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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	2013	% Change
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>Increase/ (decrease)</i>
Revenue (RMB'000)	742,749	677,551	9.6%
Gross profit ¹ (RMB'000)	498,332	466,707	6.8%
Gross margin ²	67.1%	68.9%	(1.8%)
Profit for the period attributable to owners of the Company ³ (RMB'000)	578	31,831	(98.2%)
Net profit margin ⁴	0.1%	4.7%	(4.6%)
Earnings per share — Basic	RMB0.04 cents	RMB2.2 cents	
Interim dividend per share (HK cents)	—	0.8	
Number of restaurants (as at 30 June)	88	75	

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 A one-time write-off of store closure of RMB4.9 million is included.

⁴ Net profit margin is calculated as profit for the period attributable to owners of the Company divided by revenue.

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Xiao Nan Guo Restaurants Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014, together with unaudited comparative figures for the corresponding period in the year 2013, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS Six-month period ended 30 June 2014

		Six-month period ended 30 June	
	Notes	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
REVENUE	4	742,749	677,551
Cost of inventories consumed		<u>(244,417)</u>	<u>(210,844)</u>
Gross profit		498,332	466,707
Other income	4	24,977	24,616
Selling and distribution costs		(452,293)	(396,225)
Administrative expenses		(61,608)	(49,887)
Other expenses		(5,853)	(51)
Finance costs		<u>(2,360)</u>	<u>(3,762)</u>
PROFIT BEFORE TAX	5	1,195	41,398
Income tax expense	6	<u>(905)</u>	<u>(9,574)</u>
PROFIT FOR THE PERIOD		<u>290</u>	<u>31,824</u>
Attributable to:			
Owners of the Company		578	31,831
Non-controlling interests		<u>(288)</u>	<u>(7)</u>
Earnings per share attributable to ordinary equity holders of the Company			
Basic	8	<u>RMB0.04 cents</u>	<u>RMB2.2 cents</u>
Diluted	8	<u>RMB0.04 cents</u>	<u>RMB2.2 cents</u>

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

Six-month period ended 30 June 2014

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
PROFIT FOR THE PERIOD	<u>290</u>	<u>31,824</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>3,408</u>	<u>(4,332)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>3,408</u>	<u>(4,332)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>3,698</u></u>	<u><u>27,492</u></u>
Attributable to:		
Owners of the Company	3,986	27,499
Non-controlling interests	<u>(288)</u>	<u>(7)</u>
	<u><u>3,698</u></u>	<u><u>27,492</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2014

	<i>Notes</i>	30 June 2014 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2013 <i>RMB'000</i> <i>(audited)</i>
NON-CURRENT ASSETS			
Property and equipment		680,507	685,506
Intangible assets		3,868	4,500
Investments in an associate		10,000	10,000
Available-for-sale investments		10,100	10,100
Long-term rental deposits		60,810	54,975
Deferred tax assets		69,803	58,869
Other long-term assets		<u>263</u>	<u>369</u>
Total non-current assets		<u>835,351</u>	<u>824,319</u>
CURRENT ASSETS			
Inventories		40,267	49,901
Trade receivables	9	15,647	16,214
Prepayments, deposits and other receivables	10	141,616	151,243
Cash and cash equivalents	11	<u>305,539</u>	<u>324,499</u>
Total current assets		<u>503,069</u>	<u>541,857</u>
CURRENT LIABILITIES			
Trade payables	12	84,465	84,808
Derivative financial instruments		—	401
Interest-bearing bank loans		228,018	203,236
Tax payable		12,286	16,715
Other payables and accruals	13	167,817	224,285
Deferred income		<u>242</u>	<u>1,398</u>
Total current liabilities		<u>492,828</u>	<u>530,843</u>
NET CURRENT ASSETS		<u>10,241</u>	<u>11,014</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>845,592</u>	<u>835,333</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
30 June 2014

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
NON-CURRENT LIABILITIES		
Long-term payables	54,875	51,345
Deferred tax liabilities	<u>716</u>	<u>716</u>
Total non-current liabilities	<u>55,591</u>	<u>52,061</u>
Net assets	<u><u>790,001</u></u>	<u><u>783,272</u></u>
EQUITY		
Equity attributable to owners of the Company		
Issued share capital	12,063	12,047
Reserves	<u>773,630</u>	<u>766,629</u>
	785,693	778,676
Non-controlling interests	<u>4,308</u>	<u>4,596</u>
Total equity	<u><u>790,001</u></u>	<u><u>783,272</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 the period.

2.1 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as well as with all the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed consolidated interim financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. These condensed interim financial statements have not been audited. These condensed consolidated interim financial statements were approved and authorized for issue by the board of directors on 28 August 2014.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2013.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of the new and revised standards and interpretations as of 1 January 2014, noted below:

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (<i>Revised</i>)- <i>Investment Entities</i>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation- Offsetting Financial Assets and Financial Liabilities</i>

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

IAS 36 Amendments	Amendments to IAS 36 <i>Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets</i>
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>

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

2.3 IMPACT OF 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 (2014)	<i>Financial Instruments</i> ⁴
IFRS 11 Amendments	Amendments to IFRS 11 - <i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
IFRS 14	<i>Regulatory Deferral Accounts</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits — Defined Benefit Plans: Employee Contributions</i> ¹
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 and IAS 38 - <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
IAS 16 and IAS 41 Amendments	Amendments to IAS 16 and IAS 41- <i>Agriculture: Bearer Plants</i> ²
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013 ¹
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013 ¹

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

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

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 engaged in the principal 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*

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Mainland China	611,327	567,148
Hong Kong	116,690	110,403
<u>Others</u>	<u>14,732</u>	<u>—</u>
	<u><u>742,749</u></u>	<u><u>677,551</u></u>

The revenue above is based on the location of the customers.

