share options, please refer to note 30 to the financial statements.

Under the Pre-IPO Scheme Option Schemes, all the options were granted on or before 13 June 2012 as mentioned in the prospectus of the Company dated 21 June 2012. No further options will be granted under the Pre-IPO Share Option Schemes upon listing. The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of RMB0.99, RMB1.09 or RMB1.17 by the grantee taking into consideration of the exercise price adjustment of the options upon the Rights Issue (RMB1 or RMB1.1 or RMB1.175 of the exercise price before the Rights Issue).



From 1 January 2018 to 31 December 2018, no share options granted under the Pre-IPO Share Option Schemes have been exercised or cancelled, 1,462,860 share options granted under the Pre-IPO Share Option Schemes have been lapsed. As of 31 December 2018, 18,345,348 share options granted under the Pre-IPO Share Option Schemes were still outstanding. The summary of the share options granted under the Pre-IPO Share Option Schemes that were still outstanding as at 31 December 2018 is as follows:

Name of the grantee	No. of share options outstanding as at 1 January 2018	No. of share options granted during the year ended 31 December 2018	No. of share options exercised during the year ended 31 December 2018	No. of share options cancelled during the year ended 31 December 2018	No. of share options lapsed during the year ended 31 December 2018	No. of share options outstanding as at 31 December 2018
Employees (in aggregate)	19,808,208	–	–	–	1,462,860	18,345,348

Details regarding the number of options, date of grant, exercise period and exercise price of the share options granted under the Pre-IPO Share Option Schemes that were still outstanding as at 31 December 2018 are set out below:

Participants	Date of grant of Option	Exercise Period of Option	Exercise Price of Option RMB per share	No. of outstanding option as at the Latest Practicable Date
Employees	11 February 2010	1 January 2012 to 11 February 2020	1	6,713,280
	21 June 2010	1 January 2012 to 21 June 2020	1	181,440
	1 September 2010	1 January 2012 to 1 September 2020	1	831,600
	15 December 2010	1 January 2012 to 15 December 2020	1.1	923,328
	26 January 2011	1 January 2012 to 26 January 2021	1.1	5,544
	28 February 2011	1 January 2012 to 22 March 2021	1.1	1,253,952
	22 March 2011	1 January 2012 to 22 March 2021	1.1	961,380
	1 July 2011	1 July 2012 to 1 July 2021	1.1	821,520
	1 July 2011	1 July 2012 to 1 July 2021	1.1	55,440
	12 August 2011	1 July 2012 to 12 August 2021	1.1	2,756,880
	12 August 2011	1 July 2012 to 12 August 2021	1.175	375,480
	15 January 2012	1 January 2013 to 15 January 2022	1.175	1,002,960
	15 May 2012	1 January 2013 to 15 May 2022	1.175	2,462,544
Total				18,345,348

Note: Affected by the Rights Issue in July 2016, the details of exercise price of the options under the Pre-IPO Share Option Schemes after adjustment upon the Rights Issue of the Company are set out on page 123 of this report.

(2) Share option scheme

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

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

The total number of Shares issued and to be issued upon the exercise of the options granted or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Group (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 4 July 2012. Under the Share Option Scheme, each option has a 10-year exercise period. No share option was granted under the Share Option Scheme for the period from 1 January 2018 to 31 December 2018.

Details of the share options granted to the Directors and the employees on 2 May 2017 are as follows:

Details of the share options granted to Ms. Wang Huimin on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	7,000,000
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2017 reaches the specified target, 50% of the share options will be vested on 1 October 2017; if the Company's net profit in the first half of 2017 reaches the specified target and the Company's net profit for the whole year of 2017 reaches the specified target, 30% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2017 reaches the specified target, the Company's net profit for the whole year of 2017 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

Details of the share options granted to Ms. Zhu Xiaoxia on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	5,000,000
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2017 reaches the specified target, 50% of the share options will be vested on 1 October 2017; if the Company's net profit in the first half of 2017 reaches the specified target and the Company's net profit for the whole year of 2017 reaches the specified target, 30% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2017 reaches the specified target, the Company's net profit for the whole year of 2017 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

Details of the share options granted to Mr. Lin Lijun on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	1,000,000
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2018 reaches the specified target, 50% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2018 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 30% of the share options will be vested on 1 October 2019; if the Company's net profit in the first half of 2018 reaches the specified target, the Company's net profit for the whole year of 2018 reaches the specified target and the Company's net profit for the whole year of 2019 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

Details of the share options granted to Mr. Lui Wai Ming on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	1,000,000
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2018 reaches the specified target, 50% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2018 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 30% of the share options will be vested on 1 October 2019; if the Company's net profit in the first half of 2018 reaches the specified target, the Company's net profit for the whole year of 2018 reaches the specified target and the Company's net profit for the whole year of 2019 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

Details of the share options granted to Dr. Wu Chun Wah on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	1,000,000
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2018 reaches the specified target, 50% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2018 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 30% of the share options will be vested on 1 October 2019; if the Company's net profit in the first half of 2018 reaches the specified target, the Company's net profit for the whole year of 2018 reaches the specified target and the Company's net profit for the whole year of 2019 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

Details of the share options granted to certain eligible employees on 2 May 2017:

Exercise price per share under the share option:	HK$0.5
Closing price of the Shares on the date of grant:	HK$0.45
No. of the share options granted:	70,000,000 in aggregate
Term of validity of the share options granted:	Ten(10) years from the date of grant (i.e. 2 May 2027)
Vesting date of the Share options:	The vesting period is 3 years. If the Company's net profit in the first half of 2018 reaches the specified target, 50% of the share options will be vested on 1 October 2018; if the Company's net profit in the first half of 2018 reaches the specified target and the Company's net profit for the whole year of 2018 reaches the specified target, 30% of the share options will be vested on 1 October 2019; if the Company's net profit in the first half of 2018 reaches the specified target, the Company's net profit for the whole year of 2018 reaches the specified target and the Company's net profit for the whole year of 2019 reaches the specified target, 20% of the share options will be vested on 1 October 2019.

The summary of the share options granted under the Share Option Schemes that were still outstanding as at 31 December 2018 is as follows:

Name of the grantee	No. of share options outstanding as at 1 January 2018	No. of share options granted during the year ended 31 December 2018	No. of share options exercised during the year ended 31 December 2018	No. of share options cancelled during the year ended 31 December 2018	No. of share options lapsed during the year ended 31 December 2018	No. of share options outstanding as at 31 December 2018
Directors						
Ms. Wang Huimin	7,000,000	–	–	–	–	7,000,000
Ms. Zhu Xiaoxia	5,000,000	–	–	–	–	5,000,000
Mr. Lin Lijun	1,000,000	–	–	–	–	1,000,000
Mr. Lui Wai Ming	1,000,000	–	–	–	–	1,000,000
Dr. Wu Chun Wah	1,000,000	–	–	–	–	1,000,000
Employees	96,622,137	–	–	149,310	4,511,430	91,961,397
Directors and employees (in aggregate)	111,622,137	–	–	149,310	4,511,430	106,961,397

Details regarding the number of options, date of grant, exercise period and exercise price of the share options granted to employees under the Share Option Schemes that were still outstanding as at 31 December 2018 are set out below:

Participants	Date of grant of Option	Exercise Period of Option	Exercise Price of Option HK$ per share	No. of outstanding option as at the Latest Practicable Date
Employees	23 August 2013	23 August 2013 to 22 August 2023	1.5	7,172,606
	30 June 2014	1 July 2015 to 29 June 2024	1.5	4,092,480
	30 June 2014	1 July 2015 to 29 June 2024	1.3	4,590,351
	1 January 2015	1 January 2016 to 31 December 2024	1.3	2,028,600
	1 January 2015	1 January 2016 to 31 December 2024	1	4,077,360
	2 May 2017	1 October 2017 to 2 May 2027	0.5	70,000,000
Total				91,961,397

Note: Affected by the Rights Issue in July 2016, the details of exercise price of the options after adjustment upon the Rights Issue of the Company are set out on page 126 of this report.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2018 and a outlook on the Group's future business development, possible risks and uncertainties that the Group may be facing are shown in "Management Discussion and Analysis" section of this report. The financial risk management objectives and policies of the Group are set out in note 40 to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in "Financial Highlights" section of this report.

Environmental policies and performance

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

Compliance with the relevant laws and regulations

The operations of the Group are mainly carried out by the subsidiaries established in Chinese Mainland and Hong Kong of the Company. The Company is incorporated in the Cayman Islands with its shares listed on the Stock Exchange. Therefore, the establishments and operations of the Group are subject to the relevant laws, rules and regulations of the Cayman Islands, the Chinese Mainland and Hong Kong. Compliance procedures are in place to ensure adherence to (in particular) applicable laws, rules and regulations in Chinese Mainland and Hong Kong in all material aspects. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees from time to time.

Key relationships with stakeholders

Employees

The Group respects its employees and endeavours to provide better working conditions for its employees. In accordance with the requirements of Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China and the Employment Ordinance in Hong Kong, the Company provides and maintains statutory benefits for its employees, including but not limited to mandatory provident fund, basic medical insurance, labour insurance. Employees are entitled to statutory holidays.

The Group has also established the policies for remuneration of employees so as to provide the fair remuneration packages for the employees under systemic remuneration management. The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects to build up a sound career platform for employees.

Customers

The Group focuses on improving the quality of products and services to enhance customer satisfaction, details of which are elaborated in Environmental, Social and Governance Report of the Company which will be released later.

Suppliers

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

DEBENTURES

For the financial year ended 31 December 2018, the Company did not issue any debentures.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Schemes and the Share Option Scheme, for the year ended 31 December 2018, the Company has not entered into any equity-linked agreement.

PERMITTED INDEMNITY PROVISION

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

RESERVES

Movements in the reserves of the Company are set out in note 44 to the financial statements.

As at 31 December 2018, the distributable reserves of the Company amounted to approximately RMB666,128,000, among which, RMB50,727,000 was proposed as a final dividend for the year.

The distributable reserves of the Company represents the share premium less accumulated losses, details of which are set out on page 145 of this report.

PROPERTY AND EQUIPMENT

Movements in the Group's properties and equipment during the year are set out in note 14 to the financial statements.

DIRECTORS

For the year ended 31 December 2018 and as at the date of this report, the Board was comprised of the following Directors:

Executive directors

Ms. Wang Huimin *(Chairlady)*
Mr. Sun Yong *(Chief Executive Officer)*[1]
Ms. Zhu Xiaoxia

Non-executive directors

Ms. Wang Huili
Ms. Wu Wen[2]

Independent non-executive directors

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

Mr. Weng Xiangwei resigned as non-executive Director on 4 July 2018.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors of the Company and the senior management of the Group are set out on pages 44 to 46 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company. The appointment of independent non-executive Director Dr. Wu Chun Wah is for a term of 3 years from 4 June 2015, the appointment of independent non-executive Director Mr. Lui Wai Ming is for a term of 3 years from 18 August 2015, the appointment of non-executive Director Ms. Wu Wen is for a term of 3 years from 15 March 2018, the appointment of executive Director Mr. Sun Yong is for a term of 3 years from 6 December 2018, the appointment of executive Director Ms. Zhu Xiaoxia is for a term of 3 years from 31 December 2015 and the appointment of independent non-executive Director Mr. Lin Lijun is for a term of 3 years from 23 March 2016. Except for the five Directors abovementioned, the appointment of all other Directors are for a term of 3 years from 4 July 2015. The appointment of all the Directors will continue in effect until any party giving at least three months written notice to the other party (subject to retirement from office and re-election at the AGM in accordance with its Articles of Association).

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

Notes:

1. Mr. Sun Yong was appointed as the Executive Director and the Chief Executive Officer on 6 December 2018.

2. Ms. Wu Wen was re-designated from an executive Director to a non-executive Director on 15 March 2018.

EMOLUMENT POLICY

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

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

Details of the employee retirement benefits of the Company are set out in note 28 to the financial statements.

Details of share capital and share-based payment are set out in note 29 and note 30 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS, TRANSACTIONS OR ARRANGEMENTS

Except for those disclosed in note 37 to the financial statements, for the year ended 31 December 2018, none of the Directors had any direct or indirect material interest in any contracts, transactions or arrangements of significance in relation to the Group's business to which any of the Company, its holding companies, its subsidiaries or its fellow subsidiaries was a party.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to notify to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules, are set out as follows:

Name of Directors	Nature of Interest	Number of Shares (1)	Approximate percentage of shareholding
Wang Huimin	Beneficiary of a trust	778,765,500(L) (2)	35.19%
	Trustee	166,747,227(L) (3)	7.53%
	Beneficial owner	7,000,000(L) (4)	0.32%
Sun Yong	Beneficial owner	4,142,066(L) (5)	0.19%
Zhu Xiaoxia	Interest in controlled corporations	80,103,575(L) (6)	3.62%
	Beneficial owner	40,873,693 (L) (7)	1.85%
Wu Wen	Interest in controlled corporation	62,592,681(L) (8)	2.83%
	Beneficial owner	13,050,000(L)	0.59%
Wang Huili	Interest in controlled corporations	12,260,625(L) (9)	0.55%
	Beneficial owner	13,650,000(L)	0.62%
Lui Wai Ming	Beneficial owner	1,000,000(L) (10)	0.05%
Wu Chun Wah	Beneficial owner	1,000,000(L) (11)	0.05%
Lin Lijun	Beneficial owner	1,000,000(L) (12)	0.05%

Notes:

(1) "L" denotes long position in the Shares held by the Directors.

(2) The relevant Shares were held by Value Boost Limited. As at 31 December 2018, the entire issued share capital of Value Boost Limited was held by Extensive Power Limited which acted as the trustee of The Wang Huimin Family Settlement (the "Wang Trust"). The Wang Trust was a trust established by Ms. Wang Huimin, an executive Director, as the settlor on 27 August 2011. The beneficiary(ies) of the Wang Trust is Ms. Wang during her lifetime and thereafter her personal representatives in their capacities as such, any person or class of persons nominated to the trustees by the protector or if at any time when there is no protector, the settlor and whose nomination is accepted in writing by the trustee. Therefore, Ms. Wang Huimin and Extensive Power Limited were deemed to be interested in the Shares held by Value Boost Limited under the SFO.

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

(4) Ms. Wang Huimin, an executive Director, was interested as a grantee of options to subscribe for up to 7,000,000 Shares under the Share Option Scheme (announced on 2 May 2017).

(5) Mr. Sun Yong, an executive Director, was interested in 1,000 shares in the Company and held an aggregate of 4,141,066 share options granted under the Pre-IPO Share Option Scheme(s) adopted by the Company on 10 February 2010 and 15 March 2011 (as amended on 10 August 2011) and the Share Option Scheme adopted by the Company which took effect from 4 July 2012 (announced on 6 December 2018).

(6) The relevant Shares were held by Xiao Hua (HK) Company Limited. Ms. Zhu Xiaoxia, an executive Director, owned half of issued share capital of Xiao Hua (HK) Company Limited. Therefore, Ms. Zhu Xiaoxia was deemed to be interested in the Shares held by Xiao Hua (HK) Company Limited under the SFO.

(7) Ms. Zhu Xiaoxia, an executive Director, held interests in 40,873,693 Shares, out of which include her interests as a grantee of options to subscribe for up to 5,000,000 Shares under the Share Option Scheme (announced on 2 May 2017).

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

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

(10) Mr. Lui Wai Ming, an independent non-executive Director, was interested as a grantee of options to subscribe for up to 1,000,000 Shares under the Share Option Scheme (announced on 2 May 2017).

(11) Dr. Wu Chun Wah, an independent non-executive Director, was interested as a grantee of options to subscribe for up to 1,000,000 Shares under the Share Option Scheme (announced on 2 May 2017).

(12) Mr. Lin Lijun, an independent non-executive Director, was interested as a grantee of options to subscribe for up to 1,000,000 Shares under the Share Option Scheme (announced on 2 May 2017).

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

As at 31 December 2018, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Capacity/Nature of Interest	Number of Shares [1]	Approximate percentage of shareholding
Value Boost Limited	Beneficial owner	778,765,500(L) [2]	35.19%
Extensive Power Limited	Interest in controlled corporation	778,765,500(L) [2]	35.19%
Weng Xiangwei	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	7.59%
Shen Xia	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Elite Converge Limited	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Sunshine Property I Limited	Beneficial owner	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Shining Capital Holdings L.P.	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Shining Capital Management Limited	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Shining (BVI) Limited	Interest in controlled corporation	167,887,000(L)	7.59%
		167,887,000(S) [3]	
Kaiser Capital Holdings Limited	Beneficial owner	118,223,625(L) [4]	5.34%
FIL Limited	Interest in controlled corporation	133,940,000(L)	6.05%
Fidelity China Special Situations PLC	Beneficial owner	132,934,000(L)	6.01%
Pandanus Associates Inc.	Interest in controlled corporation	139,808,000(L) [5]	6.32%
Pandanus Partners L.P.	Interest in controlled corporation	139,808,000(L) [6]	6.32%

Notes:

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

(2) The 778,765,500 Shares were held by Value Boost Limited. As at 31 December 2018, the entire issued share capital of Value Boost Limited was held by Extensive Power Limited (the "**Extensive Power**") which acted as the trustee of The Wang Trust. The Wang Trust was a trust established by Ms. Wang Huimin, an executive Director, as the settlor and the trustee on 27 August 2011. The beneficiary(ies) of the Wang Trust is Ms. Wang during her lifetime and thereafter her personal representatives in their capacities as such, any person or class of persons nominated to the trustees by the protector or if at any time when there is no protector, the settlor and whose nomination is accepted in writing by the trustee. The beneficiaries of The Wang Trust were Ms. Wang Huimin and in the event of her decease her estate administrator. Therefore, Ms. Wang Huimin and Extensive Power Limited were deemed to be interested in the Shares held by Value Boost Limited under the SFO.

Subsequent to 31 December 2018 and on 28 February 2019, Alpadis Trust (HK) Limited ("**Alpadis Trust**"), a professional trustee, has been appointed to replace Extensive Power as a new trustee of the Wang Trust, and all the 778,765,500 Shares were transferred by Extensive Power to Alpadis Trust. According to Rule 26.1 of the Takeovers Code, unless with a waiver has been granted by the Executive of the Securities and Futures Commission (the "**SFC**"), such change in trusteeship would result in Alpadis Trust as the new trustee of the Wang Trust having an obligation to make a mandatory offer. As the change in trusteeship only involved the transfer of all the issued shares Value Boost held by Extensive Power to Alpadis Trust for the same Wang Trust, an application for waiver has been made by Alpadis Trust to the Executive of the SFC from the mandatory offer obligation under Note 6 to Rule 26.1 of the Takeovers Code as a result of the change in trusteeship, and such waiver has been granted by the SFC on 18 February 2019.

