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 2016

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change
	2016	**2015**	*Increase/ (decrease)*
Revenue (RMB'000)	2,001,001	2,035,177	(1.7%)
Gross profit[1] (RMB'000)	1,433,929	1,405,409	2.0%
Gross margin[2]	71.7%	69.1%	2.6%
(Loss)/profit for the year (RMB'000)	34,246	(98,417)	134.8%
Net profit margin[3]	1.7%	(4.8%)	6.5%
		(Restated)[6]	
Earnings per share – Basic	RMB2.0 cents	RMB(6.3) cents	
Among which: effect of one-off expense[4]	8,716	100,252	
Number of restaurants[5] (as at 31 December)	127	139	

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 (loss)/profit for the year divided by revenue.
4. One-off expense included investment loss and agent fee arising from acquisition of JWU Limited (formerly known as Wowo Limited), as well as impairment loss of two stores in 2016.
5. The number of restaurants included the 27 stores of POKKA HK, but excludes Mai Chi Ling licensed stores.
6. Earnings per share for the year ended 31 December 2015 is adjusted to reflect the bonus element of Rights Issue on 18 July 2016.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Xiao Nan Guo Restaurants Holdings Limited (the "**Company**" or "**Xiao Nan Guo**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2016, together with comparative figures for the year of 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
REVENUE	*4*	**2,001,001**	2,035,177
Cost of sales		**(567,072)**	(629,768)
Gross profit		**1,433,929**	1,405,409
Other income and gain	*4*	**46,665**	44,041
Selling and distribution expenses		**(1,217,982)**	(1,256,272)
Administrative expenses		**(164,484)**	(183,312)
Other expenses		**(23,693)**	(91,468)
Finance costs	*6*	**(14,023)**	(12,357)
PROFIT/(LOSS) BEFORE TAX	*5*	**60,412**	(93,959)
Income tax expense	*7*	**(26,166)**	(4,458)
PROFIT/(LOSS) FOR THE YEAR		**34,246**	(98,417)
Attributable to:			
Owners of the Company		**34,975**	(93,242)
Non-controlling interests		**(729)**	(5,175)
		34,246	(98,417)
Earnings/(loss) per share attributable to ordinary equity holders of the Company			Restated
– Basic	*9*	**RMB2.0 cents**	RMB(6.3) cents
– Diluted	*9*	**RMB2.0 cents**	RMB(6.3) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	**34,246**	(98,417)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**19,813**	3,732
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**19,813**	3,732
Other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods:		
Equity investments designated as fair value through other comprehensive (loss)/income:		
Changes in fair value	**(122,928)**	2,042
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods	**(122,928)**	2,042
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(103,115)**	5,774
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(68,869)**	(92,643)
Attributable to:		
Owners of the Company	**(68,140)**	(87,468)
Non-controlling interests	**(729)**	(5,175)
	(68,869)	(92,643)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**675,545**	721,712
Goodwill		**13,532**	12,674
Intangible assets		**43,707**	35,468
Non-current financial assets		**224,470**	19,990
Long-term rental deposits		**107,379**	98,518
Deferred tax assets		**80,407**	84,526
Pledged deposits	*12*	**40,000**	60,000
Loan to a non-controlling shareholder		**47,498**	44,487
Other long-term receivables		**30,413**	31,836
Total non-current assets		**1,262,951**	1,109,211
CURRENT ASSETS			
Inventories		**37,509**	54,116
Trade receivables	*10*	**26,654**	25,677
Prepayments, deposits and other receivables	*11*	**205,039**	168,434
Financial asset at fair value through profit or loss		**242**	227
Pledged deposits	*12*	**20,000**	20,000
Cash and cash equivalents	*12*	**233,390**	169,024
Total current assets		**522,834**	437,478
CURRENT LIABILITIES			
Trade payables	*13*	**66,841**	117,889
Interest-bearing bank loans		**203,532**	291,099
Tax payable		**21,365**	15,963
Other payables and accruals	*14*	**277,372**	198,503
Deferred income		**3,478**	5,221
Total current liabilities		**572,588**	628,675
NET CURRENT LIABILITIES		**(49,754)**	(191,197)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,213,197**	918,014

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Long-term defer payment		**30,413**	31,836
Long-term payables		**81,578**	71,371
Interest-bearing bank loans		**138,283**	43,217
Deferred tax liabilities		**481**	708
Total non-current liabilities		**250,755**	147,132
Net assets		**962,442**	770,882
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*15*	**18,393**	12,035
Reserves		**871,938**	687,864
		890,331	699,899
Non-controlling interests		**72,111**	70,983
Total equity		**962,442**	770,882

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION

Xiao Nan Guo restaurants holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered address is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Xiao Nan Guo Restaurants Holdings Limited, which is incorporated in the Cayman Islands.

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**"). They have been prepared under the historical cost convention except for a financial asset at fair value through profit or loss and equity investment 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.

Net current liability

As at 31 December 2016, the current liabilities of the Group exceeded its current assets by approximately RMB50 million. In the opinion of the Directors, the net current liability position was mainly caused by capital investment on newly opened stores. The Directors have prepared these financial statements on a going concern basis based on the cash flow which indicated the Group will generate sufficient operating cash inflows to meet its financial obligations when they fall due.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements *2012-2014 Cycle*	*Amendments to a number of IFRSs*

[1] Initial application on 1 January 2016

Other than as further explained below regarding the impact of early adoption of IFRS 9, the adoption of the new and revised IFRSs has had no significant financial impact on these financial statements.

The Group has elected to early adopt the final version of IFRS9 since 1 January 2016.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. Instead of classifying financial assets into four categories, IFRS9 requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

As a result of the early application of IFRS 9, the Group has changed the accounting policy retrospectively with respect to the classification and measurement of financial assets. Instead of classifying financial assets into four categories, the Group has classified financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss. A financial asset is subsequently measured at amortised cost or fair value.