(b) *Non-current assets*

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Mainland China	694,474	676,126
Hong Kong	59,361	67,877
<u>Others</u>	<u>1,613</u>	<u>1,347</u>
	<u><u>755,448</u></u>	<u><u>745,350</u></u>

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

3. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six-month periods ended 30 June 2014 and 2013, no major customers segment information is presented in accordance with IFRS 8 *Operating Segments*.

4. REVENUE AND OTHER INCOME

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 and other income is as follows:

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue		
Restaurant operations	722,825	660,362
Revenue from packaging products of restaurants	18,529	16,728
Other revenue	<u>1,395</u>	<u>461</u>
Revenue, net	<u><u>742,749</u></u>	<u><u>677,551</u></u>
Other income		
Government grants	16,399	12,985
Bank interest income	989	2,688
Management fee	1,500	1,500
Compensation income from landlords	—	2,800
Service income	5,494	1,966
Exchange gain	—	2,176
Others	<u>595</u>	<u>501</u>
	<u><u>24,977</u></u>	<u><u>24,616</u></u>

5. PROFIT BEFORE TAX

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

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cost of inventories consumed	244,417	210,844
Depreciation	59,163	49,887
Amortisation of intangible assets	632	569
Amortisation of other long-term assets	106	106
Minimum lease payments under operating lease on buildings	143,782	119,494
Employee benefit expense (including directors' remuneration)		
Wages and salaries	171,305	152,599
Equity-settled share option expense	1,000	800
Defined contribution pension scheme	<u>47,728</u>	<u>40,307</u>
	<u>220,034</u>	<u>193,706</u>
Bank interest income	(989)	(2,688)
Loss on disposal of items of property and equipment	<u>4,004</u>	<u>74</u>

6. INCOME TAX

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Group:		
Current - Mainland China charged for the period	11,839	17,640
Current - Hong Kong and elsewhere charged for the period	—	813
Deferred tax	<u>(10,934)</u>	<u>(8,879)</u>
Total tax charge for the period	<u>905</u>	<u>9,574</u>

6. INCOME TAX (continued)

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 Law (“PRC 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%.

7. DIVIDENDS

	Six-month period ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interim — Nil (2013: HK\$0.008 per ordinary share)	<u>—</u>	<u>9,400</u>

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

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the consolidated profit attributable to the equity holders of the Company and the weighted average number of ordinary shares of 1,454,991,481 (30 June 2013: 1,451,250,000) in issue throughout the period.

The calculation of diluted earnings per share amount is based on the profit for the period 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.

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

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit attributable to ordinary equity holders of the		
Company, used in the basic earnings per share calculation	<u>578</u>	<u>31,831</u>
Number of shares		
	Six months ended 30 June	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during		
the period used in the basic earnings per share		
calculation*	1,454,991,481	1,451,250,000
Effect of dilution — weighted average number of ordinary		
shares: Share options	<u>605,859</u>	<u>967,842</u>
Number of ordinary shares used in the diluted earnings per		
share calculation	<u>1,455,597,340</u>	<u>1,452,217,842</u>

* The 23,750,000 ordinary shares issued to the Company's wholly-owned subsidiary Affluent Harvest Limited are not included.

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 minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

9. TRADE RECEIVABLES (continued)

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

	Group	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Within 1 month	9,871	9,968
1 to 2 months	3,201	2,322
2 to 3 months	1,313	1,247
Over 3 months	<u>1,262</u>	<u>2,677</u>
	<u>15,647</u>	<u>16,214</u>

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

	Group	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Deposits and other receivables	47,518	40,722
Prepaid expense	19,922	24,399
Amounts due from companies owned by the Controlling Shareholder	49,732	63,467
Amount due from a director of major subsidiaries in Hong Kong	126	131
Prepayments	<u>24,318</u>	<u>22,524</u>
	<u>141,616</u>	<u>151,243</u>

Included in the Group's prepayments balance as at 30 June 2014, are prepayments due from the associate, Yancheng Guanhua Aquatic Products Co., Ltd., with amount of RMB10,300,000 (2013: RMB3,300,000).

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	Group	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Cash and bank balances, unrestricted	301,205	320,192
Time deposits with original maturity of less than three months	<u>4,334</u>	<u>4,307</u>
Cash and cash equivalents	<u><u>305,539</u></u>	<u><u>324,499</u></u>

The cash and bank balances and time deposits of the Group's subsidiaries in Mainland China denominated in RMB amounted to RMB133,047,000 and RMB189,545,000 as at 30 June 2014 and 31 December 2013, 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:

	Group	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Within 3 months	83,267	83,329
3 months to 1 year	208	276
Over 1 year	<u>990</u>	<u>1,203</u>
	<u>84,465</u>	<u>84,808</u>

The trade payables balance as at 30 June 2014 included nil balance due to Yancheng Guanhua Aquatic Products Co Ltd., the associate of the Group (2013: RMB1,301,000).

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

13. OTHER PAYABLES AND ACCRUALS

	Group	
	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Payroll and welfare payables	31,701	33,710
Taxes other than corporate income tax	7,781	7,388
Other payables for construction in progress	53,996	82,797
Accruals and other payables	21,113	37,256
Advances from customers	<u>53,226</u>	<u>63,134</u>
	<u>167,817</u>	<u>224,285</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Our industry: irreplaceable demand and steady market recovery

Catering is an old industry. Its significance has far surpassed the need to survive. In China, dining has a more significant meaning of communication, reunion, family and success. Every aspect of our life is embodied by way of dining.

