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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 TRANSACTIONS
PROCUREMENT FRAMEWORK AGREEMENT**

The Board hereby announces that, on 1 June 2017, the Company and Zhongmin Supply Chain entered into the Procurement Framework Agreement, pursuant to which the Company has conditionally agreed to procure raw food ingredients and other non-food items used for its restaurant operation from Zhongmin Supply Chain.

Each of Ms. Wang and Ms. Zhu holds 48.75% equity interests in Shanghai Zhongmin Investment, which in turn holds 100% equity interests in Zhongmin Supply Chain. Therefore, Zhongmin Supply Chain is a connected person of the Company and the entering into of the Procurement Framework Agreement and the transactions contemplated thereunder by the Company constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual cap regarding the Procurement Framework Agreement are more than 5%, the Procurement Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details about the Procurement Framework Agreement and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee in relation to the Procurement Framework Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Procurement Framework Agreement and the transactions contemplated thereunder; and (iv) a notice convening the EGM, will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules. It is currently expected that the circular will be dispatched to the Shareholders on or before 21 June 2017.

PROCUREMENT FRAMEWORK AGREEMENT

- Date:** 1 June 2017
- Parties:**
- (1) the Company (for itself and on behalf of its subsidiaries and associated companies)
 - (2) Zhongmin Supply Chain (for itself and on behalf its subsidiaries and associated companies)
- Effective Date and Term:** The Procurement Framework Agreement shall only be effective upon the Independent Shareholders' approval in accordance with the Listing Rules. Subject to the aforesaid, the term of the Procurement Framework Agreement shall commence from 1 June 2017 and end on 31 May 2018.
- Matter:** Under the Procurement Framework Agreement, the Company may procure raw food ingredients and other non-food items used for its restaurant operation from Zhongmin Supply Chain ("**products**"). Such products shall be in accordance with the national quality standards and the standards as agreed by the parties, and shall not infringe any third party's intellectual property rights and legal rights. The transaction shall be conducted on a non-exclusive basis and based on definitive procurement contracts to be entered into between the Company and Zhongmin Supply Chain from time to time.
- The Company will place orders with Zhongmin Supply Chain via Zhongmin Supply Chain's website and Zhongmin Supply Chain shall supply products in accordance with the type, quantity, quality and specification of the products at such time and to such place of delivery as specified by the Company in the online order forms.
- Payment terms:** The Company shall make payment within 45 days (subject to other agreement between the parties) upon acceptance of the products by the Company and receipt of accurate invoice issued by Zhongmin Supply Chain.
- Annual cap:** The total procurement amount payable by the Company to Zhongmin Supply Chain for the year ending 31 May 2018 shall not exceed RMB150 million.

**Pricing and its
determination:**

The Company shall have the right to procure products at the lower of the following two prices: (i) price as quoted by Zhongmin Supply Chain having regard to Zhongmin Supply Chain's advantage in procuring products from the source and the quantities ordered by the Company; and (ii) price quotation obtained upon market inquiry made by the Company in a fair and open manner.

The parties will, through negotiation, agree on the target procurement costs of the Company for the coming year with a growth rate lower than the consumer price index for food published by the National Bureau of Statistics of China for the previous year. Pursuant to negotiation between the parties, Zhongmin Supply Chain promises that the target annual growth rate of the procurement costs of the Company for the period from 1 June 2017 to 31 May 2018 shall be lower than the consumer price index for food for the year 2016 (the "2016 CPI") published by the National Bureau of Statistics of China (the "Benchmark"), which is 4.6%. If the parties cannot agree on the aforementioned matters or if Zhongmin Supply Chain fails to cause the said growth rate to be lower than the Benchmark, the Company shall have the discretion to terminate the Procurement Framework Agreement or to procure products from other third party suppliers.

**Historical transaction
amount:**

The aggregate procurement amount under the Previous Procurement Framework Agreement was approximately RMB64.56 million during the year ended 31 May 2017.