The classification and measurement category for each class of financial assets at the date of initial application were as follows:

Financial asset	Notes	Measurement category Original (IAS 39)	Measurement category New (IFRS 9)	Carrying amount Original (IAS 39) RMB'000	Carrying amount New (IFRS 9) RMB'000	Difference
Non-current financial assets						
U.S. listed equity investments	*(a)*	Available-for-sale at fair value	Financial assets at fair value through other comprehensive income	5,890	5,890	–
Unlisted equity investments	*(a)*	Available-for-sale at cost	Financial assets at fair value through other comprehensive income	14,100	14,100	–
Financial asset at fair value through profit or loss	*(b)*	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	227	227	–
Long term pledged deposits	*(c)*	Loans and receivables	Financial assets at amortised cost	60,000	60,000	–
Loan to a non-controlling shareholder	*(c)*	Loans and receivables	Financial assets at amortised cost	44,487	44,487	–
Long-term rental deposits	*(c)*	Loans and receivables	Financial assets at amortised cost	98,518	98,518	–
Other long-term receivables	*(c)*	Loans and receivables	Financial assets at amortised cost	31,836	31,836	–
Trade receivables	*(c)*	Loans and receivables	Financial assets at amortised cost	25,677	25,677	–
Financial assets included in prepayments, deposits and other receivables	*(c)*	Loans and receivables	Financial assets at amortised cost	98,740	98,740	–
Pledged deposits	*(c)*	Loans and receivables	Financial assets at amortised cost	20,000	20,000	–
Cash and cash balances	*(c)*	Loans and receivables	Financial assets at amortised cost	169,024	169,024	–
Total financial assets				568,499	568,499	–

(a) At the date of initial application, all the Group's equity investments were designated as financial assets at fair value through other comprehensive income which were previously classified as available for-sale financial assets under IAS 39 and not held for trading.

The adoption of IFRS 9 on the accounting for these equity investments does not have an effect on the comparatives presented given that there was no impairment or disposal of these investments in the prior year. Other than the dividend income, the subsequent changes in the fair values of these investments shall be recognised in other comprehensive income and cannot be subsequently recycled to profit or loss.

(b) At the date of initial application, the Group's financial assets at fair value through profit or loss continued to be measured at fair value through profit or loss. The adoption of IFRS 9 on these financial assets has had no material financial impact on the financial position or performance of the Group given that these financial assets are held for trading.

(c) Other financial assets continue to be measured at amortised cost upon the initial application of IFRS 9.

Except for IFRS 9, the Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

3. OPERATING SEGMENT INFORMATION

On 7 January 2015, since the Group completed the acquisition of Pokka Corporation (HK) Limited and its subsidiary Pokka Coffee (Macau) Ltd., (collectively referred to as "POKKA HK"), the Group has the following two reportable operating segments based on their brands and services:

(a) Xiao Nan Guo Business (including main brands: Shanghai Min, Maison De L'Hui and the dining room, Oreno, Wolfgang Puck and The BOATHOUSE)

(b) POKKA HK Business (the business acquired in January 2015 which includes main brands: Pokka Café and Tonkichi)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Year ended 31 December 2016		
	Xiao Nan Guo	**POKKA HK**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Sales to external customers	1,691,237	309,764	2,001,001
Revenue from continuing operations			2,001,001
Segment results	75,663	2,937	78,600
Reconciliation:			
Elimination of intersegment results			60
Dividend income from non-current financial assets			800
Equity-settled share option expense			(3,000)
Interest income			4,133
Finance costs			(14,023)
Loss on disposal of a subsidiary			(2,621)
Corporate and other unallocated expenses			(3,537)
Profit before tax			60,412
Segment assets	952,326	493,671	1,445,997
Reconciliation:			
Elimination of intersegment receivables			(34,251)
Corporate and other unallocated assets			374,039
Total assets			1,785,785
Segment liabilities	383,769	110,164	493,933
Reconciliation:			
Elimination of intersegment payables			(34,251)
Corporate and other unallocated liabilities			363,661
Total liabilities			823,343
Other segment information:			
Depreciation and amortisation	149,657	23,160	172,817
Capital expenditure*	131,640	8,878	140,518

	Year ended 31 December 2015		
	Xiao Nan Guo	POKKA HK	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue			
Sales to external customers	1,737,956	297,221	2,035,177
Revenue from continuing operations			2,035,177
Segment results	(75,418)	1,212	(74,206)
Reconciliation:			
Elimination of intersegment results			(281)
Dividend income from non-current financial assets			2,652
Equity-settled share option expense			(5,500)
Interest income			3,797
Finance costs			(12,357)
Gain on disposal of a subsidiary			5
Corporate and other unallocated expenses			(8,069)
Loss before tax			(93,959)
Segment assets	770,919	472,521	1,243,440
Reconciliation:			
Elimination of intersegment receivables			(30,528)
Corporate and other unallocated assets			333,777
Total assets			1,546,689
Segment liabilities	379,564	75,783	455,347
Reconciliation:			
Elimination of intersegment payables			(30,528)
Corporate and other unallocated liabilities			350,988
Total liabilities			775,807
Other segment information:			
Depreciation and amortisation	166,313	21,272	187,585
Capital expenditure*	141,905	176,810	318,715

* Capital expenditure consists of additions to property, plant and equipment, and intangible assets including assets from the acquisition of a subsidiary.

Geographical information

(a) Revenue from external customers

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Mainland China	**1,374,891**	1,438,888
Hong Kong	**607,533**	554,840
Others	**18,577**	41,449
	2,001,001	2,035,177

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

(b) Non-current assets

	31 December	31 December
	2016	2015
	RMB'000	*RMB'000*
Mainland China	**593,265**	615,418
Hong Kong	**246,129**	251,366
Others	**769**	1,588
	840,163	868,372

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

Information about a major customer

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2016 and 2015, segment information is not presented in accordance with IFRS 8 Operating Segments.