The mid- to high-end catering market experienced fluctuation in 2013. The catering sector was seriously affected 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 nationwide catering revenue growth shrank from about 14% in 2012 to 9% in 2013 - the slowest growth recorded over the past 22 years. As we mainly engaged in the mid-to high-end market, the same-store revenue and the operating profit margin of the Company were each at the lowest point in 2013.

In the first half of 2014, the steady recovery trend of nationwide catering market was obvious. According to The Catering Market Analysis Report during the first half of 2014 issued by China Cuisine Association, nationwide catering revenue amounted to RMB1,298.9 billion from January to June, representing a year-on-year increase of 10.1% and an increase of 1.4% in growth compared to the same period of last year. During the same period, revenue from catering enterprises above limit amounted to RMB377.3 billion, which marked a turnaround to record a growth of 2.9% compared to the negative growth in last year. The report also reflected that the mid- to high-end catering industry remained stagnant, and operations closure, suspension and transformation took place frequently. On the other hand, further urbanization¹ has driven the popularity of dining out, and hence the demand and supply of the industry are increasing persistently, which has resulted in a more intense market competition.

Our strategies: continuation of standardization for replication and multi-brand strategy; differentiation of products and brands in the market segments, and improvement of headquarters' functions to reach economies of scale

Facing with opportunities and changes in the industry development, we will continue to capitalize on our existing standardized replication advantages according to different market segments and demands, and orderly speed up the implementation of

¹ According to the data issued by the National Bureau of Statistics, the urbanization rate has reached 53.73% in 2013, representing an increase of 1.16% compared to 2012, and an increase of 13.23% in 10 years.

multi-brand strategy. As for the mid- to high-end market (our current major source of revenue), we will strengthen the brand advantages of “Shanghai Min” and “Maison De L’ Hui” to further establish our industry position and influence by leveraging on the industrial consolidation. As for the mass consumer market that we have entered into via “the dining room” brand since 2012, in addition to the opening of “the dining room” brand stores, we will make a comprehensive analysis on the dining purpose and preference of consumers, and will adapt and lead their need for dining via different brands and business segments.

Our new brand development direction is 1) to focus on mid-end mass consumer market; 2) to further divide and specialize in products; 3) to represent a more advanced dining concept; 4) to operate restaurants in a convenient and stylish way; and 5) to implement standardized replication. With the launch of various new products, brand influence, the comprehensive mechanism of headquarters, the management systems across 18 cities, and the increasingly matured experience in standardized replication, the Group will gradually realize the benefits of economies of scale.

Our execution: establishment of seven business units for our different brands targeting different markets; a balance between resources allocation and cost savings

To ensure effective implementation of the Company’s strategy, our management structure underwent a major reorganization in the first half of the year and seven business units were established according to the business segment of different restaurants. We will react to the market demand more appropriately and swiftly by giving authorization to general manager of business units as well as the control and management of the headquarters.

On the cost control front, we strictly controlled various expenses by optimizing the savings of capital expenditure, integration of procurement resources, traveling and meeting expenses, and rental and energy expenses, so as to gradually improve the profitability of the Company. On the other hand, the Company gave priority to the introduction and development of new brands, recruitment of high caliber staff, improvement of the fringe benefits and working conditions of the operational staff, and the promotion of corporate culture, so as to ensure the human capital and products were adequate for future development.

FINANCIAL PERFORMANCE

In the first half of 2014, the Group reported a revenue increase of 9.6% to RMB742.7 million compared to the same period of last year, and during the period, gross profit increased by 6.8% to RMB498.3 million, which was primarily attributable to the revenue increase from new restaurants opened in 2013. In the first half of 2014, profit

for the period attributable to owners amounted to approximately RMB0.6 million, representing a decline of RMB31.3 million as compared to the profit of RMB31.8 million in the same period of 2013. However, there was a decline in loss of RMB31.3 million as compared to the loss of RMB30.8 million in the second half of 2013.

OPERATIONS REVIEW FOR THE FIRST HALF OF 2014

The Company's overall operations improved compared to the second half of 2013

After the implementation of development strategy and a series of business reforms, same-store sales of the Group reported a year-on-year decline of 1.8% in the first half of the year compared to a decline of same-store sales revenue of 10% in 2013. The same-store sales decreased by 4.3% in the first quarter of the year compared to the same period of last year. It showed that the decline had slowed down significantly. We achieved a same-store growth of 1.1% in the second quarter of the year compared to the same period of last year, which reflected a slow pickup. Although the Company recorded a loss in the second half of 2013, we attained a turnaround to profit in the first half of 2014. Meanwhile, there were improvements in the gross margin (67.1%), selling and distribution costs to revenue (60.9%) and general and administrative expenses to revenue (8.3%) in the first half of the year, compared to that of 65.0%, 61.2% and 8.9% respectively in the second half of last year.

Transformation of Shanghai Min brand was stabilized, same-store performance was improved and business was recovered gradually

The Central Government's austerity measures to prohibit use of public funds for entertainment significantly impacted the demand for our Shanghai Min brand restaurants. Our same-store sales revenue declined by 10% in 2013 as a result of the lower demand. Challenges come along with opportunities. Although the supply of mid- to high-end catering reduced correspondingly as a result of the industrial consolidation², the demand for business and personal consumption was not affected by the policy. After a series of timely and effective measures, same-store sales of Shanghai Min brand recorded a year-on-year decline of 4.9% in the first quarter and a year-on-year increase of 0.4% in the second quarter, demonstrating signs of recovery. Same-store operating profit margin of the Shanghai Min brand increased from 7.9% in the second half of 2013 to 10.0% in the first half of 2014.

² According to the "Analysis on the Catering Market in the First Half of 2013 and the Forecast for the Second Half" issued by the China Cuisine Association, 2,168 outlets in the Beijing catering market were closed in the first half of 2013, 64 mid- to high-end outlets in the Nanjing catering market were closed; and the wave of store closure of high-end catering enterprises appeared in Guangdong, Liaoning and Shanghai.