(3) The 167,887,000 Shares were held by Sunshine Property I Limited. Mr. Weng Xiangwei owned the entire issued share capital of Shining (BVI) Limited, which beneficially owned 50% of the issued share capital of in Shining Capital Management Limited. the remaining of 50% equity interest held by Elite Converge Limited, which Mr. Shen Xia owned 100% of the issued share capital of in Elite Converge Limited, Shining Capital Management Limited in turn beneficially owned the entire issued share capital of in Shining Capital Holdings L.P., which also in turn beneficially owned the entire issued share capital of in Sunshine Property I Limited. Therefore, Mr. Weng Xiangwei, Mr. Shen Xia, Elite Converge Limited, Shining (BVI) Limited, Shining Capital Management Limited and Shining Capital Holdings L.P. were deemed to be interested in the Shares held by Sunshine Property I Limited under the SFO.

(4) The 118,223,625 Shares were held by Kaiser Capital Holdings Limited. Ting Pang Wan Raymond who held 100% interests of Kaiser Capital Holdings Limited were therefore deemed to be interested in the Shares held by Kaiser Capital Holdings Limited under the SFO. Luu Huyen Boi was the spouse of Ting Pang Wan Raymond, and therefore was deemed to be interested in the Shares held by Ting Pang Wan Raymond under the SFO.

(5) Pandanus Partners, L.P., who owns or control one-third or more of voting rights in FIL Limited.

(6) Pandanus Associates, Inc, who is a general partner of Pandanus Partners, L.P., who owns or control one-third or more of voting rights in FIL Limited.

(7) Kralik James Christopher, Lou Yunli, Linden Street Capital Limited, MCP China Investment Holdings Limited, Milestone Capital Investment Holdings Limited, Milestone Capital Partners III Limited, Milestone China Opportunities Fund III, L.P. and Milestone F&B I Limited were interested in 110,606,000 shares in the Company, approximate 4.99% of shareholding.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DONATIONS

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

PURCHASE, SALE OR REPURCHASE OF LISTED SECURITIES

The Company or any of its subsidiaries did not purchase, sell or repurchase any listed securities of the Company for the year ended 31 December 2018.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this report on pages 22 to 23, none of the Company or any of its subsidiaries entered into any contracts of significance with the controlling shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor was there any contracts of significance for the provision of services to the Group by the controlling shareholder or any of its subsidiaries.

CONNECTED TRANSACTIONS

Continuing connected transactions

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

Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd., a wholly-owned subsidiary of the Company ("**Shanghai Xiao Nan Guo**") agreed to provide banquet food to Shanghai WH Ming Hotel Co., Ltd. ("**WH Ming Hotel**") upon request for banquet arrangements at the hotel premises for the customers of WH Ming Hotel. The price of Banquet Food provided to WH Ming Hotel shall be decided by Shanghai Xiao Nan Guo, and shall not be lower than 75% of the selling price of the food in the menu of Shanghai Xiao Nan Guo. Maximum transaction amount for the year 2018 was RMB30 million*, and actual transaction amount in 2018 was RMB17.7 million.

* The continuing connected transaction was approved by the Board on 27 March 2018, with approved annual cap of the transaction of 2018 of RMB30 million, for details of which please refer to the announcement dated 27 March 2018 in relation to the continuing connected transaction.

The Company agreed to procure the raw ingredients used for restaurant operation from Shanghai Zhongmin Supply Chain Management Co., Ltd. ("**Zhongmin Supply Chain**"). The pricing of such raw materials shall be determined with reference to the costs for such raw materials and the prevailing market price and procurement quantity of similar raw materials.

The Company (for itself and on behalf of its subsidiaries and associated companies) entered into a procurement framework agreement with Zhongmin Supply Chain (the "**Previous Procurement Framework Agreement**") on 1 June 2017 (amended on 31 July 2017), with the validity for one year from 1 June 2017 and terminated on 31 May 2018, with the annual procurement in aggregate shall not exceed RMB30 million. The Company renewed the Previous Procurement Framework Agreement (the "**Renewed Procurement Framework Agreement**") with Zhongmin Supply Chain on 30 May 2018**. The validity of the Renewed Procurement Framework Agreement is effective from 1 June 2018 and up to 31 December 2020, with procurement in aggregate of no more than RMB18 million for the seven months ended 31 December 2018. The actual transaction amount in 2018 was RMB19.9 million.

** The Renewed Procurement Framework Agreement was approved by the Board on 30 May 2018, for details please refer to the announcement dated 30 May 2018 in relation to the continuing connected transaction.

Shanghai Xiao Nan Guo is a wholly owned subsidiary of the Company. The aforementioned WH Ming Hotel are owned by Ms. Wang Huimin, the chairlady, controlling shareholder and executive Director of the Company. Each of Ms. Wang Huimin and Ms. Zhu Xiaoxia (executive Director) holds 48.75% equity interests in Shanghai Zhongmin Investment and Development Group Co., Ltd ("**Shanghai Zhongmin Investment**"), which in turn holds 100% equity interests in Zhongmin Supply Chain. Therefore, according to the Listing Rules, WH Ming Hotel and Zhongmin Supply Chain are connected persons of the Company.

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

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

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

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

The auditors of the Company have performed certain pre-determined procedures and reported their findings regarding the continuing connected transactions entered into by the Group set out above for the year ended 31 December 2018 and state that:

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

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

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

(4) the aggregate amounts of the continuing connected transactions have not exceeded the relevant annual cap.

Apart from the transactions disclosed above, the related party transactions with companies owned by the controlling shareholder also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Save as disclosed in this report, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The following continuing connected transactions have been transacted without due compliance of the Listing Rules.

Provision of financial assistance

There were various loans and advances made by the Group to each of the JM (HK) Investment Company Limited ("**JM HK**", together with its subsidiary(ies), the "**JM HK Group**")) and Shanghai Xiao Nan Guo Hongshi Trading Co., Ltd. ("**Shanghai Hongshi**") during the year of 2018. As at 31 December 2018, the balance of loans and advances in the aggregate amount of HK$54.5 million and RMB10 million were due by JM HK Group and Shanghai Hongshi respectively remained outstanding. JM HK Group and Shanghai Hongshi agreed to repay the outstanding loans and advances by 30 September 2019.

Each of Ms. Wang (the chairlady and an executive Director) and Ms. Zhu (an executive Director) held as to 47.5% of the total issued shares in JM HK which in turn held as to 55.0% of the total issued shares of Chung So. Each of JM HK and Chung So was a connected person of the Company.

There were various loans and advances made by the Group to the Wang Companies during the year of 2018. The daily maximum outstanding advance to the Wang Companies amounted to RMB180.4 million during the year of 2018. As at 31 December 2018, all the advances have been repaid and settled.

Wang Companies are controlled by Ms. Wang. As one or more of the applicable percentage ratios in respect of the Advances to Wang Companies are more than 5.0%,

Procurement of pre-packed food

For the year ended 31 December 2018, Shanghai Xiao Nan Guo had sourced and purchased various pre-packed food from Shanghai Hongshi in an aggregate amount of RMB3.7 million. The Company did not intend to continue relevant transactions with Shanghai Hongshi.

Each of Ms. Wang and Ms. Zhu held as to 50% of the interests in Shanghai Hongshi.

No written or framework agreements were signed , no annual caps have been set, no announcements was made and, for the abovementioned financial assistances and procurement of pre-packed food transaction no independent shareholders' approval was obtained in accordance with the Listing Rules. These transactions are also disclosed in note 37 to the financial statements. It is expected that the auditor would make qualified conclusion on its annual review on the Group's continuing connected transactions based on the foregoing.

PUBLIC FLOAT

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

AUDITOR

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

SUBSEQUENT EVENTS

Subsequent to 31 December 2018, the Company or the Group has no material subsequent events.

On behalf of the Board
Wang Huimin
Chairlady

Shanghai, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2018, the international environment experienced significant change, with the trade frictions between China and the United States evolving in complex ways, and the domestic economic structural reform was constantly deepened. Faced with the changing and uncertain domestic and overseas economic situations, China's GDP achieved a year-on-year growth of 6.6%, and the per capita consumption expenditure increased by 6.2%. The total revenue of catering industry in China had a year-on-year growth of 9.5%, slightly lower than the year-on-year growth of 10.7% in 2017.

The catering industry was generally faced with a situation of oversupply in addition to the slowdown of total revenue growth, which was worsened by the oversupply of shopping centers. Meanwhile, takeaway operators in catering increased greatly in 2018. Apart from the impact of takeaway on eat-in, in terms of the practitioners participating in the takeaway industry, the takeaway discounts and platform costs in a highly competitive environment caused a relatively low level of profit in takeaway industry.

Consumers in domestic market continued to pursue new experiences and popular restaurants, the brand loyalty and consumption continuity of whom were low. While under the macro background that the whole catering industry faced a relatively large operating pressure, emerging brands and top brands stayed in a relatively good situation.

OPERATION REVIEW

For the year ended 31 December 2018, the Group's revenue amounted to RMB1,497.6 million, with a decrease of RMB139.6 million or 8.5% from RMB1,637.2 million in 2017; the Group's gross profit amounted to RMB1,068.6 million, with a decrease of approximately RMB117.5 million or 9.9% from RMB1,186.1 million in 2017. In 2018, the loss attributable to the parent company owner was approximately RMB76.0 million, representing a decrease of RMB177.7 million as compared with the profit of RMB101.7 million in 2017. The main reason for the profit decrease in this year was that the Company closed and adjusted some stores to optimize its structure and incurred the non-recurring cost of RMB133.8 million due to the closing cost and asset provision, and that the gross profit decreased due to the decline in the same-store sales by 3.8%.

In 2018, the Group operated a restaurant network of 65 "Shanghai Min" restaurants, 3 "Maison DeL'Hui" restaurants, 27 "The Dining Room" restaurants, 1 "Oreno" restaurant, 2 "Wolfgang Puck" restaurants and 1 "DOUTOR" café, which covers some of the most affluent and fast-growing cities in Chinese Mainland (Note(ii)), Hong Kong and other regions. The following table sets forth the revenue and the number of the restaurants in operation, by geographical region and brand, in 2018 and 2017 respectively.

	As of 31 December			
	2018		2017	
	Number of restaurants (Note (iii))	**Revenue RMB'000 (audited)**	Number of restaurants	Revenue RMB'000 (audited)
The PRC (Chinese Mainland) (Note (ii))				
– Shanghai Min and Maison DeL'Hui	**61**	**993,430**	63	1,143,130
– The Dining Room	**19**	**167,932**	16	146,208
– Other brands (Note (iv))	**4**	**53,543**	4	60,605
Hong Kong				
– Shanghai Min	**7**	**132,779**	7	142,774
– The Dining Room	**8**	**135,459**	7	118,136
– Other brands (Note (iv))	**–**	**–**	1	2,887
Total Revenue of restaurant operations (Note (i))	**99**	**1,483,143**	98	1,613,740
Other revenue		**14,446**		23,457
Total Revenue		**1,497,589**		1,637,197

Notes:

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

(ii) The PRC (Chinese Mainland), which for the purpose of this announcement and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

(iii) The number of restaurants excludes licensed stores.

(iv) Other brands in the PRC include Oreno, Wolfgang Puck and DOUTOR. Other brands in Hong Kong include Oreno.

The selling of POKKA HK business

On 21 July 2018, the Group completed the selling of POKKA HK business, including the Pokka Café, Tonkichi and other restaurants operated in Hong Kong and Macau. After the selling of POKKA HK business, the Group will focus on its core brands. The proceeds from such disposal will be used as the Group's general working capital.

OPTIMIZATION OF STORE ASSET STRUCTURE

Because some stores of the Group had long-term poor performance and failed to meet the revenue targets set by the management even after the Group's best effort in operation and trial of various marketing strategies, and it will cause severe and ongoing drag on the economic performance and resources of the Group in the long term, the Group made asset impairment write-off and provision for the closed stores and stores suffering loss in 2018 (including the non-recurring asset write – off related to the closing of "The BOATHOUSE" stores and the Hong Kong stores under "Oreno" brands).

FINANCIAL REVIEW

Total revenue

Revenue of the Group decreased by RMB139.6 million, or 8.5%, from RMB1,637.2 million in 2017 to RMB1,497.6 million in 2018. This decrease was due to the decrease in revenue for stores closed, decorated and rectified during the year.

Total revenue of restaurant operations

Total revenue of restaurant operations decreased by RMB130.6 million, or 8.1% from RMB1,613.7 million in 2017 to RMB1,483.1 million in 2018, primarily reflecting:

- an increase of RMB76.4 million in revenue contributed by restaurants newly opened as of 31 December 2018;
- a decrease of RMB52.5 million (or decrease by 3.8%), in comparable restaurants sales in 2018 as compared with that of 2017;
- the relocation, adjustment, transfer, closing stores and decrease in restaurant revenue in 2018 resulted in a decrease in overall revenue of RMB154.5 million.

Other revenue

Other revenue decreased by RMB9.1 million, from RMB23.5 million in 2017 to RMB14.4 million in 2018.

Cost of sale

The cost of sale decreased by RMB22.1 million, or 4.9%, from RMB451.1 million in 2017 to RMB429.0 million in 2018.

The cost of sales as a percentage of revenue increased from 27.6% in 2017 to 28.6% in 2018.

Other income and gains

Other income and gains decreased by RMB4.2 million, from RMB27.0 million in 2017 to RMB22.8 million in 2018. This change was mainly driven by: (1) The income of RMB2.17 million from the compensation for surrender of tenancy of some stores in 2017 and the reversal of store impairment of RMB11.94 million; (2) the proceeds of approximately RMB8.9 million from disposal of POKKA HK and other relevant subsidiaries in 2018.

Selling and distribution expenses

Selling and distribution expenses decreased by RMB31.3 million, or 3.4%, from RMB928.3 million in 2017 to RMB897.0 million in 2018.

Labor costs relating to the restaurants operations decreased by RMB20.9 million, or 5.7%, from RMB366.7 million in 2017 to RMB345.8 million in 2018. As a percentage of the Group's revenue, labor costs increased from 22.4% in 2017 to 23.1% in 2018.

Rental costs relating to restaurants operations decreased by RMB16.4 million, or 5.7%, from RMB288.6 million for the year ended 2017 to RMB272.2 million for the year ended 2018. As a percentage of the Group's revenue, rental costs increased from 17.6% in 2017 to 18.2% in 2018.

Depreciation expenses relating to the restaurants operations decreased by RMB9.3 million, or 7.1%, from RMB131.5 million in 2017 to RMB122.2 million in 2018. As a percentage of the Group's revenue, depreciation expenses increased from 8.0% in 2017 to 8.2% in 2018.

Administrative expenses

Administrative expenses increased by RMB17 million, or 14.1%, from RMB120.8 million in 2017 to RMB137.8 million in 2018, and as a percentage of revenue, administrative expenses increased from 7.4% to 9.2% over the same period.

Other expenses

Other expenses of RMB99.7 million in 2018 were mainly attributable to the asset depreciation loss of money-losing stores of RMB28.4 million and the loss of closed stores of RMB40.6 million. Among them, the loss of disposal of assets was RMB32.6 million, other loss of closed stores was approximately RMB8.0 million, and the loss of provision for bad debts was RM13.1 million.

Income tax expense

Income tax expenses decreased by RMB16.6 million or 45.0%, from RMB36.9 million in 2017 to RMB20.3 million in 2018.

(Loss)/profit for the year

As a result of the foregoing, the profit for the year decreased by RMB181.5 million from RMB101.9 million in 2017 to the loss of RMB79.6 million in 2018. The net profit margin decreased from 6.2% in 2017 to –5.3% in 2018.

Liquidity, capital resources and cash flow

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

As at 31 December 2018, the Group's total interest-bearing bank loans were RMB189.7 million. The gearing ratio was 6.5%, which decreased by 18.9% from 25.4% of gearing ratio as at 31 December 2017. Gearing ratio represents net debt divided by adjusted capital plus net debt. Net debt includes interest-bearing bank loans, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

The Group had net cash inflows from operating activities of RMB141.7 million in 2018 (2017: RMB226.9 million). As at 31 December 2018, the Group had RMB412.0 million in cash and cash equivalents (31 December 2017: RMB305.2 million). The following table sets out certain information regarding the consolidated cash flows for the years ended 31 December 2018 and 2017: (The data in this paragraph and in the following table includes the influence produced by POKKA HK Business):

	As of 31 December	
	2018	2017
	RMB'000	RMB'000
	(audited)	(audited)
Net cash flows generated from operating activities	**141,698**	226,884
Net cash flows from/(used in) investing activities	**41,475**	(140,842)
Net cash flows generated from financing activities	**(57,453)**	(19,179)
Net increase in cash and cash equivalents	**125,720**	66,863
Cash and cash equivalents at the beginning of the year	**305,224**	233,390
Effect of foreign exchange, net	**(18,946)**	4,971
Cash and cash equivalents at the end of the year	**411,998**	305,224

Operating activities

Net cash inflow from operating activities decreased by RMB85.2 million from RMB226.9 million as at 31 December 2017 to RMB141.7 million as at 31 December 2018, which was mainly due to the decrease in profit before tax.

Investing activities

Net cash flow from investing activities was RMB41.5 million as of 31 December 2018, compared with net cash flow used in investing activities of RMB140.8 million in 2017. In 2018, cash flow from disposal of POKKA HK and its subsidiaries was RMB63.6 million and cash flow used in decoration of new stores and investment in equipment was RMB43.5 million. The cash outflow from major investment activities was the final payment for acquiring equity interest of non-current financial assets, JMU Limited (formerly known as "**Wowo Limited**") in 2017.

Financing activities

Net cash flow generated from financing activities increased by RMB38.3 million from a cash outflow of RMB19.2 million as of 31 December 2017 to a cash outflow of RMB57.5 million as of 31 December 2018. This was mainly due to the decrease in pledged time deposits of RMB140.8 million, the repayment of bank loans amounting to RMB213.5 million, the addition of bank loans amounting to RMB45.2 million, the payment of interest amounting to RMB13.9 million and the dividends amounting to RMB22.1 million.

Foreign currency exposure

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities, investment activities and overseas financing income or expenses (when revenue or expenses from investment activities and overseas financing are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the years ended 31 December 2018 and 31 December 2017 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to foreign exchange risk.

Contingent liabilities

A subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary violated registered trademarks and unfair competition in Chinese Mainland. The plaintiff claims for compensation amounted to RMB10,000,000. The Group's attorney considers that the possibility and amount of compensation cannot be estimated for the time being. Accordingly, the Company have not provided for any claim arising from the litigation, other than the related legal and other costs.