4. REVENUE, OTHER INCOME AND GAIN

Revenue, 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:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
Restaurant operations	**1,982,795**	2,021,115
Other revenue	**18,206**	14,062
	2,001,001	2,035,177
Other income		
Government grants	**25,373**	24,082
Dividend income from non-current financial assets	**800**	2,652
Membership fee income	**5,849**	5,990
Bank interest income	**4,133**	3,797
Management fee income	**3,230**	4,836
Foreign exchange differences, net	**595**	–
Compensation income for a store early terminated operation	**4,900**	–
Service fee income	**–**	1,350
Others	**1,785**	1,329
	46,665	44,036
Gain		
Gain on disposal of a subsidiary	**–**	5
	46,665	44,041

5. PROFIT/(LOSS) BEFORE TAX

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

		Year ended 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Cost of inventories consumed		**567,072**	629,768
Depreciation		**168,374**	184,273
Amortisation of intangible assets		**4,443**	3,155
Amortisation of other long-term assets		**–**	157
Minimum lease payments under operating leases on buildings		**368,272**	367,868
Auditors' remuneration		**4,700**	3,109
Employee benefit expense (including directors' and chief executive's remuneration			
Wages and salaries		**455,796**	496,606
Equity-settled share option expense		**3,000**	5,500
Defined contribution pension schemes		**112,836**	118,178
		571,632	620,284
Loss/(gain) on foreign exchange differences, net		**(595)**	2,197
Bank interest income	*4*	**(4,133)**	(3,797)
Loss on disposal of items of property and equipment		**9,113**	9,931
Loss on disposal of items of intangible assets		**–**	343
Impairment of property, plant and equipment		**2,019**	66,743
Loss on acquisition of a non-current financial asset		**4,031**	–
Loss/(gain) on disposal of a subsidiary		**2,621**	(5)

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	**14,937**	12,766
Less: Interest capitalised	**(914)**	(409)
	14,023	12,357

7. INCOME TAX

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current – Mainland China charged for the year	**16,063**	13,537
Current – Hong Kong and elsewhere charged for the year	**4,857**	2,997
Deferred tax	**5,246**	(12,076)
Total tax charge for the year	**26,166**	4,458

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

Hong Kong profits tax has been provided at the rate of 16.5% (2015:16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 Macau Complementary Tax ("**MCT**") Law, taxable profits below MOP600,000 are exempted from tax, and taxable profits over MOP600,000 are subject to the rate of 12%.

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

	2016	2015
	RMB'000	*RMB'000*
Profit/(Loss) before tax	**60,412**	(93,959)
Tax at the statutory tax rate of 25% (2015: 25%)	**15,103**	(23,490)
Lower tax rates for specific provinces or enacted by local authorities	**(346)**	(719)
Income not subject to tax	**(135)**	(227)
Expenses not deductible for tax	**7,339**	3,664
Tax losses not recognised during the year	**13,246**	18,452
Temporary differences not recognised during the year	**548**	6,778
Tax losses from previous periods utilised with assets disposal	**(9,589)**	–
	26,166	4,458

8. DIVIDENDS

No interim dividend was declared and no final dividend was proposed for 2016 and 2015.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2016 is based on the consolidated profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares of 1,793,678,450 (31 December 2015: 1,471,936,177 (restated)) in issue throughout the year, as adjusted to reflect the bonus element of 737,677,000 rights issue on 18 July 2016. Details of the rights issue are included in Note 15(b).

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Earnings/(Loss)		
Profit/(Loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**34,977**	(93,242)
Shares		Restated
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**1,793,678,450**	1,471,936,177
Effect of dilution – weighted average number of ordinary shares**: Share options	**–**	–
Number of ordinary shares used in the diluted earnings per share calculation	**1,793,678,450**	1,471,936,177

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

** Since the exercise prices of these options exceed the average market price of ordinary shares during the year, there was no dilutive effect as of 31 December 2016 and 2015.

10. 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.

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

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
Within 1 month	**18,307**	16,537
1 to 2 months	**2,792**	3,035
2 to 3 months	**1,030**	2,412
Over 3 months	**4,525**	3,693
	26,654	25,677

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**31 December 2016**	31 December 2015 *RMB'000*
Deposits and other receivables		**110,081**	73,722
Prepaid expense		**22,761**	29,525
Amounts due from companies owned by the Controlling Shareholder		**50,110**	42,010
Amount due from a director of major subsidiaries in Hong Kong		**319**	243
Receivables from a non-controlling interest	*(i)*	**7,914**	3,026
Prepayments		**13,854**	19,908
		205,039	168,434

(i) The balance of receivables from a non-controlling interest consisted of the current portion of long-term receivables with amount of RMB5,367,000, the interest receivables of the loan to non-controlling interest with an amount of RMB2,037,000 and other short-term receivables.

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.

12. CASH AND CASH EQUIVALENTS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Cash and bank balances	**219,737**	143,521
Time deposits with original maturity of less than three months	**33,653**	45,503
Time deposits with original maturity of over three months	**40,000**	60,000
	293,390	249,024
Less: Pledged time deposits for bank loans		
– Current portion	**(20,000)**	(20,000)
– Non-current portion	**(40,000)**	(60,000)
Cash and cash equivalents	**233,390**	169,024

Included RMB60,000,000 of time deposits which were pledged for bank loans borrowed by the Company.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to RMB254,862,000 (2015: RMB202,801,000). 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.

