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Little Sheep Group Limited

小肥羊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 968)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change Increase/ (Decrease)
	2009 (RMB'000)	2008 (RMB'000)	
Revenue	1,569,700	1,271,523	23.5%
Sales from restaurant operations	1,223,382	1,010,690	21.0%
Consolidated profit before tax	210,467	165,328	27.3%
Profit attributable to shareholders of the Company	155,364	128,698	20.7%
Basic earnings per share (RMB cents)	15.12	13.55	11.6%
Proposed final dividend per share (HK cents)	6.9	7.6	(9.2%)

OPERATIONAL HIGHLIGHTS

	2009	2008	
Same store sales growth	1.7%	10.0%	
Average per capita customer spending	RMB52.45	RMB53.93	(2.7%)
Utilization rate	1.34	1.35	(0.7%)
No. of company-owned restaurants (at 31 December)	161	127	
No. of franchise restaurants (at 31 December)	293	248	

CHAIRMAN STATEMENT

Dear Shareholders,

In the first half of 2009, the catering industry was fully impacted by the global financial crisis. However, the global economy showed signs of recovery in the second half as the stimulus packages and aggressive monetary policies adopted after the financial crisis by major countries in the world had gradually revived the global economy. Supported by a solid economic foundation and improved consumer sentiment in China, catering operators saw a more favorable macro environment with expansion opportunities.

In view of this complex and ever-changing operating environment, Little Sheep Group Limited (“the Company”, “Little Sheep” or, together with its subsidiaries, “the Group”) identified “management enhancement” as its guiding principle for development in 2009. The purpose of which is to further enhance our restaurant operation and overall management through sustained improvement in our IT system and brand value, as well as the establishment of a system framework that ensures food safety. Having achieved “management enhancement”, the Company was able to withstand the turbulence of the financial crisis and deliver substantial growth in its operating results.

For the year ended 31 December 2009, our revenue grew by 23.5% to RMB1,569.7 million. Profit attributable to the shareholders of the Company increased by 20.7% to RMB155.4 million. The results were mainly attributable to our appropriate strategies. The board of directors (the “Directors”) of the Company (the “Board”) has recommended to pay a final dividend of HK cents 6.9 per share.

Under the guiding principle of “management enhancement” for development, we placed customer needs at the heart of our core value in order to boost customer flow. We established sophisticated platforms to process data and analyze customer needs upon which we designed and rolled out various measures, such as restaurant designs, sales and marketing, research and development, and achieved great results. On the other hand, we launched various innovative products. Coupled with festive promotions we successfully attracted customers and maintained stable restaurant revenue and customers spending.

To support front-end operations, we implemented “management enhancement” in the back office to further promote the sound development of different systems to achieve a unified and effective back-end support platform. We made progress in enhancing the effectiveness of our IT system and achieved improvement in the integration of our operating system. These measures not only have enhanced our efficiency but also lowered our costs. To further enhance our management, we established service headquarters to promote service standards. We also stepped up our quality management efforts with the establishment of a central kitchen, a food safety committee and a food safety department. The food safety committee and the food safety department are tasked with food safety matters to ensure food safety.

Although we have already turned Little Sheep into a household name following years of committed efforts, we continued to enhance the value of the brand and its popularity. To exploit the brand power of Little Sheep to the fullest, we partnered with the China Mountaineering Team and appointed its team captain, Mr Wang Yong Feng as our brand spokesperson. These initiatives have greatly promoted and enhanced the core value of our brand. The marketing campaigns surrounding our tenth anniversary were particularly successful in promoting our brand equity and boosting our business growth.

Our staff is our most valuable asset. Always holding our “people first” philosophy close to heart, we offered competitive remuneration, training and career development to help retain and attract talents with an aim to ensure the smooth operation of the Company and its sustainable development.

After a decade of development, Little Sheep has grown from its roots as a small restaurant in Inner Mongolia to a leading full-service restaurant chain operator with over 400 outlets across China. In 2009, Yum! Brands, Inc. (“Yum”), became our second largest shareholder. We also received numerous awards in recognition of our unique business model and outstanding performance in 2009, including being nominated as one of the 200 most promising up and comers in China by Forbes China and one of the top 100 brands in China by China Brand Research Institute.

Year 2010 marks not only the start of a new decade but also a new chapter in our corporate history. The catering industry in China will continue to expand as a result of China’s growing economy and increasing popularity of dining out. With the experience we have accumulated, we are well-equipped to seize the immense opportunities ahead to consolidate our leading position in China. In 2010, we will continue to build and perfect our operational systems to reinforce efficiency, management standard and operational capability. At the same time we will place stronger emphasis on service quality improvement, and on the continued development of network expansion, product development, promotion and brand building and will allocate more resources to ensure food safety.

