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Xiabuxiabu Catering Management (China) Holdings Co., Ltd.
呷哺呷哺餐飲管理(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 520)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	Year-on-Year
	RMB'000	*RMB'000*	Change[(1)]
	(audited)	(audited)	%
Revenue	**3,663,993**	2,758,137	32.8
Restaurant level operating profit[(1)(3)]	**802,455**	639,830	25.4
Profit before tax	**542,787**	473,122	14.7
Profit for the year attributable to owners of the Company	**420,170**	368,028	14.2
Adjusted net profit[(2)(3)]	**431,782**	372,467	15.9

(1) Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses from the Group's revenue generated from restaurants.

(2) Adjusted net profit is calculated by deducting expense related to equity-settled share-based payments from the Group's staff costs.

(3) Restaurant level operating profit and adjusted net profit are unaudited non-GAAP items. To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group has presented these non-GAAP items as additional measures to evaluate the financial performance of the Group by considering the impact of items that the Group believes are frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry the Group operates and by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business.

OPERATIONAL HIGHLIGHTS

Key operational information for the Group's restaurants

Set forth below are certain key performance indicators of the Group's restaurants:

	As of or for the years ended 31 December	
	2017	**2016**
Total restaurants (#)(1)	**759**	639
Xiabuxiabu restaurants		
Seat turnover rate (X)(2)	**3.3**	3.4
Average spending per customer (RMB)(3)	**48.4**	47.7

(1) Included both Xiabuxiabu and Coucou restaurants.

(2) Calculated by dividing total customer traffic by total restaurant operation days and average seat count of Xiabuxiabu restaurants during the year.

(3) Calculated by dividing revenue generated from food and beverage sales of Xiabuxiabu restaurants for the year by total customer traffic of Xiabuxiabu restaurants for the year.

PROPOSED FINAL DIVIDEND

Proposed final dividend of RMB0.087 per share, amounting to approximately a total of RMB92.79 million for the year ended 31 December 2017 and representing approximately 40% of the Group's net profit for the six months ended 31 December 2017.

The board of directors (the "**Board**") of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017. The annual results have been prepared in accordance with International Financial Reporting Standards (the "**IFRS**"). In addition, the annual results have also been reviewed by the audit committee of the Company (the "**Audit Committee**").

BUSINESS REVIEW AND OUTLOOK

Overview

In 2017, the Group opened 136 Xiabuxiabu restaurants and 19 Coucou restaurants. The Group extended its restaurant network into Shenzhen in 2017. As of 31 December 2017, the Group owned and operated 738 Xiabuxiabu restaurants in 79 cities over 13 provinces and in three centrally administered municipalities, namely in Beijing, Tianjin and Shanghai, in China. The Group also owned 21 Coucou restaurants in Beijing, Shanghai, Hangzhou and Shenzhen as of the same date.

The Group managed to grow its revenue by 32.8% from RMB2,758.1 million in 2016 to RMB3,664.0 million in 2017 primarily due to the Group's effort to expand its restaurant network and a robust nationwide same-store sales growth of 8.5%, resulted in a 25.4% growth in the Group's restaurant level operating profit from RMB639.8 million in 2016 to RMB802.5 million in 2017. As of 31 December 2017, the Group's net current assets remained relatively stable at RMB1,133.7 million as compared with RMB1,137.1 million as of 31 December 2016.

The Group's overall profitability in 2017 was impacted by a substantial foreign exchange loss, as Renminbi appreciated against foreign currencies such as Hong Kong dollars and U.S. dollars. Net foreign exchange loss in 2017 was RMB26.7 million, compared with a gain of RMB29.1 million in 2016. In addition, the Group incurred equity-settled share-based expenses of RMB11.6 million in 2017, representing an increase of approximately 161.6% from RMB4.4 million in 2016, which was mainly attributable to the grant of restricted share units to directors and employees of the Group in May 2017. Without these factors, the Group's operational profitability demonstrated material improvement in 2017.

Industry review

In 2017, China's economy continued to grow with a stable yet reasonably impressive growth rate and other major indexes. In 2017, China's GDP grew by 6.9%. The increasingly consumption-driven economy in China drove the development of the catering service industry, especially the catering service segment focusing on the mass market. Hotpot restaurant chains and other casual dining restaurant chains enjoyed significant growth in revenue in 2017, according to the China Cuisine Association. In addition, major restaurant chains showed a significant presence in highly populated cities and areas. They continued to enhance operation efficiency by chain operation and supply chain management, and many of these restaurant chains expanded their business to the food processing industry. The strong performance of the industry leaders raised the entry barrier to the catering service industry. Furthermore, the Internet continues to penetrate into the catering service industry and changes consumers' consumption behavior. As a result, the operation and marketing in the traditional service industry are expecting significant changes.

Overall Business and Financial Performance

The Group's restaurant network

In 2017, the Group adhered to its restaurant network expansion plan and opened a total of 155 new restaurants including 136 Xiabuxiabu restaurants and 19 Coucou restaurants. In addition, the Group closed a total of 35 restaurants in 2017 due to commercial reasons. In aggregate, the Group's restaurants in operation increased by 120 in 2017. A substantial portion of the Group's revenue and restaurant level operating profit were devired from Xiabuxiabu restaurants.

Geographical breakdown of the Group's Xiabuxiabu restaurants

The table below sets forth the breakdown of the Group's system wide Xiabuxiabu restaurants by region as of the dates indicated:

	As of 31 December			
	2017		2016	
	#	%	#	%
Beijing	**282**	**38.2**	285	44.7
Shanghai	**50**	**6.8**	54	8.5
Tianjin	**66**	**8.9**	60	9.4
Hebei[1]	**130**	**17.6**	111	17.4
Northeast China[2]	**75**	**10.2**	49	7.7
Other regions[3]	**135**	**18.3**	78	12.3
Total	**738**	**100**	637	100.0

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

Key operational information for the Group's Xiabuxiabu restaurants

Set forth below are certain key performance indicators of the Group's system wide Xiabuxiabu restaurants by region:

	As of or for the years ended 31 December	
	2017	2016
Revenue (in RMB thousands)		
Beijing	**1,814,861**	1,635,159
Shanghai	**211,797**	192,915
Tianjin	**269,874**	222,385
Hebei[1]	**558,609**	412,051
Northeast China[2]	**271,100**	109,348
Other regions[3]	**365,374**	178,252
Total	**3,491,615**	2,750,110

	As of or for the years ended 31 December	
	2017	**2016**
Seat turnover rate (X)[4]		
Beijing	**4.0**	4.0
Shanghai	**2.7**	2.4
Tianjin	**3.0**	3.1
Hebei[1]	**3.0**	3.2
Northeast China[2]	**2.9**	2.5
Other regions[3]	**2.3**	2.4
Total	**3.3**	3.4
Average spending per customer (RMB)[5]		
Beijing	**49.5**	48.6
Shanghai	**49.8**	50.0
Tianjin	**47.6**	46.3
Hebei[1]	**46.7**	45.3
Northeast China[2]	**46.2**	45.6
Other regions[3]	**47.1**	46.4
Total	**48.4**	47.7

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

(4) Calculated by dividing total customer traffic by total restaurant operation days and average seat count of Xiabuxiabu restaurants during the year.