SUBSTANTIAL DISPOSALS

The Group had disposed the POKKA HK Business for the year ended 31 December 2018.

MATERIAL INVESTMENTS

The Group had not made any material investment for the year ended 31 December 2018.

Operating lease arrangements

As lessee

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

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

	31 December 2018 RMB'000 (audited)	31 December 2017 RMB'000 (audited)
Within one year	**256,094**	249,504
In the second to fifth years, inclusive	**467,190**	649,867
After five years	**22,316**	158,791
	745,600	1,058,162

Capital commitment

Capital commitments were approximately RMB7.4 million and RMB7.4 million as at 31 December 2018 and 31 December 2017, respectively.

Pledge of group assets

As at 31 December 2018, the Group's total interest-bearing bank loans were RMB189.7 million, of which bank loans of HK$27.4 million (equivalent to RMB24.0 million) were secured by the pledge of fixed deposits of RMB11.7 million.

Human resources and remuneration policies

As at 31 December 2018, the Group employed approximately 2,280 people in Chinese Mainland, Hong Kong, including 2,060 employees in restaurants and 220 employees in functional departments (2,957 employees in 2017, a year-on-year decrease of 22.9%).

In 2018, the Group continued to use a three-dimensional labor structure for full-time employees, hourly employees and trainees and also entered into long-term cooperation plans with a number of domestic institutions. And the Group continued to carry out a number of incentive assessment policies formulated, so as to increase the overall income of employees and to achieve the sharing of benefits between the Company and employees, as well as to improve employee work enthusiasm.

STRATEGIC OUTLOOK

Reform the dishes of Shanghai Min brand to consolidate and expand customer groups

Good dishes is one of the core competitiveness of a catering enterprise. In 2019, the Group will concentrate its energy to focus on the dish reform of Shanghai Min brand, and analyse and build the dish structure of Shanghai Min brand to meet the needs of mid-range business banquet and that of ordinary family consumption, thus injecting new energy into such a Shanghai local catering brand over 30-year-old, bringing better and newer dishes as well as better experiences to our customers. In terms of customer management, the Group will fully turn to the faster and more convenient mobile phone CRM system to build a more convenient customer entrance, record customers' consumption process, and offer them feedback of different levels through consumption bonus points, so as to form a targeted marketing model. By combining the above plans, the Group will be carefully prepared for 2019 to create a new generation of brand model stores representing Shanghai cuisine.

Expand the league cooperation of The Dining Room brand with aiming at young consumers

Undergoing 6 years of management and operation under the Group, The Dining Room has been successfully built as a leisure catering brand that is popular among youngsters. While the operation model of such brand is mature, the Group will start to initiate the piloting of league cooperation business in domestic key cities by taking advantage of the restaurant management and operation ability, product R&D ability, and raw and supplementary material distribution ability that it already has.

Actively expand opportunities in high-end private consumption markets for Maison De L'Hui brand

As a high-end brand created by the Group with heart locating at carefully selected sites, Maison De L'Hui owns well-deserved reputation in high-end consumption market. In 2019, Maison De L'Hui will actively seek growth opportunities in the high-end private consumption market to obtain the possibility of opening new stores and new theme stores.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own corporate governance code. For the year ended 31 December 2018, save as disclosed in this report, the Company has complied with all applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors have confirmed that, they had complied with the required standard as set out in the Model code throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

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

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

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

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

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

Executive directors
Ms. Wang Huimin *(Chairlady)*
Mr. Sun Yong *(Chief Executive Officer)*
Ms. Zhu Xiaoxia

Non-executive directors
Ms. Wang Huili
Ms. Wu Wen

Independent non-executive directors
Dr. Wu Chun Wah
Mr. Lui Wai Ming
Mr. Lin Lijun

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

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

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

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

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

All Directors have already entered into service contracts with the Company. The appointment of independent non-executive Director Dr. Wu Chun Wah is for a term of three years commencing from 4 June 2015, the emolument of Dr. Wu has been increased from USD30,000 to HKD288,000 effective from 29 December 2015, the appointment of independent non-executive Director Mr. Lui Wai Ming is for a term of three years commencing from 18 August 2015, the emolument of Mr. Lui has been increased from USD30,000 to HKD288,000 effective from 29 December 2015, the appointment of executive Director Ms. Zhu Xiaoxia is for a term of three years commencing from 31 December 2015 and the appointment of independent non-executive Director Mr. Lin Lijun is for a term of three years commencing from 23 March 2016, the appointment of non-executive Director Ms. Wu Wen is for a term of three years commencing from 15 March 2019, and the appointment of Executive Director Mr. Sun Yong is for a term of three years commencing from 6 December 2019. Other than the six Directors above, the appointment of all other Directors is for a term of three years from 6 June 2018. The appointment of all Directors will terminate until a party giving at least three months prior notice to the another party.

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

BOARD MEETINGS

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

Six Board meetings and one general meetings were held during the year ended 31 December 2018. Attendance of each Director is set out as below:

Directors	Number of board meetings attended/ eligible to attend	General meetings attended/ eligible to attend
Ms. Wang Huimin	6/6	1/1
Mr. Sun Yong[1]	N/A	N/A
Ms. Zhu Xiaoxia[2]	6/6	1/1
Ms. Wang Huili	6/6	0/1
Ms. Wu Wen	6/6	0/1
Mr. Weng Xiangwei[3]	4/4	N/A
Dr. Wu Chun Wah	6/6	0/1
Mr. Lui Wai Ming	6/6	1/1
Mr. Lin Lijun[4]	6/6	0/1

Notes:

1 Mr. Sun Yong was appointed as an executive Director, the Chief Executive Officer and a member of the Executive Committee on the sixth time Board meeting in 2018.

2 Ms. Zhu Xiaoxia commissioned a representative to participate in sixth time Board meeting in 2018.

3 Mr. Weng Xiangwei attended Board meetings held prior to 4 July 2018 for he resigned as non-executive director on 4 July 2018, and abstained from voting for his interests in the matters to be approved at the one Board meeting.

4 Mr. Lin Lijun commissioned a representative to participate in the sixth time Board meeting in 2018.

Pursuant to Code Provision A.6.7 of the CG Code, all non-executive Directors of the Company should attend general meetings of the Company. Ms. Wang Huili, Ms. Wu Wen, Dr. Wu Chun Wah and Mr. Lin Lijun did not attend the AGM of the Company held on 29 June 2018 due to other prior business engagements.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of chairlady and chief executive officer ("**CEO**") should be separated and should not be performed by the same individual. Before 6 December 2018, the roles of the chairlady and the CEO of the Company are performed by Ms. Wang Huimin as a result of the change of management members. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high-quality individuals and meets regularly to discuss issues relating to the operations of the Company. The Board has full confidence in Ms. Wang Huimin and believes that having Ms. Wang Huimin performing the roles of the chairman and the CEO enables the Group to make and implement decisions promptly and efficiently which is beneficial to the Company as a whole. Mr. Sun Yong has been appointed the CEO of the Company to take up such role from Ms. Wang Huimin, with effect from 6 December 2018. The change of the CEO will enable the Company to enhance its corporate governance practices and to comply with the CG Code provision A.2.1 as set out in Appendix 14 to the Listing Rules.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In compliance with the code provision A.4.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Further, according to article 84 of the Company's Articles of Association, at each AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. The retiring Directors are to be those longest in office since their last election or reappointment, but will be eligible for re-election. At the same time, article 83(3) of the Articles of Association of the Company granted the right to the Board to appoint any person as a Director either to fill a vacancy on the Board or join the Board. Any Director appointed to fill the vacancy shall hold office until the Company's first general meeting after the appointment and will be eligible for re-election at that general meeting. Any newly appointed Directors joining the Board shall hold office until the Company's first AGM after the appointment and will be eligible for re-election at that general meeting. The duties of the Nomination Committee are to review the structure, size and composition of the Board, and to recommend individuals suitably qualified to become members of the Board to the shareholders at the AGM for the election.

In accordance with article 84 of the Articles of Association, Ms. Wang Huili, Ms. Wu Wen and Mr. Lin Lijun shall retire by rotation, and being eligible, offer themselves for re-election as Directors at the AGM. In accordance with article 83(3) of the Articles of Association, Mr. Sun Yong shall hold office only until the Company's first AGM after his appointment and shall then be eligible for re-election.

INDUCTION AND CONTINUOUS DEVELOPMENT FOR DIRECTORS

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

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

DIRECTORS' CONTINUOUS TRAINING

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in the continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. For the year ended 31 December 2018, all Directors of the Company received regular updates on the Listing Rules and corporate governance matters (including Ms. Wang Huimin, Mr. Sun Yong, Ms. Zhu Xiaoxia, Ms. Wu Wen, Ms. Wang Huili, Dr. Wu Chun Wah, Mr. Lui Wai Ming and Mr. Lin Lijun).

BOARD COMMITTEES

Audit committee

The Audit Committee was established on 30 August 2011 with its terms of reference formulated in accordance with the Listing Rules and the CG Code. As at the date of this report, the Audit Committee comprised three independent non-executive Directors, Mr. Lui Wai Ming, Dr. Wu Chun Wah and Mr. Lin Lijun. Mr. Lui Wai Ming is Chairman of the Audit Committee. Mr. Weng Xiangwei, the former member of the Audit Committee, resigned as non-executive Director on 4 July 2018 and as the member of the Audit Committee.

The principal duties of the Audit Committee include:

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

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

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

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

For the year ended 31 December 2018, the Audit Committee has held two meetings to review the annual results and financial statements for the year of 2017 as well as interim results and financial statements for the six months ended 30 June 2018 of the Company and its subsidiaries. The attendance record of the members of the Audit Committee is set out in the table below:

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

1. Mr. Weng Xiangwei participated in the meetings of the Audit Committee held prior to 4 July 2018.

The following was a summary of the primary work performed by the Audit Committee in 2018:

1. reviewed the Group's consolidated financial statements for the year ended 31 December 2017 and the annual results announcement with a recommendation to the Board for approval;

2. reviewed the Group's annual report for the year ended 31 December 2017 with a recommendation to the Board for approval;

3. reviewed the continuing connected transactions for the year ended 31 December 2017;

4. reviewed the internal audit report for the year 2017 submitted by the Group's Internal Control Department;

5. reviewed the Group's consolidated financial statements for the six months period ended 30 June 2017 and the interim results announcement with a recommendation to the Board for approval; and

6. reviewed the Group's interim report for the six months period ended 30 June 2017 with a recommendation to the Board for approval.

Remuneration committee

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

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

For the year ended 31 December 2018, the Remuneration Committee held two meetings to recommend the Board on the compensation policies and structure for all Directors and senior management as well as other relevant matters. The attendance record of the members of the Remuneration Committee is set out in the table below:

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

1. Mr. Lin Lijun did not participate in the meeting of Remuneration Committee held in December 2018 owing to a conflict of work schedule

The following was a summary of the primary work performed by the Remuneration Committee in 2018:

1. reviewed the proposal on remuneration of independent non-executive Directors, with a recommendation to the Board for approval; and

2. reviewed the proposal on executive Directors and Chief Executive Officer, with a recommendation to the Board for approval.

Note: The Remuneration Committee is responsible for making recommendations to the Board on the remuneration package of individual executive directors and senior management.

Nomination committee

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

For the year ended 31 December 2018, the Nomination Committee has held two meeting. The attendance record of the members of the Nomination Committee is set out in the table below:

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

1. Mr. Lin Lijun did not participate in the meeting of Nomination Committee held in December 2018 owing to a conflict of work schedule

The following was a summary of the primary work performed by the Nomination Committee in 2018:

1. reviewed the structure, size and composition of the Board, and reviewed the appointment of Mr. Sun Yong as an executive Director, Chief Executive Officer and the member of Executive Committee in December 2018;

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

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

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

Risk management committee

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

For the year ended 31 December 2018, the attendance record of the members of the Risk Management Committee is set out in the table below:

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

The following was a summary of the primary work performed by the Risk Management Committee in 2018:

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

2. discussed the risk management system with the management and ensure that the management has performed its duties to establish an effective system;

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

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

5. reviewed and understood whether there were significant control failures or weaknesses identified.

Executive committee

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

For the year ended 31 December 2018, the Executive Committee did not hold any meeting.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2018, and they have to give true and fair opinion on the Group's affairs as well as the Group's results and cash flow. The Directors, after making all reasonable enquiries, confirmed that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Company adopted the three lines of defence model in the management of risk. Operational management personnel form the first line of defence and serves as the directly risk bearers. They are responsible for identifying, reporting and preliminarily managing risks in the daily operations. The second line of defence consists of risk management and operation standards review personnel who are responsible for monitoring efficient implementation of internal control, assisting the person in charge of risks in defining remaining risks, and making sufficient information report to the Company. The internal audit function is the third line of defence and the relevant staff are mainly responsible for evaluating the effectiveness of internal control, identifying the flaws in internal control, making reasonable proposals for optimizing business process control, and supervising the implementation of corrective measures and conducting follow-up inspections.

In terms of risk control activities, the Company established control policies and procedures that are compatible with the actual business operations; distinguished the scope of rights and duties as well as examination and approval procedures for conducting business and activities, effectively separated incompatible jobs to form their own duties; in addition, the Company adopted a systematic approach to control relevant steps so to increase the reliability of control activities and help the Company achieve the stated control objectives.

During the audit process of the Group's financial statements for the year ended 31 December 2018, it was revealed that certain continuing connected transactions have been transacted without due compliance of the Listing Rules. For details, please refer to the announcement of the Company dated 31 March 2019 and the disclosure set out in the Directors' Report at pages 22 and 23 to this annual report.

Although the Board considers the impact of the delay in compliance is limited as disclosed in the announcement of the Company dated 31 March 2019, subject to the investigation to be carried out by a special committee mentioned below, it reveals that the internal control procedures on certain areas including, fund approval process and identification of transactions which are subject to compliance of the Listing Rules are required to be enhanced. In order to safeguard against the risks of exposure to delay in compliance of the Listing Rules, a special committee comprising two of the independent non-executive Directors and the internal control officer of the Group was established to, including among others, review the existing internal control procedures to identify any deficiencies of our internal control policies and seek recommendations from professional parties on how to enhance the monitoring and effectiveness of the implementation of the internal control policies.

Inside information policy

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

COMPANY SECRETARY

Ms. Leung Suet Lun who possesses the requisite qualification and experience of a company secretary as required under Rule 3.28 of the Listing Rules, has been the company secretary of the Company since 6 December 2018. Ms. Leung is the senior manager of listing services department of TMF Hong Kong Limited. For the year ended 31 December 2018, Ms. Leung has received not less than 15 hours of relevant professional training to update her knowledge and skills.

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

Mr. Wang Shoudong, the CFO of the Company (in charge of Strategic Investment Department) and Mr. Ding Yuli, Investor Relations Manager of the Strategic Investment Department of the Company, have been assigned as the main contact persons of the Company with Ms. Leung. Information in relation to the performance, financial position and other major developments and affairs of the Group is speedily delivered to Ms. Leung through the contact persons assigned.

REMUNERATION OF THE SENIOR MANAGEMENT

For the year ended 31 December 2018, the remuneration of senior management, other than the CEO, is listed as below by band:

Band of remuneration (HKD)	No. of person
HKD1,000,000 and below	N/A*
HKD1,000,001 to HKD1,500,000	N/A*

Further details of the remuneration of Directors and the 5 highest paid employees required to be disclosed under Appendix 16 to the Listing Rules have been set out in notes 8 and 9 to the financial statements. The biographical details of the senior management are set out on page 46 of this annual report.

* This senior management who was set out on page 46 of this annual report was appointed in March 2019, and he was not in notes 8 and 9 to the financial statements. His remuneration is in the range of HKD1,000,001 to HKD1,500,000.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the annual audit fees paid to the external auditors of the Company amounted to RMB2.6 million.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

CONVENING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Any one or more shareholder holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings can convene extraordinary general meetings by depositing or sending a written requisition addressed to the Board or Company Secretary for the transaction of any business specified in such requisition. All such requisition should be sent to 2F,East Bldg.,777 Jiamusi Road,Yangpu District, Shanghai, China, attention to the Investor Relations Manager of the Strategic Investment Department Mr. Ding Yuli.

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

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

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

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

CHANGES OF CONSTITUTIONAL DOCUMENT

The Company's Memorandum and Articles of Association (as restated) were adopted by the Company on 8 June 2012 and came into effect from the Listing Date. During the year ended 31 December 2018, the Company has not made any changes to its Memorandum and Articles of Association.

SHAREHOLDERS' RIGHTS

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

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. WANG Huimin, aged 64, is the chairlady of the Board and an executive Director of the Company. Ms. Wang is the founder of the Company and primarily responsible for the overall corporate strategies and management of the Group. Ms. Wang has over 31 years of experience in the restaurant industry, and is currently a member of Shanghai Committee of CPPCC (Chinese People's Political Consultative Conference), the vice president of the China Cuisine Association, vice president of the China Hotel Association, vice president of World Federation of Chinese Federation of Chinese catering industry, President of Shanghai Catering and Cooking Industry Association, the rotating chairman of New Shanghai Businessman Federation. Ms. Wang is one of the founders of Join Me Group (HK) Investment Company Limited and has been acting as a Director of JMU Limited (a company listed on the NASDAQ Stock Market, formerly known as Wowo Limited) since June 2015. Ms. Wang Huimin is the sister of Ms. Wang Huili.

Mr. SUN Yong, aged 48, Executive Director and Chief Executive Officer of the Company. Mr. Sun joined the Group in August 2011 and is a vice president of the Group. Before joining the Group, Mr. Sun is the vice president of Shanghai Kungfu Fast Food Management Co., Ltd. (上海真功夫快餐管理有限公司), being responsible for business development. During March 2001 to January 2008, Mr. Sun served various positions at Yum! Brands Inc. China Division, including development manager and development senior manager. Mr. Sun obtained a bachelor degree in economics from Shanghai International Studies University in June 1995 and a diploma in management from China Europe International Business School in December 2005.

Ms. ZHU Xiaoxia, aged 49, is an executive Director of the Company. Ms. Zhu Xiaoxia served as the co-chairlady and CEO at Join Me Group (a company listed on the NASDAQ Stock Market, Stock code: JMU) since June 2015. She is one of the founders of Join Me Group (HK) Investment Company Limited and has been its chairlady since 2013. She has also been the chairlady of Zhejiang Sunward Fishery Restaurant Group Co., Ltd. (浙江向陽漁港集團股份有限公司) since June 1998. Ms. Zhu Xiaoxia has been acting as the vice president of the China Hotel Association since March 2006.