On behalf of the Board, I would like to express my sincere gratitude to our management and staff for their dedication and hard work. I would also like to thank our shareholders and business partners for their unfailing support. Looking ahead, we are confident that Little Sheep will continue to create long term value for shareholders.

ZHANG Gang
Chairman

Hong Kong, 23 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The financial crisis had slowed global economic growth and made 2009 one of the most challenging years for businesses in recent history. China's economy was among the quickest to recover, and post-crisis influence on the catering industry has gradually come through. The catering sector in the Mainland remained steady and stable in 2009, with government data showing that total sales of the catering sector in the year reached approximately RMB1,799.8 billion, a growth of 16.8% Y-o-Y.

As food safety has raised concerns in the community, the Chinese government promulgated and enforced the Regulation on the Implementation of the Food Safety Law since June 2009. The regulation details the requirement for food manufacturers and wholesalers in food processing and distribution. With the implementation of the Law, food quality, safety and hygiene have become significant thresholds in entering the catering sector. Caterers with a sound record on food safety will enjoy more market share.

Business Review

Little Sheep is a leading restaurant chain operator and specializes in Mongolian-style hot pot cuisine with a vertically integrated business model.

Despite the challenging environment in 2009, the Company achieved satisfactory performance and realized growth during the year. Revenue grew 23.5% Y-o-Y to RMB1,569.7 million, while profit attributable to shareholders was up 20.7% to RMB155.4 million for the year ended 31 December 2009.

2009 marked the 10th anniversary of the Company. Since the establishment of the first restaurant in 1999 in Baotao, the Company has grown to become a well-known restaurant brand in China and around the world, thanks to the unwavering support of its business partners, shareholders and the public. During the year, Yum! Brands, Inc. ("Yum"), had become the second largest shareholder of Little Sheep. The investment by Yum demonstrated its confidence in Little Sheep's business and future prospects.

The Company continued to win recognition created by its highly competitive brand reputation. In 2009, Little Sheep received a number of awards that recognized its efforts in sales & marketing and corporate brand-building, including being ranked 54th in Forbes' "200 China Enterprises with the Most Potential", and one of the "First 100 Brands" by China Brand Research Institute, the most authoritative goodwill assessment institution in China.

Restaurant Operations

Restaurant operations remained the largest revenue contributor for the Company, accounting for 77.9% of total revenue. This business segment achieved strong performance in 2009. Revenue from company-owned restaurants increased 21.0% Y-o-Y to RMB1,223.4 million, and same-store-sales recorded a growth of 1.7% from the previous year. The key initiatives to achieve growth included the opening of new company-owned restaurants and the refurbishment of existing restaurants, brand enhancement and intensive marketing campaigns, launch of new menus, and enhancement of customer satisfaction.

- **Opening of new company-owned restaurants and refurbishing existing restaurants** — The Company stays focused on its long-standing strategy and continues its efforts in market expansion and earnings enhancement by expanding our company-owned restaurant network in 2009. During the year, the Company augmented 34 company-owned restaurants. Most of them are located in first and second tier cities with higher spending power. As at 31 December 2009, the Company had a total of 161 company-owned restaurants.

In order to build a unified and energized brand image and provide customers with a more comfortable dining environment, the Company had carried out renovation work in a number of company-owned restaurants during the year, blending traditional cultural and trendy fashion elements to create a more distinctive interior. The renovated restaurants have attracted more customer traffic and enhanced customers' dining experience.

- **Brand Enhancement and Intensive Marketing Campaigns** — The Company continued to drive brand development and enhancement strategies during the year to promote brand awareness and goodwill. In 2009, the Company focused its efforts in improving its brand management and sales & marketing system, and integrating resources from different channels. It also ran a series of brand promotion campaigns across China. In January 2009, Mr Lu Wenbing, the Company's CEO, was named one of the top ten "Business People of the Year in 2008" by CCTV. This honor has greatly enhanced Little Sheep's profile and corporate identity in the nation, validating the important role that Little Sheep plays and its influence in the society. Moreover, the Company became the sole official food and beverage sponsor and its lamb meat as the official meat product for the esteemed China Mountaineering Team in 2009. The team captain Mr. Wang Yong Feng was invited to act as the brand spokesperson of the Little Sheep's brand. The Company has also launched a series of marketing campaigns since July to celebrate the Company's tenth anniversary. The intensive marketing campaigns not only attracted more customer traffic, but also elevated the brand image of Little Sheep nationwide.
- **Launch of New Menus** — One of the Company's major strategies for increasing customer traffic and enhancing profitability is to explore and promote new menus. With its years of experience, the Company has identified a systematic and effective menu exploration and promotion system. In 2009, the Company introduced a number of new seasonal hot pot soup bases and food menus, such as "Qing-Liang-Guo" (清涼鍋), a hot pot soup base featuring herbs and flower essence that's ideal for the summer weather; "Jing-Gu-Guo" (勁骨鍋), a tonic hot pot soup base with a bone flavor complemented with small cuts of tender meat that suits the winter weather. It has also introduced

innovative food products with excellent texture, such as tenderloin cubes (精品魔方肉) and special cuts of ribs (精品肋腹肉). The combination of innovative products and effective marketing promotion campaigns was well-received by customers and has contributed to higher customer traffic during the period.

