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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)

ANNOUNCEMENT OF 2010 INTERIM RESULTS (UNAUDITED)

FINANCIAL HIGHLIGHTS	For the six months ended 30 June 2010 RMB million	% Increase/ (decrease) over first half of 2009
Consolidated revenue	754.8	20.5%
Sales from restaurant operations	625.2	21.0%
Consolidated profit before tax	54.6	(5.2%)
Profit attributable to owners of the Company	38.1	(2.7%)
Basic earnings per share (RMB cents)	3.70	(2.9%)
 OPERATING STATISTICS OF COMPANY-OWNED RESTAURANTS		
	For the six months ended 30 June 2010	30 June 2009
Same store sales growth	6.9%	1.3%
Average spending per customer (RMB)	49.9	53.6
Utilization rate	1.31	1.22
Total number of company-owned restaurants and franchise restaurants as of 30 June 2010 reached 179 and 301 respectively (161 and 293 as of 31 December 2009 respectively).		

CHAIRMAN'S STATEMENT

Dear Shareholders,

The global economy turned a corner in the first half of 2010 and started to show signs of a continued recovery. Thanks to the government's liquidity enhancing policies, nowhere has this upturn more apparent than in China. Renewed consumer confidence has reinvigorated the catering sector and provided a more favourable operating environment for our company.

This upsurge in economic activity however has proved to be a double-edged sword, with rising inflation hitting our raw material costs. These challenges are a timely reminder of the need for us to strengthen our business model and further grow our business, while maintaining our core commitment to provide quality food and services to our customers.

The consolidated revenue for Little Sheep Group Limited ("the Company" or "Little Sheep", together with its subsidiaries, "the Group") for the six months ended 30 June 2010 surged 20.5% year-on-year to RMB754.8 million as we continued to rapidly build our customer base and expand our restaurant network. However, our profit attributable to shareholders fell 2.7% to RMB38.1 million due to inflationary pressure.

To counter this challenge, our focus this year has been to optimize our business model in order to raise efficiency and profitability. This effort is most visible at the back of our stores where we have set out to achieve economies of scale in our supply chain and store workflows. This year, we have witnessed the successful implementation of our central kitchens in Shenzhen and Shanghai, which have proved their effectiveness in supplying our restaurants in these cities. We are also examining other initiatives to further streamline our labour force and optimize in-store processes.

We have continued to capitalize on opportunities to acquire some of our franchises, while also extending our network of company-owned restaurants in China's first and second-tier cities. This year we have begun further growing this network into China's rapidly urbanizing third-tier cities.

By growing our food products and lamb processing businesses, we have also strengthened and diversified our revenue stream. Revenue from the sale of food products rose 33.6% to RMB115.7 million and now contributes 15.3% of overall revenue. We will continue to examine ways to expand our business further upstream in the second half of the year.

Although Little Sheep has been a household name in China for many years, our reputation as a global ambassador for Mongolian hot pot and Chinese cuisine as a whole was reinforced by our participation in the Shanghai World Expo as part of the "Chinese Food Street". Our fast food products have proved very popular, with our store consistently achieving the highest level of revenue on the street.

This recognition has also been extended to other areas of our business. Little Sheep was awarded the *2009–2010 China Outstanding Franchise Brand of the Year*. We were also named as a *National Consumer Brand in Satisfactory Food Quality*. This further added to our reputation of being one of China's most recognized champions of food quality.

Going forward we will continue to identify ways to further optimize our business and strengthen our profitability. 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 unwavering support. As the year progresses, we are confident that Little Sheep will continue to create long term value for shareholders.

ZHANG Gang

Chairman

25 August 2010

MANAGEMENT DISCUSSION & ANALYSIS

Market Review

The first half of 2010 saw the continued recovery of the global economy, led first and foremost by China. Consumer confidence bounced back strongly, although increasing inflation still poses a challenge as excess liquidity circulates through the economy. According to the National Bureau of Statistics of China, food prices rose 5.5%, which reflects the rising raw material costs for lamb and side dishes.