NON-EXECUTIVE DIRECTORS

Ms. WANG Huili, aged 61, is a non-executive Director of the Company. Ms. Wang Huili is a co-founder of the Group and has worked for Xiao Nan Guo restaurants for over 31 years since commencement of business of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1987 where she served as the manager in charge of its daily management until 2008. Ms. Wang Huili was an executive Director of Shanghai Xiao Nan Guo Restaurant Co., Ltd. from January 2002 to July 2010 and was appointed as the supervisor of that company in July 2010. She also currently holds the Directorship of WHM Japan Co., Ltd. and Shanghai Wen Hui Huju Opera Troupe (上海文慧滬劇團). Ms. Wang Huili is the sister of Ms. Wang Huimin.

Ms. WU Wen, aged 50, is a non-executive Director of the Company since 15 March 2019 and is primarily responsible for other work required by the Board. Ms. Wu started her career with Xiao Nan Guo restaurants since her joining of the first restaurant under the brand "Xiao Nan Guo" at Changsha Road, Huangpu District, Shanghai in 1993 where she was responsible for customer services related matters until 2008. During over 20 years with Xiao Nan Guo restaurants, Ms. Wu served various positions at the Company's wholly-owned subsidiaries which primarily focus on our restaurant business in Shanghai, including executive Directors of Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. (上海浦東小南國餐飲有限公司) from 1997 to 2011 and Shanghai Jing'an Xiao Nan Guo Co., Ltd. (上海靜安小南國餐飲有限公司) from 2004 to 2008, respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. WU Chun Wah, aged 54, is an independent non-executive Director of the Company. Dr. Wu has extensive experience in financial investment and corporate finance. He was an independent non-executive Director of FDB Holdings Limited (now renamed as Dafy Holdings Limited, a company listed on the main board of Hong Kong Stock Exchange, stock code: 1826) from November 2018 to January 2019. He was the executive Director and chief executive officer of Kirin Group Holdings Limited (麒麟集團控股有限公司, stock code: 8109), formerly known as Creative Energy Solutions Holdings Limited (科瑞控股有限公司), a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, from July 2010 to December 2014. He was also the executive Director of Incutech Investments Limited (now known as DT Capital Limited 鼎立資本有限公司, stock code: 356), a company listed on the main board of The Stock Exchange of Hong Kong Limited, from November 2007 to July 2014. Since 30 June 2016, Dr. Wu has been appointed as an independent non-executive Director of Master Glory Group Limited (凱華集團有限公司) (a company listed on the main board of The Stock Exchange of Hong Kong Limited, stock code: 275). Dr. Wu holds a doctor degree in business administration and a master degree in corporate governance from the Hong Kong Polytechnic University. He also holds a master degree in business administration from Northeast Louisiana University, a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. He is a fellow member of the Hong Kong Institute of Directors, member of the Hong Kong Securities Institute, associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

Mr. LUI Wai Ming, aged 48, is an independent non-executive Director of the Company. Mr. Lui has extensive experience in auditing, accounting, investment, financial and corporate management for over 20 years. Mr. Lui is currently an independent non-executive director of Ernest Borel Holding Ltd, a company listed on main board of the Stock Exchange (stock code: 1856). He was an executive director of Hosa International Limited, a company listed on main board of the Stock Exchange (stock code: 2200) from 1 Apr 2016 to 31 Jul 2018, an independent non-executive director of Tai Shing International (Holdings) Limited, a company listed on GEM board of the Stock Exchange (stock code: 8103) from 22 May 2014 to 29 Jan 2016 and Golden Shield Holdings (Industrial) Limited, a company listed on main board of the Stock Exchange (stock code: 2123) from 12 January 2015 to 11 May 2015, during the period he focused on investigation into the outstanding audit issues and the legal proceedings, and the company is currently under liquidation. In addition, Mr. Lui was the chief financial officer of Ta Yang Holdings Limited, a company listed on main board of the Stock Exchange (Stock code: 1991) from 1 August 2018 to 31 March 2019.

Mr. Lui holds an Executive Master Degree in Business Administration from Cheung Kong Graduate School of Business in the People's Republic of China. Mr. Lui is a fellow member of the Association of Chartered Certified Accountants, a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Hong Kong Institute of Directors.

Mr. LIN Lijun, aged 45, is an independent non-executive Director of the Company. Mr. Lin is the founder of China Universal Asset Management Co, Ltd (匯添富基金管理有限公司), an award-winning and diverse asset management company at which he had served as the chief executive officer until April 2015. Mr. Lin has extensive experience in investment management as well risk management. Mr. Lin is currently an independent non-executive Director of Shanghai Chengtou Holding Co., Ltd. (上海城投控股股份有限公司) (stock code: 600649), a company listed on the Shanghai Stock Exchange, and an independent non-executive Director of Yunfeng Financial Group Limited (stock code: 376), a company listed on the main board of the Stock Exchange formerly known as Reorient Group Limited. Mr. Lin Lijun served as a non-executive Director of Wenzhou Kangning Hospital Co., Ltd. (stock code: 2120), a company listed on the Main Board of the Stock Exchange, from 14 June 2018. In the past three years, he was also an independent Director of Shanda Games Limited (盛大遊戲有限公司), a company with its American depositary shares used to be listed on NASDAQ (symbol: GAME). Mr. Lin holds a master's degree in business administration from Harvard University, a bachelor's degree and a master's degree in economics from Fudan University respectively.

SENIOR MANAGEMENT

Mr. WANG Shoudong, aged 42, CFO of the Company. He joined our Group in March 2019, is primarily responsible for the matters in finance department, strategic Investment department and internal control department. From October 2016 to February 2019, he served as CFO of Shanghai Chexiangjia Automobile Technology Co., Ltd. (上海車享家汽車科技有限公司) being responsible for finance department and financing affairs. He was in our Group from June 2011 to August 2016 being responsible for the management of finance, legal affairs and internal audit, and he also served as secretary of the Board and joint company secretary from 7 July 2015 to 1 February 2016. Previously, Mr. Wang served for finance department of Best Buy Commercial (Shanghai) Co., Ltd. (百思買商業(上海)有限公司) and Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司, a company listed on Shanghai Stock Exchange (Stock code: 600611). Mr. Wang obtained his bachelor's degrees in economics from Fudan University in July 1999, and his master's degree in business administration degree from Fudan University in July 2007.

CHANGE IN INFORMATION OF DIRECTORS

Ms. Wu Wen, who was an executive Director, has been re-designated to a non-executive Director on 15 March 2018 due to work arrangement.

Mr. Weng Xiangwei re-signed non-executive director on 4 July 2018 for his personal work arrangements.

Mr. Sun Yong was appointed as an executive director on 6 December 2018.

Save as disclosed above and in this report, there is no changes in information of Directors required to be disclosed for the year ended 31 December 2018 pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of TANSH GLOBAL FOOD GROUP CO., LTD
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of TANSH GLOBAL FOOD GROUP CO., LTD (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 47 to 145, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Estimates relating to impairment testing of property and equipment	
The Group operates restaurant chain stores in Chinese Mainland, Hong Kong and other regions. As at 31 December 2018, the carrying value of property and equipment was RMB298,346,000. The valuation of these property and equipment was important to our audit due to the amount as well as the judgement involved in the assessment of the recoverability of the invested amounts. Such judgement focused predominantly on future store performance, which was, amongst others, dependent on the expected store traffic, food and service quality, and the competitive landscape in local markets. Management assesses, on an annual basis, whether there are triggering events or indicators indicating potential impairment. As of 31 December 2018, the impairment of property and equipment amounted to RMB36,536,000. Further details are contained in Note 3 and 14 PROPERTY AND EQUIPMENT to the financial statements.	Our audit procedures included, amongst others, an evaluation of the Group's policies and procedures to identify indicators for potential impairment of assets related to underperforming stores. We also involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rate and long term growth rate. We paid specific attention to the forecasts with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective stores and the business development plan.
Estimation and disclosure with respect to deferred tax assets	
As of 31 December 2018, the deferred tax assets recognised in the consolidated statement of financial position amounted to RMB69,114,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available to utilise the deferred tax assets. As of 31 December 2018, deferred tax assets have not been recognised for accumulated tax losses of RMB175,828,000. The process of estimating the future taxable profits available was complex and involved estimates and judgements that were affected by future actual operation, tax regulations, market or economic conditions. Further details are contained in Note 3 and 27 DEFERRED TAX to the financial statements.	We evaluated and tested management assessment on available taxable profits by, among others, comparing to the Group's business plans approved by those charged with governance, expected future profit forecasts, associated growth rates, historical financial and tax information. We also involved our tax specialists in the review of the current tax position, tax planning strategies and potential tax reconciliation adjustments to check the compliance with tax regulations. We checked the relevant disclosures of deferred tax assets and unrecognised temporary differences.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Certified Public Accountants
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
CONTINUING OPERATIONS			
REVENUE	5	**1,497,589**	1,637,197
Cost of sales		**(428,964)**	(451,065)
Gross profit		**1,068,625**	1,186,132
Other income and gains	5	**22,810**	27,043
Selling and distribution expenses		**(897,010)**	(928,306)
Administrative expenses		**(137,768)**	(120,773)
Other expenses		**(99,667)**	(8,371)
Finance costs	7	**(13,272)**	(16,668)
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**(56,282)**	139,057
Income tax expense	10	**(20,302)**	(36,924)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(76,584)**	102,133
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	11	**(3,012)**	(195)
(LOSS)/PROFIT FOR THE YEAR		**(79,596)**	101,938
Attributable to:			
Owners of the parent		**(76,032)**	101,677
Non-controlling interests	32	**(3,564)**	261
		(79,596)	101,938
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For (loss)/profit for the year	13	**RMB(3.4) cents**	RMB4.6 cents
For (loss)/profit from continuing operations	13	**RMB(3.3) cents**	RMB4.6 cents
Diluted			
For (loss)/profit for the year	13	**RMB(3.4) cents**	RMB4.6 cents
For (loss)/profit from continuing operations	13	**RMB(3.3) cents**	RMB4.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(79,596)**	101,938
OTHER COMPREHENSIVE INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(23,609)**	(10,566)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(23,609)**	(10,566)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive loss:		
Changes in fair value	**(49,880)**	(156,615)
Income tax effect	**280**	880
	(49,600)	(155,735)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(49,600)**	(155,735)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(73,209)**	(166,301)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(152,805)**	(64,363)
Attributable to:		
Owners of the parent	**(161,782)**	(59,070)
Non-controlling interests	**8,977**	(5,293)
	(152,805)	(64,363)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment	14	**298,346**	550,055
Goodwill	15	**–**	12,645
Other intangible assets	16	**5,788**	37,050
Equity investments designated at fair value through other comprehensive income	18	**17,875**	67,755
Long-term rental deposits	17	**83,228**	95,052
Deferred tax assets	27	**69,056**	65,729
Pledged deposits	23	**11,660**	11,564
Loan to a non-controlling shareholder	21	**–**	44,386
Other long-term receivables	21	**44,949**	24,241
Total non-current assets		**530,902**	908,477
CURRENT ASSETS			
Inventories	19	**17,965**	34,257
Trade receivables	20	**17,308**	26,287
Prepayments, other receivables and other assets	21	**233,946**	196,420
Financial asset at fair value through profit or loss	22	**–**	226
Pledged deposits	23	**–**	151,910
Cash and cash equivalents	23	**413,220**	305,224
Total current assets		**682,439**	714,324
CURRENT LIABILITIES			
Trade payables	24	**147,044**	49,840
Other payables and accruals	25	**122,691**	126,268
Interest-bearing bank loans	26	**189,683**	348,929
Tax payable		**19,698**	26,458
Deferred income		**–**	2,800
Total current liabilities		**479,116**	554,295
NET CURRENT ASSETS		**203,323**	160,029
TOTAL ASSETS LESS CURRENT LIABILITIES		**734,225**	1,068,506

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	26	**–**	64,573
Long-term defer payment		**–**	24,241
Long-term payables	17	**59,569**	78,158
Deferred tax liabilities	27	**7,888**	1,129
Total non-current liabilities		**67,457**	168,101
Net assets		**666,768**	900,405
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**18,393**	18,393
Other reserves	31	**645,867**	815,194
		664,260	833,587
Non-controlling interests	32	**2,508**	66,818
Total equity		**666,768**	900,405

Wang Huimin
Director

Sun Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the parent												
	Notes	Share capital RMB'000 (Note 29)	Share premium RMB'000 (Note 29)	Capital redemption reserves RMB'000 (Note 29)	Capital reserve RMB'000 (Note 31)	Merger reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Exchange fluctuation reserve RMB'000 (Note 31)	Share option reserve RMB'000 (Note 31)	Financial asset revaluation reserve RMB'000 (Note 31)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000 (Note 32)	Total equity RMB'000
At 31 December 2017		18,393	723,842	27	57,677	(69,246)	14,723	2,204	24,142	(276,621)	338,446	833,587	66,818	900,405
Loss for the year		–	–	–	–	–	–	–	–	–	(76,032)	(76,032)	(3,564)	(79,596)
Other comprehensive loss for the year:														
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	1,413	–	(51,013)	–	(49,600)	–	(49,600)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(36,150)	–	–	–	(36,150)	12,541	(23,609)
Total comprehensive loss for the year		–	–	–	–	–	–	(34,737)	–	(51,013)	(76,032)	(161,782)	8,977	(152,805)
Contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	6,086	6,086
Disposal of a subsidiary		–	–	–	–	–	–	12,701	–	–	–	12,701	(78,599)	(65,898)
Dividends paid to a non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	(774)	(774)
Final 2017 dividend declared		–	–	–	–	–	–	–	–	–	(22,055)	(22,055)	–	(22,055)
Appropriation for reserve funds		–	–	–	–	–	2,074	–	–	–	(2,074)	–	–	–
Equity-settled share option arrangements	32	–	–	–	–	–	–	–	1,809	–	–	1,809	–	1,809
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(1,199)	–	1,199	–	–	–
At 31 December 2018		18,393	723,842*	27*	57,677*	(69,246)*	16,797*	(19,832)*	24,752*	(327,634)*	239,484*	664,260	2,508	666,768

	Notes	Share capital RMB'000 (Note 29)	Share premium RMB'000 (Note 29)	Capital redemption reserves RMB'000 (Note 29)	Capital reserve RMB'000 (Note 31)	Merger reserve RMB'000 (Note 31)	Statutory surplus reserve RMB'000 (Note 31)	Exchange fluctuation reserve RMB'000 (Note 31)	Share option reserve RMB'000 (Note 31)	Financial asset revaluation reserve RMB'000 (Note 31)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000 (Note 32)	Total equity RMB'000
		Attributable to owners of the parent												
At 1 January 2017		18,393	723,842	27	57,677	(69,246)	14,059	7,216	23,004	(120,886)	236,245	890,331	72,111	962,442
Profit for the year		–	–	–	–	–	–	–	–	–	101,677	101,677	261	101,938
Other comprehensive loss for the year:														
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	–	(155,735)	–	(155,735)	–	(155,735)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(5,012)	–	–	–	(5,012)	(5,554)	(10,566)
Total comprehensive loss for the year		–	–	–	–	–	–	(5,012)	–	(155,735)	101,677	(59,070)	(5,293)	(64,363)
Appropriation for reserve funds		–	–	–	–	–	664	–	–	–	(664)	–	–	–
Equity-settled share option arrangements	32	–	–	–	–	–	–	–	2,326	–	–	2,326	–	2,326
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	(1,188)	–	1,188	–	–	–
At 31 December 2017		18,393	723,842*	27*	57,677*	(69,246)*	14,723*	2,204*	24,142*	(276,621)*	338,446*	833,587	66,818	900,405

* These reserve accounts comprise the consolidated other reserves of RMB645,867,000 (2017: RMB815,194,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax:			
From continuing operations		**(56,282)**	139,057
From a discontinued operation	11	**(3,207)**	156
Adjustments for:			
Finance costs	7	**13,774**	17,691
Interest income	5	**(1,082)**	(5,130)
Dividend income from equity investments at fair value through other comprehensive income	5	**(800)**	(800)
Depreciation	14	**132,797**	148,340
Amortisation of other intangible assets	16	**3,837**	4,824
Loss on disposal of items of property and equipment	6	**35,331**	6,232
Gain on disposal of subsidiaries	6	**(8,879)**	–
Impairment provision/(reversal of impairment provision) for property and equipment	6	**28,430**	(11,940)
Equity-settled share option expense	6	**1,809**	2,326
		145,728	300,756
Decrease in inventories		**8,664**	3,252
Decrease in trade receivables		**3,548**	367
Increase in prepayments, other receivables and other assets		**(86,091)**	(14,681)
Increase/(decrease) in trade payables		**102,975**	(16,201)
Increase/(decrease) in other payables and accruals		**21,971**	(37,745)
Increase/(decrease) in long-term rental deposits		**(6,316)**	12,327
Decrease in long-term payables		**(36,331)**	(3,420)
Increase in contract liabilities		**9,588**	–
Decrease in deferred income		**(2,800)**	(678)
Cash generated from operations		**160,936**	243,977
Income tax paid		**(19,238)**	(17,093)
Net cash flows from operating activities		**141,698**	226,884

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		**(43,454)**	(38,471)
Purchases of items of other intangible assets		**(430)**	(256)
Proceeds from disposal of items of property and equipment		**–**	1,000
Purchase of equity investments at fair value through other comprehensive income		**–**	(104,703)
Disposal of subsidiaries		**63,606**	–
Payment for acquisition of a subsidiary		**(4,152)**	(3,542)
Advance to and repayment from related parties, net		**24,823**	–
Interest received		**1,082**	5,130
Net cash flows from/(used in) investing activities		**41,475**	(140,842)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**704**	27,978
Decrease/(increase) in pledged time deposits		**140,806**	(103,474)
Repayment of bank loans		**(213,493)**	(205,855)
Proceeds from new bank loans		**45,161**	280,116
Dividends paid		**(22,055)**	–
Dividends paid to non-controlling shareholders		**(774)**	–
Capital contribution from non-controlling shareholders		**6,086**	–
Interest paid		**(13,888)**	(17,944)
Net cash flows used in financing activities		**(57,453)**	(19,179)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**125,720**	66,863
Cash and cash equivalents at beginning of year		**305,224**	233,390
Effect of foreign exchange rate changes, net		**(18,946)**	4,971
CASH AND CASH EQUIVALENTS AT END OF YEAR		**411,998**	305,224
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**409,506**	304,656
Time deposits with maturity of less than three months, not pledged	23	**2,492**	568
Cash and cash equivalents as stated in the statement of cash flows		**411,998**	305,224