- **Enhancement of Customers' Satisfaction** — Our mission is to provide quality services and to enhance customers' satisfaction. Since March 2009, the Company has rolled out a “Program Happy Sheep” in restaurants nationwide which emphasizes the importance of delivering quality services. Through encouraging effective communications and interaction between staff and customers, the Company hopes to draw people closer to each other, while improving customers' dining experience and loyalty to Little Sheep. In the first ten months since launch, the Company has seen improvement in customer satisfaction. The Company also carried out ‘mystery shopper’ program during the period. Through independent inspection and observation during anonymous visits, the Group can effectively monitor its daily operation and improve operational efficiency.

Sale of Food Products

Little Sheep provides a range of fresh and dried food products including lamb meat, hot pot soup base and other seasonings to wholesale distributors nationwide for their retail sales in hypermarkets, supermarkets, and convenience stores. With increasing customer recognition of our products, and our enhanced wholesaling structure, we have achieved remarkable sales in hot pot soup base and lamb products. Revenue from sales of food products increased by 30.8% year-on-year to RMB313.8 million during the year.

As the largest lamb processing company in the China, Little Sheep operates two lamb processing facilities in Inner Mongolia, both of which are equipped with modern lamb processing equipment and technology. During the year, the Company processed approximately 8,789 tons of lamb, representing an increase of 27.2% Y-o-Y. The Company is dedicated to expanding its upstream business and establishing nurturing base to ensure the stable supply of lamb. In addition, the Company has further enhanced its product mix to better meet customers' demand, and ensure product quality through a comprehensive quality control system, crisis management mechanism, as well as constant innovation and R&D.

With the increasing popularity and demand for our food product, our seasoning business not only provides the Company with standardized hot pot soup bases, but also manufactures hot pot soup bases and seasoning products for wholesalers utilizing the production capacity of the seasoning manufacturing plant. During the year, our seasoning business closely monitored the market trend and launched innovative products. A number of innovative hot pot soup bases and seasoning products had been successfully launched to the market, and core manufacturing know-how were mastered. Meanwhile, the Company has intensified production management, matured production management systems, implemented stringent cost-control measures and enhanced management efficiency. The Company also made its best efforts to ensure the safety and cost-control effectiveness of raw materials procurement. At the same time, the Company plans to increase investment in the seasoning business to enhance competitiveness.

Franchise Business

During the year, revenue from the franchise operations increased to RMB30.9 million. As at 31 December 2009, the Company had a total of 293 franchise restaurants. In 2009, the Company had put substantial efforts in developing franchise business in domestic and overseas markets, attracting new franchisees in order to increase the Company's market share. The Company also strengthened the management and services to franchisees. Through regular visits and mystery shopper program, the Company is able to offer franchise restaurants advice on operation and product launch, provide support to ensure smooth operation, and enhance management and service standards. Moreover, to ensure a consistent shop image and enhance brand equity, some of the Company's franchise restaurants were refurbished according to the new restaurant design guidelines during the year.

To further enhance services quality and restaurant performance, Little Sheep provided comprehensive training programs to the existing and new franchisees during the year. In February and March 2009, the Company rolled out the first regional training program in first tier cities such as Beijing, Shanghai and Shenzhen, and familiarized franchisees with the Company's management system known as "Project Leader Sheep" management program, as well as its latest marketing plans. In July 2009, the Company held the fourth annual franchisee conference in Beijing, allowing participants to share their experiences and exchange market intelligence.

Food Quality

Food safety is an integral part of Little Sheep's long term development. Therefore the Company attaches utmost importance to food safety and food quality. The Company has set up a food safety office to ensure its products meet the highest food safety standards.

During the year, the Company gradually developed a comprehensive food safety management system, clearly set out a standardized system on measuring food safety and developed relevant information communication system to prevent any potential food safety crisis. In addition, the Company provided regular training on food safety to its staff to increase their awareness on the issue. Furthermore, the Company has made food safety an important part of its restaurant mystery shopper program in 2010, in order to ensure stringent food safety measures were carried out in all its restaurants.

Central Kitchen

The first full-scale central kitchen was established in Shenzhen in October 2009. The central kitchen serves as a well-equipped platform to centralize, standardize and manage the processes of food delivery, R&D of new products, logistics and storage, and personnel training. The Company will gradually set up more central kitchens in order to boost the operating efficiency of its restaurants.

