上海小南国

SHANGHAI MIN

Xiao Nan Guo Restaurants Holdings Limited

小南國餐飲控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3666)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change increase/ (decrease)
	2013	**2012**	
Revenue (RMB'000)	1,385,911	1,332,298	4.0%
Gross profit[1] (RMB'000)	927,155	907,762	2.1%
Gross margin[2]	66.9%	68.1%	(1.2%)
Profit for the year (RMB'000)	671	118,530	(99.4%)
Net profit margin[3]	0.05%	8.9%	(8.9%)
Earnings per share — Basic	RMB 0.07 cents	RMB 9.27 cents	
Interim dividend paid (HK$ cents)	0.8	1.4	
Proposed dividend (HK$ cents)	—	2.6	
Number of restaurants[4] (as at 31 December)	83	72	

Notes:

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

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 Number of restaurants as at 31 December 2013 includes 72 Shanghai Min restaurants, 4 Maison De L'Hui restaurants and 7 the dining room restaurants.

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of Xiao Nan Guo Restaurants Holdings Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013, together with comparative figures for the year 2012, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	4	1,385,911	1,332,298
Cost of inventories consumed		(458,756)	(424,536)
Gross profit		927,155	907,762
Other income and gains	4	40,006	45,966
Selling and distribution expenses		(829,998)	(689,186)
Administrative expenses		(113,005)	(106,006)
Other expenses		(10,686)	(397)
Finance costs		(7,671)	(6,125)
PROFIT BEFORE TAX	5	5,801	152,014
Income tax expense	6	(5,130)	(33,484)
PROFIT FOR THE YEAR		671	118,530
Attributable to:			
Owners of the Company		1,075	118,530
Non-controlling interests		(404)	—
		671	118,530
Earnings per share attributable to ordinary equity holders of the Company			
Basic	8	RMB0.07 cents	RMB9.27 cents
Diluted	8	RMB0.07 cents	RMB9.27 cents

Details of the dividends declared for the year are disclosed in note 7 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	2013	2012
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	671	118,530
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(7,877)	(1,938)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(7,877)	(1,938)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(7,206)	116,592
Attributable to:		
Owners of the Company	(6,802)	116,592
Non-controlling interests	(404)	—
	(7,206)	116,592

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000
NON-CURRENT ASSETS			
Property and equipment		685,506	614,806
Intangible assets		4,500	4,636
Investment in an associate		10,000	—
Available-for-sale investments		10,100	100
Long-term rental deposits		54,975	50,390
Deferred tax assets		58,869	33,873
Other long-term assets		369	581
Total non-current assets		824,319	704,386
CURRENT ASSETS			
Inventories		49,901	58,613
Trade receivables	9	16,214	26,829
Prepayments, deposits and other receivables	10	151,243	111,794
Cash and cash equivalents	11	324,499	416,797
Total current assets		541,857	614,033
CURRENT LIABILITIES			
Trade payables	12	84,808	82,238
Derivative financial instruments		401	—
Interest-bearing bank loans		203,236	156,795
Tax payable		16,715	28,012
Other payables and accruals	13	224,285	189,108
Deferred income		1,398	1,981
Total current liabilities		530,843	458,134
NET CURRENT ASSETS		11,014	155,899
TOTAL ASSETS LESS CURRENT LIABILITIES		835,333	860,285

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
31 December 2013

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000
NON-CURRENT LIABILITIES			
Long-term payables		51,345	38,659
Deferred tax liabilities		716	1,359
Total non-current liabilities		52,061	40,018
Net assets		783,272	820,267
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	12,047	12,032
Reserves		766,629	777,244
Proposed final dividend	7	—	30,991
		778,676	820,267
Non-controlling interests		4,596	—
Total equity		783,272	820,267

Notes to the Annual Consolidated Financial Statements
31 December 2013

1. CORPORATE INFORMATION

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 offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 July 2012 (the "Listing").

The principal activity of the Company is investment holding. The subsidiaries of the Company are principally engaged in the operation of Chinese 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 this year.

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") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for derivative financial instruments 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 refered to as the "Group") for the year ended 31 December 2013. 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 in the accounting policy for subsidiaries below. 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 disclosed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12: *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
IAS 19 (2011)	Amendments to IAS 19 *Employee Benefits*
IAS 27 (2011)	*Separate Financial Statements*
IAS 28 (2011)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets-Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

The adoption of the new and revised IFRSs has had no significant financial effect on the financial statements.

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:

IFRS 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[4]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits - Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Effective for annual periods beginning on or after 1 January 2016

4 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the business of operating Chinese restaurant chain stores. For management purposes, the Group operates in one business unit, and has one reportable segment which is the Chinese restaurant operation. No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) ***Revenue from external customers***

	For the year ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
Mainland China	1,148,571	1,138,948
Hong Kong	225,363	193,350
Others	11,977	—
	1,385,911	1,332,298

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

(b) ***Non-current assets***

	31 December 2013	**31 December 2012**
	RMB'000	*RMB'000*
Mainland China	676,126	589,570
Hong Kong	67,877	80,843
Others	1,347	—
	745,350	670,413

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

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2013 and 2012, no segment information about major customers as required by IFRS 8 *Operating Segments* is presented.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, net of sales taxes and surcharges.