To overcome these difficulties, Little Sheep has been proactive in enhancing its management system in order to offset the impact inflation has had on its raw material costs. These measures were supported by a renewed focus on increasing efficiency and delivering quality food and services, further strengthening the company's competitiveness over the period.

Business Review

Little Sheep's efforts to build its brand and enhance its services has continued to be recognized by customers. Same-store sales and customer traffic grew at a record pace in China, up 6.9% and 9.8% respectively in the first half of 2010. The food product business also continued to grow steadily over the period through effective cost control and process automation. These achievements, together with the favorable economic environment in China, helped the Company realize strong and steady growth across all of its business segments in the first half of the year. In the six months ended 30 June 2010, the Company's consolidated revenue grew 20.5% year-on-year to RMB754.8 million.

To facilitate the future growth of the business, the Company continued its restaurant expansion and renovation program, which added some short-term bottom line pressure. Factors such as inflation, material costs and the temporary closure of some stores in major cities for renovation affected overall profit. In the six months ended 30 June 2010, the Company's profit attributable to shareholders fell 2.7% to RMB38.1 million.

Thanks to the strong support of its business partners, shareholders and the public, Little Sheep has grown to become one of China's most recognized culinary brands. This reputation is a testament to the Company's unwavering commitment to food safety and quality, as well as providing its customers with a high quality dining experience.

The Company was once again recognized for its leadership in the Chinese catering sector in the first half of the year and was the only Chinese restaurant chain to be included in the top 100 brands of the *Hurun Most Valuable Privately-Held Chinese Brands 2010*. Little Sheep also received its sixth consecutive accreditation from the World Brand Lab as one of the 500 most valuable brands in China and was the second highest ranking restaurant chain.

Restaurant Operations

The Company's restaurant operations remained the largest contributor to revenue in the first half of 2010, accounting for 82.8% of total revenue. Revenue from company-owned restaurants increased 21.0% year-on-year to RMB625.2 million, while same-store sales and customer numbers in China increased by 6.9% and 9.8% respectively. This increase in revenue was attributable to the opening of new restaurants, growth in same-store sales, the launch of new products and continuous service enhancement. To further sustain this growth, the Company also implemented the following strategies in the first half of 2010.

- *Expansion and refurbishment of company-owned restaurants*

The Company added 18 stores to its network of company-owned restaurants in the first half of 2010, by launching 15 new stores, acquiring six franchises, and shedding three restaurants. This expansion is part of a long-term strategy to increase the number of company-owned restaurants and raise profitability. Little Sheep operated a total of 179 company-owned restaurants as of 30 June 2010.

The Company continued its refurbishment program throughout the first half of the year in order to provide a more comfortable dining environment for its customers. The new restaurant design blends tradition, prairie culture and modern elements to create a distinctive and functional interior, which has attracted more customer traffic as well as accolades from diners. In the first half of the year, the Company completed renovation work on ten restaurants, all of which have since resumed operations, while nine restaurants are still undergoing refurbishment.

In the second half of the year, Little Sheep will continue its expansion and refurbishment plan in China's first and second-tier cities, while also looking at expanding its restaurant network into third-tier cities.

- *Optimizing work flow and enhancing efficiency*

The Company invested in various systems in the first half of the year in order to enhance the effectiveness of its workforce. This included membership management systems, menu coding and backend systems. Some work processes were also mechanized in an effort to reduce the number of manual activities. This has significantly improved order handling, queuing times and table turnover in its restaurants. In some stores, Little Sheep launched a trial campaign to reduce time for delivering table orders to less than six minutes during lunch and dinner sessions.

This year, the Company also successfully implemented its highly modernized central kitchens in Shenzhen and Shanghai which has centralized and simplified much of the work flow in these cities' restaurants. These facilities have lifted productivity, promoted scale efficiency and allowed the reallocation of labour resources.

- *Promotional campaigns and new product launches*

The Company ran a number of promotional campaigns to introduce new products during the first half of the year. These were well received by the public and contributed to the strong growth in customer traffic over the period.