1. CORPORATE AND GROUP INFORMATION

TANSH Global Food Group Co., Ltd is a limited liability company incorporated in the Cayman Islands. The registered office is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is TANSH Global Food Group Co., Ltd, which is incorporated in the Cayman Islands.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities Notes
Shanghai Pudong Xiao Nan Guo Restaurant Co., Ltd. 上海浦東小南國餐飲有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Xiao Nan Guo Restaurant Co., Ltd. 上海小南國餐飲有限公司	PRC	RMB30,000	–	100	(1)
Shanghai Xinqu Xiao Nan Guo Restaurant Management Co., Ltd. 上海新區小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Beijing Xiao Nan Guo Restaurant Management Co., Ltd. 北京小南國餐飲管理有限公司	PRC	RMB1,500	–	100	(1)
Shanghai Hongmei Xiao Nan Guo Restaurant Co., Ltd. 上海虹梅小南國餐飲有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Changning Xiao Nan Guo Restaurant Co., Ltd. 上海長寧小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Hongkou Xiao Nan Guo Restaurant Co., Ltd. 上海虹口小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Nanjing Xiao Nan Guo Huimin Restaurant Co., Ltd. 南京小南國匯珉餐飲有限公司	PRC	RMB500	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities Notes
Suzhou Ligongdi Xiao Nan Guo Restaurant Co., Ltd. 蘇州李公堤小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Dalian Shidai Xiao Nan Guo Restaurant Co., Ltd. 大連時代小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Huangpu Xiao Nan Guo Restaurant Management Co., Ltd. 上海黃浦小南國餐飲管理有限公司	PRC	RMB1,000	–	100	(1)
Ningbo Haishu Xiao Nan Guo Restaurant Management Co., Ltd. 寧波市海曙小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Nanjing Jiangning Xiao Nan Guo Restaurant Co., Ltd. 南京市江寧區小南國餐飲有限公司	PRC	RMB1,000	–	100	(1)
Shanghai Songjiang Xiao Nan Guo Restaurant Co., Ltd. 上海松江小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Xinyi Xiao Nan Guo Restaurant Management Co., Ltd. 上海昕怡小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Baoshan Xiao Nan Guo Restaurant Co., Ltd. 上海寶山小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shenzhen Xiao Nan Guo Restaurant Management Co., Ltd. 深圳市小南國餐飲管理有限公司	PRC	RMB5,000	–	100	(1)
Shanghai Zhabei Xiao Nan Guo Restaurant Management Co., Ltd. 上海閘北小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Tianjin Hui Zhi Nan Restaurant Management Co., Ltd. 天津慧之南餐飲管理有限公司	PRC	RMB500	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company		Principal activities Notes
			Direct	Indirect	
Wuxi Hui Zhi Nan Restaurant Co., Ltd. 無錫慧之南餐飲有限公司	PRC	RMB500	–	100	(1)
Chengdu Hui Zhi Nan Restaurant Co., Ltd. 成都慧之南餐飲管理有限公司	PRC	RMB4,500	–	100	(1)
Shenyang Xiao Nan Guo Restaurant Co., Ltd. 瀋陽小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Huimin Xiao Nan Guo Restaurant Co., Ltd. 上海慧珉小南國餐飲有限公司	PRC	RMB500	–	100	(1)
Shanghai Putuo Xiao Nan Guo Restaurant Management Co., Ltd. 上海普陀小南國餐飲管理有限公司	PRC	RMB500	–	100	(1)
Shanghai Xiao Nan Guo Oreno Restaurant Management Co., Ltd. 上海俺的小南國餐飲管理有限公司	PRC	RMB7,000	–	100	(1)
Shanghai Huijie Restaurant Management Co., Ltd. 上海慧捷餐飲管理有限公司	PRC	RMB30,000	–	100	(1)
Shanghai Xiao Nan Guo Rifeng Restaurant Management Co., Ltd. 上海小南國日豐餐飲管理有限公司	PRC	RMB20,000	–	100	(1)
Shanghai Chuanjie Restaurant Management Co., Ltd. 上海船捷餐飲管理有限公司	PRC	RMB30,000	–	100	(1)
Shanghai Nan Xiao Guan Restaurant Management Co., Ltd. 上海南小館餐飲管理有限公司	PRC	RMB10,000	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities Notes
Beijing Nan Zhi Xin Restaurant Management Co., Ltd. 北京南之新餐飲管理有限公司	PRC	RMB500	–	100	(1)
Chengdu Nan Xiao Guan Restaurant Management Co., Ltd. 成都南小館餐飲管理有限公司	PRC	RMB1,000	–	100	(1)
Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. 上海小南國海之源餐飲管理有限公司	PRC	RMB450,000	–	100	(2)
Shanghai He Jiang Restaurant Management Co., Ltd. 上海盒匠餐飲管理有限公司	PRC	HK$20,000	–	65	(1)
Xiao Nan Guo Management Co., Ltd. 小南國管理有限公司	Hong Kong	HK$0.2	–	100	(3)
Xiao Nan Guo Management (Kowloon) Limited 小南國管理(九龍)有限公司	Hong Kong	HK$10	–	100	(3)
Xiao Nan Guo (Causeway Bay) Management Limited 小南國(銅鑼灣)管理有限公司	Hong Kong	HK$300	–	100	(3)
Xiao Nan Guo (Kowloon Bay) Management Limited 小南國(九龍灣)管理有限公司	Hong Kong	HK$10	–	100	(3)
Xiao Nan Guo (Shatin) Management Limited 小南國(沙田)管理有限公司	Hong Kong	HK$10	–	100	(3)
Xiao Nan Guo (One Peking) Management Limited 小南國(北京道)管理有限公司	Hong Kong	HK$0.001	–	100	(3)
Nan Xiao Guan (City One) Management Limited 南小館(第一城)管理有限公司	Hong Kong	HK$0.001	–	100	(3)

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities Notes
Xiao Nan Guo Holdings Limited 小南國控股有限公司	Hong Kong	HK$330.2	–	100	(4)
Xiao Nan Guo Holdings Limited	BVI	US$10	100	–	(4)
Xiao Nan Guo (Hong Kong) Restaurant Group Limited	BVI	US$0.00001	100	–	(4)
King Merit Corporation Limited 煌智有限公司	Hong Kong	HK$0.01	–	100	(4)
Oreno Xiao Nan Guo International (Hong Kong) Limited 俺的小南國國際(香港)有限公司	Hong Kong	HK$7,600	–	100	(4)
X&D HongKong Limited	Hong Kong	HK$0.1	–	65	(4)
Shanghai Mizhilian Restaurant Management Co., Ltd. 上海米芝蓮餐飲管理有限公司	PRC	RMB200	–	50	(5)
Shanghai Yan Meng Information and Technology Development Co., Ltd. 上海焱萌信息科技發展有限公司	PRC	RMB10,000	–	100	(6)

Notes:

(1) Operation of restaurant chain stores in Chinese Mainland
(2) Restaurant management and operation of Chinese restaurant chain stores in Chinese Mainland
(3) Operation of restaurant chain stores in Hong Kong
(4) Investment holding
(5) Rendering of management services and franchise operation
(6) Rendering of IT technology services and sale of software

The Group disposed of Shanghai Xiao Nan Guo Nutritional Food Co., Ltd., Shanghai Xuhui Xiao Nan Guo Restaurant Co., Ltd., Shanghai Huangchenggen Xiao Nan Guo Restaurant Co., Ltd., Million Rank Limited and its subsidiaries in 2018, details of which are included in Note 33.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has early adopted IFRS 9 *Financial Instruments* on 1 January 2016, and the Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and Annual Improvements to IFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

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

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in Notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in Note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/(decrease)** RMB'000
Liabilities		
Other payables and accruals	(i),(ii),(iii)	2,800
Deferred income	(ii),(iii)	(2,800)
Total liabilities		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

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

(b) (continued)

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
CONTINUING OPERATIONS				
Revenue	(iv)	1,497,589	1,505,020	(7,431)
Loss before tax from continuing operations		(56,282)	(48,851)	(7,431)
Income tax expense	(v)	(20,302)	(22,160)	1,858
Loss for the year from continuing operations		(76,584)	(71,011)	(5,573)
Loss for the year		(79,596)	(74,023)	(5,573)
Attributable to:				
Owners of the parent		(76,032)	(73,039)	(2,993)
Non-controlling interests	(v)	(3,564)	(984)	(2,580)
		(79,596)	(74,023)	(5,573)
Loss per share attributable to ordinary equity holders of the parent				
Basic				
– For loss for the year		RMB(3.4) cents	RMB(3.3) cents	RMB(0.1) cents
– For loss from continuing operations		RMB(3.3) cents	RMB(3.2) cents	RMB(0.1) cents
Diluted				
– For loss for the year		RMB(3.4) cents	RMB(3.3) cents	RMB(0.1) cents
– For loss from continuing operations		RMB(3.3) cents	RMB(3.2) cents	RMB(0.1) cents

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

(b) (continued)

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Notes	IFRS 15	Previous IFRS	Increase/ (decrease)
		RMB'000	RMB'000	RMB'000
Other payables and accruals	(i),(ii),(iv)	122,691	114,835	7,856
Deferred tax asset	(v)	69,056	70,914	(1,858)
Deferred income	(ii)	–	425	(425)
Retained profits	(v)	239,484	242,477	(2,993)
Non-controlling interests	(v)	2,508	5,088	(2,580)
Total equity		666,768	672,341	(5,573)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advances as other payables. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB3,635,000 from "advances from customers" to "contract liabilities" within other payables and accruals as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB1,732,000 was reclassified from "advance from customers" to "contract liabilities" within other payables and accruals in relation to the consideration received from customers in advance.

(ii) Provision for loyalty points

Before the adoption of IFRS 15, the Group recognised provision for loyalty points as deferred income. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB665,000 from deferred income to contract liabilities as at 1 January 2018 in relation to the provision for loyalty points as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB425,000 was reclassified from deferred income to contract liabilities in relation to the provision for loyalty points.

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

(b) (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below: (continued)

(iii) Deferred membership fee income

Before the adoption of IFRS 15, the Group recognised deferred membership fee income as deferred income. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB2,135,000 from deferred income to contract liabilities as at 1 January 2018 in relation to the deferred membership fee income as at 1 January 2018.

As at 31 December 2018, under IFRS 15, deferred membership fee income reclassified from deferred income to contract liabilities was nil as the Group disposed of subsidiaries that performed the transaction.

(iv) Management fee from franchisee

Before the adoption of IFRS 15, the Group recognised management fee from franchisee when management services are rendered. Under IFRS 15, the revenue was recognised over the franchise terms on a straight line basis.

For the year ended 31 December 2018, under IFRS 15, management fee from franchisee amounting to RMB7,431,000 was deferred and remaining performance obligations were expected to be satisfied within seven years.

(v) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax and non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

(c) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(d) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
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*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB675,964,000 and lease liabilities of RMB678,877,000 will be recognised at 1 January 2019.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

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

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

Fair value measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other intangible assets (other than goodwill)

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

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

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

Leases

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

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

A liability is recognised based on the fair value of credit awards earned by the customers in accordance with the Group's membership programme and the Group's past experience on the level of redemption of credit awards and is recorded in contract liabilities (31 December 2017: deferred income). The revenue of the Group is deducted when the credit awards are recognised.

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Revenue from restaurant operations is recognised when catering services have been provided to customers.

(b) Revenue from the sale of foods is recognised at the point in time when control of the products is transferred to the customer, generally on delivery of the products.

(c) Management fee from franchisee is recognised over the franchise terms on a straight line basis.

Revenue from other sources

(a) Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable before 1 January 2018)

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

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

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

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

(d) management fee from franchise, when management services are rendered;

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

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property and equipment and other intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 30 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension schemes

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

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme. Details of the central pension scheme are set out in Note 28 below.

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4% and 6% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments – Group as lessee

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

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

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

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

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

Estimation uncertainty

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

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

Estimation uncertainty *(continued)*

Provision for expected credit losses on trade receivables and contract assets *(continued)*

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 20 to the financial statements.

Impairment of non-financial assets (other than goodwill)

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

Useful lives of property and equipment

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognised tax losses at 31 December 2018 and 2017 were RMB20,780,000 and RMB25,468,000, respectively. Further details are included in Note 27 to the financial statements.

Net realisable value of inventories

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

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

Estimation uncertainty *(continued)*

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2018 was RMB14,000,000 (31 December 2017: RMB14,000,000), which was equal to related investment costs. Further details are included in Note 18(b) to the financial statements.

Contract liabilities (31 December 2017: Deferred income)

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

4. OPERATING SEGMENT INFORMATION

On 7 January 2015, since the Group completed the acquisition of Million Rank Limited and its subsidiaries Million Rank (HK) Limited, Million Rank (Macau) Ltd., etc. (collectively referred to as "**POKKA HK**"), the Group had the following two reportable operating segments based on their brands and services:

(a) TANSH Global Business (including main brands: Shanghai Min, Maison De L'Hui, the Dining Room, Oreno, and Wolfgang Puck)

(b) POKKA HK Business (including main brands: Pokka Café and Tonkichi)

The direct holding company of POKKA HK Business is Million Rank Limited ("**MRL**"). As disclosed in Note 11 and Note 33 to the financial statements, MRL is classified as a discontinued operation. The disposal of MRL was completed on 21 July 2018. The remaining business, the TANSH Global Business, continues to operate as one business unit and hence, there is only one reportable segment remained in the Group.

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Chinese Mainland	**1,229,289**	1,373,308
Hong Kong	**268,300**	263,889
	1,497,589	1,637,197

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

(b) Non-current assets

	31 December	31 December
	2018	2017
	RMB'000	RMB'000
Chinese Mainland	**333,073**	470,869
Hong Kong	**54,289**	223,273
Others	**–**	660
	387,362	694,802

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

Information about a major customer

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2018 and 2017, segment information is not presented in accordance with IFRS 8 Operating Segments.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers	**1,497,589**	–
Restaurant operations	**–**	1,613,740
Other revenue	**–**	23,457
	1,497,589	1,637,197

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	2018
	RMB'000
Type of goods or services	
Restaurant operations	**1,483,143**
Sale of foods	**5,572**
Management fee from franchisee	**8,874**
Total revenue from contracts with customers	**1,497,589**

For the year ended 31 December 2018

	2018
	RMB'000
Timing of revenue recognition	
Goods and services transferred at a point in time	**1,488,715**
Services transferred over time	**8,874**
Total revenue from contracts with customers	**1,497,589**

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

Revenue from contracts with customers *(continued)*

(i) Disaggregated revenue information *(continued)*

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	Year ended 31 December 2018 RMB'000
Restaurant operations	**6,435**

There is no revenue recognised in the current reporting period from performance obligations satisfied in previous periods.

(ii) Performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000
Within one year	6,221
More than one year	3,367
	9,588

The remaining performance obligations expected to be recognised in more than one year relate to management fee from franchisee that is to be satisfied within two to seven years. All the other remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	Note	**Year ended 31 December**	
		2018	2017
		RMB'000	RMB'000
Government grants*		**6,987**	7,639
Dividend income from equity investments at fair value through other comprehensive income		**800**	800
Bank interest income		**1,082**	2,241
Management fee income		**4,390**	2,233
Foreign exchange differences, net		**633**	–
Compensation income for a store with operation early terminated		**–**	2,170
Reversal of impairment provision for property and equipment		**–**	11,940
Others		**39**	20
Gain on disposal of subsidiaries	33	**8,879**	–
		22,810	27,043

* There is no unfulfilled conditions or contingencies attaching to government grants that had been recognized.

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	Year ended 31 December	
		2018	2017
		RMB'000	RMB'000
Cost of inventories sold		**428,964**	451,065
Depreciation	14	**126,868**	132,255
Amortisation of other intangible assets	16	**2,858**	2,829
Minimum lease payments under operating leases on buildings		**276,162**	291,706
Auditor's remuneration		**2,600**	3,000
Employee benefit expense (including directors' and chief executive's remuneration (Note 8):			
Wages and salaries		**332,239**	340,122
Equity-settled share option expense		**1,809**	2,326
Defined contribution pension schemes		**78,465**	89,094
		412,513	431,542
Foreign exchange differences, net		**(633)**	619
Bank interest income	5	**(1,082)**	(2,241)
Loss on disposal of items of property and equipment*		**35,331**	4,407
Provision/(reversal) of impairment for property and equipment**		**28,430**	(11,940)
Gain on disposal of subsidiaries***	33	**(8,879)**	–

* Loss on disposal of items of property and equipment is included in "Other expense" in the consolidated statement of profit or loss.

** Impairment provision for property and equipment is included in "Other expenses" in the consolidated statement of profit or loss. Reversal of impairment provision for property and equipment is included in "Other income and gains" in the consolidated statement of profit or loss.

*** Gain on disposal of subsidiaries is included in "Other income and gains" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest on bank loans	**13,386**	16,921
Less: Interest capitalised	**(114)**	(253)
	13,272	16,668

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Fees	**741**	750
Other emoluments:		
Salaries, allowances and benefits in kind	**3,129**	3,000
Equity-settled share option expense	**61**	–
Pension scheme contributions	**8**	–
	3,198	3,000
	3,939	3,750

(a) Independent non-executive directors

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Mr. Wu Chun Wah	**247**	250
Mr. Lui Wai Ming	**247**	250
Mr. Lin Lijun	**247**	250
	741	750

During the year ended 31 December 2017, 3,000,000 share options were granted to Mr. Wu Chun Wah, Mr. Lui Wai Ming, and Mr. Lin Lijun in respect of their services to the Group, further details of which are set out in Note 30 to the financial statements. Except for those options granted to Mr. Wu Chun Wah, Mr. Lui Wai Ming and Mr. Lin Lijun, there were no emoluments payable to the independent non-executive directors in 2018 and 2017.

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

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2018				
Executive directors:				
Ms. Wang Huimin	**3,020**	**–**	**–**	**3,020**
Ms. Wu Wen	**–**	**–**	**–**	**–**
Mr. Sun Yong	**109**	**61**	**8**	**178**
Ms. Zhu Xiaoxia	**–**	**–**	**–**	**–**
	3,129	**61**	**8**	**3,198**
Year ended 31 December 2017				
Executive directors:				
Ms. Wang Huimin	3,000	–	–	3,000
Ms. Wu Wen	–	–	–	–
Ms. Zhu Xiaoxia	–	–	–	–
	3,000	–	–	3,000

Ms. Wang Huimin is also the chief executive of the Group before 6 December 2018 and her remuneration disclosed above includes the remuneration for services rendered by her as the chief executive. On 6 December 2018, Mr. Sun Yong was appointed as an executive director and the chief executive and his remuneration disclosed above includes the remuneration for services rendered by him as the chief executive. On 15 March 2018, Ms. Wu Wen was re-designated from an executive director to a non-executive director.