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

	For the year ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
(a) Revenue		
Restaurant operations	1,330,018	1,286,072
Other revenue	55,893	46,226
	1,385,911	1,332,298
(b) Other income		
Government grants	23,522	23,282
Bank interest income	5,363	4,368
Management fee	3,000	3,000
Compensation income from landlords	2,816	4,867
Service income	—	2,000
Foreign exchange differences	3,968	5,996
Others	1,321	2,453
	39,990	45,966
(c) Gains		
Gain on disposal of a subsidiary	16	—
	40,006	45,966

5. PROFIT BEFORE TAX

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

	For the year ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
Cost of inventories consumed	458,756	424,536
Depreciation	110,002	81,466
Amortisation of intangible assets	1,176	585
Amortisation of other long-term assets	212	212
Minimum lease payments under operating lease on buildings	248,504	212,946
Auditors' remuneration	2,456	2,639
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	314,355	262,290
Equity-settled share option expense	3,725	2,651
Defined contribution pension scheme	88,090	68,939
	406,170	333,880
Unrealised loss on an interest rate swap	401	—
Bank interest income	(5,363)	(4,368)
Loss on disposal of items of property and equipment	9,996	258
Gain on disposal of a subsidiary	(16)	—

6. INCOME TAX EXPENSE

	For the year ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
Group:		
Current — Mainland China charged for the year	28,069	44,853
Current — Hong Kong and elsewhere charged for the year	2,700	1,592
Deferred income tax	(25,639)	(12,961)
Total tax charge for the year	5,130	33,484

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

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

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

According to the 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%.

According to the Macau Complementary Tax ("MCT") Law, taxable profits below MOP200,000 are exempted from tax, taxable profits between MOP200,001 to MOP300,000 are subject to the rate of 9% and taxable profits over MOP300,000 are subject to the rate of 12%.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	The Group	
	2013	**2012**
	RMB'000	*RMB'000*
Profit before tax	5,801	152,014
Tax at the statutory tax rate of 25% (2012: 25%)	1,450	38,004
Lower tax rate for specific provinces or enacted by local authority	(26)	(2,012)
Income not subject to tax	(642)	(2,999)
Expenses not deductible for tax	1,057	491
Tax losses and temporary differences not recognised during the year	3,291	—
	5,130	33,484

7. DIVIDENDS

	For the year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Interim — HK$0.008 (2012: HK$0.014) per ordinary share	9,400	16,834
Proposed final — Nil (2012: HK$0.016) per ordinary share	—	19,071
Proposed special — Nil (2012: HK$0.010) per ordinary share	—	11,920
	—	30,991
	9,400	47,825

On 22 August 2013, the Company declared an interim dividend for the six months ended 30 June 2013, at HK$0.008 per Share, amounting to a total sum of approximately HK$11,800,000 (approximately equivalent to RMB9,400,000).

No final dividend was proposed for the year (2012: final dividend of HK$0.016 per ordinary share and special dividend of HK$0.010 per ordinary share).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the consolidated profit attributable to the equity holders of the Company and the weighted average number of ordinary shares of 1,475,373,896 (2012: 1,278,287,671) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation and the 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 calculation of basic and diluted earnings per share is based on:

	For the year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	1,075	118,530

	For the year ended 31 December 2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,475,373,896	1,278,287,671
Effect of dilution — weighted average number of ordinary shares: Share options	953,278	738,740
Number of ordinary shares used in the diluted earnings per share calculation	1,476,327,174	1,279,026,411

9. TRADE RECEIVABLES

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

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

	As at 31 December 2013 *RMB'000*	**As at 31 December 2012** *RMB'000*
Within 1 month	9,968	18,988
1 to 2 months	2,322	2,620
2 to 3 months	1,247	751
Over 3 months	2,677	4,470
	16,214	26,829

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

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2013 *RMB'000*	**As at 31 December 2012** *RMB'000*
Deposits and other receivables	40,722	29,975
Prepaid expense	24,399	27,097
Amount due from companies owned by the Controlling Shareholder	63,467	29,506
Amount due from a director of major subsidiaries in Hong Kong	131	365
Prepayments	22,524	24,851
	151,243	111,794

The prepayments balance as at 31 December 2013 included RMB3,300,000 prepaid to the associate of the Group, Yancheng Guanhua Aquatic Products Co., Ltd. As at 31 December 2013, the amount due from the companies owned by the Controlling Shareholder increased as compared to that as at 31 December 2012, which was mainly attributable to the following reasons:

(a) The disposal of fixed assets upon the close of stores at a net carrying amount of RMB16,297,000;

(b) Shanghai Hongqiao Xiao Nan Guo Restaurant Management Co., Ltd. and Xiao Nan Guo (Group) Co., Ltd., both of which are the connected landlords, agreed to waive the rent for Hongmei store and Huangxing Park store in December 2013 as a result of property renovation with a total amount of RMB9,341,000. The rent paid previously were transferred as pre-pared rent for the year of 2014;

(c) One of the Company's subsidiaries began to provide food to the banquets held at the premises of WH Ming Hotel since September 2012. As the business volume for the year of 2013 rose significantly as compared to 2012, the receivable balance incurred from such business as at 31 December 2013 was RMB7,231,000.