INTERNAL CONTROL MEASURES RELATING TO THE PRICING

To ensure that the terms and conditions of procurement provided by Zhongmin Supply Chain pursuant to the Procurement Framework Agreement are no less favourable than those provided by the independent third parties to the Company, the Company will take into account factors of price, food hygiene, business qualification and source of the products and will select suppliers and obtain the quotation from other independent third party suppliers of similar products and order quality based on the existing procurement system and procedures to confirm the prevailing market price.

Upon delivery of the products, the quality assurance department of the Company will carry out inspection to review and assess whether the products are provided in accordance with the terms of each of the definitive procurement contracts and the pricing policies stated above.

The Company will ensure that the prices of the products to be procured shall be determined after negotiation with Zhongmin Supply Chain on normal commercial terms of similar, relevant or alternative materials that the Company considers fair and reasonable.

BASIS OF DETERMINING THE ANNUAL CAPS

The annual cap of the transactions contemplated under the Procurement Framework Agreement is determined with reference to the following factors:

- (1) the total transaction amount of the Group for a whole year on the procurement of products in the past;
- (2) the economic indicators of the catering industry and the operating plans formulated by the Company according to the prevailing economic environment;
- (3) the historical transaction amount of the transactions under the Previous Procurement Framework Agreement; and
- (4) the expected future demand for the products supplied by Zhongmin Supply Chain having regard to the business needs of the Group in the coming year.

The annual cap in respect of the transactions contemplated under the Procurement Framework Agreement is RMB150 million, as compared to that of RMB300 million in respect of the transactions contemplated under the Previous Procurement Framework Agreement. As shareholders' approval for the Previous Procurement Framework Agreement and the transactions contemplated thereunder was only obtained in January 2017, the Group had to make arrangements to procure raw food ingredients from independent third party suppliers by entering into agreements with them. The Group will continue to procure raw food ingredients from those independent third party suppliers during the term of such agreements, resulting in a decrease in procurement from Zhongmin Supply Chain.

REASONS AND BENEFITS FOR THE TRANSACTIONS

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 at competitive price, offer diversified food categories and types to its customers, expand supply and distribution capabilities and at the same time reduce procurement costs.

There are more than 10,000 suppliers which have joined Zhongmin Platform, offering a diversified range of product mix, more flexible means of cooperation and more transparent price comparison information. The Company can reduce the procurement costs for some products in terms of pricing because of more transparent price comparison information offered by the Zhongmin Platform. As the Zhongmin Platform serves as a platform which offers a wide range of products, thereby linking up the Group and the 10,000 suppliers which have joined the Zhongmin Platform, the products procured are transported and delivered directly by the suppliers of the products to the Group after the orders for the products are placed with Zhongmin Supply Chain via the Zhongmin Platform. Hence, some staff costs and transportation costs associated with procurement can be saved. The cooperation with Zhongmin Supply Chain has also saved a lot of the costs and efforts of the procurement personnel of the Group in verifying product quality certifications. All these improvements contribute to the increase in

efficiency of procurement of raw food ingredients and non-food items of the Company. Accordingly, the Company has decided to continue to cooperate with Zhongmin Supply Chain in relation to the procurement of raw food ingredients and non-food items.

The Directors (excluding all the independent non-executive Directors who will provide their views after considering the opinion of the independent financial adviser) are of the view that (i) the Procurement Framework Agreement is on normal commercial terms and on terms no less favourable than those provided by the independent third parties to the Company and in the course of the ordinary and usual business of the Company; (ii) the terms of the Procurement Framework Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and (iii) the proposed annual cap regarding the transactions contemplated under the Procurement Framework Agreement are fair and reasonable.