13. TRADE PAYABLES

An aging 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 2016 *RMB'000*	31 December 2015 *RMB'000*
Within 3 months	**62,400**	116,019
3 months to 1 year	**2,048**	400
Over 1 year	**2,393**	1,470
	66,841	117,889

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

14. OTHER PAYABLES AND ACCRUALS

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Payroll and welfare payables	**53,813**	56,565
Taxes other than corporate income tax	**4,177**	11,091
Other payables for construction in progress	**28,222**	38,784
Accruals and other payables	**73,292**	78,004
Payable related to the acquisition of a non-current financial asset	**105,906**	–
Current portion of the long term defer payment	**3,578**	1,676
Advances from customers	**8,384**	12,383
	277,372	198,503

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

15. SHARE CAPITAL

Shares

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Authorised:		
Ordinary shares of HK$0.01 each	**10,000,000,000**	10,000,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	**2,213,031,000**	1,475,354,000
Equivalent to RMB'000	**18,393**	12,035

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Capital redemption reserve RMB'000	Total RMB'000
At 1 January 2015	1,478,826,000	12,062	475,538	–	487,600
Share options exercised *(Note (a))*	(3,472,000)	(27)	(2,711)	27	(2,711)
At 31 December 2015 and 1 January 2016	1,475,354,000	12,035	472,827	27	484,889
Shares issued *(Note (b))*	737,677,000	6,358	251,015	–	257,373
At 31 December 2016	2,213,031,000	18,393	723,842	27	742,262

Notes:

(a) The Company repurchased 3,472,000 shares of its stock on the Stock Exchange at an aggregate consideration of HK$3,436,000 (equivalent to RMB2,711,000). These shares were cancelled by the Company on 7 January 2015.

(b) The Company announced to implement the rights issue (the "Rights Issue") on the basis of one rights Share for every two shares at the subscription price of HK$0.41 per rights share on 7 June 2016. The net proceeds raised from the Rights Issue will be used to pay the consideration of the acquisition of 9.82% of the issued share capital of Wowo Limited. On 18 July 2016, 737,677,000 rights shares have been issued, with net proceeds of HK$298,611,000 (equivalent to RMB257,373,000). Immediately after completion of the Rights Issue, the total issued and fully paid shares of the Company was 2,213,031,000.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW FOR 2016

In 2016, the global economy had a sluggish recovery. The geopolitical risk represented by the Brexit and the US president election further increased the uncertainty of the global economy recovery. The monetary policy of various countries maintained differentiation, and the Euro Zone and Japan appeared negative interest rate. These changes played a great influence on global financial markets, and its impact on the real economy was uncertain to a large extent. Under the background of slowdown in the global economy and the deepening of the structural adjustment in China, in 2016, China's Gross Domestic Product (GDP) was RMB74,412.72 billion, breaking through RMB70,000 billion for the first time, representing an increase of RMB6,741.9 billion over last year; specifically, the GDP in the accommodation and catering industry increased by RMB1,328.08 billion.

According to statistics issued by the National Bureau of Statistics of China, in 2016, disposable income per capita nationwide was RMB23,821, representing an actual increase of 6.3%. Revenue from catering sales from January to December in 2016 in China reached RMB3,577.9 billion, representing a year-on-year increase of 10.8%, up 10.8% over last year. Revenue of the catering enterprises with designated size and above[1] achieved RMB94.6 billion, representing a year-on-year increase of 6.7%. Revenue of the catering industry in the PRC accounted for 10.8% of total retail sales of social consumer goods. The growth rate of revenue of the catering industry, albeit experiencing an overall deceleration, was higher than that of total retail sales of social consumer goods. According to the analysis of the China Cuisine Association (CCA)[2], the development of China's catering industry for this year is in a state of ups and downs according to the total market size of the country's catering industry in 2016, which began to rise gradually and slowly in the fourth quarter, and the catering revenue in December recorded an increase of 10.6% year-on-year, and the difference with the growth rate of total retail sales of social consumer goods 10.9% decreased to 0.3 percentage points, the decline rate of the same period last year also decreased to 0.6 percentage points. The online catering revenue growth increased by 0.7 percentage points compared with the same period of last year.

At the beginning of January 2016, the central conference made a special topic research on the proposal of supply side structural reform, which aims at propelling the structural adjustment to reduce the financing costs of corporates and reduce the corporate tax expense, so as to enhance the social productivity level. In November 2016, the China Cuisine Association convened a symposium on the supply side reform and development of catering industry, together with the Development Research Center

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1. The units with designated size and above are included in the statistical reporting system for wholesale and retail, accommodation and catering industry in China, setting clear regulations on the sales (turnover) and the standards of employees of wholesale enterprises, retail enterprises and catering enterprises included in the scope of regular statistical reports. Among which, total income of the catering industry for the year exceed RMB2 million, and the number of employees exceed 40 at the end of the year.
2. Source from the industry news dated 20 January 2017 on the official website of Chinese Cuisine Association.

of the State Council. It was concluded that "the total retail of the social consumer goods amounted to RMB30.1 trillion in 2016, while the market size of catering industry made a breakthrough and exceeded RMB3 trillion to reach RMB3.2 trillion, accounting for one-tenth for the total retail of social consumer goods. It indicated that catering industry is the main force of the living service industry, and the quality of the development of catering industry has significant impact on the development of the whole national economy as well as the enhancement of the living standard of the people.

FINANCIAL PERFORMANCE FOR 2016

The Company's revenue for the year 2016 amounted to RMB2.0 billion with the gross profit for the year increased by 2.0% to RMB1,433.9 million, and the net profit for the year grew significantly from a loss in 2015 to RMB34.2 million, representing a significant breakthrough, which mainly benefited from the flat organization and system transformation, operating asset optimization, cost control and policy of "to replace the business tax with value added tax". Profit attributable to owners of the Company for the year was RMB35.0 million, representing an increase of RMB128.2 million from that of the same period last year.