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

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

11. CASH AND CASH EQUIVALENTS

	31 December 2013 *RMB'000*	31 December 2012 *RMB'000*
Cash and bank balances, unrestricted	320,192	221,026
Time deposits with original maturity of less than three months	4,307	195,771
Cash and cash equivalents	324,499	416,797

The cash and bank balances and time deposits of the Group's subsidiaries in mainland China denominated in RMB amounted to RMB189,545,000 and RMB203,766,000 as at 31 December 2013 and 31 December 2012, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

12. TRADE PAYABLES

An aged 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 2013 RMB'000	**31 December 2012 RMB'000**
Within 3 months	83,329	76,528
3 months to 1 year	276	4,721
Over 1 year	1,203	989
	84,808	82,238

The trade payables balance as at 31 December 2013 included RMB1,301,000 of amount due to Yancheng Guanhua Aquatic Products Co., Ltd., the associate of the Group (2012: RMB1,102,000).

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

13. OTHER PAYABLES AND ACCRUALS

	31 December 2013	**31 December 2012**
	RMB'000	*RMB'000*
Payroll and welfare payables	33,710	29,786
Taxes other than corporate income tax	7,388	7,378
Other payables for construction in progress	82,797	65,816
Accruals and other payables	37,256	27,294
Advances from customers	63,134	58,369
Amounts due to companies owned by the Controlling Shareholder	—	465
	224,285	189,108

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

14. ISSUED SHARE CAPITAL

Shares

	31 December 2013	**31 December 2012**
	RMB'000	*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)	1,476,880,000	1,475,000,000
Equivalent to RMB'000	12,047	12,032

A summary of transactions during the year with reference to the above movement in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares	Share premium	Equivalent nominal value of ordinary shares	Equivalent share premium
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2012	1,135,000,000	11,350	143,272	9,262	116,962
Cancellation of shares (note (a))	(1,250,000)	(13)	13	(10)	10
Issue of new shares (note(b))	341,250,000	3,413	508,462	2,780	414,346
Share issue expense	—	—	(61,966)	—	(53,528)
Proposed final 2012 dividend	—	—	(453)	—	(366)
At 31 December 2012	1,475,000,000	14,750	589,328	12,032	477,424
Share options exercised	1,880,000	19	2,350	15	2,067
Interim 2013 dividend	—	—	(7,770)	—	(6,190)
At 31 December 2013	1,476,880,000	14,769	583,908	12,047	473,301

Notes:

(a) On 8 June 2012, pursuant to the resolution of board of directors of the Company, the Company repurchased 1,250,000 ordinary shares, being the shares forfeited under the share-based payment arrangement with a Director, from Affluent Harvest Limited, a wholly-owned subsidiary, at par value and cancelled the 1,250,000 shares so purchased.

(b) In connection with the Company's initial public offering, 341,250,000 ordinary shares of HK$0.01 each were issued at a price of HK$1.50 per share, for a total cash proceed, before share issue expenses, of approximately HK$511,875,000 (equivalent to approximately RMB417,126,000). Dealings in these shares on the Stock Exchange commenced on 4 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Market Factors

The catering industry faced its toughest challenges in 2013, however, opportunities for development remains

The PRC economy experienced its slowest growth since 1999 with gross domestic product ("GDP") increasing at 7.7% per annum in 2013. The economic slowdown has negatively affected the catering sector, which was even harder hit by the Central Government's series of austerity measures launched in December 2012 to crack down on corruption and extravagant spending of public funds. The crackdown intensified in March 2013 when the government banned lavish spending and banquets. During the same period, the outbreak of H7N9 avian flu further discouraged personal dining-out consumption. In the fourth quarter of 2013, the government bolstered its frugality policies with the "Eight Requirements" and "Six Bans" to target especially lavish public spending and banquets. According to the China Catering Trade Association, nationwide catering revenue growth slowed from about 14% in 2012 to 9% in 2013 — the slowest growth recorded over the past 21 years. Most impacted were medium- to high-end restaurants, including those of Xiao Nan Guo.

Although the restaurant industry faced numerous adverse effects, the implementation of urbanization policies, the increase in proportion of individuals dining out and the rise in personal consumption willingness were all positive factors contributing to give impetus to catering industry development going forward. In 2012, our Board of Directors reacted promptly to changing market conditions and predicted the rise in personal consumption gradually surpassing government and business entertainment spending. Bold decisions were made to focus on a "Multi-brand and Standardization" strategy in 2012. Despite the unexpected and direct impact of the Central Government's austerity measures implemented to crackdown on extravagant spending of public funds on entertainment, the Board's foresight allowed the Company to achieve stable growth and smooth business reform during such challenging conditions in 2013. We believe that, despite middle- to high-end restaurant businesses are facing difficult times, the Company will be able to increase its market share and strengthen its market leadership position through rational reform.

Financial Performance

Xiao Nan Guo reported a revenue increase of 4.0% to RMB1,386 million in 2013, which was primarily attributable to the addition of new restaurants. Gross profit increased 2.1% to RMB927 million, however net profit dropped 99.4% to RMB0.67 million due to a 10% decline in same-store sales and one-time write-downs for store closures. Basic earnings per share for the year were RMB0.07 cents, down from RMB9.27 cents in 2012.