(5) Calculated by dividing revenue generated from food and beverage sales of Xiabuxiabu restaurants for the year by total customer traffic of Xiabuxiabu restaurants for the year.

In 2017, in terms of restaurant count and revenue contribution, as the Group successfully implemented its nationwide expansion plan, the Group's revenue generated from restaurants outside Beijing increased in absolute terms and as a percentage of the Group's total revenue in 2017, reaching approximately 50% of the Group's total revenue. On the other hand, average customer spending continued to increase in 2017, primarily due to the increase in sales of newly launched menu items as the Group continued to optimize its product combinations and launch new products regularly.

The table below sets forth the Group's same-store sales for the years indicated. The Group's same-store base is defined as those Xiabuxiabu restaurants that were in operation throughout the years under comparison.

	Year ended 31 December		Year ended 31 December	
	2016	**2017**	**2015**	**2016**
Number of same-store (#)				
Beijing	**238**		233	
Shanghai	**43**		52	
Tianjin	**50**		43	
Hebei[(1)]	**83**		74	
Northeast China[(2)]	**31**		23	
Other regions[(3)]	**61**		42	
Total	**506**		467	

	Year ended 31 December		Year ended 31 December	
	2016	**2017**	**2015**	**2016**
Same-store sales (in RMB millions)				
Beijing	**1,474.6**	**1,589.4**	1,457.3	1,519.2
Shanghai	**159.5**	**188.3**	188.3	190.8
Tianjin	**206.0**	**216.0**	187.8	195.4
Hebei[(1)]	**382.3**	**423.7**	335.5	339.0
Northeast China[(2)]	**95.1**	**102.0**	60.4	56.8
Other regions[(3)]	**174.6**	**184.5**	107.3	105.7
Total	**2,492.1**	**2,703.9**	2,336.6	2,406.9
Same-store sales growth (%)				
Beijing	**7.8**		4.2	
Shanghai	**18.0**		1.3	
Tianjin	**4.9**		4.0	
Hebei[(1)]	**10.8**		1.0	
Northeast China[(2)]	**7.2**		(5.9)	
Other regions[(3)]	**5.7**		(1.5)	
Nationwide	**8.5**		3.0	

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

In 2017, the Group's nationwide same-store sales for Xiabuxiabu restaurants increased by 8.5%, primarily due to (i) the effective promotion campaign, (ii) enhanced branding initiatives, (iii) restaurants upgrade, and (iv) the development of "Xiabu Fresh" delivery business by the Group.

As of 31 December 2017, the Group also owned 21 Coucou restaurants. As the Group opened its first Coucou restaurant in June 2016, its contribution to the Group's revenue and restaurant level operating profit for the year ended 31 December 2017 was still minimal. For the year ended 31 December 2017, the Group's revenue generated from Coucou restaurants accounted for approximately 3.2% of its total revenue. Due to the relatively high initial start up costs being incurred for new restaurants opening, and taking into consideration the 12 Coucou restaurants were opened in the fourth quarter of 2017, which resulted in a restaurant level operating loss of Coucou restaurants of RMB24.9 million in 2017.

Outlook for 2018

Business Outlook

During 2018, the Group will continue its efforts to achieve its goal of becoming the leading operator of fast casual restaurant industry and maintaining its leading position as a hotpot restaurant chain operator in China. The Group intends to continue to pursue the following:

- *Additional growth drivers* – Based on its fast casual hotpot business, the Group endeavors to develop additional growth drivers, including "Coucou" restaurants, Xiabuxiabu 2.0 restaurant upgrade, and "Xiabu Fresh" delivery. The Group endeavors to shorten the construction time for the Xiabuxiabu 2.0 restaurant upgrade to improve the Group's operating results. The Group will accelerate its exploration on the "Xiabu Fresh" delivery business to fully utilize business hours during rush hours such as lunch and dinner time to improve its sales density. The Group will continue to collaborate with leading online and mobile meal ordering and delivery platforms to promote its "Xiabu Fresh" delivery business. The Group plans to continue to customize and optimize its menu to suit its new development. In particular, the Group plans to develop new menu items catering to the tastes and preferences of diners in eastern China to further boost its sales in such area. The Group plans to leverage the strong recognition of its Xiabuxiabu brand to further develop these additional business lines.

- *Expansion of restaurant network* – The Group will follow its five-year strategic plan to steadily expand the Group's business. In 2018, the Group plans to open about 100 new restaurants. The Group plans to consolidate its leading position and deepen its penetration in its existing markets. During the expansion, the Group will continue to focus on new markets research and create synergies among functions of the Group's internal departments such as business development, sales and marketing and operations departments so as to ensure the success of new restaurants when the Group ventures into mature and emerging markets. The Group focuses on tailoring the tastes and prices of its dishes to customers in different geographic areas.

- *Cost control* – The Group plans to further control its procurement cost while maintaining a stringent quality standard. The Group plans to further enhance its procurement system and devise tailored cost control measures for different categories of supplies. The Group endeavors to further optimize delivery route to enhance logistics efficiency. In addition, the Group determines to optimize the development process at the central food processing plant.

- *Promote brand image and recognition* – The Group will upgrade its brand image and undertake a series of online and offline marketing initiatives to help enhance the Group's brand recognition. Marketing with a focus on customer relationship management will also further increase customer loyalty. The Group also plans to fully utilize its approximately 80 million customer flow and initiate joint promotion programs with renowned brands in the area of big data.

- *Strengthen organization and human resources management* – In order to better understand the market, the Group will enhance its accountability system and encourage the proactivity of general manager of specific stores to take overall responsibility for daily restaurant operation and profit management of the specific store. The Group plans to enhance the management capabilities of its operational managers of its major business focuses, by adopting a management approach focused on business sectors to simplify management structure.

- *Maintain stringent food safety and quality standard* – The Group will further reinforce its commitment to food safety and quality, including the following aspects: (i) implement stringent food safety and quality control standards and measures throughout different aspects of the Group's operations, including supply chain, logistics, food processing plants and restaurants; (ii) continue to enhance the Group's centralized procurement system; (iii) cooperate exclusively with reputable and high-quality suppliers; (iv) eliminate intermediaries in the supply chain through direct delivery to restaurant from suppliers or the Group's logistics centers; and (v) continue to enforce self-evaluation and stringent control on the Group's food safety and quality control standards and measures.