Seasonal campaigns, including the *Chinese New Year Family Reunion Promotion*, *315 Quality Month Promotion* and the *Spring New Product Promotion* featured dishes such as "Shan-Zhen-Jun-Tang-Guo" (山珍菌湯鍋), "Yu-Zhi-Gao-Yang" (玉脂羔羊) and "Hua-Run-San-Xian" (滑潤三鮮). The *315 Quality Month Promotion* boosted customer traffic and same-store sales by 15.7% and 11.4% respectively, while also familiarizing customers with the Company's production chain and safety measures. These were followed by the particularly successful *Summer New Product Promotion* which featured set meals such as "Qing-Liang-Guo" (清涼鍋) and "Beer and Lamb" (啤酒羔羊肉).

Another notable promotion was the launch of a VIP membership program in partnership with China Merchant Bank and Air China, which provided discounts to members, as well as special promotions.

This year also saw Little Sheep become a global ambassador for Mongolian hot pot after opening a restaurant at the Shanghai World Expo's "Chinese Food Street". The Company's fast food products have proved extremely popular with both international and Chinese visitors with the store frequently attracting the highest revenue on the street.

Closer to home, the Company launched a series of marketing activities in Inner Mongolia. These included the *Thanksgiving Model Worker* campaign which employs model workers from the Autonomous Region to work as food safety inspectors. Little Sheep also organized the first *Inner Mongolia Autonomous Region Children Drawing Competition* which was well-received by the public and strengthened its local brand image.

- *Brand image enhancement*

In order to effectively shape its image among the public, Little Sheep also conducted brand management studies in each region of China and issued clear internal guidelines which systematically standardized staff appearance, restaurant design, usage of retail products and sub-brand products, advertising, etc. This uniform approach to brand building also raised the image of overall management standards.

The Company launched its "Make the World Listen to the Prairie" website in conjunction with the opening of the Shanghai World Expo. The website incorporated three themes to attract consumers to its Shanghai stores and also sought to introduce prairie culture to visitors. These themes were *Little Sheep and the World Expo*, *Little Sheep in Shanghai* and *Beautiful Prairie is My Home*.

In recognition of its continuous efforts in enhancing its brand image, Little Sheep was once again named as one of the *500 most valuable brands in China* by the World Brand Lab. This was the sixth straight accreditation with Little Sheep's overall ranking improving to 97th place.

- *Enhancing service quality to increase customer satisfaction*

Little Sheep believes that employee morale plays a big part in enhancing the quality of service it provides to customers. This year, the Company launched an employee engagement program which aims to foster a positive learning environment to increase job satisfaction and improve work performance. Starting with its restaurants in selected regions, the Company is encouraging its staff and managers to share their experiences in order to build a better business together. Under this program, innovative ideas and successful management strategies are profiled internally so that all employees can learn to improve their own practices. The program will be further extended in the second half of 2010.

Following the success of "Program Happy Sheep" (快樂服務領頭羊計劃), the Company implemented a number of initiatives this year to create a happy and harmonious team atmosphere, raise employee commitment, and build closer ties between employees and customers.

Customer satisfaction also remains a key element in the Company's success. To monitor this, Little Sheep continued its 'mystery shopper' program this year as part of its internal operational review in order to measure service quality and areas for improvement. A "Small Details Enhancement" (細部大開發) program was also launched to fine-tune and perfect service levels and raise customer satisfaction.

Franchise Business

The Company is committed to enhancing the operation of its franchises and providing assistance with their renovation programs. This commitment was recognized as Little Sheep was named as the *2009–2010 China Outstanding Franchise Brand of the Year*. Little Sheep currently operates 301 franchised restaurants, of which 19 are based in the United States, Canada, Japan and the UAE. All overseas franchises performed well in the first half of the year.

As of 30 June 2010, revenue from franchises was RMB13.5 million, a decrease of 39.0%. This was primarily attributable to the Company's strategy of expanding the number of company-owned restaurants by acquiring franchises and a slow down in the number of new franchises.