OPERATIONS REVIEW FOR 2016

During the year of 2016, the real enterprises in the China's catering industry suffered from huge impact and profound influence by the policies from internet, capital, market circumstance, etc., facing an unprecedented reform era featured with "industry + capital + internet". As one of the largest multi-brands catering groups in China founded for 30 years, the Company continues to push ahead with its strategic transformation of being an industry brands investment and management group. By organizational and structural reform, optimization of assets, minimization of costs, the Company intends to enhance its profitability; deepen the cooperation with international brands; realize the commercialization of a single product/highly-popular product of brands; achieve the development and research of an industry chain for the commercialization of the Company's products; complete the branding establishment for business to business and business to customer (B2B2C) products and accurate layout of online and offline business cooperation channel.

Transformation from heavy asset to light asset model delivered preliminary results

Under the strategy of "focusing on core cities and enhancing management efficiency", the Company continued to close down 15 restaurants (including 9 restaurants of Xian Nan Guo and 3 restaurants of the dining room and 3 restaurants of Pokka) with unsatisfactory operating results in 2016, with the managed areas narrowed from 22 cities in 2015 to 18 cities. The operating had improved despite the number of stores decreased by 12 as compared with 2015, which was attributable to the fact that the Company disposed part of its unperformed assets in advance in 2015 and piloted the reform of partner incentive evaluation system to improve the responsibility and proactivity of senior management.

Carry forward our multi-brand strategy and deploy for future growth in revenue

The four restaurants in Disney town namely Xiao Nan Guo, The BOATHOUSE, Wolfgang Puck and The Dining Room have commenced their business in around June 2016. Since the tourism popularity, business climate and tourists spending habits in Disney town are still under formation, in addition to the effect of the expenses for opening, four restaurants are still at the stage of development.

In 2016, the revenue of our introduced western cuisine brands, namely, Oreno, Wolfgang Puck and The BOATHOUSE, reached RMB82.7 million, representing an increase of 77.9% from RMB46.5 million compared with last year, which will lay a solid foundation for the rapid replication of the highly popular product/explosive goods business model of western cuisine brands.

In 2016, the number of mini stores represented by"Mai Chi Ling" increased to 306 (2015: 153), and the license fee and management fee income grew from RMB8.7 million to RMB14.3 million.

Make use of the advantage of industry platform to reduce costs of stores

On 8 September 2016, the Company completed its acquisition of 9.82% equity interest in JMU Limited (formerly known as "Wowo Limited") to strengthen cooperation on purchasing platform and supply chains, which resulted in a decrease in the procurement costs on raw materials price.

Continue to control the cost of management and optimize the organizational structure

With the continuation of the flat reform and personnel streamlining on headquarters management function, and the improvement plan of management efficiency, the outcome of the management cost control gradually revealed. As at 31 December 2016, the number of employees at management legal decreased by 16% compared with that as at the end of 2015, and the general and administrative expenses represented the proportion of revenue decreased from 9.0% in 2015 to 8.2% in 2016.

Actively grasp the favorable policies to benefit from: Business Tax Replaced with value added Tax

As the leading enterprises on large chain catering industry, in light of the advantages gained from the substantial use of value added tax invoices in the cooperation with the suppliers over the years, the Company benefited from the implementation of the policy of "to replace business tax with value added tax" in that the tax burden was significantly reduced, and the tax burden ratio decreased from 4.0% in 2015 to 1.5% in 2016. The tax burden ratio represents business tax and surcharges divided by revenue.

STRATEGIC OUTLOOK FOR 2017

The year of 2016 is the first year of the Company's implementation of its five major strategies, namely the "multi-brand strategy", "asset optimization strategy", "cost efficiency strategy", "human resources capitalization strategy" and the "product commercialization strategy". During the year, the management took a number of proactive measures and achieved the turnaround from suffering from a loss to making net profit. At the same time, a lot of deep-rooted legacy problems which constrain our future development have also been resolved, thus laying a solid foundation for the rapid growth of the Company in 2017 and the next five years.

According to the data released by China Cuisine Association, the national catering industry is expected to maintain an average annual growth rate of more than 10% during the period from 2017 to 2021. The total retail sales of social goods in the catering industry will exceed RMB4.5 trillion in 2021. Taking into account this huge market with potential for sustained growth, the Company expects to see the formation of the new watershed and the industrial restructuring in national catering industry in the coming five years. The supply-side reform initiated by the Chinese government, the "One Belt, One Road" initiative, the promulgation of national policies such as new laws and regulations for food safety, and the rapid development of the Internet as well as the Internet of Things, will provide the soil favorable to the growth of mass-market catering businesses which adopt internationally recognized philosophies and focus on branded operation and quality offerings. Such developments will also create a favorable environment for the entire catering industry chain.

During the five-year period, the catering industry in China will enter into an era of merger and acquisition at the most rapid pace since the reform and opening-up. Amid the trend of mergers and acquisitions, the international catering brands and capital synergy will become the absolute leader. With the deepening of the mergers and acquisitions, we expect to see the emergence of the real international catering giants and the real international catering a chain services giants in China. A brand-new era for the catering industry in China, which is underpinned by the chassis of "brand + supply chain", and supported by the operation model of "industry + capital + Internet" is around the corner.

The year of 2017 is the thirtieth anniversary since the establishment of the Xiao Nan Guo brand. Leveraging on the rich experience in the catering industry, the precise prediction of the developments in the market, as well as highly efficient execution, the Company will be committed to grasping the golden opportunities emerging in the national catering industry. Apart from seizing the opportunities brought by the strategy of "brand + supply chain", the Company will also take an aggressive approach to sourcing the participation of strategic capital and strategic partners around the globe, and strive to become a leader of the national catering industry amid the dazzling tide of mergers and acquisitions.

In 2017, the Company will continue the following five major strategies:

Multi-brand strategy

In 2017, the Company will speed up the transformation from a conventional catering business to an investment and operation group with industrial branding, while establishing the joint operation model featured by joint development of the domestic market through cooperation between the Company and internationally renowned first-tier brands in the catering industry, and preparing for the subsequent introduction of such catering brands.