Industry Outlook

The Group believes that the growth per capita disposable income and urbanization rate, changing consumer lifestyle and quicker living tempo as well as favorable government policies will continue to support the development of China's catering service market. In particular, the Group expects China's catering service industry to experience the following trends:

- *Stronger demand for mass-market oriented restaurants* – Demand for mass-market oriented restaurants is always rigid, offering value for money and convenience, these restaurants have gained stronger market recognition and well-liked by consumers. As China's economy pivots from an investment-led model to a more consumption-focused one, the Group expects China's catering service market, particularly the catering segment focusing on the mass market, will continue to experience strong growth.

- *Consolidation by restaurant chains* – China's catering service industry is likely to be more consolidated by chained restaurants with greater quality, stronger reputation and broader restaurant network.

- *Increasing attention from the capital market* – The global capital market shows stronger interest in restaurant operators focusing on the Chinese market. Many large international restaurant operators shown increasing interest in Chinese- and Asian-style quick service restaurants and might expand their operations accordingly. Meanwhile, catering service providers have also diversified their access to the capital market, which is expected to boost the growth in China's catering service industry.

- *Demand for dining convenience* – O2O dining, mobile apps for restaurants and dining, online and mobile order and delivery platforms, WeChat, customer relationship management system and other modern IT measurements to enable customers to order, make reservations, queue and pay through mobile devices or websites have become the prevailing trend in China's catering service market. Restaurant operators are under pressure to strengthen their information system management capability.

- *Restaurants become more popular among commercial complexes operators* – As e-commerce continues to impact the retail business, restaurants' ability to bring people flow has become especially attractive for operators of commercial complexes. Such growing popularity is expected to affect the site selection strategy of catering service providers in 2018 and going forward.

- *Challenges* – China's catering service industry continues to face challenges including intensified competition among industry competitors, rising food costs, labor costs and rental increment.

The Group expects to further its long-standing dedication in China's catering service market and leverages on its dining concept and value proposition, brand recognition, scalable and standardized business model and commitment to the safety and quality ingredients to ride the wave of industry growth and cope with industry challenges. In particular, the Group believes its dedication on high-quality healthy cuisine, food safety and mass-market oriented position combine with its strong brand recognition will position the Group well in capitalizing the government-led development trend of healthy mass-market dining with highest food safety standard.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table is a summary of the Group's consolidated statement of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of the Group's total revenue for the years indicated, together with the change (expressed in percentages) from 2016 to 2017:

	Year Ended 31 December				Year-on-Year Change
	2017		2016		
	RMB	*%*	*RMB*	*%*	*%*
	(In thousands, except for percentages and per share data)				
Consolidated Statement of Profit or Loss and Other Comprehensive Income					
Revenue	**3,663,993**	**100.0**	2,758,137	100.0	32.8
Other income	**39,825**	**1.1**	31,496	1.1	26.4
Raw materials and consumables used	**(1,365,240)**	**(37.3)**	(979,258)	(35.5)	39.4
Staff costs	**(833,366)**	**(22.7)**	(651,956)	(23.6)	27.8
Property rentals and related expenses	**(441,242)**	**(12.0)**	(356,971)	(12.9)	23.6
Utilities expenses	**(131,559)**	**(3.6)**	(108,951)	(4.0)	20.8
Depreciation and amortisation	**(151,325)**	**(4.1)**	(113,968)	(4.1)	32.8
Other expenses	**(238,817)**	**(6.5)**	(146,947)	(5.3)	62.5
Other gains and losses	**518**	**0.0**	41,540	1.5	(98.8)
Profit before tax	**542,787**	**14.8**	473,122	17.2	14.7
Income tax expense	**(122,617)**	**(3.3)**	(105,094)	(3.8)	16.7
Profit for the year attributable to owners of the Company	**420,170**	**11.5**	368,028	13.3	14.2
Other comprehensive income:					
Item that may be reclassified subsequently to profit or loss:					
Fair value gain (loss) on available-for-sale (AFS) investments during the year, net of tax	**1,230**	**0.0**	(1,232)	(0.0)	194.4
Reversal of previously accumulated Investment revaluation reserve upon disposal of AFS investment	**(67)**	**(0.0)**	–	0.0	–
Profit and total comprehensive income for the year attributable to owners of the Company	**421,133**	**11.5**	366,796	13.3	14.8
Earnings per share					
Basic (RMB cents per share)	**39.33**		34.71		
Diluted (RMB cents per share)	**38.76**		34.48		

Revenue

The Group's revenue increased by 32.8% from RMB2,758.1 million in 2016 to RMB3,664.0 million in 2017, primarily due to (i) the increase in the number of the Group's restaurants from 639 as of 31 December 2016 to 759 as of 31 December 2017 and (ii) the nationwide same-store sales growth of 8.5% for Xiabuxiabu restaurants. In particular, revenue generated from food and beverage sales of Xiabuxiabu restaurants increased by 27.0% from RMB2,750.1 million in 2016 to RMB3,491.6 million in 2017. The Group opened 136 new Xiabuxiabu restaurants throughout China in 2017 to enhance the Group's restaurant network by opening stores in more desirable locations with heavy customer traffic. The Group also opened 19 new Coucou restaurants in Beijing, Shanghai, Hangzhou and Shenzhen in 2017.

Other income

The Group's other income increased by 26.4% from RMB31.5 million in 2016 to RMB39.8 million in 2017, primarily due to (i) an increase in delivery income for takeout orders from RMB4.3 million in 2016 to RMB12.7 million in 2017; and (ii) a government subsidy of approximately RMB6.3 million the Group received from the local government for the Group's local business development. There were no unfulfilled conditions in the period in which they were recognized. Such increase was partially offset by a decrease of interest income on bank deposits and available-for-sale investments from RMB17.9 million in 2016 to RMB13.9 million in 2017.

Raw materials and consumables used

The Group's raw materials and consumables costs increased by 39.4% from RMB979.3 million in 2016 to RMB1,365.2 million in 2017 as the scale of the Group's operations further increased, which included the number of the restaurants in the Group's network and the Group's system-wide sales. As a percentage of the Group's revenue, the Group's raw materials and consumables costs increased from 35.5% in 2016 to 37.3% in 2017, primarily due to the significant rise in purchase price of lamb.