Information System

During the year, the Company had strengthened its efforts in information collection and analysis so as to formulate more targeted sales and marketing initiatives and strategies. On an organizational level, the Company is dedicated to enhancing communication between regions and encouraging experience

sharing by upgrading its IT platform. The Company restructured its core data analysis system by linking up POS, ERP, supply chain and the Company's financial system, and designed an integrated BI system to analyze data from restaurants, regional branches and the headquarters. Through in-depth investigations and scientific analyses, the comprehensive organizational online platform enables the management to monitor the operation of the Company more effectively and in a scientific manner. The management can also retrieve supporting data for decision making.

Business Outlook

Looking ahead, it is expected that China's growth momentum will continue, benefiting the catering business and offering it with ample market opportunities. The rising living standards in China resulting from increased household income and rapid emergence of the middle class has also increased public awareness on food safety. As a result, food safety and systematic business management will be the two critical elements for operators to survive and excel in the industry. In view of this, the Company will continue to strengthen its competitiveness in order to realise the huge market opportunities ahead in China.

In 2010, the Company targets to add 45 new company-owned restaurants nationwide to further expand and enhance its restaurant coverage. The Company will step up its efforts in store development by enhancing the procedures and system in opening new restaurants. Furthermore, the Company will also elevate its brand competitiveness and enhance its brand building work by intensifying brand promotion on seasonal products and further raising its corporate profile through various channels, such as the Shanghai World Expo. In addition, by putting forward the "Project Leader Sheep" management program, the Company is committed to boosting the overall operating capabilities to improve customer satisfaction, and hence the competitiveness of Little Sheep. In 2010, Little Sheep will also step up its food safety and quality services, and continue to enhance its food safety management system to provide safe and quality products to customers.

The Company will continue to put forward its management philosophy, intensify and solidify its production management systems, and strictly implement the systems to all levels of employees to enhance operational and management efficiency. Furthermore, the Company has strengthened its quality management, utilized and integrated its resources, and encouraged service responsibilities in ensuring the quality of our services and products and enhancing overall competitiveness. Little Sheep has established a solid foundation for future development and will continue to create shareholders' value.

Financial Review

Revenue

During the year, our total revenue increased by 23.5% year on-year to RMB1,569.7 million. The increase was primarily due to the increase in the number of restaurants and the increase in revenue from sale of food products.

Revenue from restaurant operations

Revenue from restaurant operations increased by 21.0% year-on-year to RMB1,223.4 million, primarily due to the contribution from newly opened restaurants and the growth in existing restaurants sales.

Revenue from sales of food products

Revenue from sales of food products increased by 30.8% year-on-year to RMB313.8 million, mainly due to the increase in customers derived from new markets, and increases in the sales volume of our soup base and lamb products.

Revenue from franchise operations

Revenue from franchise operations was up 63.5% year-on-year to RMB30.9 million. This was due to the increase in the number of franchise restaurants during the year.

Revenue from management service fee

Revenue from management service fee represents monthly fees that the Group receives for the provision of restaurant management services to franchisees. During the year, revenue from management service fee dropped by 20.6% year-on-year to RMB1.7 million. The decrease was primarily due to the Company's acquisitions of some of the franchise restaurants to which the Group had provided management services before the acquisitions.

Other income

Other income, which represents income from non-core operations, slightly dropped by 1.6% year-on-year to RMB29.5 million. This was primarily attributable to the increase of government subsidies, combined with the absence of an one-off waiver on convertible bonds interest this year.

Cost of inventories sold

The cost of inventories sold increased by 24.1% year-on-year to RMB650.6 million. The increase was mainly attributable to the rise in sales volume and costs of raw materials.

Staff costs

Our staff costs increased by 20.0% year-on-year to RMB308.8 million, primarily due to the overall increase in salaries and other employee benefits, as well as the increase in headcount resulting from the opening of new restaurants.

Depreciation and amortization

Depreciation and amortization amounted to RMB54.6 million, representing an year-on-year increase of 34.4%. Such increase was attributable to the overall increase in depreciation and amortization expenses resulting from an increase in the number of restaurants, the renovations undertaken at existing restaurants, and increase in non-current assets of the back office.

Rental expenses

Rental expenses increased by 19.6% year-on-year to RMB142.9 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 19.1% year-on-year to RMB66.4 million, attributable to the increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 25.1% year-on-year to RMB165.1 million, mainly due to the increase in the number of company-owned restaurants and the increase in the advertisement, promotional and marketing expenses.

Finance costs

Our finance costs during the year amounted to RMB0.4 million which were primarily interest expenses.

Tax

Our tax expenses increased by 45.5% to RMB44.8 million mainly attributable to the combined effect of increase in profit before tax and changes in the policy of tax concessions.

Profit for the year

Our profit for the year increased by 23.1% year-on-year to RMB165.7 million as a result of the cumulative effect of the foregoing factors.