LISTING RULES IMPLICATIONS

Each of Ms. Wang, the chairlady, the chief executive officer, executive Director and a Controlling Shareholder of the Company, and Ms. Zhu, an executive Director, holds 48.75% equity interests in Shanghai Zhongmin Investment, which in turn holds 100% equity interests in Zhongmin Supply Chain. Therefore, Zhongmin Supply Chain is a connected person of the Company and the entering into of the Procurement Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual cap regarding the Procurement Framework Agreement are more than 5%, the Procurement Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Wang and Ms. Zhu have abstained from voting on the Board resolutions with respect to the approval of the Procurement Framework Agreement and the transactions contemplated thereunder. Furthermore, (i) Ms. Wang Huili and Mr. Wang Hairong, being associates of Ms. Wang; and (ii) Ms. Wu Wen, who was related to Mr. Wang Hairong and Ms. Wang in the past, have also abstained from voting in the relevant Board resolutions to avoid any conflict of interests.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Procurement Framework Agreement and the transactions contemplated thereunder.

RaffAello Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding, among other things, the terms of the Procurement Framework Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details about the Procurement Framework Agreement and the transactions contemplated thereunder; (ii) the recommendations from the Independent Board Committee in relation to the Procurement Framework Agreement and the

transactions contemplated thereunder; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Procurement Framework Agreement and the transactions contemplated thereunder; and (iv) a notice convening the EGM, will be dispatched to the Shareholders in accordance with the requirements of the Listing Rules. It is currently expected that the circular will be dispatched to the Shareholders on or before 21 June 2017.

INFORMATION ON THE COMPANY AND THE CONNECTED PERSON

The Company is an investment holding company and together with its subsidiaries are principally engaged in the operation of restaurant chain stores in the PRC, Hong Kong and other regions.

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 are not limited to the trading of raw food ingredients and other non-food items. Zhongmin Supply Chain operates under the control of Shanghai Zhongming Supply Chain Management Co., Ltd (上海眾鳴供應鏈管理有限公司) (“**Shanghai Zhongming**”), a wholly foreign-owned enterprise under an variable interest entity (VIE) arrangement. Shanghai Zhongming is an indirect wholly-owned subsidiary of JMU Limited, a company incorporated in the Cayman Islands whose ADS are listed on NASDAQ global market. As at the Latest Practicable Date, each of Ms. Zhu (an executive Director), Ms. Wang (an executive Director) and Moonlight Vista Limited (an indirect wholly-owned subsidiary of the Company) is respectively interested in approximately 16.64%, 10.10% and 9.62% of the total issued capital of JMU Limited. The 10.10% interest in JMU Limited which Ms. Wang is interested in does not include any indirect interest held by Ms. Wang through the Group in JMU Limited.

DEFINITIONS

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

“ADS”	American Depositary Shares, each of which represents 18 ordinary shares of JMU Limited
“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 main board of the Stock Exchange (stock code: 3666)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Procurement Framework Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent committee of the Board, comprising all independent non-executive Directors, which has been appointed by the Board to advise the Independent Shareholders on the Procurement Framework Agreement
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM in respect of the Procurement Framework Agreement and the transactions contemplated thereunder
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Wang”	Ms. Wang Huimin, the chairlady, the chief executive officer, an executive Director and a Controlling Shareholder of the Company
“Ms. Zhu”	Ms. Zhu Xiaoxia, an executive Director
“NASDAQ”	National Association of Securities Dealers Automated Quotation
“PRC”	the People’s Republic of China
“Previous Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and Zhongmin Supply Chain on 22 July 2016 as amended by a supplement agreement entered into between the Company and Zhongmin Supply Chain on 20 December 2016, the particulars of which are set out in the Company’s announcements dated 22 July 2016 and 20 December 2016
“Procurement Framework Agreement”	the procurement framework agreement entered into between the Company and Zhongmin Supply Chain on 1 June 2017
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Zhongmin Investment”	Shanghai Zhongmin Investment and Development Group Co., Ltd. (上海眾敏投資發展集團有限公司), a company established in the PRC which holds 100% equity interests in Zhongmin Supply Chain

“Shareholders”	the holders of the ordinary shares of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongmin Platform”	the catering supply chain online-mall platform operated by Zhongmin Supply Chain
“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 in the PRC

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

Shanghai, the People’s Republic of China, 1 June 2017

As at the date of this announcement, the executive directors of the Company are Ms. WANG Huimin, Ms. ZHU Xiaoxia and Ms. WU Wen; 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.