Staff costs

The Group's staff costs increased by 27.8% from RMB652.0 million in 2016 to RMB833.4 million in 2017, primarily due to an increase in the number of the Group's employees from 15,544 as of 31 December 2016 to 21,200 as of 31 December 2017, as well as an increase in per capita wages, which in turn was the result of an increase in the minimum hourly wage and statutory social insurance in China. As a percentage of the Group's revenue, the Group's staff costs decreased from 23.6% in 2016 to 22.7% in 2017, primarily as a result of the growth in revenue is greater than the growth in staff costs. In 2017, in connection with the pre-IPO share incentive plan adopted by the Company on 28 August 2009 (the "**Pre-IPO Share Incentive Plan**") and the restricted share unit scheme adopted by the Company on 28 November 2014 (the "**RSU Scheme**"), the Group incurred equity-settled share-based expenses of RMB11.6 million (2016: RMB4.4 million), representing an increase of approximately 161.6%, which increase was mainly attributable to the grant of restricted share units ("**RSUs**") in respect of an aggregate of 3,993,190 shares in May 2017.

Property rentals and related expenses

The Group's property rentals and related expenses increased by 23.6% from RMB357.0 million in 2016 to RMB441.2 million in 2017, primarily due to an increase in the number of the Group's restaurants. The increase in the Group's revenue outpaced the overall increase in the Group's property rentals and related expenses which was mainly attributable from a number of fixed rent arrangement secured for the Group's restaurants at relatively lower rental, and the Group's property rentals and related expenses decreased from 12.9% in 2016 to 12.0% in 2017 as a percentage of the Group's revenue.

Utilities expenses

The Group's utilities expenses increased by 20.8% from RMB109.0 million in 2016 to RMB131.6 million in 2017 as the scale of the Group's operation in terms of number of restaurants continued to increase. As a percentage of the Group's revenue, utilities expenses dropped to 3.6% in 2017 as compared with 4.0% in 2016.

Depreciation and amortization

The Group's depreciation and amortization increased by 32.8% from RMB114.0 million in 2016 to RMB151.3 million in 2017, primarily as a result of an increase in the Group's property, plant and equipment as the Group continued to open new restaurants and upgrade to Xiabuxiabu 2.0. As a percentage of the Group's revenue, depreciation and amortization remained stable at the 2016 level of 4.1%.

Other expenses

The Group's other expenses increased by 62.5% from RMB146.9 million in 2016 to RMB238.8 million in 2017. As a percentage of the Group's revenue, the Group's other expenses increased from 5.3% in 2016 to 6.5% in 2017. The increases in both absolute amount of the Group's other expenses and as a percentage of the Group's revenue were primarily due to (i) an increase in advertising and other marketing expenses; (ii) an increase professional service fee in connection with the upgrade and maintenance of our internal software; and (iii) an increase in delivery expenses due to the expansion of Xiabu Fresh.

Other gains and losses

The Group's other gains significantly decreased by 98.8% from RMB41.5 million in 2016 to RMB0.5 million in 2017, primarily as a result of (i) the decrease in the net foreign exchange gain recorded by the Company from RMB29.1 million in 2016 to RMB26.7 million in net foreign exchange loss in 2017 and (ii) the impairment loss recognised in respect of leasehold improvement of RMB7.7 million in 2017 (2016: RMB6.7 million). Such decrease was partially offset by an increase in the gains from changes in fair value of financial assets designated at fair value through profit or loss, which represent the short-term investment the Group made as part of the Group's treasury policy, from RMB22.5 million in 2016 to RMB38.2 million in 2017. As a percentage of the Group's revenue, other gains decreased from 1.5% in 2016 to 0.0% in 2017.

Profit before tax

As a result of the foregoing, the Group's profit before tax increased by 14.7% from RMB473.1 million in 2016 to RMB542.8 million in 2017, and as a percentage of the Group's revenue, the Group's profit before tax decreased from 17.2% in 2016 to 14.8% in 2017.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB11.6 million (2016: RMB4.4 million), the Group's profit before tax would have increased by 16.1% from RMB477.5 million in 2016 to RMB554.4 million in 2017, and decreased from 17.3% in 2016 to 15.1% in 2017 as a percentage of the Group's revenue.

Income tax expense

The Group's income tax expenses increased by 16.7% from RMB105.1 million in 2016 to RMB122.6 million in 2017, primarily as a result of the increase in the Group's taxable income. The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, remained relatively stable at 22.2% in 2016 and 22.6% in 2017.

Profit for the year

As a result of the cumulative effect of the above factors, the Group's profit for the year increased by 14.2% from RMB368.0 million in 2016 to RMB420.2 million in 2017, and as a percentage of the Group's revenue, the Group's profit for the year decreased from 13.3% in 2016 to 11.5% in 2017.

Without taking into account the expenses the Group incurred in connection with the Pre-IPO Share Incentive Plan and the RSU Scheme of RMB11.6 million (2016: RMB4.4 million), the Group's profit for the year would have increased by 15.9% from RMB372.5 million in 2016 to RMB431.8 million in 2017, and decreased from 13.5% in 2016 to 11.8% in 2017 as a percentage of the Group's revenue. For further details, please refer to the section headed "Non-IFRS Measure – (b) Adjusted net profit" below.

Non-IFRS Measure

(a) Restaurant level operating profit

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group also uses restaurant level operating profit as an additional financial measure to evaluate the Group's financial performance at the restaurant level. Restaurant level operating profit is calculated by deducting raw materials and consumables cost and restaurant level staff costs, restaurant level rental and property related expenses, restaurant level depreciation and amortization and other restaurant level expenses from the Group's revenue generated from food and beverage sales. As of 31 December 2017, the Group also owned 21 Coucou restaurants. As the Group opened its first Coucou restaurant in June 2016, its contribution to the Group's revenue and restaurant level operating profit for the year ended 31 December 2017 was still minimal. For the year ended 31 December 2017, the Group's revenue generated from Coucou restaurants accounted for approximately 3.2% of its total revenue, with restaurants level operating loss of RMB24.9 million in 2017 due to the relatively higher start up costs incurred for new Coucou restaurants opening.

Xiabuxiabu restaurants continued to be the largest source of revenue and restaurant level operating profit of the Group. The table below sets forth the breakdown of Group's revenue generated from Xiabuxiabu restaurants by geographical regions, each presented as a percentage of the Group's total revenue generated therefrom for the years indicated, as well as the geographical breakdown of the Group's restaurant level operating profit generated from Xiabuxiabu restaurants, each presented as a percentage of the Group's regional revenue generated therefrom for the years indicated:

	Year Ended 31 December			
	2017		2016	
	RMB	*%*	*RMB*	*%*
	(In thousands, except for percentages)			
Revenue:				
Beijing	**1,814,861**	**52.0**	1,635,159	59.4
Shanghai	**211,797**	**6.0**	192,915	7.0
Tianjin	**269,874**	**7.7**	222,385	8.1
Hebei[1]	**558,609**	**16.0**	412,051	15.0
Northeast China[2]	**271,100**	**7.8**	109,348	4.0
Other regions[3]	**365,374**	**10.5**	178,252	6.5
Total	**3,491,615**	**100.0**	2,750,110	100.0
Restaurant Level Operating Profit and Margin Performance[2]:				
Beijing	**526,308**	**29.0**	447,389	27.4
Shanghai	**27,890**	**13.2**	13,010	6.7
Tianjin	**59,449**	**22.0**	52,109	23.4
Hebei[1]	**136,627**	**24.5**	105,812	25.7
Northeast China[2]	**39,512**	**14.6**	7,823	7.2
Other regions[3]	**37,577**	**10.3**	17,437	9.8
Total	**827,363**	**23.7**	643,580	23.4

(1) Including 16 cities in Hebei Province.