Net profit attributable to shareholders

Our net profit attributable to shareholders reached RMB155.4 million, a Y-on-Y increase of 20.7%, as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 31 December 2009, cash and bank balances stood at RMB325.2 million and net current assets were RMB363.9 million with a current ratio of 2.62.

As at 31 December 2009, total bank loans were RMB0.375 million.

Regarding the foreign exchange fluctuations, during the year, the Group's revenue and business incomes and expenses were mainly denominated in Renminbi while those from our overseas company-owned restaurants outside mainland China were denominated in foreign currencies, including Hong Kong dollars. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to take effective measures and monitor closely the foreign currency movement. As at 31 December 2009, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in 2009 were RMB200.6 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in 2009 were RMB229.9 million, consisting primarily of investment in restaurants and production bases of RMB165.1 million, acquisition of restaurants of RMB75.5 million. Net cash outflow from financing activities in 2009 were RMB69.7 million, which mainly comprised repayments of bank loans of RMB0.5 million and payments of dividends of RMB68.8 million.

Capital Expenditures

Our capital expenditures for the whole year of 2009 were RMB165.1 million which were primarily related to the expenditures on information technology, the opening and refurbishment of company-owned restaurants, and construction of production bases.

Our planned capital expenditures for 2010 are approximately RMB212.6 million which will be funded by internal resources and proceeds from the initial public offering of the Company.

Human Resources

As at 31 December 2009, the Group had 13,957 employees. To ensure smooth operation and sustainable development, the Group places high emphasis on human capital and adopts effective measures including offering competitive remuneration packages, training courses and a promising career to attract and certain high quality employees. Remuneration packages and promotions are commensurate with market conditions and the individual's qualification and work experience. The Group has also established elite program such as "Reserve Executive" (儲備幹部) and "Project 320", and further strengthened employee's loyalty through seminars and constant interaction. In addition, to further strengthen the management of human resources, the Group had also enhanced its EAS system, and completed the construction of the HR-ERP system during the year. The system allows the efficient management of the Company's human resources, with a standardized management procedure.

Use of proceeds

The application of the proceeds from the initial public offering of the Company does not materially change from the allocation stated in the prospectus of the Company dated 2 June 2008.

RESULTS

The board of directors (the “Board”) of Little Sheep Group Limited is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 together with the comparative figures for the year ended 31 December 2008 as follows:

Consolidated Income Statement

Year ended 31 December 2009

		2009	2008
	Notes	RMB'000	RMB'000
REVENUE	4	1,569,700	1,271,523
Other income	4	29,482	29,964
Cost of inventories sold		(650,545)	(524,390)
Staff costs		(308,795)	(257,342)
Depreciation and amortisation		(54,561)	(40,591)
Rental expenses		(142,911)	(119,534)
Fuel and utility expenses		(66,381)	(55,752)
Other operating expenses		(165,114)	(131,947)
Finance costs		(408)	(6,603)
		<u> </u>	<u> </u>
PROFIT BEFORE TAX	5	210,467	165,328
Income tax expense	6	(44,807)	(30,793)
		<u> </u>	<u> </u>
PROFIT FOR THE YEAR		<u>165,660</u>	<u>134,535</u>
Attributable to:			
Owners of the Company		155,364	128,698
Minority interests		<u>10,296</u>	<u>5,837</u>
		<u>165,660</u>	<u>134,535</u>
DIVIDENDS			
Proposed final	7	<u>62,146</u>	<u>68,852</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
— Basic (RMB)		<u>15.12 cents</u>	<u>13.55 cents</u>
— Diluted (RMB)		<u>14.98 cents</u>	<u>13.53 cents</u>

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
PROFIT FOR THE YEAR	<u>165,660</u>	<u>134,535</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		
Exchange differences on translation of foreign operations	<u>(231)</u>	<u>3,164</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>165,429</u>	<u>137,699</u>
Attributable to:		
Owners of the Company	155,133	131,862
Minority interests	<u>10,296</u>	<u>5,837</u>
	<u>165,429</u>	<u>137,699</u>

Consolidated Statement of Financial Positions

31 December 2009

	<i>Notes</i>	2009 RMB'000	2008 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		358,544	277,684
Deposits for purchases of items of plant and equipment		15,903	5,567
Intangible assets		236,774	171,131
Land lease prepayments		50,055	11,717
Long-term rental deposits		15,984	13,281
Deferred tax assets		5,455	2,928
Total non-current assets		682,715	482,308
CURRENT ASSETS			
Inventories		182,126	179,400
Trade and bills receivables	9	19,297	12,175
Prepayments, deposits and other receivables		61,584	65,902
Cash and cash equivalents		325,207	424,038
Total current assets		588,214	681,515
CURRENT LIABILITIES			
Bank loans		375	535
Trade payables	10	51,098	40,803
Deposits, other payables and accruals		134,207	137,807
Due to minority equity holders of subsidiaries		14,900	12,528
Tax payable		23,764	14,994
Total current liabilities		224,344	206,667
NET CURRENT ASSETS		363,870	474,848
TOTAL ASSETS LESS CURRENT LIABILITIES		1,046,585	957,156