Sale of Food Products

Lamb processing and seasonings remained the Company's core focus for its upstream business. Little Sheep currently operates two lamb processing facilities in China, which is one of the largest production scales in the country. Its current product line-up includes fresh and frozen lamb products, hot pot soup bases and other seasonings.

In the first half of 2010, the Company strengthened the wholesale distribution of its food products by expanding to the high-end market. The Company has improved its customers' understanding of the quality of Little Sheep's food production and differentiated its fine quality from peers. As a result of increased market share, the Company succeeded in increasing revenue from its food product and seasoning business by 33.6%, to a total of RMB115.7 million.

Aside from increasing the sales of food products, the Company also focused on enhancing the profitability of its food processing and seasoning business through stringent cost control and strategic purchases. To offset the inflationary pressure, the Company closely monitored market prices and increased purchase volumes when the price was stable. Furthermore, the Company looked into sourcing from outlying regions with cost advantages in order to supplement lamb supply and lower overall material costs.

As the popularity and demand for its food products continues to increase, the Company has continued to look towards expanding its upstream businesses. Throughout the period, Little Sheep invested in upgrading its equipment and technology for lamb processing and seasoning products. The Company is also closely monitoring market demand and launching new products in response to the needs of its consumers. In 2010, it began to develop chicken, lamb and beef sauce products to improve its product mix.

Food Safety

Little Sheep is dedicated to providing the highest standard of quality in its food and meeting all domestic and international food safety standards. This year, the Company has focused on enforcing food safety practices across its entire production chain by producing a corporate code on food safety management based on HACCP (Hazard Analysis and Critical Control Points) principles. This code pre-empts every possible hazard on the production chain and gives clear and strict instructions for units to comply with. The introduction of central kitchens has also contributed to a simpler and more centralized control function for food

safety. As the result of these initiatives, Little Sheep employees from the front-of-house to the back-end fully understand the importance of food safety and are committed to delivering quality products and services.

The Company has also taken the initiative to publicly demonstrate the importance it places on food safety and corporate social responsibility. This year, the Company led a group of over 100 companies in the food industry to lobby for a ban on the use of discarded cooking oil. It also invited the public to visit its central kitchen in Shenzhen, to demonstrate the safety measures the Company has applied to its whole production chain. As part of its *315 Quality Month Promotion*, the Company introduced its holistic approach to food safety management and its tracing system, assuring customers that every process in its production chain is being taken good care of and that it is well prepared to tackle any issue that compromises food safety. This provided customers with additional assurance and raised the Company's reputation for food safety amongst its peers.

Information System

In the first half of the year, the Company promoted the uptake of new and self-developed technology systems to upgrade its platform for management information access and improve general operational management. The newly adopted systems are known as RIF and BI.

RIF is a value-adding service which allows users of the system to objectively assess the consumer market and monitor their operations in an effective and scientific manner. The BI system provides business intelligence to Little Sheep's company-owned restaurants on the Company's entire supply chain, as well as performance data on its restaurants, regional branches and headquarters, making it an important decision making tool for management.

Business Outlook

Looking ahead, China's growth momentum will continue to support the development of the catering sector and provide Little Sheep with growth opportunities. However, emerging global and domestic uncertainties such as the European debt crisis and domestic inflation means the Company remains cautious on the outlook for the Chinese economy. In the second half of the year, the Company will seek to overcome rising cost pressures to maintain revenue growth and its profit ratio.

To achieve this, the Company will continue to develop its company-owned restaurant network in China's first and second-tier cities, and expand its franchise business both internationally and domestically. As it expands its restaurant network, the Company will remain focused on raising customer satisfaction and maintaining the momentum in customer traffic growth. Furthermore, the Company will enhance its overall profitability and competitiveness by continuing to expand its upstream business and introducing new products with higher profit margins. With inflation remaining a challenge, the Company will maintain its stringent cost control measures by further optimizing its internal procedures, improving operational and scale efficiency, and enhancing its price management mechanism.