(2) Including 19 cities in Heilongjiang, Jilin and Liaoning Provinces.

(3) Including 44 cities in Jiangsu, Shandong, Shanxi, Henan, Shaanxi, Anhui, Hubei, Hunan Provinces, Inner Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

(4) Restaurant level operating profit is an unaudited non-GAAP item. The Group has presented this non-GAAP item because the Group considers it important supplemental measures of the Group's operating performance and believe it is frequently used by analysts, investors and other interested parties in the evaluation of companies in the industry the Group operates in. The Group's management uses such non-GAAP item as an additional measurement tool for purposes of business decision-making. Other companies in the industry the Group operates in may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and should not be considered in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

As the Group successfully expanded into additional markets, the Group's revenue generated from Xiabuxiabu restaurants in Beijing decreased as a percentage of the Group's total revenue generated therefrom from 59.4% in 2016 to 52.0% in 2017.

In 2017, as a result of the Group's efforts in optimizing its menu and products combinations and controlling its procurement costs, in particular, the implementation of a more stringent control of bidding process for the procurement of food ingredients, as well as controlling its rental expenses for the Xiabuxiabu restaurants, the growth in the Group's restaurant level operating profit generated from Xiabuxiabu restaurants outpaced the growth in the Group's revenue generated therefrom. As a percentage of the Group's revenue generated from Xiabuxiabu restaurants, the Group's restaurant level operating profit generated therefrom increased from 23.4% in 2016 to 23.7% in 2017.

(b) *Adjusted net profit*

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group also uses adjusted net profit as an additional financial measure to evaluate the Group's financial performance without taking into account certain unusual and non-recurring items. Adjusted net profit is calculated by deducting expense related to equity-settled share-based payments from the Group's staff costs. The table below sets forth the reconciliation of profit for the year to adjusted net profit:

	Year ended 31 December	
	2017	**2016**
	(In RMB thousands)	
Profit for the year	**420,170**	368,028
Equity-settled share-based payments	**11,612**	4,439
Adjusted net profit	**431,782**	372,467

(1) Adjusted net profit is an unaudited non-GAAP item. The Group uses such unaudited non-IFRS adjusted net profit as an additional financial measure to supplement the consolidated financial statements which are presented in accordance with IFRS and to evaluate the financial performance of the Group by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the business of the Group. Other companies in the industry the Group operates in may calculate this non-GAAP item differently than the Group does. This non-GAAP item is not a measure of operating performance or liquidity under IFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with IFRS. This non-GAAP item has limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under IFRS. The Group's presentation of this non-GAAP item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

Liquidity and capital resources

In 2017, the Group financed its operations primarily through cash from the Group's operations. The Group intends to finance its expansion and business operations by internal resources and through organic and sustainable growth, as well as the net proceeds received from the Company's initial public offering (the "**Global Offering**").

Cash and cash equivalents

As of 31 December 2017, the Group had cash and cash equivalents of RMB1,452.9 million as compared with RMB1,479.2 million as of 31 December 2016, which primarily consisted of cash on hand and demand deposits and which were mainly denominated in Renminbi (as to 76.0%), Hong Kong dollars (as to 1.6%), and U.S. dollars (as to 22.4%).

In view of the Group's currency mix, the Group currently does not use any derivative contracts to hedge against the Group's exposure to currency risk. The Group's management manages the currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Net proceeds from the Global Offering (including the partial exercise of the over-allotment option on 9 January 2015), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering which the Company received amounted to an aggregate of approximately HK$1,043.5 million, comprising HK$1,001.5 million raised from the Global Offering and HK$42.0 million raised from the issue of shares pursuant to the partial exercise of the over-allotment option. Up to 31 December 2017, the Company utilized approximately 2.8%, or HK$29.1 million of the net proceeds from the Global Offering to provide funding for the Group's working capital and other general corporate purposes, including the payment of the Group's staff costs and professional service fees. The Group had not yet utilized any net proceeds from the global offering to fund its expansion plan as the Group had to date applied its available internal financial resources to fund its expansion plan. The remaining net proceeds has been deposited into short-term demand deposits and money market instruments such as short-term financial products issued by reputable commercial banks as well as bonds. In 2018 and in the upcoming years, the Group will continue to utilize the net proceeds from the Global Offering and for purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 5 December 2014 (the "**Prospectus**").

Short-term investments

The Company subscribed for and held various short-term investments throughout the year ended 31 December 2017, which mainly represented short-term investments in financial products ("**Financial Products**") issued by Bank of Communications Co., Ltd., China Merchants Bank Co., Ltd., Shanghai Pudong Development Bank Co., Ltd. and Fubon Bank (China) Co., Ltd. The Financial Products were not principal protected nor with pre-determined or guaranteed return. The Company generally subscribed for the Financial Products on a revolving basis, which means that the Company would subscribe for additional Financial Products when the terms of certain Financial Products previously subscribed for by the Company expired. As of 31 December 2017, all the Financial Products had expired, thus the Group did not have any short-term investments as of that date.

The Financial Products which the Company subscribed for during the year ended 31 December 2017 were with a term ranging from 4 days to 197 days and an expected return rate ranging from 2.85% to 5.00% per annum. As of 31 December 2017, all Financial Products subscribed for by the Company in 2017 had been fully redeemed or matured and the Group had totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. The gain the Group realized from the Financial Products which was recorded as gains from changes in fair value of financial assets designated at fair value through profit or loss amounted to approximately RMB38.2 million for the year ended 31 December 2017.

The underlying investments of the Financial Products were primarily (i) fixed income products such as corporate and government bonds with AA rating if a rating has been obtained, deposits and other money market funds; (ii) structured equities or securities investment products and/or other asset management plans or funds; and (iii) non-standardized debts instruments such as entrustment loans, acceptance bills and/or letter of credits.