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Bank loans	—	375
Long-term payables	<u>8,763</u>	<u>6,885</u>
Total non-current liabilities	<u>8,763</u>	<u>7,260</u>
NET ASSETS	<u>1,037,822</u>	<u>949,896</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	90,826	90,823
Reserves	<u>939,952</u>	<u>850,776</u>
	1,030,778	941,599
Minority interests	<u>7,044</u>	<u>8,297</u>
TOTAL EQUITY	<u>1,037,822</u>	<u>949,896</u>

Notes:

1. CORPORATE INFORMATION

Little Sheep Group Limited (the “Company”) was incorporated on 18 December 2007 in the Cayman Islands with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The ordinary shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 June 2008.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in the People’s Republic of China (the “PRC”). The Group has established a principal place of business in Hong Kong at Unit 1104, 11/F, Jubilee Center, 42–46 Gloucester Road, Wan Chai, Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (i) the operation of restaurants and provision of catering services segment engages in Chinese hot pot restaurants;
- (ii) the sale of food products segment engages in the production of soup-based seasoning and sale of lamb meat;
- (iii) the franchise income segment represents the charges to the franchisees for the rights of using the Little Sheep's trademark; and
- (iv) the "others" segment represents provision of the services of sales promotion, purchase, training, and other administrative services rendered to franchise restaurants.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit before tax from operations except that interest income, finance costs, and corporate expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2009	Restaurant operations and provision of catering services RMB'000	Sale of food products RMB'000	Franchise income RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,223,382	313,773	30,887	1,658	1,569,700
Intersegment sales	<u>—</u>	<u>376,307</u>	<u>—</u>	<u>24,783</u>	<u>401,090</u>
	1,223,382	690,080	30,887	26,441	1,970,790
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(401,090)</u>
Revenue from operations					<u><u>1,569,700</u></u>
Segment results	200,312	36,374	14,424	(22,384)	228,726
<i>Reconciliation:</i>					
Elimination of intersegment results					14
Other income					29,482
Unallocated expenses					(47,347)
Finance costs					<u>(408)</u>
Profit before tax					<u><u>210,467</u></u>
Segment assets	584,092	429,449	941,721	476,069	2,431,331
Elimination of intersegment receivables					<u>(1,160,402)</u>
Total assets					<u><u>1,270,929</u></u>
Segment liabilities	500,963	262,893	111,319	518,334	1,393,509
Elimination of intersegment payables					<u>(1,160,402)</u>
Total liabilities					<u><u>233,107</u></u>
Other segment information:					
Depreciation and amortisation	45,057	5,391	2,879	1,234	54,561
Capital expenditure	94,185	59,077	10,358	1,511	165,131*

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, lease prepayments and deposits for purchases of items of plant and equipment.

Year ended 31 December 2008	Restaurant operations and provision of catering services <i>RMB'000</i>	Sale of food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue					
Sales to external customers	1,010,690	239,858	18,886	2,089	1,271,523
Intersegment sales	<u>—</u>	<u>314,625</u>	<u>—</u>	<u>23,290</u>	<u>337,915</u>
	1,010,690	554,483	18,886	25,379	1,609,438
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(337,915)</u>
Revenue from operations					<u><u>1,271,523</u></u>
Segment results	167,833	10,557	9,869	(4,068)	184,191
<i>Reconciliation:</i>					
Elimination of intersegment results					(508)
Other income					29,964
Unallocated expenses					(41,716)
Finance costs					<u>(6,603)</u>
Profit before tax					<u><u>165,328</u></u>
Segment assets	478,717	323,920	547,466	557,481	1,907,584
Elimination of intersegment receivables					<u>(743,761)</u>
Total assets					<u><u>1,163,823</u></u>
Segment liabilities	221,706	90,498	166,739	478,745	957,688
Elimination of intersegment payables					<u>(743,761)</u>
Total liabilities					<u><u>213,927</u></u>
Other segment information:					
Impairment losses recognised in the consolidated income statement	—	—	250	—	250
Depreciation and amortisation	37,311	1,306	1,394	580	40,591
Capital expenditure	72,962	16,483	63,980	1,223	154,648

Geographical information

(a) Revenue from external customers

	2009	2008
	RMB'000	RMB'000
North China	683,354	465,585
East China	332,179	291,881
South China	306,845	275,427
North West China	81,469	49,715
North East China	28,961	14,012
Others	136,892	174,903
	<u>1,569,700</u>	<u>1,271,523</u>

The revenue information above is based on the location of the customer.

