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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)**

**CONTINUING CONNECTED TRANSACTION  
PROCUREMENT FRAMEWORK AGREEMENT**

The Board hereby announces that, on 20 November 2015, Shanghai Xiao Nan Guo, an indirect wholly-owned subsidiary of the Company and Zhongmin Supply Chain entered into the Procurement Framework Agreement, pursuant to which, Shanghai Xiao Nan Guo agreed to procure the raw ingredients used for restaurant operation from Zhongmin Supply Chain.

Ms. Wang indirectly holds 50% equity interests in Zhongmin Supply Chain. Therefore, Zhongmin Supply Chain is a connected person of the Company and the entering into the Procurement Framework Agreement and the transaction contemplated thereunder constitute a continuing connected transaction for the Company under the Listing Rules.

As the highest applicable ratio for the Procurement Framework Agreement is more than 0.1% but less than 5% on an annual basis, the Procurement Framework Agreement is subject to the reporting and announcement requirements but exempt from independent shareholders' approval under the Listing Rules.

**PROCUREMENT FRAMEWORK AGREEMENT**

**Date:** 20 November 2015

**Parties:**

- (1) Shanghai Xiao Nan Guo (for itself and on behalf of the subsidiary of Shanghai Xiao Nan Guo)
- (2) Zhongmin Supply Chain (for itself and on behalf of the subsidiary of Zhongmin Supply Chain)

**Term:** 1 July 2015 to 30 June 2016 with retrospective effect.

**Matter:**

Under the Procurement Framework Agreement, Shanghai Xiao Nan Guo may procure raw ingredients used for restaurant operation from Zhongmin Supply Chain. Such raw ingredients are food ingredients used for restaurant operation of Shanghai Xiao Nan Guo in accordance with the national quality standards and the agreed standards. The transaction shall be conducted on a non-exclusive basis and based on the procurement contracts entered into between Shanghai Xiao Nan Guo and Zhongmin Supply Chain from time to time.

The terms and conditions of the procurement contract entered into based on the Procurement Framework Agreement shall only include: making orders via the website of Zhongmin Supply Chain by Shanghai Xiao Nan Guo for procurement; provision of relevant raw materials to Shanghai Xiao Nan Guo according to the type, quantity, quality, specification of the raw materials, time and place of delivery for the online order of Shanghai Xiao Nan Guo, provided that the type of raw materials in such online order shall not exceed the scope of the procurement contract entered into between the parties.

**Pricing and its determination:**

The pricing of such raw materials shall be determined with reference to the costs for such raw materials and the prevailing market price and procurement quantity of similar raw materials.

To ensure that the conditions of procurement provided by Zhongmin Supply Chain are no less favourable than those provided by the independent third parties to the Group, Shanghai Xiao Nan Guo shall take into account the quality and source of such raw materials and shall select suppliers and obtain the quotation of similar raw materials and order quantity based on the existing procurement system and procedures to confirm the prevailing market price.

Upon entering into the procurement contracts by Zhongmin Supply Chain under the Procurement Framework Agreement and upon procurement by making orders through the website of Zhongmin Supply Chain, the Company will carry out the above procurement system and procedures to ensure that the terms of each of the contracts are no less favourable than those provided by the independent third parties to the Company as a whole. Upon delivery of raw materials, the quality assurance department of the Company will also carry out inspection to review and assess whether the raw materials are provided in accordance with the terms of each of the contracts and the pricing policies stated above.

**Annual cap:**

The total procurement amount by Shanghai Xiao Nan Guo from Zhongmin Supply Chain for the year ending 30 June 2016 shall not exceed RMB40 million.

**Payment terms:**

Based on the difference between the types of raw materials under procurement, the consideration of the Procurement Framework Agreement shall be made by different payment methods and one of the following payment methods must be confirmed upon entering into the procurement contracts:

- (1) monthly payment: the sum of consideration for all the raw materials delivered by Zhongmin Supply Chain to Shanghai Xiao Nan Guo in the preceding month, which is paid on the date designated in the following month;
- (2) cash on delivery: Shanghai Xiao Nan Guo shall make the relevant payment no more than 15 days upon acceptance of raw materials by Shanghai Xiao Nan Guo and receipt of accurate invoice issued by Zhongmin Supply Chain; and
- (3) prepayment: Shanghai Xiao Nan Guo shall make prepayment in advance to Zhongmin Supply Chain; whereas Zhongmin Supply Chain shall deliver the relevant raw materials to Shanghai Xiao Nan Guo within one days upon receipt of payment.

**INTERNAL CONTROL MEASURES RELATING TO THE PRICING OF SUCH TRANSACTIONS**

In the absence of any comparable prices of raw materials provided by independent third parties, the Group shall adopt the following internal control measures to determine the prices of raw materials in such transactions:

- (1) the price shall be determined after comparison of the existing procurement system and procedures; and
- (2) the price shall be determined after negotiation between the parties on normal commercial terms of similar, relevant or alternative raw materials that they consider fair and reasonable.