By strengthening its management processes, as well as effectively utilizing its resources, Little Sheep will lay a solid foundation for its future development and the continuous creation of shareholder value.

FINANCIAL REVIEW

Revenue

In the six months ended 30 June 2010, our total revenue increased by 20.5% year-on-year to RMB754.8 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 the Company's restaurant operations increased by 21.0% year-on-year to RMB625.2 million, which was mostly attributable to the contribution from newly opened restaurants, the growth in same-store sales from its existing restaurants, and the increase in customer traffic.

Revenue from sales of food products

Revenue from sales of the Company's food products increased by 33.6% year-on-year to RMB115.7 million, which was mainly due to an increase in the sales volume of its soup base and lamb products, as well as the introduction of new products.

Revenue from franchise operations

Revenue from the Company's franchise operations decreased by 39.0% year-on-year to RMB13.5 million. This was due to a decrease in the initial franchise fees charged to new franchises granted during the period as the result of different fee levels being charged for different cities, a slowdown in the number of new franchises, and revenue transferred following the purchase of franchises by the Company.

Revenue from management service fees

Revenue from management service fees represents the monthly fees the Group receives for the provision of restaurant management services to franchisees. In the six months ended 30 June 2010, revenue from management service fees dropped by 51.9% year-on-year to RMB0.4 million. The decrease was primarily due to a decrease in the number of franchise restaurants to which the Group provided management services.

Other income

Other income, which includes income from the Company's non-core operations, increased by 87.2% year-on-year to RMB17.0 million. This was primarily attributable to the increase in government grants, gain on disposal of restaurants and sale of low-value consumables.

Cost of inventories sold

The cost of inventories sold increased by 32.4% year-on-year to RMB319.3 million. The increase was mainly attributable to the rise in sales volume and costs of raw materials.

Staff costs

Our staff costs increased by 16.1% year-on-year to RMB171.2 million, which was mostly attributable 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 RMB33.8 million, representing an increase of 45.4% year-on-year. Such increase was attributable to the overall increase in depreciation and amortization expenses resulting from an increase in the number of restaurants, the renovations of existing restaurants, and increase in non-current assets of the back office.

Rental expenses

Rental expenses increased by 11.7% year-on-year to RMB76.5 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 24.7% year-on-year to RMB35.4 million, attributable to the increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 17.5% year-on-year to RMB81.1 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 period amounted to RMB14,000 which were primarily interest on bank borrowings.

Income tax expense

Our income tax expenses decreased by 2.6% year-on-year to RMB15.0 million mainly attributable to the decrease in pre-tax profit during the period.

Profit for the six months ended 30 June 2010

Our profit for the six months ended 30 June 2010 decreased by 6.1% year-on-year to RMB39.6 million as a result of the cumulative effect of the foregoing factors.

Net profit attributable to owners of the Company

Our net profit attributable to owners of the Company in the six months ended 30 June 2010 was RMB38.1 million, recording a decrease of 2.7% year-on-year, as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 30 June 2010, cash and bank balances stood at RMB251.3 million and net current assets were RMB268.6 million with a current ratio of 2.2.

As at 30 June 2010, total outstanding bank loans stood at RMB20.4 million.

Regarding the foreign exchange fluctuations, during the period, 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 30 June 2010, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in the six months ended 30 June 2010 was RMB86.8 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in the six months ended 30 June 2010 were RMB123.6 million, consisting primarily of investments in restaurants and production bases of RMB80.6 million, and acquisition of restaurants of RMB46.8 million. Net cash outflow from financing activities over the period were RMB36.9 million, which mainly comprised the increase in bank loan of RMB20.0 million and payments of dividends of RMB62.0 million.

Capital Expenditures

Our capital expenditures for the six months ended 30 June 2010 were RMB92.7 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 the rest of 2010 are approximately RMB119.9 million which will be funded by internal resources and proceeds from the initial public offering of the Company.