Asset optimization strategy

Comprehensively enhance the output efficiency of the Company's asset allocation. The core of the light asset strategy lies in the prioritized allocation of essential resources to single unit or brands which are more easily duplicated, more advantageous in terms of technology and platform, and higher added value, with the aim to achieving rapid enhancement in output efficiency of the Company's asset allocation. Faced with the traditional operations and model of heave assets that are lack of competitive edge, the Company will further restructure the assets through spin-off, cooperation and trusteeship etc., while continuing to inject the new assets so as to optimize its asset allocation thoroughly.

Cost efficiency strategy

In 2017, the Company will fully realize the connection with the third-party public procurement platform system, making full use of the advantages of strategic cooperation with Internet B2B supply chain platform in the industry, thus achieving direct procurement, reducing layers of distribution and enhancing tracking system for food safety. These measures will help to improve product quality and reduce supply chain cost and eventually expand the profit margin.

Product commercialization strategy

In 2017, the Company will focus on the incremental growth of the "quality take-away + brand take-away" market. Building on existing brand strength and capabilities in research and development of cuisines, and leveraging on the resources comprising the source suppliers of supply chain platform companies, customer pipeline and the resources of Internet platforms, the Company will launch different series of B2B2C products successively, such as "Family Banquet" and "Juice King". In addition, various channels, including direct sales in our own stores, locked sales through take-away platforms, sales on the shelves in supermarket specialized in the sales of fresh products, will also be utilized to increase the share of the revenue arising from take-away business in the total revenue, and consolidate our core competitive advantages in the "catering industry + Internet" era.

Human resources capitalization strategy

The Company takes a future-oriented perspective to promote the change of structure of talents. The Company will continue to promote the establishment of an internal "entrepreneurship culture", and take advantage of our platform to introduce a professional partnership mechanism, while making efforts to improve the talent structure and further attract talents specializing in operation of international brands and those having expertise in supply chain product research and development. A more flexible corporate structure is also established to inspire the potentiality and creativity of our staff, thus boosting the value contribution from the talents.

FINANCIAL PERFORMANCE

The Group's revenue in 2016 decreased by 1.7% from that of last year to RMB2,001.0 million. The gross profit increased by 2.0% during the year, which mainly benefited from the business improved and management improvement in 2016. Profit for the year of the Company in 2016 was approximately RMB34.2 million, representing an increase of RMB132.6 million as compared to the loss of approximately RMB98.4 million recorded in the same period of 2015.

FINANCIAL REVIEW

In 2016, the revenue of the Group reached RMB2,001.0 million, representing a decrease of RMB34.2 million or 1.7% compared to RMB2,035.2 million for the year ended 2015. The gross profit of the Group amounted to RMB1,433.9 million, representing an increase of approximately RMB28.5 million from RMB1,405.4 million of 2015. In 2016, the profit attributable to owners of the Company amounted to approximately RMB35.0 million, representing an increase of RMB128.2 million compared to the loss of RMB 93.2 million recorded in 2015.

In 2016, the Group operated a restaurant network of 70 "Shanghai Min" restaurants, 3 "Maison De L'Hui" restaurants, 22 "the dining room" restaurants, 2 "Oreno" restaurants, 2 "Wolfgang Puck" restaurants, 1 "The BOATHOUSE" restaurant and 27 restaurants under POKKA HK brands, which covers some of the most affluent and fast-growing cities in China (note(ii)), Hong Kong and other regions. The following table sets forth the revenue and the number of the restaurants in operation, by geographical region and brand, in 2016 and 2015 respectively.

	As of 31 December			
	2016		2015	
	Number of restaurants (Note (iii))	**Revenue *RMB'000* (audited)**	*Number of restaurants*	Revenue *RMB'000* (audited)
China *(Note (ii))*				
– Shanghai Min	**63**	**1,122,269**	72	1,230,460
– Maison De L'Hui	**3**	**63,709**	3	60,075
– the dining room	**16**	**110,010**	16	113,687
– Oreno	**1**	**22,882**	1	11,668
– Wolfgang Puck	**2**	**31,029**	1	8,936
– The BOATHOUSE	**1**	**6,786**	–	–
Hong Kong				
– Shanghai Min	**7**	**160,526**	8	172,829
– the dining room	**6**	**128,719**	5	72,884
– Oreno	**1**	**22,017**	1	25,878
– POKKA HK Brands *(note (iv))*	**26**	**296,271**	29	283,250
Macau *(note (v))*				
– Shanghai Min	**–**	**4,273**	1	22,823
– the dining room	**–**	**811**	1	4,654
– POKKA HK Brands	**1**	**13,493**	1	13,971
Total revenue of restaurant operations *(Note (i))*	**127**	**1,982,795**	139	2,021,115
Other revenue		**18,206**		14,062
Total revenue		**2,001,001**		2,035,177

Notes

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

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

(iii) The number of restaurants excludes Mai Chi Ling licensed stores.

(iv) POKKA HK brand stores include 27 stores under 9 brands such as POKKA Café, Tonkichi in Hong Kong and Macau.

(v) Shanghai Min and the dining room in Macau were disposed at the end of February 2016, which not included in the numbers of restaurants, while revenue from January to February in 2016 was included in revenue for the year of 2016.

Revenue

Revenue of the Group decreased by RMB34.2 million, or 1.7%, from RMB2,035.2 million in 2015 to RMB2,001.0 million in 2016. This decrease was due to revenue decreased for stores closed during the year.

Total Revenue of restaurant operations

Total revenue of restaurant operations decreased by RMB38.3 million, or 1.9% from RMB2,021.1 million in 2015 to RMB1,982.8 million in 2016, primarily reflecting:

- an increase of RMB75.5 million in revenue contributed by restaurants newly opened for the year ended 31 December 2016;

- an increase of RMB57.6 million in revenue contributed by restaurants opened in 2015;

- a decrease of RMB37.2 million, representing a decrease of 2.4%, in comparable restaurants sales for the year ended 2015 to the year ended 2016;

- the relocation, adjustment, closing stores for the year ended 31 December 2016 resulted in a decrease in revenue of RMB108.0 million;

- Shanghai Min and the dining room in Macau were disposed at the end of February 2016, which caused a decrease of revenue of RMB22.4 million.