The gradual recovery of business under Shanghai Min brand was mainly attributable to the following measures:

- Reduced density of restaurants in certain markets as well as closed or suspended loss-making outlets. As of 28 August 2014, a loss-making store in Wuxi was closed, a profit-making store in Shanghai was closed due to the change of landlord, and 3 loss-making stores in Dalian and Shanghai were suspended. As for the suspended loss-making outlets, we either sub-contracting, negotiating rent or waiting for the rejuvenation of business districts depending on different conditions, in order to prevent the Company from asset loss. The closed or suspended stores recorded an accumulated operating loss of RMB5.5 million in the second half of 2013 and a further loss was mitigated via timely adjustment. In the second half of the year, we will continue to pay attention to and improve the loss-making stores, and will prepare to close or discontinue the operation of stores based on different conditions. Given the improvement of same-store sales revenue since the second quarter, it is expected that less than 8 stores will be closed or suspended in the whole year.
- We divided the existing 63 Xiao Nan Guo restaurants in China into business banquet stores and personal consumption stores targeting different geographic markets, different business districts and different consumer groups:
 - As for the business banquet stores, we further improved the service quality and dining environment, so as to satisfy customers' demand for quality. Taking the 10 banquet stores in Shanghai as an example, same-store customer traffic in the first half of the year improved 12.4%, and same-store expenditure per capita stood at RMB272, which were in par with that of last year.
 - As for the personal consumption stores, we adjusted the expenditures per capita via various measures, such as organizing promotional activities with third-party websites, launch of set meals, stored value membership card, reduction of menu price in certain cities, so as to satisfy customers' demand for performance-price ratio. Although same-store expenditure per capita of these stores reduced 8.1% to RMB184 in the first half of the year, same-store customer traffic increased by 3.3%. The customer traffic increased by 7.9% and the expenditure per capita decreased by 9.1% in the second quarter.
- Gradually enhanced sales capabilities of various stores upon the establishment of sales division and the provision of service training of sales and soft techniques to stores. In the first half of 2014, revenue from banquets was RMB67.6 million, recorded a same-store sales growth of 4.2% even under the Central Government's austerity measures on the use of public funds. Sales revenue from packaging products increased by 23.1% to RMB18.5 million compared to the same period of last year, with a same-store growth of 8.7%. A stored value

membership card programme was launched in Shanghai on 1 April 2014, which contributed a sales revenue of card consumption of RMB45.8 million in the second quarter³ and accounted for 22.8% of the total sales revenue of restaurants in Shanghai in the same period.

As of 30 June 2014, 3 new Shanghai Min restaurants were opened, and there were 73 Shanghai Min brand outlets in total. It is expected that 1 to 2 new stores will be opened in the second half of 2014.

The first “Shanghai Min’s Family Restaurant” began trail operation and is planned to open another one in the second half of the year

In the first half of the year, we opened the first Chinese restaurant under the new dining brand of “Shanghai Min’s Family Restaurant” in Shanghai for a trial of offering a personal consumption model with casual dining settings. The brand’s current average spending per capita is RMB83, and it is in the phase of fine-tuning products and services. We planned to open a new store in the second half of the year.

“the dining room” brand was expanded as planned and gained popularity in various cities

We launched “the dining room” brand for the mass consumer market in 2012. The number of stores was 9 as at 30 June 2014, and their distribution is as follows:

	2012	2013	Newly opened in 2014	Brand transferred in the first half of the year	Total
Hong Kong	2	1	—	—	3
Shanghai	—	2	1	—	3
Shenzhen	—	2*	1	-1	2
Beijing	—	—	1	—	1
Total	<u>2</u>	<u>5</u>	<u>3</u>	<u>-1</u>	<u>9</u>

* The brand of “the dining room” in Shenzhen Airport has changed to “TDR Express” (南小館快捷)

As the number of stores increased, the sales revenue from “the dining room” restaurants as a percentage of total revenue of the Group increased from 3.3% in the first half of 2013 to 6.6% in the first half of 2014. The same-store sales growth rate from “the dining room” restaurants opened in 2012 was 3.1%.

³ The Group entered into a Pre-paid Cards Agreement (the “Agreement”) in 2014 with Shanghai Xiao Nan Guo Enterprises Service Information Development Limited, a company indirectly owned by Wang Bai Xuan Tiffany who is the daughter of Ms. Wang Huimin (“Ms. Wang”), the chairlady, executive director and a 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 (a hotel owned by Ms. Wang) as well as other businesses operated by Ms. Wang.

Apart from “the dining room” opened in 2014, the overall operating profit margin of restaurants under “the dining room” in Shanghai, Shenzhen and Hong Kong in the first half of 2014 was 12.2%, average table turnover rate was more than 4 times and average daily customer traffic per store was more than 500 people. As the operation of restaurants under “the dining room” which was opened in the second half of 2013 became stabilised, the overall operating profit margin of the above 6 “the dining room” restaurants reached 14.9% in June 2014.

In the second half of the year, we plan to open 7 to 9 “the dining room” restaurants, which will bring up the number of new restaurants opened in the year to 10 to 12, and the total number of restaurants will increase to more than 15. As of 28 August 2014, the total number of “the dining room” restaurants increased to 11, and they had entered into the second-tier cities. We are also going to adjust the price of “the dining room” in the second-tier cities, which was lower than that of the restaurants in the first-tier cities such as Shanghai, Beijing and Hong Kong, in order to adapt to the purchasing power in local markets.