Operations Review for 2013

Shanghai Min brand emerged stronger and outperformed market performance under the condition of rapid changes in market demand

The Central Government's austerity measures to prohibit use of public funds for entertainment significantly impacted the demand for our Shanghai Min restaurants. Our same-store sales declined 10% as a result of the lower demand. The chain's operating profit decreased by 46.8% during the period. We carried out timely brand repositioning of our core brand Shanghai Min by diversifying our target market to non-government funded business banquets and middle-class family spending. This succeeded with same-store customer traffic increasing 0.7%. During the four important festive seasons (namely Spring Festival, Labour Day, Mid-Autumn Festival and National Day), which represent peak family and personal consumption, the Company recorded a 1.56% increase in same-store sales and 13.8% increase in same-store customer traffic. The increase reflected the repositioning and the popularity of Shanghai Min among individual consumers. According to the China Catering Trade Association, revenue from catering enterprises above national limit[1] as a whole fell by 1.8%[2] in 2013, while those average spend of RMB200 or above, medium to high-end catering, the decline should be higher. While Shanghai Min revenue from the Mainland China dropped RMB5.9 million, a mere 0.6% decline, outperformed market.

Faced with sudden changes in market conditions, the Company adjusted its positioning of Shanghai Min brand with a series of marketing and promotional initiatives, including "group buy" discounts, affordable seasonal dishes and set meals, as well as collaboration with credit card companies. Consumer demand for value-for-money was satisfied, and we successfully contained the drop in average spend to 11% at RMB201 per customer. These initiatives also increased the customer traffic on a same-store basis.

1 Refers to catering enterprise with total annual revenue over RMB2 million.

2 Source: China Cuisine Association, "An In-depth Analysis on the Change of Restaurant Market in China 2013".

We also established a social and wedding banquet concierge centre in the third quarter of 2013, so as to provide efficient, centralized and added-value services for events and banquet bookings. Despite impact from policies and cancellation of government or state-owned entities entertainment and annual parties revenue from banquet sales in 2013 increased from RMB140 million in 2012 to RMB154 million, while its proportion of total sales also increasing from 10.5% in 2012 to 11.1% in 2013.

We strive to focus on catering industry core tasks, as measured by four key customer satisfaction indicators — products, hygiene, environment and service. We focus particularly on front-line staff abilities to provide more caring service to improve customer satisfaction. During the period, we were awarded "The Catering Service Enterprise of the Year", "The Award for Outstanding Contribution in Food Safety and Public Health", "China's Most Valuable Catering Brand" by Fortune Character Magazine, and "China's Most Fashionable Restaurant", among other honors we received.

During the period, we closed 8 Shanghai Min restaurants in response to changes in demand and to mitigate further losses. Amongst those closed outlets, four were old restaurants located in old business districts, while the other four were mainly targeting state-owned or public funded banquet and had been suffering losses. The closing of these 8 stores resulted in a decrease of same-store revenue of RMB69.1 million and one-off write-downs of asset sale in RMB10 million.

New stores opened in 2013 achieved breakeven[3], while stores opened in 2012 outperformed existing old stores

We have further optimized our process for selecting new store sites. In 2012, we opened 15 stores; 13 were Shanghai Min, which attained an aggregated profit of RMB19.3 million during 2013 and an operating profit margin of 9.5%, which was slightly higher than the overall operating profit margin of 9% for the stores opened prior to 2012[4]. Two the dining room stores opened in 2012 produced an overall operating profit margin of 16% in 2013, and contributed an operating profit of RMB6.3 million to the Company in 2013.

We opened 19 restaurants in 2013; 14 were Shanghai Min and 5 were the dining room. As at year end 2013, although certain new stores remain at ramp-up stage, while those that

3 Refers to the operating profit of the stores.

4 Existing stores refer to stores that commenced operation before 1 January 2012.

passed ramp-up phase achieved operating breakeven and were developing promising sales growth. The dining room[5] stores opened in 2013 recorded an overall operating profit margin of 15% and an operating profit of RMB2.84 million, a performance which met our expectations.

Multi-brand strategy and our core competitiveness of standardization for replication shows preliminary results

After a few years of rapid expansion, Xiao Nan Guo has successfully established a distinguished team in catering management, and a core competence in the standardization of Chinese restaurant chain operations. In order to cope with the change in operating environment, we accelerated the opening the dining room in 2013 that caters to individual consumer. As at end of 2013, we owned and operated a total of 7 the dining room restaurants; 3 of which were located in Hong Kong and 2 in each of Shanghai and Shenzhen.

Apart from delivering efficient services to existing brands, the various functions at the Company's headquarters were also instrumental in the rapid development of other catering brands. For instance, last year the Company introduced a new brand under its management — Uncle Tetsu Cheese Cake Bakery through a franchise management agreement. Founded in Hakata, Japan, this famous brand has also gained popularity in Taiwan. Xiao Nan Guo obtained the management right to operate Uncle Tetsu Bakery in 7 cities, and will receive management fees as a proportion of operating revenue. As of the date of this announcement, Xiao Nan Guo is already successfully managing 6 Uncle Tetsu Bakery outlets in the Mainland. The rapid expansion and growth of the new brand was the result of the Company's comprehensive functions at headquarters and our effective supply chain, without increasing the cost of headquarters management resources. Uncle Tetsu is a successful example of our ability to integrate and manage an external catering business.