(b) Non-current assets

	2009	2008
	RMB'000	RMB'000
North China	476,628	285,275
East China	80,230	94,953
South China	92,527	61,515
North West China	14,287	16,145
North East China	9,352	6,539
Others	9,691	17,881
	<u>682,715</u>	<u>482,308</u>

The non-current asset information above is based on the location of assets and consist of property, plant and equipment, deposits for purchases of items of plant and equipment, intangible assets, land lease prepayments, long-term deposit and deferred tax assets.

4. REVENUE AND OTHER INCOME

Revenue

Revenue, which is also the Group's turnover, represents the net amount received and receivable from the provision of catering services; the sale of food products to franchised restaurants and customers, less returns and allowances; franchise income; and management service fee income. An analysis of revenue is presented below:

	2009	2008
	RMB'000	RMB'000
Restaurant operations and provision of catering services	1,223,382	1,010,690
Sale of food products	313,773	239,858
Franchise income	30,887	18,886
Management service fee income	1,658	2,089
	<u>1,569,700</u>	<u>1,271,523</u>

Other Income

		2009	2008
	<i>Notes</i>	RMB'000	RMB'000
Government grants	<i>(i)</i>	10,767	5,038
Promotion income		3,054	1,028
Sales of low value consumables		2,615	2,318
Interest income on bank balances		5,938	4,019
Gain on disposal of a subsidiary		—	4,158
Waiver of 2007 interest expenses on convertible bonds	<i>(ii)</i>	—	8,463
Others		7,108	4,940
		<u>29,482</u>	<u>29,964</u>

- (i) Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.
- (ii) Pursuant to the letter of confirmation dated 14 May 2008 from holders of the convertible bonds, namely, 3i Group plc ("3i") and PraxCapital Fund I ("PraxCapital"), to China XiaoFeiYang Catering Chain Co., Ltd., 3i and PraxCapital have agreed to waive part of their respective entitlement to interest on the convertible bonds for 2007 of US\$1.2 million (equivalent to RMB8,463,000), in view of the change in the financial market condition after the parties entering into the convertible bonds in June 2006.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Group	
	2009	2008
	RMB'000	RMB'000
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	268,542	215,662
Expense of share-based payments	2,556	3,409
Pension scheme costs	8,891	16,529
Social welfare and other costs	28,806	21,742
	308,795	257,342
Depreciation	54,217	40,247
Amortisation of intangible assets	98	98
Amortisation of lease prepayments	246	246
Auditors' remuneration	3,500	4,500
Net loss on disposal of items of property, plant and equipment	1,039	288
Provision against trade receivables	—	250
Minimum lease payments under operating leases in respect of buildings	142,911	119,534

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate.

Under the new PRC corporate income tax law, since 1 January 2008 except for the preferential treatment available to certain subsidiaries operating in the PRC, the companies of the Group which operate in the PRC are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method. During the year ended 31 December 2009, after obtaining approval from the relevant PRC tax authorities, 18 (2008: 17) entities of the Group were subject to a preferential corporate income tax rate of 20%, 5 (2008: 5) entities of the Group were exempt from the corporate income tax and 41 (2008: 36) entities of the Group were assessed based on the verification collection method. All the tax concessions enjoyed by the Group were granted by various competent tax bureaus.

The provision for Hong Kong profits tax is calculated at 16.5% of the profit for the year ended 31 December 2009 (2008: 16.5%).

An analysis of the provision for tax in the consolidated income statement is as follows:

	2009	2008
	RMB'000	RMB'000
Group		
Current	47,334	31,257
Deferred	(2,527)	(464)
	<u>44,807</u>	<u>30,793</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates to the income tax expense at the Group's effective income tax rate is as follows:

	Hong Kong		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Group — 2009								
Profit/(loss) before tax	<u>10,654</u>	<u>100</u>	<u>211,192</u>	<u>100</u>	<u>(11,379)</u>	<u>100</u>	<u>210,467</u>	<u>100</u>
Tax at the statutory tax rate	1,758	16.5	52,798	25.0	1,244	(10.9)	55,800	26.5
Tax effect of preferential income tax rates	—	—	(6,539)	(3.1)	—	—	(6,539)	(3.1)
Effect of the verification collection method	—	—	(4,465)	(2.1)	—	—	(4,465)	(2.1)
Income not subject to tax	—	—	(1,780)	(0.8)	(176)	1.5	(1,956)	(0.9)
Expenses not deductible for tax	609	5.7	1,839	0.9	—	—	2,448	1.1
Tax losses not recognised	—	—	2,532	1.2	—	—	2,532	1.2
Others	<u>(399)</u>	<u>(3.7)</u>	<u>(2,702)</u>	<u>(1.3)</u>	<u>88</u>	<u>(0.8)</u>	<u>(3,013)</u>	<u>(1.4)</u>
Tax charge at the Group's effective rate	<u>1,968</u>	<u>18.5</u>	<u>41,683</u>	<u>19.8</u>	<u>1,156</u>	<u>(10.2)</u>	<u>44,807</u>	<u>21.3</u>