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

(c) Non-executive directors

Mr. Weng Xiangwei resigned as a non-executive director on 4 July 2018. On 15 March 2018, Ms. Wu Wen was re-designated from an executive director to a non-executive director with effect from 15 March 2018. There were no fees or other emoluments payable to them during the years ended 31 December 2018 and 2017.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director (also the chief executive) for the years ended 31 December 2018 and 2017, details of whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining four (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,140**	2,600
Equity-settled share option expense	**16**	17
Pension scheme contributions	**287**	346
	2,443	2,963

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

	Year ended 31 December	
	2018	2017
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**–**	1
	4	4

10. INCOME TAX

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current – Chinese Mainland charged for the year	**13,890**	16,941
Current – Hong Kong and elsewhere charged for the year	**2,295**	4,543
Deferred tax (Note 27)	**4,117**	15,440
Total tax charge for the year from continuing operations	**20,302**	36,924
Total tax charge for the year from a discontinued operation	**(195)**	351
	20,107	37,275

10. INCOME TAX *(continued)*

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

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
(Loss)/profit before tax from continuing operations	**(56,282)**	139,057
(Loss)/profit before tax from a discontinued operation	**(3,207)**	156
	(59,489)	139,213
Tax at the statutory tax rate of 25% (2017: 25%)	**(14,872)**	34,803
Lower tax rates for specific provinces or enacted by local authorities	**–**	(187)
Income not subject to tax	**(1,466)**	(209)
Expenses not deductible for tax	**6,754**	983
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**5,073**	–
Tax losses not recognised during the year	**26,070**	3,221
Tax losses from previous periods utilised during the year	**(1,452)**	(1,336)
Tax charge at the Group's effective rate	**20,107**	37,275
Tax charge from continuing operations at the effective rate	**20,302**	36,924
Tax (credit)/charge from a discontinued operation at the effective rate	**(195)**	351

11. DISCONTINUED OPERATION

MRL and its subsidiaries were involved in the operation of coffee shops and restaurants in Hong Kong and Macau. Bright Charm Development Limited ("**Bright Charm**") (a wholly-owned subsidiary of the Company) and Rosy Metro Investment Limited ("**Rosy Metro**") (a company wholly-owned by Ms. Wong Shui Ching) own 65% and 35% of the issued share capital of MRL, respectively.

On 29 June 2018, Bright Charm (as vendor) entered into an agreement with Rosy Metro (as purchaser) and Ms. Wong Shui Ching (as the guarantor), pursuant to which, Bright Charm has agreed to transfer 65% of the total issued share capital in MRL to Rosy Metro for a consideration of HK$175.5 million. MRL has ceased to be a subsidiary of the Company since then.

The Group has decided to dispose of its business of MRL because the integration of the operation and the overall business development have not met the synergy effect as envisaged by the Company. The management consider that the disposal enables the Group to optimise its branding strategy and to explore new business opportunities more effectively. The disposal of MRL was completed on 21 July 2018. With MRL being classified as a discontinued operation, the POKKA HK Business is no longer included in the note for operating segment information.

The results of MRL are presented below:

	Period ended 21 July 2018 RMB'000	Year ended 31 December 2017 RMB'000
DISCONTINUED OPERATION		
REVENUE	**128,465**	274,777
Cost of sales	**(31,494)**	(65,595)
Gross profit	**96,971**	209,182
Other income and gains	**3,146**	12,239
Selling and distribution expenses	**(92,713)**	(196,770)
Administrative expenses	**(8,606)**	(22,326)
Other expenses	**(1,503)**	(1,146)
Finance costs	**(502)**	(1,023)
(LOSS)/PROFIT BEFORE TAX FROM DISCONTINUED OPERATION	**(3,207)**	156
Income tax expenses	**195**	(351)
LOSS FOR THE YEAR FROM DISCONTINUED OPERATION	**(3,012)**	(195)

11. DISCONTINUED OPERATION *(continued)*

The net cash flows incurred by MRL are as follows:

	Period ended 21 July 2018 RMB'000	Year ended 31 December 2017 RMB'000
Operating activities	**(7,312)**	13,764
Investing activities	**(4,666)**	(8,508)
Financing activities	**(9,329)**	(7,657)
Net cash outflow	**(21,307)**	(2,401)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss per share:		
Basic, from the discontinued operation	**RMB(0.1) cents**	RMB0.0 cents
Diluted, from the discontinued operation	**RMB(0.1) cents**	RMB0.0 cents

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**(1,958)**	(127)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation (Note 13)	**2,205,531,000**	2,205,531,000
Weighted average number of ordinary shares used in the diluted loss per share calculation (Note 13)	**2,205,531,000**	2,205,531,000

12. DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Proposed final – RMB2.3 cent per ordinary share (2017: RMB1.0 cent per ordinary share)	**50,727**	22,055

The proposed final dividend for the year is subjected to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 29 June 2018, the annual general meeting of the Company approved to declare the final dividend of RMB1.0 cent per share of the Company for the year ended 31 December 2017.

13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the consolidated (loss)/profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 2,205,531,000 (31 December 2017: 2,205,531,000).

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation:		
From continuing operations	**(74,074)**	101,804
From a discontinued operation	**(1,958)**	(127)
	(76,032)	101,677
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation*	**2,205,531,000**	2,205,531,000
Effect of dilution – weighted average number of ordinary shares**:		
Share options	**–**	–
Number of ordinary shares used in the diluted (loss)/earnings per share calculation	**2,205,531,000**	2,205,531,000

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

** Since the exercise prices of these options exceed the average market prices of ordinary shares during the years, there was no dilutive effect as of 31 December 2018 and 2017.

14. PROPERTY AND EQUIPMENT

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost or valuation	77,781	1,000,163	291,929	7,192	2,371	1,379,436
Accumulated depreciation	(7,057)	(577,067)	(219,661)	(4,922)	–	(808,707)
Impairment	–	(15,554)	(5,120)	–	–	(20,674)
Net carrying amount	70,724	407,542	67,148	2,270	2,371	550,055
At 1 January 2018, net of accumulated depreciation and impairment	70,724	407,542	67,148	2,270	2,371	550,055
Additions	–	26,978	6,024	–	12,276	45,278
Depreciation provided during the year	(1,110)	(107,614)	(23,689)	(384)	–	(132,797)
Disposals	–	(31,075)	(4,256)	–	–	(35,331)
Disposal of subsidiaries (Note 33)	(70,723)	(19,893)	(12,465)	(912)	–	(103,993)
Impairment provision	–	(24,032)	(4,398)	–	–	(28,430)
Transfers	–	12,193	1,355	–	(13,548)	–
Exchange realignment	1,109	2,029	412	14	–	3,564
At 31 December 2018, net of accumulated depreciation and impairment	–	266,128	30,131	988	1,099	298,346
At 31 December 2018:						
Cost or valuation	–	860,835	201,259	5,320	1,099	1,068,513
Accumulated depreciation	–	(563,136)	(166,163)	(4,332)	–	(733,631)
Impairment	–	(31,571)	(4,965)	–	–	(36,536)
Net carrying amount	–	266,128	30,131	988	1,099	298,346

14. PROPERTY AND EQUIPMENT *(continued)*

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and 1 January 2017:						
Cost or valuation	83,234	1,052,985	298,965	7,647	9,417	1,452,248
Accumulated depreciation	(5,193)	(522,702)	(201,761)	(4,791)	–	(734,447)
Impairment	–	(33,305)	(8,951)	–	–	(42,256)
Net carrying amount	78,041	496,978	88,253	2,856	9,417	675,545
At 1 January 2017, net of accumulated depreciation and impairment	78,041	496,978	88,253	2,856	9,417	675,545
Additions	–	14,073	14,429	–	1,032	29,534
Depreciation provided during the year	(2,282)	(111,342)	(34,219)	(497)	–	(148,340)
Disposals	–	(6,314)	(1,650)	(18)	–	(7,982)
Impairment reversal	–	10,175	1,765	–	–	11,940
Transfers	–	8,066	12	–	(8,078)	–
Exchange realignment	(5,035)	(4,094)	(1,442)	(71)	–	(10,642)
At 31 December 2017, net of accumulated depreciation and impairment	70,724	407,542	67,148	2,270	2,371	550,055
At 31 December 2017:						
Cost or valuation	77,781	1,000,163	291,929	7,192	2,371	1,379,436
Accumulated depreciation	(7,057)	(577,067)	(219,661)	(4,922)	–	(808,707)
Impairment	–	(15,554)	(5,120)	–	–	(20,674)
Net carrying amount	70,724	407,542	67,148	2,270	2,371	550,055

As at 31 December 2017, the building of Million Rank (HK) Limited, of which the Company indirectly holds a 65% equity interest, with a net carrying amount of approximately RMB70,724,000 was pledged to secure bank loans granted to Million Rank (HK) Limited (Note 26). During the year ended 31 December 2018, the Company disposed of its 65% shares of Million Rank Limited and its subsidiaries, including Million Rank (HK) Limited. The related building and bank loans of Million Rank (HK) Limited were disposed of accordingly.

14. PROPERTY AND EQUIPMENT *(continued)*

As at 31 December 2018, the balance of an impairment provision was RMB36,536,000, which included RMB12,568,000 that has been written off during the year with disposal (2017: RMB9,642,000). There was no impairment reversal in the year ended 31 December 2018 (2017: RMB11,940,000) and an impairment provision of RMB28,430,000 was recognised in the year ended 31 December 2018 (2017: Nil).

As at 31 December 2017, the recoverable amount of the assets for which an impairment provision was reversed during the year was RMB21,240,000. No impairment was reversed in the year ended 31 December 2018.

15. GOODWILL

	RMB'000
At 1 January 2017:	
Cost	13,532
Accumulated impairment	–
Net carrying amount	13,532
Cost at 1 January 2017, net of accumulated impairment	13,532
Exchange realignment	(887)
At 31 December 2017	12,645
At 31 December 2017:	
Cost	12,645
Accumulated impairment	–
Net carrying amount	12,645
Cost at 1 January 2018, net of accumulated impairment	**12,645**
Disposal of a subsidiary (Note 33)	**(13,042)**
Exchange realignment	**397**
Cost and net carrying amount at 31 December 2018	**–**
At 31 December 2018:	
Cost	**–**
Accumulated impairment	**–**
Net carrying amount	**–**

16. OTHER INTANGIBLE ASSETS

31 December 2018	Customer relationship RMB'000	Favourable contract RMB'000	Trademark RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2018, net of accumulated amortisation	5,028	14,224	9,582	8,216	37,050
Additions	–	–	–	430	430
Amortisation provided during the year	(365)	(328)	(286)	(2,858)	(3,837)
Disposal of a subsidiary (Note 33)	(4,815)	(14,337)	(9,592)	–	(28,744)
Exchange realignment	152	441	296	–	889
At 31 December 2018	–	–	–	5,788	5,788
At 31 December 2018:					
Cost	–	–	–	18,776	18,776
Accumulated amortisation	–	–	–	(12,988)	(12,988)
Net carrying amount	–	–	–	5,788	5,788

31 December 2017	Customer relationship RMB'000	Favourable contract RMB'000	Trademark RMB'000	Software RMB'000	Total RMB'000
At 1 January 2017:					
Cost	7,686	17,297	12,063	18,090	55,136
Accumulated amortisation	(1,537)	(1,385)	(1,206)	(7,301)	(11,429)
Net carrying amount	6,149	15,912	10,857	10,789	43,707
Cost at 1 January 2017, net of accumulated amortisation	6,149	15,912	10,857	10,789	43,707
Additions	–	–	–	256	256
Amortisation provided during the year	(743)	(669)	(583)	(2,829)	(4,824)
Exchange realignment	(378)	(1,019)	(692)	–	(2,089)
At 31 December 2017	5,028	14,224	9,582	8,216	37,050
At 31 December 2017 and 1 January 2018:					
Cost	7,183	16,164	11,273	18,346	52,966
Accumulated amortisation	(2,155)	(1,940)	(1,691)	(10,130)	(15,916)
Net carrying amount	5,028	14,224	9,582	8,216	37,050

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

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

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

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000	% of equity interest hold by the Group
U.S. listed equity investments,				
at fair value through other comprehensive income:				
JMU Limited	(a)	**3,788**	52,547	9.82%
Zhongju Limited Partnership Enterprise	(a)	**87**	1,208	2.943%
		3,875	53,755	
Unlisted equity investments,				
at fair value through other comprehensive income:				
Yancheng Guanhua	(b)	**10,000**	10,000	24.01%
Shanghai Zhong Hong Kuai Jian Brand Management Co., Ltd.	(b)	**4,000**	4,000	16.67%
		14,000	14,000	
		17,875	67,755	

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

i. In 2015, Shanghai Xiao Nan Guo Restaurant Co., Ltd., an indirect wholly-owned subsidiary of the Company, the general partner of Zhongju Limited Partnership Enterprise ("**Zhongju GP**") and other investors, which are independent third parties of the Company (the "**Other Zhongju Investors**") entered into a limited partnership agreement ("**Zhongju LP Agreement**") for the establishment of the Zhongju Limited Partnership Enterprise ("**Zhongju LPE**"), pursuant to which Shanghai Xiao Nan Guo (as one of the limited partners) agreed to invest RMB3,168,000 in Zhongju LPE (representing approximately 2.943% of the relevant total partners' capital, equivalent to 0.44% of the issued share capital of JMU Limited). A decrease in fair value for the year ended 31 December 2018 of RMB841,000 (2017: decrease in fair value of RMB2,642,000) was recognised in other comprehensive loss. An accumulated decrease in fair value as of 31 December 2018 with an amount of RMB2,311,000 (31 December 2017: decrease of RMB1,470,000) was recognised in other comprehensive loss.

   The Group entered into the share purchase agreement dated 7 June 2016 to acquire an aggregate of 141,914,880 ordinary shares of JMU Limited, representing approximately 9.82% of the issued share capital of JMU Limited at HK$2.60 per share, at an aggregate consideration of HK$368,396,837. The completion of the acquisition was conditional upon the completion of the Rights Issue, which was completed on 18 July 2016. The net proceeds raised from the Rights Issue were used to pay the consideration of the acquisition. The transaction had been approved by the extraordinary general meeting of the Company held on 24 August 2016. On 8 September 2016, the transaction was completed and initially recognised as RMB327,698,000 after netting off an investment loss of RMB4,031,000. After this acquisition, the Group held approximately 10.26% of the issued share capital of JMU Limited in total. The fair value of the listed equity securities is determined by reference to published quotation as at 31 December 2018. A decrease in fair value for the year ended 31 December 2018 of RMB48,759,000 (2017: RMB153,093,000) was recognised in other comprehensive loss. An accumulated decrease in fair value as of 31 December 2018 with an amount of RMB323,910,000 (31 December 2017: RMB275,151,000) was recognised in other comprehensive loss.

ii. On 29 June 2013, the Group acquired a 24.01% equity interest in an unlisted aquatic company with approximately RMB10,000,000. As stated in Note 3, the Group considers that it lacks significant influence on Yancheng Guanhua even though it owns more than 20% of the voting rights. This is because the Group does not have representative on Yancheng Guanhua's board of directors and cannot exercise significant influence on its financial and operating decisions. In 2018, Yancheng Guanhua declared dividends of RMB800,000 to the Company (2017: RMB800,000). The prepayment balance of RMB1,300,000 to Yancheng Guanhua was included in prepayments, other receivables and other assets as at 31 December 2018 (31 December 2017: RMB1,673,000).

   On 15 July 2015, the Group acquired a 20% equity interest in Shanghai Zhong Hong Kuai Jian Brand Management Co., Ltd., an unlisted brand management company with what of approximately RMB4,000,000. The equity investment was subsequently diluted to 16.67% due to the share capital injection from other investors.

   Management designated the equity investments as financial assets at fair value through other comprehensive income upon initial application of IFRS 9 on 1 January 2016, as management considered them strategic investments in the long run. The fair values of the unlisted equity securities are determined by reference to the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. No change in fair value for the year ended 31 December 2018 (2017: Nil) or accumulated change in fair value as of 31 December 2018 (31 December 2017: Nil), respectively, had been recognised in other comprehensive income.

19. INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Food and beverages, and other operating items for restaurant operations, at cost	**17,965**	34,257

20. TRADE RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	**17,308**	26,287
Impairment	**–**	–
	17,308	26,287

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 month	**9,695**	19,889
1 to 2 months	**1,023**	1,660
2 to 3 months	**809**	1,134
Over 3 months	**5,781**	3,604
	17,308	26,287

The Group applies the simplified approach to provide for expected credit losses prescribed in IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the shared credit risk characteristics and the days past due of the trade receivables to measure the expected credit losses. As all of the receivables were neither past due nor impaired and relate to diversified customers for whom there was no recent history of default and there has not been a significant change in credit quality, the directors are of the opinion that no provision for impairment is necessary in respect of these balances.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Deposits and other receivables		**111,220**	71,729
Deductible input VAT		**27,600**	12,728
Prepaid expense		**20,532**	15,585
Amounts due from companies owned by the Controlling Shareholder	(ii)	**–**	56,328
Amounts due from related parties jointly controlled by the Controlling Shareholder and a director of the Company	(i)	**58,037**	–
Amount due from a director of major subsidiaries in Hong Kong		**–**	190
Receivables from a non-controlling interest	(iii)	**–**	81,191
Other long-term receivables		**44,949**	–
Prepayments		**29,658**	27,296
		291,996	265,047
Impairment allowance		**(13,101)**	–
		278,895	265,047
Less: Non-current portion of receivables from a non-controlling interest			
– Loan to a non-controlling shareholder	(iii)	**–**	(44,386)
– Other long-term receivables	(iii)	**(44,949)**	(24,241)
Prepayments, other receivables and other assets		**233,946**	196,420

(i) Amounts due from companies owned by related parties include amounts due from Shanghai Xiao Nan Guo Hongshi Trading Co., Ltd. ("**Shanghai Hongshi**"), amounting to RMB10,000,000 which are unsecured, 4% interest rate per annum and repayable no later than 30 September 2019.

Amounts due from companies owned by related parties include amounts due from JM (HK) Investment Company Limited and its subsidiaries ("**JM HK Group**"), amounting to RMB47,749,000 that are pledged by underlying equity interest of the counter party, 4% interest rate per annum and repayable no later than 30 September 2019.

During the year, daily maximum outstanding advance amounted to RMB67,749,000.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(continued)*

(ii) During the year, daily maximum outstanding advance to companies controlled by the Controlling Shareholders amounted to RMB180,391,000, which are unsecured, interest-free and repayable on demand.

(iii) In relation to the acquisition of POKKA HK, POKKA HK made loans to Rosy Metro Investment Limited ("**Rosy Metro**"), a company wholly owned by the non-controlling shareholder of POKKA HK, of HK$40,000,000 at interest rate of Hibor+1.70 and HK$25,000,000 at interest rate of Hibor+2.45 and should be repaid in the next three years since 30 March 2015, the draw-down date. The outstanding principals and interests amounted to RMB54,334,000 and RMB3,369,000 respectively as at 31 December 2017.