To further strengthen our hub-and-spoke operations, we built two standalone Central Kitchens in Beijing and Shenzhen in 2013 in order to prepare for the additions of the the dining room and other brands, to be developed in the northern and southern part of China. To date, we have a total of 6 Central Kitchens with four sizable standalones located in Shanghai, Hong Kong, Beijing and Shenzhen. In addition, our comprehensive logistic chain that spans 17 cities also provides a solid foundation for our multi-brand development.

5 Excluding 2 the dining room opened at the end of December 2013.

Branded products business achieved rapid growth and capitalized on our brand advantages

In addition to the traditional festive products such as moon cake, rice dumplings, Chinese New Year Eve dinner dishes and others with short shelf life, we researched and developed a range of pre-prepared products in 2013, which included our signature "sautéed prawns", "beef fillets in shanghai min style" and "braised Shanghainese stewed pork ball". These classic traditional dishes have no seasonal restrictions and a longer shelf life up to six months. We also expanded our sales to the Oriental CJ TV shopping channel, City Shop supermarkets, and collaborated a leading Japanese frozen food logistic provider to directly deliver Shanghai Min branded producsts. In 2013, the sales of our branded products as a whole increased by 21.6% to RMB54.6 million compared to 2012. Gross profit increased by 25.1% to RMB30.4 million and gross profit margin reached 55.7%. As we targeted the mass consumer market by offering the convenience of our branded products, we effectively leveraged our brand equity and achieved stable revenue growth.

STRATEGY FOR 2014

Multi-brand strategy will be our core development; capturing opportunities arising within market segments to increase turnover and profitability

Moving into 2014, the Company will continue to use its multi-brand strategy as the key to its development, particularly targeting middle-income and individual consumer segments to change the revenue composition of the Company. Apart from having the ability to replicate standardized processes, we will focus in building our core competences of brand building. The Company's multi-brand strategy will be executed as follows:

Self-developed new brands: On March 26, 2014, we have launched our fourth brand — Shanghai Min's Family Dining (小小南國) — targeting personal and family diners. Similar to the dining room, we will focus on fine-tuning our product offering and business model in the first year, then implement standardization replication as soon as it is ready.

Introduction of premium international catering brands: We will also introduce international brands, especially those with strong growth momentum and potential for replication within a market segment. We are actively negotiating for cooperative opportunities with premium international brands, and have already entered into a letter of intent with an international renown multi-business catering & management company to jointly operate a theme restaurant in Shanghai. In 2014, we plan to innovate and break into the niche market of western casual dining that has high growth potential.

Support of home grown start-up product development with potential: Benefitting from managing experiences with the operation of Uncle Tetsu Bakery, we also seek to pursue, light-weight trendy start-up products which garnered popularity. Through headquarters functional support, we expect to capture first mover opportunities and implement standardized process replication. As of the date of this announcement, we had signed the letter of intent to provide management services for a popular milk tea project. We will charge a management fee and provide management services and support its expansion.

Acquisition Opportunities: We will actively seek appropriate acquisition opportunities to fortify and increase cuisine offering and market share within a short period.

With the previously described multi-brand strategies, we plan to open in 2014 about 10 to 12 the dining room restaurants, 2 to 3 Shanghai Min's Family Dining restaurants, and manage about 20 Uncle Tetsu Bakery outlets. The total number of formal dining restaurants under the brands of Shanghai Min and Maison De L'Hui will be maintained at the current level of approximately 76. Excluding Shanghai Min and Maison De L'Hui, we hope that by the end of 2014, the total number of self-owned and management causal dining restaurants will exceed 35% of our total number of stores.

Refinement of Shanghai Min brand positioning to achieve same-store sales turnaround

Following repositioning of our core brand in 2013, we will focus on profitability improvement in 2014. We will continue to enhance marketing and service standards, and provide value-for-money food and services to customers to improve same-store customer traffic and to turnaround same-store sales. The Company will also undertake improvement initiatives targeting various geographic markets. We will reduce the layout density of Shanghai Min restaurants in Shanghai region as appropriate, so as to further enhance the customer traffic and profitability of existing restaurants. Missing in Hong Kong, we are adopting a series of branding exercises, and plan to open new stores at prime locations and to renovate old store in Central. All these initiatives are geared to enhance the brand awareness and reputation of Shanghai Min in Hong Kong. In Beijing and second tier cities, we will reduce pricing as appropriate so as to attract more customers.

In 2014, we will smartly utilize external resources to expand our sales channel such as "group buy" cooperation and use of internet to explore more online sales platform. In November 2013, we set up an e-shop at Tmall.com, which is a subsidiary of arenown e-commerce group, selling a variety of our branded products and e-coupons covering all outlets nationwide. In 2014, Xiao Nan Guo has reached an agreement with a well-known IT enterprise group for a cross-industry and cross-sector collaboration, which includes B2C business of the Xiao Nan Guo's fresh and branded products. By cooperating with a prominent internet player, we hope to build an efficient sales channel for our branded products that will further enhance our brand influence and profitability.