Throughout the development of “the dining room”, we adhered to the concept of standardized replication, and timely adjusted our products and services according to our development. We are going to change the brand of “the dining room” in Shenzhen Airport to “TDR Express” (南小館快捷), and reduce the number and combination of products appropriately, so as to adapt to the demand of speedy food production of the airport customers.

Maison De L’ Hui brand experienced growth in time of adversity

Despite the adverse market environment, our high-end brand, Maison De L’ Hui, achieved a same-store revenue growth of 7.6% in the first half of the year, and the loss of operating profit decreased RMB2.9 million compared to the second half of last year. We believe that the high-end catering market that provides elegant environment, attentive service and quality products will benefit from the economic development and the continuous trend of consumers’ premiumisation in China. We will continue to upgrade the operating level of the existing 3 Maison De L’ Hui restaurants in operation⁴ and we have no plan to open new store in the short term.

Rapid development of the management of stores selling, trendy and fast-moving products

At the end of 2013, we started to manage the stores of the “Uncle Tetsu” Cheese Cake brand in certain cities, so as to engage in the business of managing stores selling light-weighted and fast-moving products. The business has a huge market and enormous potentials as young consumers are willing to buy trendy and simple products with high performance-price ratio. On the other hand, the business encounters the operating pressure of a shorter product life cycle. Hence, it is our

⁴ The operation of another Maison De L’Hui in Ningbo was suspended and subcontracted to a third party

development strategy to seek for products that are trendy, delicious, simple and easy to replicate, and capitalize on the existing functions of our headquarters to provide store opening, operation and management services (such as development, operation and logistics) for third parties, so as to leverage our platform and management advantages. Also, taken into consideration of the shorter product life cycle and the pressure of operating cross-region stores during the rapid store-opening process, the Company will refrain from investing capital directly into the directly-operated stores format, in order to reduce operating risks.

There are currently 16 Cheese Cake Bakery stores under our management, and they contributed net revenue of management fees of RMB3.4 million to the Group in the first half of the year⁵. We sought to pursue other start-up products which have high potential in the market, so as to enlarge and enrich our existing platform.

Benefiting from the experience of operating the “Uncle Tetsu” Cheese Cake Bakery, we continued to seek for outstanding brands and products, and explored opportunities to out-license our operations. In August 2014, we cooperated with a third-party entrepreneur to establish a milk tea brand in the form of licenses for nationwide development. Both parties have 50% interests in the brand company. The brand company engaged in the business of licensing Hong Kong style milk tea stores. In the operation of the brand company, we will provide the functions of development, operation and logistics, while the cooperation party will provide product formula, production technologies and certain operation management consultation and brand promotion services. The 4 milk tea stores currently authorized by the brand company drew attention of the market at the time when the operation commenced⁶. It is expected that the brand company will authorize to open more than 30 milk tea stores in the second half of the year, and the majority of these stores will be operated by independent third parties. The brand company will receive at least 4% of turnover as management fees.

Although this management business is not our principal business, it is an important attempt for the Company’s headquarters to release its functions. It reflected that our ongoing establishment of headquarters over the years realized economies of scale.

⁵ The Cheese Cake Bakery managed by us was invested and opened by Shanghai Huimei Restaurant Management Co., Ltd. (“Shanghai Huimei”), which is indirectly 69% owned by Ms. Wang. Pursuant to the continuing connected transaction announcement issued by the Company on 22 April 2014, the Company and Shanghai Huimei entered into the Management Service Agreement. Pursuant to the Management Service Agreement, in 2014, Shanghai Huimei paid to the Company management service fees which accounted for 10% of the revenue. The Company will negotiate the management fee rate and profit sharing with Shanghai Huimei according to the business.

⁶ Of which, 1 milk tea store was opened by Shanghai Huimei with the authorization of the brand company. Shanghai Huimei may be authorized to open some milk tea stores in the future and the brand company will charge at least 4% of turnover as management fees.

Introducing overseas premium brands and planning to enter into the high-growth market

In addition to self-developed new brands, we will also introduce international brands, especially those with strong growth momentum and potential for replication within a market segment. We note that Japanese restaurants and casual western restaurants have a larger development potential⁷ in China market, and the well-developed international premium brands will provide us products tested by the market, mature management experience and brand new catering concepts.

Under the guidance of this strategy, we reached a joint venture agreement with Oreno Corporation (俺の株式会社), a well-known company in Japan, before 30 June 2014, pursuant to which the joint venture (as the “俺の” brand company) entered into a franchise contract with Oreno Corporation (俺の株式会社) before August, with a shareholding of 68% by the Company and 32% by the Japanese company. The joint venture will develop an “俺の” restaurant brand providing Japanese and western cuisine in the Greater China region. Preparatory work for new store, such as selecting stores sites and training, are being conducted. It is expected that the branded restaurants will be opened in Shanghai or Hong Kong in the first quarter of 2015.

In the meantime, we are seeking opportunities to cooperate with a well-known brand of casual western restaurant in the USA, so as to introduce new management philosophy and trendy catering concept. We are also seeking for merger and acquisition targets in the market.

Leveraging e-commerce platform to give full play to the interactive advantages of OtoO

We diversified our new customer channels and set a clearer resources management for sales by driving OtoO strategy via e-commerce platforms this year. The Company maintained a stable long-term cooperation with mainstream online platforms, such as Dazhong Dianping Online Review, Tao Dian Dian (淘點點) and Mei Tuan (美團). We wish to highlight that our sales volume ranked the second largest among the participating companies in the “3•8手機淘寶生活節” organised by Tao Dian Dian (淘點點) on 8 March 2014. According to a customer satisfaction survey conducted by Tao Dian Dian (淘點點), we attained the highest score and it was one of the most successful marketing activities organized by the Company in the first half of the year. In the first half of 2014, OtoO platforms accounted for 7.8% of the turnover and 9.6% of the customer traffic of the Company, while the turnover and customer traffic were

⁷ Based on the 2013 Shanghai Consumption Report published by Dazhong Dianping Online Review, as for the full-service meal in 2013, foreign cuisine such as Japanese and western cuisines is the most popular cuisine of the consumers in Shanghai. The report showed that, apart from local Jiangsu and Zhejiang cuisines, Japanese and western cuisines ranked the top three among the most popular cuisine types in Shanghai.