The above amounts due from the non-controlling interest were in relation to the acquisition of POKKA in the year 2015. During the year ended 31 December 2018, the Company disposed of POKKA HK and the above amounts due from the non-controlling interest were disposed of accordingly.

The above long term receivables as at 31 December 2018 were recognised by the Group upon disposal of MRL as part of the considerations (Note 33). The HK$51,300,000 long term receivables bearing interest at a rate of 4% will be due on 20 July 2020.

As at 31 December 2018, except for the impairment allowance provided above, other receivables of the Group were considered to be of low credit risk and thus the Group has assessed that the ECL for other receivables is immaterial under the 12-month expected loss method.

Except for the impairment allowance provided above, none of the other assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Other unlisted investments, at fair value	–	226

The above unlisted investments at 31 December 2017 were wealth management products issued by bank in Hong Kong. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principle and interest.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash and bank balances	**409,506**	304,656
Time deposits with original maturity of less than three months	**2,492**	152,478
Time deposits with original maturity of over three months	**12,882**	11,564
	424,880	468,698
Less: Pledged time deposits for bank loans		
– Current portion	**–**	(151,910)
– Non-current portion	**(11,660)**	(11,564)
Cash and cash equivalents	**413,220**	305,224

As at 31 December 2018, RMB11,660,000 of time deposits were pledged for bank loans borrowed by the Group, for details please refer to Note 26(a) (2017: RMB163,474,000).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to RMB387,603,000 (2017: RMB396,955,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

24. TRADE PAYABLES

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 3 months	**125,275**	42,715
3 months to 1 year	**17,881**	5,145
Over 1 year	**3,888**	1,980
	147,044	49,840

The trade payables are non-interest-bearing and normally settled within 3 months after receiving the invoice.

25. OTHER PAYABLES AND ACCRUALS

	Note	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Payroll and welfare payables		**31,435**	36,327
Taxes other than corporate income tax		**960**	1,972
Other payables for construction in progress		**20,742**	19,032
Amounts due to companies owned by the Controlling Shareholder		**381**	–
Amount due to related parties controlled by a director of the Company		**1,802**	–
Accruals and other payables		**57,783**	61,122
Current portion of the long term deferred payment		**–**	4,180
Contract liabilities	(i)	**9,588**	–
Advances from customers		**–**	3,635
		122,691	126,268

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

(i) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Deferred income	**7,856**	2,800
Advances from customers	**1,732**	3,635
	9,588	6,435

26. INTEREST-BEARING BANK LOANS

		31 December 2018			31 December 2017		
		Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans – unsecured		**5.6550**	**2019**	**80,000**	5.00	2018	80,000
Bank loans – unsecured		**Hibor+2.2**	**2019**	**17,524**	–	–	–
Bank loans – unsecured		**Libor+1.50**	**2019**	**68,151**	Libor+1.50	2018	64,885
Bank loans – secured	(a)	**3Hibor+2.60**	**On demand**	**24,008**	–	–	–
Bank loans – secured	(b)			**–**	7.95	2018	99,000
Bank loans – secured	(a)			**–**	Hibor+1.25	2018	98,636
Current portion of long term bank loans – secured				**–**	Hibor+1.70	2018	2,229
Current portion of long term bank loans – secured				**–**	Hibor+2.45	2018	4,179
				189,683			348,929
Non-current							
Bank loans – secured	(a)			**–**	3Hibor+2.60	2020	34,272
Bank loans – secured				**–**	Hibor+1.70	2022	25,077
Bank loans – secured				**–**	Hibor+2.45	2020	5,224
				–			64,573
				189,683			413,502
Analysed into:							
Bank loans repayable:							
Within one year or on demand				**189,683**			348,929
In the second year				**–**			–
In the third to seventh years, inclusive				**–**			64,573
				189,683			413,502

(a) The bank loans borrowed by the Company are secured by the pledge of certain Group's time deposits amounting to RMB11,600,000 (31 December 2017: RMB163,474,000, out of which RMB40,000,000 has been released on 4 January 2018 to match with the loan balances).

(b) The bank loan was secured by the Controlling Shareholder, the Company and three subsidiaries of the Company as well as the operating income right of the Group's four restaurants located in Shanghai Disney Resort, and it was guaranteed by the Controlling Shareholder and Xiao Nan Guo Holdings Limited. The Company repaid the bank loan in June 2018.

27. DEFERRED TAX

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

Deferred tax assets

31 December 2018

	Impairment of property and equipment RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Fair value change of equity investment at fair value through other comprehensive income RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2018	–	14,176	490	10,225	16,017	25,468	66,376
Deferred tax credited/(charged) to the statement of profit or loss (Note 10)	7,134	(2,224)	–	(645)	2,804	(4,967)	2,102
Deferred tax credited to other comprehensive income	–	–	280	–	–	–	280
Disposal of a subsidiary (Note 33)	–	(678)	–	–	–	–	(678)
Exchange realignment	–	729	–	26	–	279	1,034
Gross deferred tax assets at 31 December 2018	7,134	12,003	770	9,606	18,821	20,780	69,114

Deferred tax liabilities

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2018	1,564	212	–	1,776
Deferred tax charged to the statement of profit or loss during the year (Note 10)	1,066	80	5,073	6,219
Disposal of a subsidiary	(56)	–	–	(56)
Exchange realignment	2	5	–	7
Gross deferred tax liabilities at 31 December 2018	2,576	297	5,073	7,946

27. DEFERRED TAX *(continued)*

For presentation purposes, both deferred tax assets and liabilities of RMB58,000 have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	69,114
Net deferred tax liabilities recognised in the consolidated statement of financial position	(58)
	69,056

Deferred tax assets

31 December 2017

	Impairment of property and equipment RMB'000	Accounting depreciation in excess of tax depreciation allowance RMB'000	Fair value change of equity investment at fair value through other comprehensive income RMB'000	Deferred lease rental RMB'000	Accrued expenses RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2017	5,267	13,132	–	9,045	19,584	35,238	82,266
Deferred tax credited/(charged) to the statement of profit or loss (Note 10)	(5,267)	1,908	–	1,221	(3,567)	(9,615)	(15,320)
Deferred tax credited to other comprehensive income	–	–	490	–	–	–	490
Exchange realignment	–	(864)	–	(41)	–	(155)	(1,060)
Gross deferred tax assets at 31 December 2017	–	14,176	490	10,225	16,017	25,468	66,376

27. DEFERRED TAX *(continued)*

Deferred tax liabilities

31 December 2017

	Tax depreciation allowance in excess of accounting depreciation RMB'000	Capitalised expenses in decoration period RMB'000	Fair value change of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2017	1,391	559	390	2,340
Deferred tax (credited)/charged to the statement of profit or loss during the year (Note 10)	173	(404)	–	(231)
Deferred tax credited to other comprehensive income	–	–	(390)	(390)
Exchange realignment	–	57	–	57
Gross deferred tax liabilities at 31 December 2017	1,564	212	–	1,776

For presentation purposes, both deferred tax assets and liabilities of RMB647,000 have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	66,376
Net deferred tax liabilities recognised in the consolidated statement of financial position	(647)
	65,729

As at 31 December 2018, the Group had accumulated tax losses arising in Chinese Mainland for certain subsidiaries of RMB175,828,000 (2017: RMB163,395,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Chinese Mainland and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008.

27. DEFERRED TAX *(continued)*

As at 31 December 2018, deferred tax of RMB5,072,700 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Chinese Mainland. Other than the above deferred tax liability in relation to the PRC withholding income tax provided, no deferred taxation has been provided for the distributable retained profits of approximately RMB551,176,000 (2017: RMB595,192,000), which were derived from the PRC subsidiaries, 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.

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

28. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the state regulations of the PRC, the subsidiaries in Chinese Mainland participate in a defined contribution pension scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries are required to make contributions to the local social security bureau at 13% to 20% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Chinese Mainland.

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

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

29. SHARE CAPITAL

Shares

	31 December 2018 RMB'000	31 December 2017 RMB'000
Authorised:		
Ordinary shares of HK$0.01 each	**10,000,000,000**	10,000,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	**2,213,031,000**	2,213,031,000
Equivalent to RMB'000	**18,393**	18,393

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

	Number of shares in issue	**Share capital** RMB'000	**Share premium account** RMB'000	**Capital redemption reserve** RMB'000	**Total** RMB'000
At 1 January 2017, 31 December 2017 and 31 December 2018	2,213,031,000	18,393	723,842	27	742,262

30. SHARE-BASED PAYMENTS

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

(1) Pre-IPO share option schemes

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

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

30. SHARE-BASED PAYMENTS *(continued)*

The following share options were outstanding under the Pre-IPO Share Option Schemes during the years ended 31 December 2018 and 2017:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Weighted average exercise price per share RMB	**Number of options '000**	Weighted average exercise price per share RMB	Number of options '000
At the beginning of the year		**19,808**		21,808
Forfeited during the year	**1.044**	**(1,463)**	1.068	(2,000)
At the end of the year		**18,345**		19,808

No share options were exercised during the years ended 31 December 2018 and 2017.

The exercise prices and exercise periods of the share options under the Pre-IPO Share Option Schemes outstanding as at 31 December 2018 are as follows:

Number of options '000	**Exercise price (after adjustment due to Rights Issue)** RMB per share	**Exercise period**
6,713	0.99	1 January 2012 to 11 February 2020
181	0.99	1 January 2012 to 21 June 2020
832	0.99	1 January 2012 to 1 September 2020
923	1.09	1 January 2012 to 15 December 2020
6	1.09	1 January 2012 to 26 January 2021
1,254	1.09	1 January 2012 to 22 March 2021
961	1.09	1 January 2012 to 22 March 2021
822	1.09	1 July 2012 to 1 July 2021
55	1.09	1 July 2012 to 1 July 2021
2,757	1.09	1 July 2012 to 12 August 2021
375	1.17	1 July 2012 to 12 August 2021
1,003	1.17	1 January 2013 to 15 January 2022
2,463	1.17	1 January 2013 to 15 May 2022
18,345		

There were no share options granted under the Pre-IPO Share Option Schemes after 4 July 2012, the Company's listing date. The Group recognised no share option expense under the Pre-IPO Share Option Schemes during the year ended 31 December 2018 (31 December 2017: Nil).

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

30. SHARE-BASED PAYMENTS *(continued)*

(2) Share option scheme

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

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

The total number of the Shares issued and to be issued upon the exercise of the options granted or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Group (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 4 July 2012. The exercise prices of options granted before 2017 under this scheme were of HK$0.99, HK$1.29 or HK$1.49 after exercise price adjustment due to the Rights Issue (HK$1, HK$1.3 or HK$1.5 before the adjustment).

On 2 May 2017, the Company granted 85,000,000 options under the Share Option Scheme and the exercise price was HK$0.50, conditional upon the achievement of performance conditions.

There were no share options granted during the year ended 31 December 2018.

The following share options were outstanding under the Share Option Scheme during the years ended 31 December 2018 and 2017:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At the beginning of the year		**111,622**		30,422
Granted during the year	**–**	**–**	0.500	85,000
Forfeited during the year	**1.345**	**(4,661)**	1.304	(3,800)
At the end of the year		**106,961**		111,622

30. SHARE-BASED PAYMENTS *(continued)*

(2) Share option scheme *(continued)*

No share options under the Share Option Scheme were exercised during the years ended 31 December 2018 and 2017.

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

The exercise prices and exercise periods of the share options under the Share Option Scheme outstanding as at 31 December 2018 are as follows:

Number of options '000	Exercise price (after adjustment due to Rights Issue) HK$ per share	Exercise period
7,173	1.49	23 August 2013 to 22 August 2023
4,092	1.49	1 July 2015 to 29 June 2024
4,590	1.29	1 July 2015 to 29 June 2024
2,029	1.29	1 January 2016 to 31 December 2024
4,077	0.99	1 January 2016 to 31 December 2024
85,000	0.50	1 October 2017 to 2 May 2027
106,961		

The Group recognised a total share option expense of RMB1,809,000 (2017: RMB2,326,000) for the year ended 31 December 2018 (Note 6).

As at 31 December 2018, the Company had 18,345,000 and 106,961,000 share options outstanding under the Pre-IPO Share Option Schemes and the Share Option Scheme, respectively. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 125,306,000 additional ordinary shares of the Company and additional share capital of RMB1,097,931 and share premium of RMB81,390,837 (before issue expenses).

31. RESERVES

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

(i) Share premium

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

(ii) Merger reserve

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

(iii) Capital reserve

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

(iv) Statutory surplus reserve

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

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

(v) Exchange fluctuation reserve

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

(vi) Share option reserve

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

(vii) Financial asset revaluation reserve

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

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

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

	Notes	**31 December 2018**	31 December 2017
Percentage of equity interest held by non-controlling interests:			
Shanghai Mizhilian Restaurant Management Co., Ltd.	(a)	**50%**	50%
MRL	(b)	**–**	35%
X&D Hongkong Limited	(c)	**35%**	–

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Shanghai Mizhilian Restaurant Management Co., Ltd.	**(1,911)**	329
X&D Hongkong Limited	**(599)**	–
Million Rank Limited	**(1,054)**	(68)
	(3,564)	261

	31 December 2018 RMB'000	31 December 2017 RMB'000
Accumulated balances of non-controlling interests at the reporting date:		
Shanghai Mizhilian Restaurant Management Co., Ltd.	**(2,974)**	(289)
X&D Hongkong Limited	**5,482**	–
Million Rank Limited	**–**	67,107
	2,508	66,818

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

(b) Million Rank Limited was acquired in 2015. Bright Charm Development Limited (Bright Charm) (a wholly-owned subsidiary of the Company) and Rosy Metro Investment Limited (Rosy Metro) (a company wholly owned by a third party individual) own 65% and 35% of the issued share capital of MRL. On 21 July 2018, Bright Charm disposed of its 65% of share of MRL to Rosy Metro. For details please refer to Note 33.

(c) X&D Hongkong Limited ("**X&D**") was established by the Group and an independent third party that own 65% and 35% of the issued share capital of X&D, respectively.

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

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

	Shanghai Mizhilian Restaurant Management Co., Ltd. RMB'000	**X&D Hongkong Limited RMB'000**
2018		
Revenue	**8,679**	**3,509**
Total expenses	**(12,501)**	**(5,221)**
Loss for the year	**(3,822)**	**(1,712)**
Exchange differences on translation of foreign operations	**–**	**(12)**
Total comprehensive loss for the year	**(3,822)**	**(1,724)**
Current assets	**17,081**	**18,832**
Non-current assets	**3,474**	**4,382**
Current liabilities	**(18,849)**	**(7,040)**
Non-current liabilities	**(7,654)**	**(511)**
Cash and cash equivalents	**–**	**17,300**

	Shanghai Mizhilian Restaurant Management Co., Ltd. RMB'000	Million Rank Limited RMB'000
2017		
Revenue	14,704	274,777
Total expenses	(14,046)	(274,972)
Profit/(loss) for the year	658	(195)
Exchange differences on translation of foreign operations	–	(15,869)
Total comprehensive income/(loss) for the year	658	(16,064)
Current assets	23,787	153,156
Non-current assets	2,380	162,758
Current liabilities	(26,744)	(59,203)
Non-current liabilities	–	(36,516)
Cash and cash equivalents	–	11,833

33. DISPOSAL OF SUBSIDIARIES

(1) MRL

On 29 June 2018, Bright Charm (as vendor) entered into an agreement with Rosy Metro (as purchaser) and Ms. Wong Shui Ching (as the guarantor), pursuant to which Bright Charm has agreed to transfer 65% of the total issued share capital in MRL to Rosy Metro for a consideration of HK$175.5 million. The disposal of MRL was completed on 21 July 2018. MRL was ceased to be a subsidiary of the Company since then.

	notes	Year end 31 December 2018 RMB'000
Net assets disposed of:		
Property and equipment		**103,349**
Goodwill		**13,042**
Other intangible assets		**28,744**
Long-term rental deposits		**18,140**
Deferred tax assets		**678**
Loan to a non-controlling shareholder of the Group		**45,780**
Other long-term receivables		**19,829**
Inventories		**7,628**
Trade receivables		**5,431**
Prepayments, other receivables and other assets		**69,562**
Financial asset at fair value through profit or loss		**233**
Pledged deposits		**9,786**
Cash and cash equivalents		**7,955**
Trade payables		**(4,981)**
Interest-bearing bank loans		**(55,487)**
Tax payable		**(3,512)**
Other payables and accruals		**(21,121)**
Deferred tax liabilities		**(56)**
Long-term payables		**(603)**
Deferred payable		**(19,829)**
Net assets directly associated with the disposal group		**224,568**
Non-controlling interest		**(78,599)**
Net assets directly associated with the Company		**145,969**
Satisfied by:		
Cash		**70,096**
Net-off with other payables		**37,584**
Other long-term receivables	21	**44,949**
Gain on disposal of a subsidiary	5	**6,660**

33. DISPOSAL OF SUBSIDIARIES *(continued)*

(1) MRL *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Year ended 31 December 2018 RMB'000
Cash consideration	70,096
Cash and bank balances disposed of	(7,955)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	62,141

(2) Others

On 9 February 2018, the Group disposed of Shanghai Xiao Nan Guo Nutritional Food Co., Ltd., a 100% indirectly-owned subsidiary of the Company, to independent third parties of the Group for a cash consideration of RMB1,422,000.

The Group disposed of Shanghai Xiao Nan Guo Nutritional Food Co., Ltd., a 100% indirectly-owned subsidiary of the Company, in current year in form of liquidation.

On 27 July 2018, the Group disposed of Shanghai Huang Chenggen Xiao Nan Guo Restaurant Co., Ltd., a wholly-owned subsidiary of the Company, to an entity owned by the directors.

	Shanghai Xiao Nan Guo Nutritional Food Co., Ltd. RMB'000	Shanghai Xuhui Xiao Nan Guo Restaurant Co., Ltd. RMB'000	Shanghai Huang Chenggen Xiao Nan Guo Restaurant Co., Ltd. RMB'000	Total RMB'000
Net assets/(liabilities) disposed of:				
Cash and cash equivalents	–	6	6	12
Other receivables	–	494	5,464	5,958
Property and equipment	644	–	–	644
Trade payables	10	–	–	10
Other payables and accruals	(1,905)	–	–	(1,905)
Net assets directly associated with the disposal group	(1,251)	500	5,470	4,719
Satisfied by:				
Cash	1,422	–	55	1,477
Net-off with other payables	–	–	5,461	5,461
Gain/(Loss) on disposal of a subsidiary	2,673	(500)	46	2,219

33. DISPOSAL OF SUBSIDIARIES *(continued)*

(2) Others *(continued)*

An analysis of the net cash flow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Shanghai Xiao Nan Guo Nutritional Food Co., Ltd. RMB'000	Shanghai Xuhui Xiao Nan Guo Restaurant Co., Ltd. RMB'000	Shanghai Huang Chenggen Xiao Nan Guo Restaurant Co., Ltd. RMB'000	Total RMB'000
Cash consideration	1,422	–	55	1,477
Cash and bank balances disposed of	–	6	6	12
Net cash flow in respect of the disposal of a subsidiary	1,422	(6)	49	1,465

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group disposed of MRL and Shanghai Huang Chenggen Xiao Nan Guo Restaurant Co., Ltd., with part of the considerations netting off with other payables, amounting to RMB43,045,000.