Subscriptions of Financial Products were made for treasury management purpose to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity. Generally, the Company had in the past selected short-term financial products issued by reputable commercial banks that had relatively low associated risk. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the Group's business needs, operating activities and capital expenditures even after making the investments in such Financial Products. Although the Financial Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and are also in line with the internal risk management, cash management and investment policies of the Group as the Company had, in the past, totally recovered the principal and received the expected returns upon the redemption or maturity of the Financial Products. In addition, the Financial Products were with flexible redemption terms or a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group to earn an attractive rate of return. However, in accordance with the relevant accounting standards, the Financial Products are accounted for as short-term investments.

In view of an upside of earning a more attractive return than current saving or fixed deposit rate under the low interest rate trend, as well as the low risk nature and the flexible redemption terms or a relatively short term of maturity of the Financial Products, the directors of the Company (the "**Directors**") are of the view that the Financial Products pose little risk to the Group and the terms and conditions of each of the subscriptions are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Details of subscriptions of Financial Products during the year ended 31 December 2017 which constituted notifiable transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") were disclosed in the relevant discloseable transaction announcements published by the Company in 2017. Save as otherwise disclosed in these announcements, there was no other single short-term investment, including those accounted for as available-for-sale investments and short-term investments, in the Group's investment portfolio that was considered a significant investment as none of the investments has a carrying amount that account for more than 5% of the Group's total assets.

Indebtedness

As of 31 December 2017, the Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection thereof.

Capital expenditures

The Group made payment for the capital expenditures representing the purchase of property, plant and equipment of RMB290.4 million in 2017 in connection with new restaurant opening and re-decoration and furnishing of existing stores. In 2016, the Group made payment for the capital expenditures of RMB137.0 million. The Group's capital expenditure in 2017 was funded primarily by cash generated from its operating activities. In particular, after considering the Group's restaurant opening plan, the Group funded the opening of new restaurants that the Group planned to fund with the net proceeds from the Global Offering with its existing cash instead. In 2017, the Group opened a total of 155 new restaurants. As of 31 December 2017, the Company did not have any charge over its assets.

Contingent liabilities and guarantees

As of 31 December 2017, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against the Group.

Material acquisitions and future plans for major investment

During the year ended 31 December 2017, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Employee and staff costs

As of 31 December 2017, the Group had a total of 21,200 employees. In particular, 129 employees worked at the Group's food processing facilities, 1,934 were responsible for restaurant management and 18,208 were restaurant staff.

The Group offers competitive wages and other benefits to the Group's restaurant employees to manage employee attrition. The Group also offers discretionary performance bonus as further incentive to the Group's restaurant staff if a specific restaurant target is achieved. The Group's staff costs include all salaries and benefits payable to all the Group's employees and staff, including the Group's executive Directors, headquarters staff and food processing facilities staff.

For the year ended 31 December 2017, the total staff costs of the Group (including salaries, bonuses, social insurances, provident funds and share incentive schemes) amounted to RMB833.4 million, representing approximately 22.7% of the total revenue of the Group.

Pursuant to the Pre-IPO Share Incentive Plan, options to subscribe for an aggregate of 14,392,042 shares (representing approximately 1.34% of the total issued share capital of the Company as at the date of this announcement) granted by the Company under the Pre-IPO Share Incentive Plan remained outstanding as of 31 December 2017. The Company has also adopted the RSU Scheme which became effective upon the date of listing of the Company. Computershare Hong Kong Trustees Limited has been appointed as the trustee for the administration of the RSU Scheme pursuant to the rules of the RSU Scheme (the "**RSU Trustee**"). During the year ended 31 December 2017, the RSU Trustee purchased an aggregate of 1,498,000 shares at a total cash consideration of approximately HK$10,540,000 on-market to hold on trust for the benefit of the participants of the RSU Scheme (the "**RSU Participants**") pursuant to the rules of the RSU Scheme and the trust deed entered into between the Company and the RSU Trustee. Such shares will be used as awards for relevant RSU Participants upon the grant and vesting of restricted share units ("**RSUs**"). On 8 May 2017, the chairman of the Board, the chief executive officer of the Company and 19 employees of the Group were granted RSUs in respect of an aggregate of 3,993,190 shares. The grantees of the RSUs are not required to pay for the grant of any RSUs under the RSU Scheme or for the exercise of the RSUs. As of 31 December 2017, RSUs in respect of an aggregate of 6,242,724 shares (representing approximately 0.58% of the total issued share capital of the Company as at the date of this announcement) granted by the Company under the RSU Scheme remained outstanding. Further details of the Pre-IPO Share Incentive Plan and the RSU Scheme, together with, among others, the details of the options granted under the Pre-IPO Share Incentive Plan and the RSUs granted under the RSU Scheme, will be set out in the section headed "Directors' Report" in the Company's 2017 annual report to be issued in due course.

Final Dividend

The Board recommends the payment of a final dividend of RMB0.087 per share, amounting to approximately a total of RMB92.79 million for the year ended 31 December 2017 (the "**2017 Final Dividend**"), representing approximately 40% of the Group's net profit for the six months ended 31 December 2017. The 2017 Final Dividend is intended to be paid out of the Company's share premium account and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (the "**AGM**").

FINANCIAL INFORMATION

The audited consolidated annual results of the Group for the year ended 31 December 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		For the year ended 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**3,663,993**	2,758,137
Other income		**39,825**	31,496
Raw materials and consumables used		**(1,365,240)**	(979,258)
Staff costs		**(833,366)**	(651,956)
Property rentals and related expenses		**(441,242)**	(356,971)
Utilities expenses		**(131,559)**	(108,951)
Depreciation and amortisation		**(151,325)**	(113,968)
Other expenses		**(238,817)**	(146,947)
Other gains and losses	*4*	**518**	41,540
Profit before tax	*5*	**542,787**	473,122
Income tax expense	*6*	**(122,617)**	(105,094)
Profit for the year attributable to owners of the Company		**420,170**	368,028
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale (AFS) investments during the year, net of tax		**1,230**	(1,232)
Reversal of previously accumulated investment revaluation reserve upon disposal of AFS investment		**(67)**	–
Profit and total comprehensive income for the year attributable to owners of the Company		**421,333**	366,796
Earnings per share			
– basic (RMB cents per share)	*7*	**39.33**	34.71
– diluted (RMB cents per share)	*7*	**38.76**	34.48

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**599,053**	398,700
Intangible assets		**1,119**	1,241
Lease prepayments for land use right		**48,538**	22,476
Available-for-sale investment		**-**	35,071
Deferred tax assets		**129,926**	78,704
Rental deposits		**86,460**	58,655
		865,096	594,847
Current assets			
Inventories		**326,783**	124,515
Trade and other receivables and prepayments	*9*	**168,052**	96,347
Available-for-sale investment		**32,765**	17,687
Bank balances and cash		**1,452,896**	1,479,208
		1,980,496	1,717,757
Current liabilities			
Trade payables	*10*	**269,163**	167,360
Accrual and other payables		**468,625**	341,600
Tax payables		**100,547**	70,371
Deferred income		**8,439**	1,320
		846,774	580,651
Net current assets		**1,133,722**	1,137,106
Total assets less current liabilities		**1,998,818**	1,731,953
Non-current liability			
Deferred income		**13,287**	15,645
Net assets		**1,985,531**	1,716,308

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Capital and reserves			
Share capital	*11*	**173**	172
Reserves		**1,985,358**	1,716,136
Total equity		**1,985,531**	1,716,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (the "**Company**") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the main board of The Stock Exchange of Hong Kong Limited ("**HKEX**") on 17 December 2014. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company and the Company and its subsidiaries (collectively referred to as "**the Group**") are principally engaged in Chinese hotpot restaurant operations in the PRC.