3.4% and 5.4% respectively in the same period of last year. On the other hand, the Company is upgrading the POS and CRM systems to connect the interfaces of various systems, enhance our capabilities to meet the demand for external online platforms, and further enhance the customer satisfaction of OtoO.

A balance between resources allocation and costs saving

In the first half of 2014, we continued to optimize our cost structure. We opened 7 new stores, and the average investment amount per store decreased by 31.0% compared to the same period of last year. It was because our construction cost of “the dining room” restaurants was lower than that of “Shanghai Min” brand. Although we introduced a series of marketing and promotional activities, our gross profit margin was effectively controlled at 67.1% in the first half of the year. Our overall rental level reduced by 0.3% as compared with the same period of last year via effective negotiation and adjustment.

On the other hand, we continue to encounter upward pressure in our labour cost, the ratio of operating labour cost to revenue increased by 1.0% and it was more difficult to recruit labour in the first-tier cities. We kept adhering to the people-oriented corporate culture. In the first half of the year, the salary level of our operational staff increased by 1.75%. We allocated RMB16.9 million to improve the working and living environment and dining conditions of our staff, and made great efforts to promote our corporate culture. At the headquarters level, we continued to opt for survival of the fittest. Departments and positions were rationalized and integrated, with non-critical expenditures being streamlined. In the first half of 2014, the entire headquarters expenses amounted to RMB61.6 million, and the ratio of headquarters expenses to revenue was 8.3%, down from 8.9% in the second half of 2013. The Company gave priority to the introduction and development of new brands, recruitment of high caliber staff, improvement of the fringe benefits and working conditions of the operational staff, and the promotion of corporate culture, so as to ensure the human capital and products were adequate for future development.

FINANCIAL REVIEW

For the six months ended 30 June 2014, the Group’s revenue reached RMB742.7 million, representing an increase of RMB65.2 million or 9.6% compared to RMB677.6 million for the six months ended 30 June 2013. The gross profit of the Group achieved RMB498.3 million, an increase of approximately RMB31.6 million from RMB466.7 million for the same period of 2013. For the six months ended 30 June 2014, the profit attributable to owners of the Company amounted to approximately RMB0.6 million, a decrease of RMB31.3 million compared to the profit for the same period of 2013, but a decline in loss of RMB31.3 million compared to the second half of 2013.

As at 30 June 2014, the Group operated a restaurant network of 73 “Shanghai Min” restaurants, 4 “Maison De L’Hui” restaurants, 9 “the dining room” restaurants, 1 “Shanghai Min’s Family Restaurant” (Note(ii)), and 1 “TDR Express” restaurant which cover some of the most affluent and fast-growing cities in China (Note(iv)), Hong Kong and other regions. The following table sets forth revenue and the number of the restaurants in operation, by geographical region and brand, as at 30 June 2014 and 2013.

	Six months ended 30 June			
	2014		2013	
	<i>Number of restaurants</i>	<i>Revenue RMB’000 (unaudited)</i>	<i>Number of restaurants</i>	<i>Revenue RMB’000 (unaudited)</i>
China (<i>Note (iv)</i>)				
- Shanghai Min	63	560,616	58	543,444
- Maison De L’Hui	4	23,554	4	23,751
- the dining room	6	19,682	1	—
- Shanghai Min’s Family Restaurant (<i>Note (ii)</i>)	1	2,067	—	—
- TDR Express (<i>Note (iii)</i>)	1	3,911	—	—
Hong Kong				
- Shanghai Min	9	87,468	9	87,864
- the dining room	3	29,222	3	22,031
Macau				
- Shanghai Min	<u>1</u>	<u>14,835</u>	<u>—</u>	<u>—</u>
Total revenue of restaurant Operations (<i>Note (i)</i>)	<u>88</u>	<u>741,354</u>	<u>75</u>	<u>677,090</u>
Other revenue		<u>1,395</u>		<u>461</u>
Total revenue		<u><u>742,749</u></u>		<u><u>677,551</u></u>

Notes

- (i) Total revenue of restaurant operations included revenue of restaurant operations and packaging products of restaurants.
- (ii) Shanghai Min’s Family Restaurant in China commenced operation on 26 March 2014, and there is one outlet in total.

Notes (continued)

- (iii) The brand of “the dining room” in Shenzhen Airport has changed to “TDR Express”.
- (iv) The People’s Republic of China (the “PRC”), for the purpose of this report and for geographical reference only, excluding Hong Kong, Macao and Taiwan.

Revenue

Revenue of the Group increased by RMB65.2 million, or 9.6%, from RMB677.6 million for the six months ended 30 June 2013 to RMB742.7 million for the six months ended 30 June 2014. This increase was due to an increase of RMB64.3 million in total revenue of restaurant operations and an increase of RMB0.9 million in other revenue during the period.