During the year, the Group received a dividend amounting to RMB800,000 from Yancheng Guanhua by offsetting a trade payable to Yancheng Guanhua (2017: RMB800,000).

(b) Changes in liabilities arising from financing activities

For the year ended 31 December 2018:

	Bank and other loans RMB'000
At 1 January 2018	**413,502**
Changes from financing cash flows	**(168,332)**
Disposal of a subsidiary	**(55,487)**
At 31 December 2018	**189,683**

For the year ended 31 December 2017:

	Bank and other loans RMB'000
At 1 January 2017	341,815
Changes from financing cash flows	74,261
Foreign exchange movement	(2,574)
At 31 December 2017	413,502

35. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within one year	**256,094**	249,504
In the second to fifth years, inclusive	**467,190**	649,867
After five years	**22,316**	158,791
	745,600	1,058,162

36. COMMITMENTS

In addition to the operating lease commitments detailed in Note 35 above, the Group had the following capital commitments at the end of the reporting period:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**7,389**	7,447

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Year ended 31 December	
		2018	2017
	Notes	**RMB'000**	RMB'000
Property rental expense	(i)	**260**	8,518
Integrated property management expense	(ii)	**–**	827
Purchases of goods and service	(iii)	**19,933**	68,537
Sales of goods and service	(iv)	**17,654**	15,136
Actual spending of Pre-paid Cards	(v)	**42,449**	58,206
Commission paid for Pre-paid Cards	(v)	**456**	629
Consulting expense	(vi)	**1,762**	–
Procurement of pre-packed food	(vii)	**3,700**	–

Notes:

(i) The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd., a company owned by the Controlling Shareholder, to lease office premises for the period commencing from 1 July 2012 and the lease period has been extended to 31 December 2017 in 2014, and further extended to 31 January 2018 in 2018, based on a market price mutually agreed by both parties. The actual fee charged during the year ended 31 December 2018 was RMB260,000, with a service fee included (2017: RMB4,875,000).

The Group entered into a lease agreement with Xiao Nan Guo (Group) Co., Ltd. to lease a banquet hall as a restaurant for the period commencing from 16 September 2012 to 31 December 2014 and extended the lease period to 31 December 2017 in 2014, at a rental fee based on a market price mutually agreed by both parties. During the year ended 31 December 2018, the rental charged by Xiao Nan Guo (Group) Co., Ltd. was nil (2017: RMB3,643,000).

(ii) The Group entered into a service agreement with Xiao Nan Guo (Group) Co., Ltd. for the period commencing from 1 January 2015 to 31 December 2017, pursuant to which Xiao Nan Guo (Group) has agreed to provide property management service to the Group. During the year ended 31 December 2018, the service fee charged by Xiao Nan Guo (Group) Co., Ltd. was nil (2017: RMB827,000).

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: (continued)

(iii) The Group entered into a procurement framework agreement with Shanghai Zhongmin Supply Chain Management Co., Ltd., ("**Zhongmin Supply Chain**"), a company indirectly owned by the Controlling Shareholder, pursuant to which the Group has agreed to procure raw ingredients used for restaurant operations from Zhongmin Supply Chain, for the period commencing from 1 June 2016 to 31 May 2017 and extended to 31 May 2018 on 1 June 2017, and further extended to 31 December 2020 on 1 May 2018. The Group has procured raw ingredients of RMB19,933,000 from Zhongmin Supply Chain in 2018 (2017: RMB68,537,000). The pricing of such raw ingredients shall be determined with reference to the costs for such raw ingredients and the prevailing market price and procurement quantity of similar raw ingredients.

(iv) The Group provided banquet food to Shanghai WH Ming Hotel Co., Ltd., a hotel owned by the Controlling Shareholder, upon request for banquet arrangements at the hotel premises for the customers of WH Ming Hotel pursuant to a framework banquet food provision agreement dated 27 March 2018. The price of banquet food sold to WH Ming Hotel shall be decided by the Group, and shall not be lower than 75% of the selling price of the food in the menu of the Group. The term of the framework banquet food provision agreement is effective from 1 January 2018 to 31 December 2019. The revenue generated from banquet food provided to WH Ming Hotel amounted to RMB17,654,000 during the year ended 31 December 2018 (2017: RMB15,136,000).

(v) The Group entered into a Pre-paid Card Agreement in 2014 with Shanghai Xiao Nan Guo Enterprises Service Information Development Limited ("**XNG Information Development**"), a company indirectly owned by Wang Bai Xuan Tiffany, who is the daughter of the Controlling Shareholder of the Company. Pursuant to the agreement, the Pre-paid Cards can be used at the Shanghai Min Restaurants, the WH Ming Hotel as well as other businesses operated by the Controlling Shareholder. The actual spending is the amount which the Pre-paid Card holders have actually spent at the Shanghai Min Restaurants (including Shanghai Min, Maison De L'Hui, the dining room and Shanghai Min's family restaurants) via the Pre-paid Cards, which amounted to RMB42,449,000 (2017: RMB58,206,000). The commission rate payable to XNG Information Development shall be 1% of the actual dining expenses, which amounted to RMB456,000 (2017: RMB629,000), of a Pre-paid Card holder for every bill (before discount (if any)) at the Shanghai Min Restaurants.

(vi) The Group entered into consulting service agreements with Zhejiang Sunward Fishery Restaurant Ltd. and its subsidiary, controlled by a director of the Company. During the year ended 31 December 2018, the consulting expense incurred was RMB1,762,000 (2017: Nil).

(vii) For the year ended 31 December 2018, Shanghai Xiao Nan Guo (a wholly-owned subsidiary of the Company) had sourced and purchased various pre-packed food from Shanghai Hongshi in an aggregate amount of RMB3,700,000. The transaction was conducted in the ordinary course of business.

37. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties

(i) The Group entered into a trademark licensing agreement with Xiao Nan Guo (Group) Co., Ltd. pursuant to which Xiao Nan Guo (Group) Co., Ltd. had granted the Group an exclusive licence to use its registered trademarks for no consideration.

(ii) On 27 July 2018, the Group disposed of Shanghai Huangchenggen Xiao Nan Guo Restaurant Co., Ltd., a wholly-owned subsidiary of the Company (Note 33), to Xiao Nan Guo (Group) Restaurant Management Co., Ltd. controlled by the directors of the Company.

(c) Outstanding balances with related parties

The amounts due from related parties and amounts due from the companies owned by the Controlling Shareholder are disclosed in Note 21 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to companies owned by the Controlling Shareholder and amounts due to related parties are disclosed in other payables and accruals to the financial statements. The details were disclosed in Note 24 to the financial statements.

(d) Compensation of key management personnel of the Group

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**5,625**	5,946
Equity-settled share-based payment	**16**	17
Total compensation paid to key management personnel	**5,641**	5,963

Further details of directors' and the chief executive's emoluments are included in Note 8 to the financial statements.

The related party transactions with the Controlling Shareholder, directors of the Company and companies owned by the Controlling Shareholder or directors of the Company also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2018

Financial assets

	Financial assets at fair value through profit or loss designated as such upon initial recognition RMB'000	Financial asset at fair value through other comprehensive income: Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	17,875	–	17,875
Long-term rental deposits	–	–	83,228	83,228
Trade receivables	–	–	17,308	17,308
Financial assets included in prepayments, other receivables and other assets	–	–	148,029	148,029
Other long-term receivable	44,949	–	–	44,949
Pledged deposits	–	–	11,660	11,660
Cash and cash equivalents	–	–	413,220	413,220
	44,949	17,875	673,445	736,269

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term payables	59,569
Trade payables	147,044
Financial liabilities included in other payables and accruals	80,153
Interest-bearing bank loans	189,683
	476,449

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

31 December 2017

Financial assets

	Financial assets at fair value through profit or loss held for trading RMB'000	Financial asset at fair value through other comprehensive income: Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	67,755	–	67,755
Long-term rental deposits	–	–	95,052	95,052
Loan to a non-controlling shareholder	–	–	44,386	44,386
Other long-term receivables	–	–	24,241	24,241
Trade receivables	–	–	26,287	26,287
Financial assets included in prepayments, other receivables and other assets	–	–	121,440	121,440
Financial asset at fair value through profit or loss	226	–	–	226
Pledged deposits	–	–	163,474	163,474
Cash and cash equivalents	–	–	305,224	305,224
	226	67,755	780,104	848,085

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Long-term deferred payment	24,241
Long-term payables	78,158
Trade payables	49,840
Financial liabilities included in other payables and accruals	90,842
Interest-bearing bank loans	413,502
	656,583

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, long-term rental deposits, loan to a non-controlling shareholder, other long-term receivables, long-term defer payments, long-term payables, trade payables, financial liabilities included in other payables and accruals, and interest-bearing bank loans approximate to their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following table provides the fair value measurement hierarchy of the Company's financial instruments measured at fair value as at 31 December 2018:

Financial assets measured at fair value

As at 31 December 2018

	Fair value measurements categorised into			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income:				
Unlisted equity investment, at fair value	–	–	14,000	14,000
Listed equity investment, at fair value	3,875	–	–	3,875
	3,875	–	14,000	17,875

As at 31 December 2017

	Fair value measurements categorised into			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial asset at fair value through profit or loss	–	226	–	226
Equity investments at fair value through other comprehensive income:				
Unlisted equity investment, at fair value	–	–	14,000	14,000
Listed equity investment, at fair value	53,755	–	–	53,755
	53,755	226	14,000	67,981

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2018 and 2017.

The fair value of the listed equity investment through other comprehensive income is based on quoted market prices.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The fair value of the unlisted equity investment through other comprehensive income falls within Level 3 of the fair value hierarchy due to the significant unobservable inputs used in the valuation. The following table shows the valuation techniques used in the determination of fair values of the unlisted equity investments.

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Discounted cash flow method	Expected yield	RMB521,000 to RMB1,488,000	10% increase (decrease) in expected yield would result in (decrease) increase in fair value by RMB2,473,000

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

None of the Group's sales or purchases for the year ended 31 December 2018 (2017: Nil) is denominated in currencies other than the functional currency of the relevant subsidiaries. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's loans when they are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the U.S. dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in U.S. dollar rate %	Increase/ (decrease) in profit before tax RMB'000
2018		
If RMB strengthens against U.S. dollar	**(5)**	**3,392**
If RMB weakens against U.S. dollar	**5**	**(3,392)**
2017		
If RMB strengthens against U.S. dollar	**(5)**	(33)
If RMB weakens against U.S. dollar	**5**	33

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings outside of the PRC are subject to the availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchases of imported materials and remittance of earnings. While conversion of RMB to Hong Kong dollars or other foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from interest-bearing financial assets and liabilities. The Group's interest-bearing financial assets and liabilities comprise primarily cash at banks and interest-bearing bank borrowings. Management closely monitors the interest rate exposure and assesses its impact on the Group's performance.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
If interest rate increases	**50**	**(407)**
If interest rate decreases	**(50)**	**407**
2017		
If interest rate increases	**50**	(1,837)
If interest rate decreases	**(50)**	1,837

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meets its contractual obligation. The Group have no concentration of credit risk from third party debtors. The carrying amounts of restricted cash, cash and bank balances, financial assets included in prepayments, other receivables and other assets in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

All cash and bank balances were deposited in high-credit-quality financial institutions without significant credit risk.

The Group has established a policy to perform an assessment at 31 December 2018, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the groups its other receivables into Stage 1 and Stage 2, as described below:

Stage 1 – When other receivables are first recognized, the Group records an allowance based on 12-month ECLs

Stage 2 – When other receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs

Management also regularly reviews the recoverability of these receivables and follow up the dispute or amount overdue, if any. The management is of the opinion that the risk of default by counterparties is low.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compare the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected loss allowance provision for these balances was not material during the relevant periods.

As at 31 December 2018, the credit rating of other receivables was performing. The Group assessed that the expected credit losses for these receivables are not material under the 12-month expected loss methods, and thus no loss allowance provision was recognised during the year ended 31 December 2018.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are disclosed in Note 20 and Note 21.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. As at 31 December 2018 and 2017, the Group had interest-bearing bank loans of RMB189,683,000 and RMB413,502,000, respectively. The directors review the Group's working capital and capital expenditure requirements and consider the liquidity risk is manageable.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	24,008	2,041	167,730	–	–	193,779
Trade payables	–	129,163	17,881	–	–	147,044
Financial liabilities included in other payables and accruals	80,153	–	–	–	–	80,153
Long-term payables	–	–	–	59,569	–	59,569
	104,161	131,204	185,611	59,569	–	480,545

31 December 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	124,528	253,447	61,527	–	439,502
Trade payables	–	47,951	1,889	–	–	49,840
Financial liabilities included in other payables and accruals	90,842	–	–	–	–	90,842
Long-term deferred payment	–	–	–	24,241	–	24,241
Long-term payables	–	–	–	78,158	–	78,158
	90,842	172,479	255,336	163,926	–	682,583

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the reporting periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio below 50%. Net debt includes interest-bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Interest-bearing bank loans	**189,683**	413,502
Trade payables	**147,044**	49,840
Other payables and accruals	**122,691**	126,268
Less: Cash and cash equivalents	**(413,220)**	(305,224)
Net debt	**46,198**	284,386
Equity attributable to owners of the parent	**664,260**	833,587
Capital and net debt	**710,458**	1,117,973
Gearing ratio	**6.50%**	25.44%

41. CONTINGENT LIABILITIES

A subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary violated registered trademarks and unfair competition in Chinese Mainland. The plaintiff claims for a compensation amounting to RMB10,000,000. The Group's attorney considers that the possibility and the amount of compensation cannot be estimated for the time being. Accordingly, the Company have not provided for any claim arising from the litigation, other than the related legal and other costs.

42. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Company or by the Group after 31 December 2018.

43. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 11).

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**581,412**	669,437
Total non-current assets	**581,412**	669,437
CURRENT ASSETS		
Cash and cash equivalents	**21,683**	46,705
Other receivables	**–**	10,140
Total current assets	**21,683**	56,845
CURRENT LIABILITIES		
Other payables and accruals	**–**	–
Interest-bearing bank loans	**109,683**	163,521
Total current liabilities	**109,683**	163,521
NET CURRENT LIABILITIES	**(88,000)**	(106,676)
TOTAL ASSETS LESS CURRENT LIABILITIES	**493,412**	562,761
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**–**	34,272
Total non-current liabilities	**–**	34,272
Net assets	**493,412**	528,489
EQUITY		
Equity attributable to owners of the Parent		
Share capital	**18,393**	18,393
Other reserves (Note 31)	**475,019**	510,096
Total equity	**493,412**	528,489

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Financial asset revaluation reserve RMB'000	Accumulative losses RMB'000	Total RMB'000
At 1 January 2018	**723,842**	**27**	**59,312**	**3,916**	**24,142**	**(275,151)**	**(25,992)**	**510,096**
Total comprehensive income for the year	**–**	**–**	**–**	**10,958**	**–**	**(14,923)**	**(10,866)**	**(14,831)**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**1,809**	**–**	**–**	**1,809**
Transfer of share option reserve upon the forfeiture or expiry of share options	**–**	**–**	**–**	**–**	**(1,199)**	**–**	**1,199**	**–**
2017 dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(22,055)**	**(22,055)**
At 31 December 2018	**723,842**	**27**	**59,312**	**14,874**	**24,752**	**(290,074)**	**(57,714)**	**475,019**
At 1 January 2017	723,842	27	59,312	5,758	23,004	(122,058)	(15,298)	674,587
Total comprehensive income for the year	–	–	–	(1,842)	–	(153,093)	(11,882)	(166,817)
Equity-settled share option arrangements	–	–	–	–	2,326	–	–	2,326
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,188)	–	1,188	–
At 31 December 2017	723,842	27	59,312	3,916	24,142	(275,151)	(25,992)	510,096

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

FIVE YEARS FINANCIAL SUMMARY

RMB'000	2014	2015	2016	2017	**2018**
Revenue	1,544,199	1,728,631	1,706,840	1,637,197	**1,497,589**
Cost of sales	(509,272)	(555,168)	(494,765)	(451,065)	**(428,964)**
Gross profit	1,034,927	1,173,463	1,212,075	1,186,132	**1,068,625**
Other income and gains	46,616	35,176	37,753	27,043	**22,810**
Selling and distribution costs	(931,853)	(1,048,960)	(1,016,846)	(928,306)	**(897,010)**
Administrative expenses	(127,812)	(152,774)	(135,748)	(120,773)	**(137,768)**
Other expenses	(7,746)	(90,707)	(22,145)	(8,371)	**(99,667)**
Finance costs	(6,015)	(11,298)	(14,017)	(16,668)	**(13,272)**
PROFIT BEFORE TAX	8,117	(95,100)	61,072	139,057	**(56,282)**
Income tax expense	(7,085)	(3,175)	(25,016)	(36,924)	**(20,302)**
PROFIT FOR THE YEAR FROM THE CONTINUING BUSINESS	1,032	(98,275)	36,056	102,133	**(76,584)**
Profit from a discontinued operation	–	(142)	(1,810)	(195)	**(3,012)**
Profit for the Year	1,032	(98,417)	34,246	101,938	**(79,596)**
Attributable to:					
Owners of the parent	566	(93,242)	34,975	101,677	**(76,032)**
Non-controlling interests	466	(5,175)	(729)	261	**(3,564)**
Total non-current assets	849,426	1,109,211	1,262,951	908,477	**530,902**
Total current assets	508,080	437,478	522,834	714,324	**682,439**
Total current liabilities	506,188	628,675	572,588	554,295	**479,116**
Total assets net of current liabilities	851,318	918,014	1,213,197	1,068,506	**734,225**
Total non-current liabilities	62,664	147,132	250,755	168,101	**67,457**
Net assets	788,654	770,882	962,442	900,405	**666,768**

Note: The amounts in statement of profit or loss for each year in the five years financial summary have been re-presented as if the POKKA HK operation discontinued during the current year had been discontinued since it was acquired in 2015.