	Hong Kong		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Group — 2008								
Profit/(loss) before tax	<u>9,999</u>	<u>100.0</u>	<u>158,651</u>	<u>100.0</u>	<u>(3,322)</u>	<u>100.0</u>	<u>165,328</u>	<u>100.0</u>
Tax at the statutory tax rate	1,650	16.5	39,663	25.0	640	(19.3)	41,953	25.4
Tax effect of preferential income tax rates	—	—	(8,180)	(5.1)	—	—	(8,180)	(5.0)
Effect of the verification collection method	—	—	(4,190)	(2.6)	—	—	(4,190)	(2.5)
Income not subject to tax	—	—	(160)	(0.1)	(665)	20.0	(825)	(0.5)
Expenses not deductible for tax	318	3.2	1,784	1.1	—	—	2,102	1.2
Tax losses utilised from previous period	—	—	(1,206)	(0.8)	—	—	(1,206)	(0.7)
Tax losses not recognised	—	—	2,985	1.9	—	—	2,985	1.8
Others	<u>22</u>	<u>0.2</u>	<u>(1,722)</u>	<u>(1.1)</u>	<u>(146)</u>	<u>4.4</u>	<u>(1,846)</u>	<u>(1.1)</u>
Tax charge at the Group's effective rate	<u>1,990</u>	<u>19.9</u>	<u>28,974</u>	<u>18.3</u>	<u>(171)</u>	<u>5.1</u>	<u>30,793</u>	<u>18.6</u>

7. DIVIDENDS

	2009	2008
	RMB'000	RMB'000
Dividend paid by China XiaoFeiYang to the then shareholders	—	78,506
Proposed final — HK6.9 cents per share (equivalent to approximately RMB6 cents per share) (2008: HK7.6 cents per share (equivalent to approximately RMB6.7 cents per share))	<u>62,146</u>	<u>68,852</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year is based on the profit attributable to ordinary shareholders of the Company for the year of RMB155,364,000 (2008: RMB128,698,000) and the weighted average number of 1,027,678,370 ordinary shares (2008: 950,104,846 ordinary shares) of the Company.

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to shareholders for the year of RMB155,364,000 (2008: RMB128,698,000) and on 1,037,382,921 ordinary shares (2008: 950,954,446 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 9,704,551 ordinary shares (2008: 849,600 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2008 includes the 174,700,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange on 12 June 2008.

9. TRADE AND BILLS RECEIVABLES

Trade and bills receivables are mainly franchise fees receivable and receivables from the sale of food products to franchisees or independent third party distributors who have an established trading history with the Group. Allowance for trade and bills receivables is provided when it is considered that the trade receivable amounts may not be fully recovered. Trade and bills receivables are non-interest bearing and are generally on three months' terms.

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

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	17,916	9,370
3 to 6 months	1,119	2,045
6 to 12 months	94	760
1 to 2 years	168	—
	<u>19,297</u>	<u>12,175</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	49,565	39,546
Over 3 months	1,533	1,257
	<u>51,098</u>	<u>40,803</u>

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK cents 6.9 per share (equivalent to approximately RMB6.0 cents per share) for the year ended 31 December 2009. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about 2 June 2010 to shareholders whose names appear on the register of members of the Company at the close of business on 20 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive, during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend and attending the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 14 May 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company had complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by the Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code during the year.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was set up on 15 May 2008 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules.

Currently, Mr. Yeung Ka Keung, Dr. Xiang Bing and Mr. Shin Yick, Fabian, all being independent non-executive Directors are members of the Audit Committee. Mr. Yeung Ka Keung is the chairman of the Audit Committee.

The Audit Committee is satisfied with their review of the auditors' remuneration, the independence of the auditors, Ernst & Young, and recommended the Board to re-appoint Ernst & Young as the Company's auditors in 2010, which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The Company's annual results for the year ended 31 December 2009 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 20 May 2010. Notice of the annual general meeting will be published and sent to the shareholders of the Company in due course.

By order of the Board
Little Sheep Group Limited
Zhang Gang
Chairman

Hong Kong, 23 March 2010

This annual results announcement will be published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website: www.LittleSheep.com.

As at the date of this announcement, the executive Directors of the Company are Zhang Gang, Lu Wenbing, Zhang Zhanhai, Wang Daizong and Li Baofang, the non-executive Directors are Chen Hongkai, Su Jing Shyh Samuel, Koo Benjamin Henry Ho Chung, Hsieh Hui-yun Lily and Nishpank Rameshbabu Kankiwala and the independent non-executive directors are Xiang Bing, Yeung Ka Keung and Shin Yick, Fabian.