Human Resources

As at 30 June 2010, the Group had 13,784 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 and a promising career to attract and retain high quality employees. Remuneration packages and promotions are commensurate with market conditions and the individual's qualification and work experience. In addition, the Group has developed an effective structure to plan, organize, execute and evaluate staff training programs. These programs took place in the Company's headquarter, regional branches and restaurants chains. Over the period, the Group has already conducted training courses for front-store managers and employed external training institution to improve management and team work.

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.

INTERIM RESULTS

The board of directors (“Board”) of Little Sheep Group Limited is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 as follows:

Interim Condensed Consolidated Income Statement

Six months ended 30 June 2010

		Six months ended	
		30 June 2010	30 June 2009
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
REVENUE	4	754,829	626,298
Other income	4	17,012	9,090
Cost of inventories sold	5	(319,261)	(241,106)
Staff costs	5	(171,221)	(147,539)
Depreciation and amortisation	5	(33,756)	(23,210)
Rental expenses	5	(76,502)	(68,507)
Fuel and utility expenses		(35,360)	(28,356)
Other operating expenses		(81,108)	(69,045)
Finance costs		(14)	(18)
		<hr/>	<hr/>
PROFIT BEFORE TAX	5	54,619	57,607
Income tax expense	6	(15,022)	(15,421)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		39,597	42,186
		<hr/>	<hr/>
Attributable to:			
Owners of the Company		38,083	39,155
Non-controlling interests		1,514	3,031
		<hr/>	<hr/>
		39,597	42,186
		<hr/>	<hr/>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
— Basic (RMB)	8	3.70 cents	3.81 cents
		<hr/>	<hr/>
— Diluted (RMB)		3.67 cents	3.79 cents
		<hr/>	<hr/>

Interim Condensed Consolidated Statement of Comprehensive Income
Six months ended 30 June 2010

	Six months ended	
	30 June 2010	30 June 2009
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE PERIOD	39,597	42,186
Exchange differences on translation of foreign operations	<u>(1,949)</u>	<u>(453)</u>
Other comprehensive income for the period, net of tax	<u>(1,949)</u>	<u>(453)</u>
Total comprehensive income for the period, net of tax	<u>37,648</u>	<u>41,733</u>
Attributable to:		
Owners of the Company	36,134	38,702
Non-controlling interests	<u>1,514</u>	<u>3,031</u>
	<u>37,648</u>	<u>41,733</u>

Interim Condensed Consolidated Statement of Financial Position
As at 30 June 2010

	30 June	31 December
	2010	2009
	(Unaudited)	(Audited)
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	413,443	358,544
Deposits for purchases of items of plant and equipment	—	15,903
Intangible assets	274,995	236,774
Prepaid land lease payments	49,932	50,055
Long-term rental deposits	18,897	15,984
Deferred income tax assets	5,381	5,455
	<u>762,648</u>	<u>682,715</u>
TOTAL NON-CURRENT ASSETS		
	<u>762,648</u>	<u>682,715</u>
CURRENT ASSETS		
Inventories	139,635	182,126
Trade receivables	15,260	19,297
Prepayments, deposits and other receivables	88,104	61,584
Cash and cash equivalents	251,248	325,207
	<u>494,247</u>	<u>588,214</u>
TOTAL CURRENT ASSETS		
	<u>494,247</u>	<u>588,214</u>
CURRENT LIABILITIES		
Interest bearing bank borrowings	20,375	375
Trade payables	45,093	51,098
Deposits, other payables and accruals	125,016	134,207
Due to non-controlling interests	26,036	14,900
Tax payable	9,172	23,764
	<u>225,692</u>	<u>224,344</u>
TOTAL CURRENT LIABILITIES		
	<u>225,692</u>	<u>224,344</u>
NET CURRENT ASSETS		
	<u>268,555</u>	<u>363,870</u>

Interim Condensed Consolidated Statement of Financial Position (continued)*As at 30 June 2010*