Total Revenue of restaurant operations

Total revenue of restaurant operations increased by RMB64.3 million, or 9.5%, from RMB677.1 million for the six months ended 30 June 2013 to RMB741.4 million for the six months ended 30 June 2014 primarily reflecting:

- an increase of RMB5.5 million in revenue from 3 “Shanghai Min” restaurants that were newly opened during the six months ended 30 June 2014;
- an increase of RMB111.1 million in revenue from 14 “Shanghai Min” restaurants that were opened in 2013;
- a decrease of RMB11.3 million, representing a decrease of 2.4%, in comparable restaurants sales (note (i)) from 48 “Shanghai Min” restaurants from the six months ended 30 June 2013 to the six months ended 30 June 2014;
- an increase of RMB2.1 million in revenue from the first “Shanghai Min’s Family Restaurant” that was newly opened during 2014.
- an increase of RMB1.7 million, representing an increase of 7.6%, in comparable restaurants sales (note (i)) from 3 Maison De L’Hui from the six months ended 30 June 2013 to the six months ended 30 June 2014;
- a revenue of RMB2.2 million from 3 “the dining room” restaurants that were newly opened during 2014;
- an increase of RMB24.1 million in revenue from 4 “the dining room” restaurants that were opened in 2013;

- an increase of RMB0.6 million, representing an increase of 3.1%, in comparable restaurants sales (note (i)) from 2 “the dining room” restaurants from the six months ended 30 June 2013 to the six months ended 30 June 2014;
- the brand of “the dining room” restaurant in Shenzhen Airport has changed to “TDR Express”, and contributed a revenue of RMB3.9 million in the first half of 2014.
- the closure of 8 stores in 2013, the closure of 2 stores in the first half of 2014, and the suspension, renovation and subcontracting or proposed suspension, renovation and subcontracting of 9 stores in 2013 and the first half of 2014 incurred a decline in revenue of RMB75.5 million.

Note (i): As a whole, our comparable restaurant sales from 53 restaurants (including “Shanghai Min” restaurants, “Maison De L’ Hui” restaurants and “the dining room” restaurants) decreased by RMB9.0 million, representing a decrease of 1.8% from the six months ended 30 June 2013 to the six months ended 30 June 2014.

Other revenue

Other revenue refers to revenue from other channels of packaging products’ businesses increased by RMB0.9 million, from RMB0.5 million for the six months ended 30 June 2013 to RMB1.4 million for the six months ended 30 June 2014, which primarily reflected the increase in sales of the branded packaging products of other sales channels in addition to stores of the Group.

Cost of inventories consumed

Cost of inventories consumed increased by RMB33.6 million, or 15.9%, from RMB210.8 million for the six months ended 30 June 2013 to RMB244.4 million for the six months ended 30 June 2014.

Cost of inventories consumed as a percentage of the revenue increased from 31.1% for the six months ended 30 June 2013 to 32.9% for the six months ended 30 June 2014, decreasing by 2.1% compared with that in the second half of 2013, primarily reflecting i) from the second half of 2013, it began to increase efforts of promotion, such as stored value cards discounts, packaging discounts and promotional drinks in order to facilitate loyalty among existing customers and broaden target customer group ; ii) specific price adjustment on menus in some restaurants located in second-tier cities to increase performance-price ratio.

Other income

Other income increased by RMB0.4 million, from RMB24.6 million for the six months ended 30 June 2013 to RMB25.0 million for the six months ended 30 June 2014, remaining stable as a whole.

Selling and distribution costs

Selling and distribution costs increased by RMB56.1 million, or 14.2%, from RMB396.2 million for the six months ended 30 June 2013 to RMB452.3 million for the six months ended 30 June 2014, which primarily reflected the expansion in operations for the six months ended 30 June 2014.

Labor costs related to the restaurants, central kitchens and central warehouses increased by RMB22.6 million, or 14.4%, from RMB157.1 million for the six months ended 30 June 2013 to RMB179.7 million for the six months ended 30 June 2014. As a percentage of our revenue, labor costs slightly increased from 23.2% for the six months ended 30 June 2013 to 24.2% for the six months ended 30 June 2014, with a slight decrease of 0.1% as compared with that in the second half of 2013, primarily reflecting (i) an increase in salary level of employees for the six months ended 30 June 2014 as compared to the same period of last year; and (ii) an increase in the labor costs brought by our new restaurants for the six months ended 30 June 2014.

Occupancy costs related to restaurants, central kitchens and central warehouses increased by RMB14.0 million, or 12.1%, from RMB116.1 million for the six months ended 30 June 2013 to RMB130.1 million for the six months ended 30 June 2014. As a percentage of our revenue, occupancy costs increased from 17.1% for the six months ended 30 June 2013 to 17.5% for the six months ended 30 June 2014, decreasing by 0.3% as compared with the second half of 2013.

Depreciation expenses related to the restaurants, central kitchens and central warehouses increased by RMB11.0 million, or 23.2%, from RMB47.4 million for the six months ended 30 June 2013 to RMB58.4 million for the six months ended 30 June 2014. As a percentage of our revenue, depreciation expenses increased from 7.0% for the six months ended 30 June 2013 to 7.9% for the six months ended 30 June 2014, decreasing by 0.1% compared with that in the second half of 2013.

General and administrative expenses

Administrative expenses increased by RMB11.7 million, or 23.4%, from RMB49.9 million for the six months ended 30 June 2013 to RMB61.6 million for the six months ended 30 June 2014, and as a percentage of our revenue, administrative expenses increased from 7.4% to 8.3% during the same periods. It primarily reflected that i) we commenced the multi-brand strategy, such as “Uncle Tetsu”, milk tea store brand and hotel business cooperation model, which has resulted in an increase of expenses related to new brands; ii) we put more efforts in various marketing initiatives, which has resulted in an increase of relevant costs. However, our continuous effort in costs control has improved the administrative expenses during the period, which accounted for 8.9% of revenue, as compared to the second half of 2013.

Other expenses

Other expenses of RMB5.9 million for the six months ended 30 June 2014 were mainly attributable to a one-time write-off of store closure of RMB4.9 million.