Other revenue

Other revenue increased by RMB4.1 million, from RMB14.1 million in 2015 to RMB18.2 million in 2016, which primarily reflected an increase of RMB5.6 million for revenue from licensing and management business of Mai Chi Ling in 2016.

Cost of Sale

The cost of sale decreased by RMB62.7 million, or 10.0%, from RMB629.8 million in 2015 to RMB567.1million in 2016.

The cost of inventory for consumption as a percentage of the revenue decreased from 30.9% in 2015 to 28.3% in 2016, which primarily reflected a saving in the cost of foods and the cost of OEM semi-finished products.

Other income and gain

Other income and gain increased by RMB2.7 million, from RMB44.0 million in 2015 to RMB46.7 million in 2016, with an insignificant change in general.

Selling and distribution expenses

Selling and distribution cost decreased by RMB38.3 million, or 3.0%, from RMB1,256.3 million in 2015 to RMB1,218.0 million in 2016.

Labor costs relating to the restaurants, central kitchens and central warehouses decreased by RMB16.3 million, or 3.2%, from RMB510.4 million in 2015 to RMB494.1 million in 2016. As a percentage of our revenue, labor costs decreased from 25.1% in 2015 to 24.7% in 2016,which primarily reflected the control of labor cost and the closure of stores.

Occupancy costs relating to restaurants, central kitchens and central warehouses decreased by RMB0.1 million, from RMB359.1 million for the year ended 2015 to RMB359.0 million for the year ended 2016, with an insignificant change in general. As a percentage of our revenue, occupancy costs increased from 17.6% in 2015 to 17.9% in 2016.

Depreciation expenses relating to the restaurants, central kitchens and central warehouses decreased by RMB1.9 million, or 1.2%, from RMB155.7 million in 2015 to RMB153.8 million in 2016. As a percentage of our revenue, depreciation expenses maintained at 7.7% in 2015 and 2016.

General and administrative expenses

Benefiting from adjustment of manage structure, administrative expenses decreased by RMB18.8 million, or 10.3%, from RMB183.3 million in 2015 to RMB164.5 million in 2016, and as a percentage of our revenue, administrative expenses decreased from 9.0% to 8.2% during the same periods.

Other expenses

Other expenses of RMB23.7 million in 2016 were mainly attributable to one-time write-off of store closure and loss from disposal of assets in the normal course of business of RMB9.1 million, loss of one-off non-current financial assets of RMB4.0 million, loss form disposal of subsidiary of RMB2.6 million and impairment loss of fixed assets of RMB2.0 million.

Income Tax Expense

Income tax expenses increased by RMB21.7 million or 486.9%, from RMB4.5 million in 2015 to RMB26.2 million in 2016, which was mainly attributable to the increase of profit before tax during the year and percent of earning in Mainland China, resulting the increase of tax burden compared with other areas.

Profit for the year

As a result of the foregoing, the profit for the year increased by RMB132.6 million from the loss of RMB98.4 million in 2015 to RMB34.2 million in 2016. The net profit margin increased from negative 4.8% in 2015 to 1.7% in 2016.

Dividends payable

In 2016, the Group did not pay any dividends. As at 31 December 2016, there were no outstanding dividends payable.

Liquidity, capital resources and cash flow

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

As at 31 December 2016, the Group's total interest-bearing bank loans were RMB341.8 million. The gearing ratio was 33.6%, which decreased by 7.2% from 40.8% of gearing ratio as at 31 December 2015. Gearing ratio represents net debt dividend by adjusted capital plus net debt. Net debt includes interest-bearing borrowings, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

The Group had net cash inflows from operating activities of RMB179.5 million in 2016 (2015: RMB199.9 million). As at 31 December 2016, the Group had RMB233.4 million in cash and cash equivalents (31 December 2015: RMB169.0 million). The following table sets out certain information regarding the consolidated cash flows for the years ended 31 December 2016 and 2015:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
	(audited)	(audited)
Net cash flows from operating activities	**179,467**	199,917
Net cash flows used in investing activities	**(350,239)**	(286,955)
Net cash flows generated from/(used in) financing activities	**237,904**	(4,638)
Net increase/(decrease) in cash and cash equivalents	**67,132**	(91,676)
Cash and cash equivalents at the beginning of the year	**169,024**	269,305
Effect of foreign exchange rate, net	**(2,766)**	(8,605)
Cash and cash equivalents at the end of the year	**233,390**	169,024

Operating activities

Net cash inflow from operating activities decreased by RMB20.4 million from RMB199.9 million as at 31 December 2015 to RMB179.5 million as at 31 December 2016, which was primarily attributable to the decrease of trade payables and increase of prepayments, deposits and other receivable.

Investing activities

Net cash flow used in investing activities was RMB350.2 million for the year ended 31 December 2016, compared with RMB287.0 million in 2015. The cash outflow from major investment activities was for acquiring non-current financial assets, being the 9.82% equity interest of JMU Limited (formerly known as "Wowo Limited"), and for facility investment of Disney project in 2016.

Financing activities

Net cash flow generated from financing activities increased from a cash outflow of RMB4.6 million during the year ended 31 December 2015 to a cash inflow of RMB237.9 million during the year ended 31 December 2016, representing an increase of RMB242.5 million, which is primarily the proceeds of RMB232.4 million from issuance of shares.

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 twelve-month periods ended 31 December 2016 and 31 December 2015 are denominated in currencies other than the functional currency of the relevant subsidiaries. The Group has minimal exposure to foreign exchange risk.