The Company's immediate holding company is Ying Qi Investments Limited (incorporated in the British Virgin Islands), and its ultimate controlling party is Mr. Ho Kuang-Chi, who is also the Chairman of the Company.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014-2016 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to IFRSs and Interpretations mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("**FVTOCI**"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

Listed debt instruments classified as available-for-sale investments carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debentures are derecognised or reclassified (except in the case of reclassifications to the amortised cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date).

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables, other receivables, and rental deposits. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the International Accounting Standards Board ("**IASB**") issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB2,002,396,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB86,460,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payment under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustment are considered as additional lease payment. Adjustments to refundable rental deposits paid would be include in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. REVENUE AND SEGMENT INFORMATION

During the year, the Group's revenue which represents the amount received and receivable from the operation of restaurant net of discount and sales related taxes, sales of the condiment products and other products, are as follows:

	For the year ended 31 December	
	2017	**2016**
	RMB'000	*RMB'000*
Restaurant operations	**3,599,065**	2,758,137
Sales of the condiment products	**34,040**	–
Sales of other goods	**30,888**	–
	3,663,993	2,758,137

Information reported to the executive directors of the Company, who are identified as the chief operating decision maker of the Group, in order to allocate resources and to assess performance, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

All of the Group's operations are located in the PRC. The Group's revenue from external customers and all of its non-current assets are located in PRC based on geographical location of assets.

No revenue from individual external customer contributing over 10% of total revenue of the Group.

4. OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment, net	**(644)**	(2,998)
Foreign exchange (loss) gain, net	**(26,749)**	29,116
Reversal of previously accumulated investment revaluation reserve on disposal of AFS	**67**	–
Loss on closure of restaurants	**(1,490)**	(545)
Reversal of impairment loss recognised on rental deposit	**451**	898
Impairment loss recognised on rental deposit	**(1,596)**	(783)
Impairment loss recognised in respect of leasehold improvement	**(7,738)**	(6,694)
Gains from changes in fair value of financial assets at FVTPL	**38,217**	22,546
	518	41,540

5. PROFIT BEFORE TAX

The Group's profit for the year has been arrived at after charging:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**150,025**	112,724
Amortisation of intangible assets	**766**	710
Release of lease prepayments for land use right	**534**	534
Total depreciation and amortisation	**151,325**	113,968
Operating lease rentals in respect of		
– rented premises (minimum lease payments)	**14,116**	9,671
– restaurants		
– minimum lease payments	**364,806**	318,200
– contingent rent *(Note)*	**62,320**	29,100
	427,126	347,300
Total property rentals and related expenses	**441,242**	356,971
Directors' emoluments	**9,968**	6,267
Other staff cost		
Salaries and other allowance	**759,670**	597,083
Equity-settled share-based payments	**5,644**	2,173
Retirement benefit contribution	**58,084**	46,433
Total staff costs	**833,366**	651,956
Auditor's remuneration	**2,620**	2,880

Note:

The contingent rent refers to the operating rentals based on pre-determined percentages to revenue less minimum rentals of the respective leases.

6. INCOME TAX EXPENSE

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Enterprise income tax ("EIT")		
Current tax in the PRC	**158,496**	120,465
Withholding EIT-current year	**15,343**	12,393
Under provision in prior years	**–**	3,211
Deferred tax	**(51,222)**	(30,975)
Total income tax recognised in profit or loss	**122,617**	105,094

The Company is tax exempted company incorporated in the Cayman Islands.

The Company's subsidiary, Xiabuxiabu Catering Management (HK) Holdings Co., Ltd. ("**Xiabu Hong Kong**"), incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5% on estimated assessable profit and no taxable profit derived from Xiabu Hong Kong for the years ended 31 December 2017 and 2016. Under the Law of the PRC on Enterprise Income Tax ("**EIT Law**") effective from 1 January 2008 and Implementation Regulation of the EIT Law, the statutory EIT rate of PRC subsidiaries of the Company is 25%.

Further, in the PRC, withholding income tax of 10% is generally imposed on assessable profits earned by foreign entities from the PRC. With respect to the trademark license agreement entered into between Xiabu Hong Kong and the PRC subsidiary in 2008, Xiabu Hong Kong has recognised taxable royalty income with reference to a predetermined percentage over the revenue earned by the PRC subsidiary and accordingly the royalty income is subjected to the withholding tax of 10% in the PRC.

In the years of 2008 to 2014, the PRC subsidiary with endorsement of respective PRC tax bureau made royalty payments to Xiabu Hong Kong according to the trademark license agreement and such payments made were recognised as deductible tax expenses of the PRC subsidiary for each of the relevant year. The payment of royalty to Xiabu Hong Kong has been suspended from year 2015 as the endorsement of respective PRC tax bureau is pending. Deferred tax assets have therefore been recognised for the tax deductible royalty expenses according to the trademark license agreement and the prevailing PRC tax regulations as in previous years. As at 31 December 2017, the PRC subsidiary has recorded an accrual of accumulated royalty expenses of RMB447,067,000 (31 December 2016: RMB288,488,000) for payments yet to be made. The Group has been in the process of getting the consent and endorsement from respective PRC tax bureau for making the payments out of the PRC subsidiary and settling the withholding tax according to the prevailing tax regulations in the PRC. In the opinion of the Director, the Group would get the endorsement from authorities for finishing the process of remitting the payments in a foreseeable future. Accordingly a deferred tax asset of totalling RMB111,767,000 has been recognised in the consolidated financial statements as at 31 December 2017 (31 December 2016: RMB72,122,000).

Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to the accumulated undistributed profits of the PRC subsidiary amounting to RMB1,063 million as at 31 December 2017 (2016: RMB726 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**542,787**	473,122
Tax calculated at applicable domestic tax rates at 25%	**135,697**	118,281
Tax effect of different tax rate on intra-group royalty income and interest income subject to withholding tax	**(23,015)**	(18,589)
Effect of different tax rates of company operating in other jurisdictions	**9,714**	(4,297)
Tax effect of expenses not deductible for tax purposes	**7,121**	6,955
Tax effect of tax losses and deductible temporary differences not recognised	**10,330**	3,627
Utilisation of tax losses	**(8,319)**	(4,094)
Recognition of tax losses and deductible temporary differences previously not recognised	**(8,911)**	–
Under provision in respect of prior year	**–**	3,211
Income tax expense	**122,617**	105,094

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is as following:

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Earnings for the purposes of calculating basic and diluted earnings per share		
Profit for the year attributable to owners of the Company	**420,170**	368,028

The weighted average number of ordinary shares for the purpose of basic earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	For the year ended 31 December	
	2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,068,366**	1,060,147
Effect of dilutive potential ordinary shares	**15,534**	7,216
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,083,900**	1,067,363

8. DIVIDENDS

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year	**166,864**	113,675

On 28 March 2017, the Company declared a dividend of RMB0.086 per share with total dividends of RMB91,582,000 to shareholders for the year ended 31 December 2016. The dividend was paid in June 2017.

On 22 August 2017, the Company declared a dividend of RMB0.070 per share with total dividends of RMB75,282,000 to shareholders for the six months ended 30 June 2017. The dividend was paid in October 2017.

On 29 March 2016, the Company declared a dividend of RMB0.054 per share with total dividends of RMB57,720,000 to shareholders for the year ended 31 December 2015. The dividend was paid in June 2016.

On 25 August 2016, the Company declared a dividend of RMB0.052 per share with total dividends of RMB55,955,000 to shareholders for the six months ended 30 June 2016. The dividend was paid in September 2016.

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of RMB0.087 per share, amounting to approximately RMB92,786,000 to be paid out of the Company's share premium amount, which is subject to approval by the shareholders at the forthcoming general meeting, to be held on 25 May 2018. The 2017 final dividend will be declared in RMB and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited as its middle rate of exchange prevailing on 4 June 2018. The dividend has not been included as a liability in these consolidated financial statements.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**13,854**	11,888
Prepaid operating expenses	**44,071**	27,865
Prepayments to suppliers	**–**	3,727
Current portion of lease prepayments for land use right	**1,077**	534
Interest receivable	**7,341**	8,673
Amounts prepaid to the RSU trustee for purchase of ordinary shares	**1,013**	10,037
Prepayments for value-added tax	**85,588**	26,740
Other receivables	**15,108**	6,883
Total trade and other receivables and prepayments	**168,052**	96,347

The Group allows an average credit period of 1-60 days to its trade customers. The credit period provided to customers can vary based on a number of factors including nature of operations and the Group's relationship with the customer.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 60 days	**13,854**	11,888

Movement in the allowance for doubtful debts

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**–**	1,706
Amounts written off as uncollectible	**–**	(1,706)
At the end of the year	**–**	–

At the end of the reporting period, there are no trade receivables that have expired but not impaired.

10. TRADE PAYABLES

Trade payables are non-interest bearing and are normally granted on 60-days credit term. An aged analysis of the Group's trade payables, as at the end of each year, based on the goods received date, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 60 days	**262,946**	163,559
61 to 180 days	**3,371**	964
181 days to 1 year	**1,928**	1,930
Over 1 year	**918**	907
	269,163	167,360

11. SHARE CAPITAL

Issued and fully paid-up:

	As at 31 December	
	2017	2016
	USD'000	*USD'000*
Share capital of US$0.000025 each	**27**	27
	RMB'000	*RMB'000*
Presented as:		
Ordinary shares	**173**	172

	As at 31 December	
	2017	2016
	'000	*'000*
Number of shares:		
Fully paid ordinary shares	**1,072,459**	1,065,912

Ordinary shares

	Authorized shares		Issued capital	
	Number of shares	Amount	Number of shares	Amount
	'000	*RMB'000*	*'000*	*RMB'000*
Balance at 31 December 2015	2,000,000	336	1,064,186	172
Exercise of issued share option	–	–	1,726	–
Balance at 31 December 2016	2,000,000	336	1,065,912	172
Exercise of issued share option	–	–	6,547	1
Balance at 31 December 2017	2,000,000	336	1,072,459	173

OTHER INFORMATION

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

For details of the shares purchased by the RSU Trustee for the purpose of the RSU Scheme during the year ended 31 December 2017, please refer to the section headed "Management Discussion and Analysis – Employee and staff costs" above.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board recommends the payment of the 2017 Final Dividend of RMB0.087 per share for the year ended 31 December 2017 to be paid out of the Company's share premium account, which is subject to the approval of the Company's shareholders at the forthcoming AGM, to be held on 25 May 2018. The 2017 Final Dividend will be declared in Renminbi and paid in Hong Kong dollars, the exchange rate of which will be calculated based on the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 4 June 2018.

The register of members of the Company will be closed from 21 May 2018 to 25 May 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the forthcoming AGM to be held on 25 May 2018, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 18 May 2018.

Subject to the approval of the declaration of the 2017 Final Dividend at the forthcoming AGM, the register of members of the Company will also be closed from 31 May 2018 to 4 June 2018 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the 2017 Final Dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 30 May 2018. The 2017 Final Dividend, if approved by the Company's shareholders at the forthcoming AGM, will be paid on or about 14 June 2018 to those shareholders whose names appear on the register of members of the Company on 4 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2017.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Code. As at the date of this announcement, the Audit Committee comprises two independent non-executive Directors, namely, Ms. Hsieh Lily Hui-yun and Mr. Hon Ping Cho Terence and a non-executive Director, namely Mr. Zhang Chi (Ms. Chang Le as his alternate). Ms. Hsieh Lily Hui-yun is the chairman of the Audit Committee.

The Audit Committee has reviewed and discussed the annual results of the Group for the year ended 31 December 2017. The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

The annual results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and that of the Company (www.xiabu.com). The annual report will be despatched to the shareholders of the Company and will be available on the website of The Stock Exchange of Hong Kong Limited and that of the Company in due course.

By order of the Board of
Xiabuxiabu Catering Management (China) Holdings Co., Ltd.
HO Kuang-Chi
Chairman

Hong Kong, 21 March 2018

As at the date of this announcement, the Board comprises Mr. HO Kuang-Chi and Ms. YANG Shuling as executive Directors; Ms. CHEN Su-Yin and Mr. ZHANG Chi (Ms. CHANG Le as his alternate) as non-executive Directors; and Ms. HSIEH Lily Hui-yun, Mr. HON Ping Cho Terence and Ms. CHEUNG Sze Man as independent non-executive Directors.