Tightening cost control

In 2014, the Company will further conduct various cost control initiatives, so as to improve XNG's overall profitability. We will continue to opt for survival of the fittest. Departments and positions will be rationalized and integrated, with non-critical expenditures being streamlined. We plan to increase the entire headquarters expenses by RMB12 million or 10.6% in 2014, increasing expenses at a lower rate than the Company's overall revenue growth rate. At our stores level, we continue to create a good working environment for operational staff, provide salaries at market rates and provide numerous promotional opportunities to motivate our staff. We will also provide professional training to our employees, and consolidate and optimize positions at restaurants so as to enhance their skills and efficiencies. After opening 19 new stores and 2 central kitchens in 2013, the number of operational staff only increased by 3.5% compared to 2012, thanks to efficiency initiatives. We also expect that in 2014, the increase of new staff will continue to be lower than the turnover growth rate.

Establishing a mega supply chain company to serve our multi-brand strategy, and gradually exploring multi ple sales channels for food ingredients

In order to enhance the efficiency of procurement and capture the demand arising from the fast growth in the medium- to high-end fresh food market, the Company consolidated four departments, namely the procurement, logistics, quality assurance and food ingredient trading in 2013 and established a mega supply chain company. This unit will further source raw materials from origins or seek more professional distributors, and procure more ingredients of various quality and specification at better prices. Apart from supplying to the Company's own multi-brand businesses, this subsidiary will also seek to sell to other external channels.

OUTLOOK

There have been intense fluctuations in the market during 2013. By leveraging our 27 years of experience in restaurant operations, the accurate judgment of the market by the Board of Directors and the effective execution capabilities of our management team, we have managed to transform ourselves in times of adversity to cope with current challenges of government frugality measures and China's slowing economy in our markets, thereby turning crises into opportunities.

In 2014, we will implement more measures to successfully execute our strategies so as to meet our investors' expectation. Meanwhile, we will fully utilize the economies of scale provided by our business platforms to further enhance our competitiveness and to become an industry consolidator, with the aim of reinforcing our leading position in the market.

FINANCIAL REVIEW

For the year of 2013, the Group's revenue reached approximately RMB1,385.9 million, representing an increase of approximately RMB53.6 million or 4.0% compared to approximately RMB1,332.3 million for 2012. Gross profit of the Group was approximately RMB927.2 million, an increase of approximately RMB19.4 million or 2.1% compared to approximately RMB907.8 million for 2012. For the year of 2013, profit of the Group reached approximately RMB0.7 million, representing a decrease of approximately RMB117.8 million or 99.4% compared to approximately RMB118.5 million for 2012.

At 31 December 2013, the Group operated the restaurant network of 72 Shanghai Min restaurants, 4 Maison De L'Hui restaurants and 7 "the dining room" restaurants, which cover some of the most affluent and fastest-growing cities in China (Note(i)), Hong Kong and Macau. The following table sets forth revenue and the number of restaurants in operation, by geographical region and brand for the years ended 31 December 2013 and 2012.

	For the year ended 31 December			
	2013		**2012**	
	Number of restaurants	*Revenue RMB'000*	*Number of restaurants*	*Revenue RMB'000*
China (i)				
— Shanghai Min	62	1,037,917	57	1,043,862
— The Dining Room	4	7,033		
— Maison De L'Hui	4	47,728	4	48,860
Hong Kong				
— Shanghai Min	9	173,652	9	173,070
— The Dining Room	3	51,711	2	20,280
Macau				
— Shanghai Min	1	11,977	—	—
Total revenue of restaurant operations (ii)	83	1,330,018	72	1,286,072
Other revenue		55,893		46,226
Total revenue		1,385,911		1,332,298

Note

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

(ii) The revenue generated in China from the brand of Shanghai Min in 2013 included 8 restaurants that have been closed because of the frugality policies by the government.

In 2013, we opened 14 Shanghai Min brand restaurants, 5 the dining room brand restaurants and closed 8 Shanghai Min brand restaurants at the same time. As of the end of 2013, there were a total of 83 restaurants operating by us.

Revenue

Revenue of the Group increased by RMB53.6 million, or 4.0%, from RMB1,332.3 million in 2012 to RMB1,385.9 million in 2013. This increase was due to an increase of RMB43.9 million in revenue from the restaurant operations and an increase of RMB9.7 million in revenue from other businesses during the year.

Revenue from restaurant operations

Revenue from restaurant operations increased by RMB43.9 million, or 3.4%, from RMB1,286.1 million in 2012 to RMB1,330.0 million in 2013 primarily reflecting:

- A RMB66.5 million increase in revenue from 14 Shanghai Min restaurants that were newly opened during 2013;

- A RMB152.9 million increase in revenue from the 13 Shanghai Min restaurants that were newly opened during 2012;

- Under the offsetting effect brought by austerity policies imposed by the government and avian influenza, a RMB91.9 million decrease, representing 10.2% decrease, in comparable restaurant sales from 43 Shanghai Min restaurants during 2013, as compared to 2012.

- A RMB4.1 million decrease from the ramp-up of 1 Maison De L'Hui restaurant during 2012 (Note (i));

- A RMB4.1 million decrease, representing 8.5% decrease, in comparable restaurant sales from 3 Maison De L'Hui restaurants during 2013, as compared to 2012;

- A RMB19.7 million increase in revenue from 5 "the dining room" restaurants that were newly opened in 2013;

- A RMB18.8 million increase in revenue from 2 "the dining room" restaurants that were newly opened in 2012;

- In 2013, we closed 8 Shanghai Min restaurants, which resulted in a decrease of revenue by RMB69.1 million;

- In 2013, we renovated, changed leased space or location for 2 Shanghai Min restaurants, which resulted in a decrease of revenue by RMB44.7 million.