**BASIS OF DETERMINING THE ANNUAL CAP**

The annual cap of the transactions contemplated under the Procurement Framework Agreement is determined with reference to the following factors. However, there are no historical comparables of any similar transactions in the past in determining such annual caps:

- (1) the economic indicators of the catering industry and the operating plans formulated by the Group according to the prevailing economic environment;
- (2) the total transaction of the Group with respect to the procurement of raw materials in the past and the expected future demand of the products supplied by Zhongmin Supply Chain; and
- (3) the current trends of market price of the same, similar or alternative raw materials procurement in the PRC.

## **REASONS FOR THE TRANSACTION AND BENEFITS**

As a result of expansion of operating scale for consecutive years, it is increasingly challenging for the Company to search for better quality food ingredients, diversify food categories and types, expand supply and distribution capabilities and reduce procurement costs.

In the past years, the Company deployed more procurement officers to search for high quality food ingredient sources across the nation, bringing back samples and conducting price comparison and qualification verification, and suppliers have to go through multiple procedures to be qualified. The above relevant work would substantially increase the costs of the Company.

There are more than 10,000 suppliers joined with the catering hotel supply chain online-mall of Zhongmin Supply Chain, offering a diversified range of product mix, more flexible means of cooperation and more transparent price comparison information. The Company realised that, through the procurement platform of Zhongmin Supply Chain, the Group can reduce the procurement costs for some source products in terms of pricing; have more extensive coverage over the cities and regions in terms of supply and distribution; and save most of the efforts of the procurement officers of the Group in verifying the product quality certifications. The improvement in the above areas can effectively increase the efficiency of procurement of food ingredients of the Group. Accordingly, the Group has decided to cooperate with Zhongmin Supply Chain in food ingredients procurement to replace part of the existing procurement business.

The above transactions contemplated under the Procurement Framework Agreement shall increase the overall revenue and profit of the Group. Accordingly, the entering into of the above agreement is in the interest of the Group.

The Group has commenced procurement through Zhongmin Supply Chain from July 2015. The agreement (whether on a standalone or aggregate basis) merely constitutes a fully exempted de minimis transaction under Rule 14A.76(1) of the Listing Rules as at the date of this announcement and accordingly is not subject to any disclosure requirement under the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that the Procurement Framework Agreement is on normal commercial terms (or on terms no less favourable than those provided by the independent third parties to the Group) in the course of the ordinary and usual business of the Group and is fair and reasonable and in the interests of the Company and its shareholders as a whole. The total annual cap for procurement set under the Procurement Framework Agreement is also fair and reasonable.

## **LISTING RULES IMPLICATIONS**

Ms. Wang, the chairlady, executive Director and a Controlling Shareholder of the Company, indirectly holds 50% equity interests in Zhongmin Supply Chain. Therefore, Zhongmin Supply Chain is a connected person of the Company and the entering into the Procurement Framework Agreement and the transaction contemplated thereunder constitute a continuing connected transaction for the Company under the Listing Rules.

As the highest applicable ratio for the Procurement Framework Agreement is more than 0.1% but less than 5% on an annual basis, the Procurement Framework Agreement is subject to the reporting and announcement requirements but exempt from independent shareholders' approval under the Listing Rules.

Ms. Wang has abstained from voting on the board resolutions with respect to the approval of Zhongmin Supply Chain's Procurement Framework Agreement and the transactions contemplated thereunder. Save for Ms. Wang, none of the Directors has any material interest, direct or indirect, in the transactions contemplated under the Procurement Framework Agreement and therefore none of the Directors (except for Ms. Wang) was required to abstain from voting on the resolutions of the Board to approve the Procurement Framework Agreement.

## **INFORMATION ON THE COMPANY AND THE CONNECTED PERSON**

The Company is a holding company of the subsidiaries which principally engage in Chinese restaurant business in the PRC and in Hong Kong.

Shanghai Xiao Nan Guo is an indirect wholly-owned subsidiary of the Company and principally engages in the operation of chain restaurants in the PRC.

Zhongmin Supply Chain is a catering hotel industry chain integrated service company which is committed to the resource integration of procurement and supply. Its principal businesses include but not limited to the trading of raw ingredients.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of Directors of the Company
“Company”	Xiao Nan Guo Restaurants Holdings Limited (小南國餐飲控股有限公司), whose shares are listed on the Stock Exchange (stock code: 3666)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Wang”	Ms. Wang Huimin, the chairlady, an executive Director and a Controlling Shareholder of the Company
“PRC”	The People's Republic of China
“Procurement Framework Agreement”	the procurement framework agreement entered into between Shanghai Xiao Nan Guo and Zhongmin Supply Chain on 20 November 2015. Under the Procurement Framework Agreement, Shanghai Xiao Nan Guo shall purchase raw ingredients from Zhongmin Supply Chain

“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Xiao Nan Guo”	Shanghai Xiao Nan Guo Hai Zhi Yuan Restaurant Management Co., Ltd. (上海小南國海之源餐飲管理有限公司), an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongmin Supply Chain”	Shanghai Zhongmin Supply Chain Management Co., Ltd. (上海眾敏供應鏈管理有限公司), a limited liability company established and legally subsisting under the laws of the PRC

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

Shanghai, the People’s Republic of China, 20 November 2015

*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. WANG Chiwei, Dr. WU Chun Wah and Mr. LUI Wai Ming.*