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	1,031,203	1,046,585
NON-CURRENT LIABILITIES		
Long-term payables	<u>10,569</u>	<u>8,763</u>
Total non-current liabilities	<u>10,569</u>	<u>8,763</u>
NET ASSETS	<u>1,020,634</u>	<u>1,037,822</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	91,096	90,826
Reserves	<u>920,070</u>	<u>939,952</u>
	1,011,166	1,030,778
Non-controlling interests	<u>9,468</u>	<u>7,044</u>
TOTAL EQUITY	<u>1,020,634</u>	<u>1,037,822</u>

Notes:

1. CORPORATE INFORMATION AND REORGANISATION

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. In the opinion of the directors, the ultimate holding company of the Company is Possible Way International Limited (“Possible Way”) which is incorporated in the British Virgin Islands.

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”), Hong Kong and Macau. 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 POLICY

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements under the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange Limited.

3. 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:

- (a) the operation of restaurants and provision of catering services segment engages in Chinese hot pot restaurants;
- (b) the sale of food products segment engages in the production of soup-based seasoning and the sale of lamb meat;
- (c) the franchise income segment represents the charges to the franchisees for the rights of using the trademark of Little Sheep; and
- (d) the “others” segment represents the provision of services of sales promotion, purchase, training, and other administrative services rendered to franchise restaurants.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the interim condensed consolidated financial statements. Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

3. SEGMENT INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009, respectively.

Six months ended 30 June 2010 (unaudited)	Restaurant operations and provision of catering services <i>RMB'000</i>	Food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Adjustments and eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:						
Third party	625,199	115,694	13,532	404	—	754,829
Inter-segment	—	104,958	—	11,763	(116,721)	—
Total revenue	625,199	220,652	13,532	12,167	(116,721)	754,829
Results						
Segment profit/(loss) before tax	64,608	3,925	3,651	(6,564)	(11,001)	54,619
Six months ended 30 June 2009 (unaudited)	Restaurant operations and provision of catering services <i>RMB'000</i>	Food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Adjustments and eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:						
Third party	516,657	86,602	22,199	840	—	626,298
Inter-segment	—	88,314	—	10,880	(99,194) ⁽¹⁾	—
Total revenue	516,657	174,916	22,199	11,720	(99,194)	626,298
Results						
Segment profit/(loss) before tax	65,226	(260)	12,154	(9,798)	(9,715)⁽²⁾	57,607

1. Inter-segment revenue are eliminated on consolidation.

2. The profit for each operating segment does not include other income (2010: RMB17,012,000; 2009: RMB9,090,000), unallocated expenses (2010: RMB28,713,000; 2009: RMB18,787,000), nor finance cost (2010: RMB14,000; 2009: RMB18,000).

The following table presents segment assets of the Group's operating segments as at 30 June 2010 and 31 December 2009.

	Restaurant operations and provision of catering services <i>RMB'000</i>	Food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Adjustments and eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets						
At 30 June 2010 (unaudited)	611,631	372,817	956,322	450,833	(1,134,708) ⁽¹⁾	1,256,895
At 31 December 2009 (audited)	584,092	429,449	941,721	476,069	(1,160,402) ⁽¹⁾	1,270,929

1. Inter-segment current accounts are eliminated on consolidation.

4. REVENUE AND OTHER INCOME

Revenue

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

	Six months ended	
	30 June 2010 (Unaudited) RMB'000	30 June 2009 (Unaudited) RMB'000
Restaurant operations and provision of catering services	625,199	516,657
Sale of food products	115,694	86,602
Franchise income	13,532	22,199
Management service fee income	404	840
	<u>754,829</u>	<u>626,298</u>

Other income

	Six months ended	
	30 June 2010 (Unaudited) RMB'000	30 June 2009 (Unaudited) RMB'000
Gain on disposal of subsidiaries	4,338	—
Government grants	1,705	1,153
Sale of low-value consumables	1,789	643
Interest income on bank balances	824	1,089
Excess over the cost of a business combination recognised in the income statement	257	—
Others	8,099	6,205
	<u>17,012</u>	<u>9,090</u>

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.