Note(i): In 2012, the store at Ningbo Merchants Association changed from Shanghai Min to Maison De L'Hui

Revenue from other businesses

Revenue from other businesses increased by RMB9.7 million, or 21.0%, from RMB 46.2 million in 2012 to RMB55.9 million in 2013, which primarily reflected the increase in sales of our branded food products.

Cost of inventories consumed

Cost of inventories consumed increased by RMB34.3 million, or 8.1%, from RMB424.5 million in 2012 to RMB458.8 million in 2013, which was primarily due to an increase in quantities of food and beverages consumed in our operations, in line with rising revenue in 2013.

Cost of inventories consumed as a percentage of the revenue increased from 31.9% in 2012 to 33.1% in 2013, primarily reflecting (i) the market price of food ingredients in China increased, and (ii) the percentage of the cost of inventories consumed increased as a result of reinforeing various channels to promote operation.

Other income and gains

Other income and gains decreased by RMB6 million, from RMB46.0 million in 2012 to RMB40.0 million in 2013, primarily reflecting (i) a decrease of RMB2.0 million of exchange gain in 2013 when compared to 2012; (ii) interest income earned from bank increased by RMB1.0 million in 2013 when compared to 2012; (iii) a decrease of RMB2 million in promotion service income from our restaurant's advertising service in 2013 when compared to 2012; and (iv) a decrease of RMB2.1 million in compensation from certain landlords in 2013 when compared to 2012.

Selling and distribution costs

Selling and distribution costs increased by RMB140.8 million, or 20.4%, from RMB689.2 million in 2012 to RMB830.0 million in 2013, which primarily reflected an increase in all our major cost components, as a result of the expansion of our operations in 2013 and rise in labor cost.

Labor costs related to the restaurants, Central Kitchens and central warehouses increased by RMB65.7 million, or 24.9%, from RMB263.6 million in 2012 to RMB329.3 million in 2013. Labour costs as a percentage of our revenue increased from 19.8% in 2012 to 23.8% in 2013, primarily attributable to a general increase of salary levels for our employees during 2013 and the sales of comparable restaurants dropped in 2013 as a result of slow down in macroeconomic growth.

Occupancy costs related to restaurants, Central Kitchens and central warehouses increased by RMB34.4 million, or 16.6%, from RMB207.5 million in 2012 to RMB241.9 million in 2013. Occupancy costs as a percentage of our revenue up from15.6% in 2012 to 17.5% in 2013, primarily attributed to the sales of comparable restaurants dropped in 2013 as a result of slow down in macroeconomic growth and the number of our new restaurants continued to rise.

Depreciation and amortisation charges related to the restaurants, Central Kitchens and central warehouses increased by RMB22.1 million, or 27.1%, from RMB81.7 million in 2012 to RMB103.8 million in 2013. Depreciation and amortisation charges as a percentage of our revenue increased from 6.1% in 2012 to 7.5% in 2013, primarily attributed to the sales of comparable restaurants dropped in 2013 as a result of slow down in macroeconomic growth and the number of our new restaurants continued to rise.

General and administrative expenses

Administrative expenses increased by RMB7 million, or 6.6%, from RMB106.0 million in 2012 to RMB113.0 million in 2013. Such increase primarily reflected the increase in the major components in our expenses.

Labour cost of headquarter and management staff increased RMB6.6 million from RMB70.3 million in 2012 to RMB76.9 million in 2013, representing an increase of 9.4%. Such decline mainly reflected the expansion of our economies of scale and supported more branding operations.

Other administrative expenses increased RMB0.4 million from RMB35.7 million in 2012 to RMB36.1 million in 2013, representing an increase of 1.1%. Such increase mainly attributable to the expansion of our economies of scale and the control of expenses from headquarter during 2013.

Income tax expense

Income tax expense decreased by RMB28.4 million, or 84.8%, from RMB33.5 million in 2012 to RMB5.1 million in 2013.

Profit for the year

As a result of the foregoing, the profit for the year decreased by RMB117.8 million, or 99.4%, from RMB118.5 million in 2012 to RMB0.7 million in 2013. The net profit margin decreased from 8.9% in 2012 to 0.05% in 2013.

Dividends payable

In 2013, the Group paid out dividends of RMB40.4 million (including the final dividend for the year of 2012 and the interim dividend for the year of 2013). As at 31 December 2013, there was no outstanding dividends payable.

Liquidity, financial resources and cash flow

The Group has funded the liquidity and capital requirements primarily through bank loans, cash inflows from the operating activities and proceeds received from the Global Offering.

As at 31 December 2013, the Group's total interest-bearing bank loans were RMB203.2 million.

In 2013, the Group had net cash inflows from operating activities of RMB112.0 million (2012: RMB171.2 million). As at 31 December 2013, the Group had RMB324.5 million in cash and cash equivalents (31 December 2012: RMB416.8 million). The following table sets the certain information regarding the consolidated cash flows for the years ended 31 December 2013 and 2012.