Income tax expenses

Income tax expenses decreased by RMB8.7 million, or 90.6%, from RMB9.6 million for the six months ended 30 June 2013 to RMB0.9 million for the six months ended 30 June 2014, primarily reflecting a decrease in profit before tax during the same period.

Profit for the period attributable to owners of the Company

As a result of the foregoing, the profit for the period attributable to owners of the Company decreased by RMB31.3 million from RMB31.8 million for the six months ended 30 June 2013 to RMB0.6 million in the six months ended 30 June 2014. The net profit margin decreased from 4.7% for the six months ended 30 June 2013 to 0.1% for the six months ended 30 June 2014, but for the loss in the second half of 2013, the loss decreased by RMB31.3 million.

Dividends payable

For the six months ended 30 June 2014, the Group did not pay dividends. As at 30 June 2014, there were no outstanding dividends payable.

Liquidity, financial resources and cash flow

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

As at 30 June 2014, the Group's total interest-bearing bank loans were RMB228.0 million. The gearing ratio was 18.2%.

The Group had net cash inflows from operating activities of RMB30.2 million for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB29.9 million). As at 30 June 2014, the Group had RMB305.5 million in cash and cash equivalents (30 June 2013: RMB330.5 million). The following table sets out certain information regarding the consolidated cash flows for the period ended 30 June 2014 and 2013.

	For the six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash flows from operating activities	30,153	29,927
Net cash flows used in investing activities	(77,031)	(92,584)
Net cash flows from/(used in) financing activities	<u>25,020</u>	<u>(20,451)</u>
Net decrease in cash and cash equivalents	(21,858)	(83,108)
Cash and cash equivalents at the beginning of the period	324,499	416,797
Effect of foreign exchange rate changes, net	<u>2,898</u>	<u>(3,150)</u>
Cash and cash equivalents at the end of the period	<u><u>305,539</u></u>	<u><u>330,539</u></u>

Operating activities

Net cash inflow from operating activities increased by RMB0.2 million from RMB29.9 million for the six months ended 30 June 2013 to RMB30.2 million for the six months ended 30 June 2014, which is basically the same.

Investing activities

Net cash flow used in investing activities was RMB77.0 million in the six months ended 30 June 2014, compared with RMB92.6 million for the same period in 2013. It was mainly due to the decrease in investments in associates and available-for-sale investments as compared to the same period of last year. The subsidiaries or associates did not have any material disposal or acquisition.

Financing activities

Net cash flow generated from financing activities changed from a cash outflow of RMB20.5 million during the six months ended 30 June 2013 to a cash inflow of RMB25.0 million during the six months ended 30 June 2014, representing a decrease of RMB45.5 million, which was primarily attributable to (i) the slight increase of bank loans; and (ii) no dividend paid for this period.

Foreign currency exposure

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses are denominated in a different currency from the functional currency of the relevant subsidiaries of the Group). None of the Group's purchase for the six-month periods ended 30 June 2014 and 30 June 2013 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure of foreign exchange risk.

Contingent liabilities

There were no significant contingent liabilities for the Group as at 30 June 2014 and 31 December 2013.

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 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:

	30 June 2014	31 December 2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Within one year	214,063	244,530
In the second to fifth years, inclusive	694,406	814,450
After five years	<u>356,502</u>	<u>410,458</u>
	<u>1,264,971</u>	<u>1,469,438</u>

Capital commitment

Capital commitments were approximately RMB32.9 million and RMB51.4 million as at 30 June 2014 and 31 December 2013, respectively.

Human resources

The salary level of employees in the China restaurant industry has been generally increasing in recent years. Employee attrition level tend to be higher in the catering industry than other industries. The Group offers competitive wages and other benefits to the restaurant employees to manage employee attrition. As at 30 June 2014, the Group recruited about 5,744 employees in China, Hong Kong and other regions. During the six months ended 30 June 2014, total staff cost was RMB220.0 million, accounting for 29.6% of the revenue (six months ended 30 June 2013: RMB193.7 million, 28.6% of the revenue), decreasing by 0.4% compared with that in the second half of 2013.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its code of corporate governance. Except as disclosed below, for the six months ended 30 June 2014, the Company has complied with the applicable code provisions in the CG Code.

Under code provision A.6.7 of the CG Code, all the non-executive Directors are recommended to attend the general meeting of the Company. All the non-executive Directors of the Company (including the independent non-executive Directors) have attended the annual general meeting of the Company held on 5 June 2014 (the “AGM”) except Ms. Wu Wen, Ms. Wang Huili, Mr. Wang Hairong, Mr. Wang Chiwei and Mr. Wang Yu who were absent from the AGM due to pre-arranged business commitments. Besides, other than Mr. Tsang Henry Yuk Wong who has attended the extraordinary general meeting of the Company held on 24 July 2014, other Directors were absent from such general meeting due to pre-arranged business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 listed securities of the Company.

All the Directors have confirmed that they have complied with the required standard of dealings set out in the Model Code for the six months ended 30 June 2014.

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

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) on 30 August 2011 with written terms of reference formulated in accordance with the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the Group’s internal control and financial reporting process and to maintain an appropriate relationship with the Company’s independent auditors.

The members of the Audit Committee include Mr. Tsang Henry Yuk Wong, Mr. Weng Xiangwei and Mr. Wang Yu. Mr. Tsang Henry Yuk Wong is the chairman of the Audit Committee.

The Audit Committee has discussed with the management of the Company and the external auditor about the accounting principles and practices adopted by the Company and reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014.

PUBLICATION OF INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiaonanguo.com). The interim report of the Company for the six months ended 30 June 2014 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

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

Shanghai, the People’s Republic of China, 28 August 2014

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