5. PROFIT BEFORE TAX

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

	Six months ended	
	30 June 2010 (Unaudited) RMB'000	30 June 2009 (Unaudited) RMB'000
Cost of inventories sold	319,261	241,106
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	149,228	126,815
Expense of share-based payments	556	1,278
Pension scheme costs	6,407	6,917
Social welfare and other costs	<u>15,030</u>	<u>12,529</u>
	<u>171,221</u>	<u>147,539</u>
Depreciation and amortisation	33,756	23,210
Minimum lease payments under operating leases in respect of buildings	<u>76,502</u>	<u>68,507</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30 June 2010 (Unaudited) RMB'000	30 June 2009 (Unaudited) RMB'000
Income tax		
Current income tax	15,117	16,702
Deferred income tax	<u>(95)</u>	<u>(1,281)</u>
	<u>15,022</u>	<u>15,421</u>

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 operates.

Under the relevant PRC income tax law, 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 six months ended 30 June 2010, after obtaining approval from the relevant PRC tax authorities, 19 (30 June 2009: 18) entities of the Group were subject to a preferential corporate income tax rate of 22% (30 June 2009: 20%), 3 (30 June 2009: 3) entities of the Group were exempt from the PRC corporate income tax and 46 (30 June 2009: 42) 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 estimated assessable profits for the six months ended 30 June 2010 (30 June 2009: 16.5%).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. DIVIDEND

At the annual general meeting held on 20 May 2010, the Company's shareholders approved the payment of the final dividend for the year ended 31 December 2009 of HK cents 6.9 per share (equivalent to approximately RMB cents 6.0 per share) which amounted to RMB61,991,000. The dividend declared has been paid as at 30 June 2010.

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2010.

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the period is based on the profit attributable to owners of the Company for the period of RMB38,083,000 (30 June 2009: RMB39,155,000) and the weighted average number of 1,028,270,170 ordinary shares (30 June 2009: 1,027,650,870 ordinary shares) of the Company.

The calculation of diluted earnings per share for the six months period ended 30 June 2010 is based on the profit attributable to owners of the Company for the period of RMB38,083,000 (30 June 2009: RMB39,155,000) and on 1,028,270,170 ordinary shares (30 June 2009: 1,027,650,870 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 9,995,378 ordinary shares (30 June 2009: 6,361,790 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme adopted by the Company on 20 December 2007.

9. TRADE RECEIVABLES

Trade receivables are non-interest bearing and are generally on three months' terms. An ageing analysis of trade receivables based on the payment due date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	14,174	17,916
3 to 6 months	910	1,119
6 to 12 months	22	94
1 to 2 years	<u>154</u>	<u>168</u>
	<u>15,260</u>	<u>19,297</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 3 months	43,740	49,565
Over 3 months	<u>1,353</u>	<u>1,533</u>
	<u>45,093</u>	<u>51,098</u>

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, the Company had complied with all applicable 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 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 of the Company (“Directors”). Based on specific enquiry with the Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code during the six months ended 30 June 2010.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2010 are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. The interim results for the six months ended 30 June 2010 have been reviewed by the Audit Committee of the Board.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and on the Company’s website (<http://www.littlesheep.com>). The interim report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and the website of the Company as soon as possible.

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

Hong Kong, 25 August 2010

As at the date of this announcement, the executive Directors 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 and Hsieh Hui-Yun Lily and the independent non-executive Directors are Dr. Xiang Bing, Yeung Ka Keung and Shin Yick, Fabian.

This announcement contains forward-looking statements and information relating to us and our operations and prospects that are based on current beliefs and assumptions as well as information currently available to us. The words “anticipate”, “believe”, “estimate”, “expect”, “plans”, “prospects”, “going forward” and similar expressions, as they relate to us or our business, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks, uncertainties and various assumptions.

Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may diverge significantly from the forward-looking statement. We do not intend to update these forward-looking statements other than our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.