Contingent liabilities

There were no significant contingent liabilities for the Group as at 31 December 2016 and 31 December 2015.

Operating lease arrangements

As lessee

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

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

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
	(audited)	(audited)
Within one year	**278,423**	261,650
In the second to fifth years, inclusive	**795,232**	668,904
After five years	**269,748**	202,524
	1,343,403	1,133,078

Capital commitment

Capital commitments were approximately RMB29.5million and RMB76.5 million as at 31 December 2016 and 31 December 2015 respectively.

HUMAN RESOURCES

The salary level of employees in the restaurant industry in China 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 31 December 2016, the Group recruited about 3,933 employees in China and Hong Kong. During 2016, total staff cost was RMB571.6 million, representing 28.6% of the revenue (2015: RMB620.3 million, representing 30.5% of the revenue), the decrease in cost of human resource mainly benefited from the optimization of the management structure.

SUBSEQUENT EVENTS

Since 31 December 2016 to the date of this announcement, there was no important event affecting the Group.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlements of the shareholders to attend the forthcoming annual general meeting to be held on 2 June 2017, the register of members of the Company will be closed between 27 May 2017 to 2 June 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend the forthcoming annual general meeting, all share transfers, being accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 26 May 2017.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange as its own code of corporate governance. Save as disclosed in this announcement, the Company has complied with all the code provisions as set out in CG Code to the Listing Rules throughout the year.

The CG Code provision A.2.1 stipulates that the roles of the chairman and the chief executive officer position should be separated and should not be performed by the same individual. Currently, due to changes of the management personnel of the Company, both the roles of chairman and chief executive officer are performed by Ms. Wang Huimin. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high-quality individuals and meets regularly to discuss issues relating to the operations of the Company. The Board has full confidence in Ms. Wang Huimin and believes that having Ms. Wang Huimin performing the roles of the chairman and the chief executive officer enables the Group to make and implement decisions promptly and efficiently which is beneficial to the Company as a whole. The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the chief executive officer in the future.

As at 31 December 2015, following the resignation of Mr. Wang Chiwei, one of the independent non-executive Directors, the Company was unable to fulfill (i) Rule 3.10(1) of the Listing Rules which requires the Board to have at least three independent non-executive Directors; (ii) Rule 3.10A of the Listing Rules which requires the number of independent non-executive Directors to be at least one-third of the Board; (iii) Rule 3.25 of the Listing Rules which requires the majority of the Remuneration Committee to be independent non-executive Directors; and (iv) the CG Code provision A.5.1 which requires the majority of the Nomination Committee to be independent non-executive Directors. Following the appointment of Mr. Lin Lijun as an independent non-executive Director, and a member of the Remuneration Committee and the Nomination Committee of the Company on 23 March 2016, the Company has re-complied with the Listing Rules and the CG Code.

Pursuant to the CG Code provision A.6.7, all non-executive Directors should attend the general meeting of the Company. Other than executive director Ms. Wu Wen, non-executive directors Ms. Wang Huili and Mr. Wang Hairong, and independent non-executive director Mr. Lin Lijun who did not attend the annual general meeting of the Company held on 2 June 2016 due to other business engagements arranged in advance and non-executive directors Ms. Wang Huili, Mr. Weng Xiangwei and Mr. Wang Hairong, and independent non-executive directors Mr. Lin Lijun and Mr. Lei Wai Ming who did not attend the extraordinary general meeting of the Company held on 2 August 2016 due to other business engagements arranged in advance, other directors (including non-executive directors and independent non-executive directors) of the Company have attended general meetings above mentioned.

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 the code of conduct regarding securities transactions by Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 December 2016.

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

On 7 June 2016 (after trading hours), the Company and the underwriter Guotai Junan Securities (Hong Kong) Limited (the "**Underwriter**") entered into an underwriting agreement to implement the rights issue by issuing 737,677,000 rights shares ("**Rights Shares**") at the subscription price of HK$0.41 per Rights Share with the total nominal value of HK$7,376,770 (the "**Rights Issue**"), on the basis of one Rights Share for every two shares held. The Company considers that the Rights Issue will provide opportunities for the Group to enhance its capital base and financial position and the Rights Issue will allow all shareholders to participate equally in the future development of the Company. On 7 June 2016, the closing price of the shares of the Company was HK$0.5 per share. In this Rights Issue, shareholders jointly subscribed 441,885,425 Rights Shares, representing approximately 59.90% of the total number of Rights Shares available under the Rights Shares; 295,791,575 Rights Shares were not subscribed, representing approximately 40.10% of the Rights Shares available under the Rights Shares. The Rights Shares which were not subscribed would be subscribed by the Underwriter under the underwriting agreement.

The Rights Issue became unconditional on 18 July 2016 at 4:00 pm. The Company has issued an announcement in relation to the results of the right issue on 22 July 2016 and dispatched the share certificates for all fully-paid Rights Shares on 25 July 2016. The net proceeds per share amounted to RMB0.40 and all net proceeds have been utilized in the acquisition of 9.82% interests in JMU Limited (formerly known as Wowo Limited).

Save as disclosed, the Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company for the year ended 31 December 2016.

REVIEW OF ANNUAL RESULTS

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the consolidated financial statements for the year ended 31 December 2016.

The Audit Committee has also reviewed the Group's consolidated financial statements for the year ended 31 December 2016. The Audit Committee is of the view that these financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory provisions, and sufficient disclosures have already been made.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's financial results for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Ernst & Young ("**EY**"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND THE 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xiaonanguo.com), and the Company's 2016 Annual Report which contains all the information required by the Listing Rules will be despatched to the 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, China, 27 March 2017

As at the date of this announcement, the executive directors of the Company are Ms. WANG Huimin, Ms. WU Wen and Ms. ZHU Xiaoxia; 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 Dr. WU Chun Wah, Mr. LUI Wai Ming and Mr, Lin Lijun.