	As at ended 31 December	
	2013	**2012**
	RMB'000	*RMB'000*
Net cash flows from operating activities	112,002	171,226
Net cash flows used in investing activities	(202,532)	(228,971)
Net cash flows from financing activities	4,250	296,531
Net (decrease)/increase in cash and cash equivalents	(86,280)	238,786
Cash and cash equivalents at beginning of the year	416,797	179,956
Effect of foreign exchange rate, net	(6,018)	(1,945)
Cash and cash equivalents at end of the year	324,499	416,797

Operating activities

Net cash inflow from operating activities decreased by RMB59.2 million from RMB171.2 million in 2012 to RMB112.0 million in 2013, which was primarily attributable to (i) the operating cash inflows before changes in working capital ofRMB133.2 million (2012: RMB238.9 million), (ii) Through oprimizing invenory managment and receivables management, operating cash inflow from operating capital change was RMB20.9 million (2012: outflow of RMB29.8 million).

Investing activities

Net cash flow used in investing activities was RMB202.5 million in 2013, representing a decrease of RMB26.4 million compared to 2012. It is mainly due to the investment scale of new "the dining room" was relatively small, resulting a decrease of cash outflow amounting to RMB42.9 million for purchase of leasehold improvements, furniture, fixtures and equipment, and an increase of RMB20 million in available-for-sale investment and investment in an associate.

Financing activities

Net cash flow of financing activities changed from an inflow of RMB296.5 million during 2012 to an inflow of RMB4.3 million during 2013, representing a decrease of RMB292.2 million, which was primarily attributable to (i) no proceeds deducted from IPO expenditure in 2013 (2012: RMB360.6 million); (ii) net inflow from bank loan (received proceeds minus paid loan) of RMB46.4 million (2012: net outflow of RMB10.7 million); (iii) dividends declared of RMB40.4 million (2012: RMB44.4 million); (iv) payment to interest expenses of RMB6.8 million (2012: RMB9.0 million); and capital contribution from the non-controlling interests of RMB5 million.

Foreign Currency Exposure

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 2013 (2012: 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.

Net Current Assets

The Group recorded net current assets of RMB11.0 million as at 31 December 2013, a decrease of RMB144.9 million compared to the net current assets recorded as at 31 December 2012, which was primarily used in the capital expenditure as the number of new restaurants increased in 2013.

The Group expects to finance the working capital requirements with the following sources of funding: (i) cash inflows from operating activities and (ii) proceeds from bank loans.

Contingent Liabilities

There were no significant contingent liabilities for the Group as at 31 December 2013 and 31 December 2012.

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 5 to 12 years.

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

	31 December 2013 *RMB'000*	**31 December 2012** *RMB'000*
Within one year	244,530	202,115
In the second to fifth years, inclusive	814,450	741,388
After five years	410,458	422,117
	1,469,438	1,365,620

Capital Commitment

Capital commitments were approximately RMB51.4 million and RMB41.5 million as at 31 December 2013 and 31 December 2012, respectively.

Human Resources

The salary level of employees in the restaurant industry has been generally increasing in recent years. Employee attrition levels tend to be higher in the food services industry than in other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 31December 2013, the Group recruited about 5,458 employees in China, Hong Kong and Macau. During 2013, total staff cost was RMB406.2 million, representing 29.3% of the revenue (2012: RMB333.9 million, 25.1% of the revenue).

Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013.

Closure of register of members

The register of members of the Company will be closed from 30 May 2014 to 5 June 2014 (both days inclusive), during which period no transfers of shares will be registered, for ascertaining shareholders' entitlement to attend the forthcoming Annual General Meeting to be held on 5 June 2014. In order to be eligible to attend the forthcoming Annual General Meeting, all transfer documents of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong share registrar Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 29 May 2013.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "Corporate Governance Codes") contained in Appendix 14 to the Rules Governing the listing of Securities of the Stock Exchange (the "Listing Rules") as its code of corporate governance. For the year ended 31 December 2013, the Company has been in compliance with all the code provisions in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company regarding directors' transactions of the securities of the Company. Having made specific enquiry to all of our directors, they have confirmed that they have been in compliance with the dealing requirements set out in the Model Code for the year ended 31 December 2013.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2013.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "Audit Committee") on 30 August 2011 with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code. The Audit Committee comprises Mr. Tsang Henry Yuk Wong, Mr. Weng Xiangwei and Mr. Wang Yu. Mr. Tsang Henry Yuk Wong has been appointed as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013. The Audit Committee is of the view that these financial statements has been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory provisions, and sufficient disclosures have been already been made.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND THE 2013 ANNUAL REPORT ON THE STOCK EXCHANGE'S AND THE COMPANY'S WEBSITE

The annual results announcement will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiaonanguo.com), and the Company's 2013 Annual Report which contained all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Xiao Nan Guo Restaurants Holdings Limited
WANG Huimin
Chairlady

Shanghai, PRC, 27 March 2014

As at the date of this announcement, the executive directors of the Company are Ms. WANG Huimin, Ms. WU Wen and Mr. KANG Jie; the non-executive directors of the Company are Ms. WANG Huili, Mr. WENG Xiangwei and Mr. WANG Hairong; and the independent non-executive directors of the Company are Mr. TSANG Henry Yuk Wong, Mr. WANG Chiwei and Mr. WANG Yu.