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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 2010

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% Change Increase/ (Decrease)
	2010 (RMB'000)	2009 (RMB'000)	
Revenue	1,925,500	1,569,700	22.7%
Sales from restaurant operations	1,476,204	1,223,382	20.7%
Consolidated profit before tax	249,412	210,467	18.5%
Profit attributable to shareholders of the Company	187,798	155,364	20.9%
Basic earnings per share (RMB cents)	18.24	15.12	20.6%
Proposed final dividend per share (HK cents)	6.9	6.9	—

OPERATING HIGHLIGHTS

	2010	2009	
Same store sales growth	8.0%	1.7%	
Average per capita customer spending	RMB51.80	RMB52.45	(1.2%)
Utilisation rate	1.42	1.34	6.0%
No. of company-owned restaurants (at 31 December)	184	161	
No. of franchise restaurants (at 31 December)	296	293	

CHAIRMAN STATEMENT

Dear Shareholders,

2010 saw the Chinese economy continue to power ahead, with the biggest uptick reserved for the spending power of the Chinese consumer. Rising wages, rapid urbanisation and a gradual shift away from the export-based economic model has seen China emerge as one of the world's largest consumer markets. This increased wealth continued to flow into the catering sector as Chinese consumers opted to pursue more leisurely activities and quality time with their families.

In order to fully capitalise on these opportunities, Little Sheep Group Limited (“the Company” or “Little Sheep”, together with its subsidiaries, “the Group”) continued to grow its restaurant and food product businesses, while strengthening the value of its brand by emphasising food safety and the quality of its products. We believe that our achievements this year has further enabled the Little Sheep brand to become synonymous with prairie culture, healthy dining and a memorable dining experience.

The consolidated revenue for the year ended 31 December 2010 grew 22.7% year-on-year to RMB1,925.5 million, while the profit attributable to shareholders rose 20.9% to RMB187.8 million. In particular, growth in customer traffic and same-store sales expanded at a record pace, rising 6% and 8% respectively. Having considered the remarkable business performance and the Group's needs of funds for future development, the board of directors (the “Directors”) of the Company (the “Board”) has recommended to maintain the dividend for 2010 to last year's level and pay a final dividend of HK cents 6.9 per share.

Inflation, particularly food inflation, remains a key challenge to China's economic growth. To counteract its impact on the catering industry, Little Sheep's existing integrated business model played a key role in reinforcing our comprehensive cost controls across our entire business chain, including raw material supply, the production process, and front-end operations. In addition, we have capitalised on our strengths in restaurant operation to increase the competitiveness of our products and services, through menu adjustments and changes to the structure of our food items. These measures enhanced our customers' recognition of Little Sheep's valuable services and ensured that we were able to maintain good profitability in the face of inflation, while contributing to a sustainable increase in profits.

In recent years, food safety has been a major focus of China's national development. This is consistent with Little Sheep's pursuit to provide a healthy catering service. In accordance with the government's monitoring of food safety, we have proactively and continuously undertaken stringent quality control measures and we remain at the forefront of positive change in the catering industry in the area of food safety. These efforts included the adoption of a corporate code on food management and reinforcing training and education initiatives across all parts of our business. By maintaining a high level of food quality, we further strengthened our customers' confidence in Little Sheep's catering business.

Throughout the year, we illustrated the value of Little Sheep's brand through different promotional activities. We leveraged on promotional opportunities presented by international events such as the Shanghai World Expo and Asian Games to launch marketing campaigns to drive business growth, while at the same time, we also cooperated with different organisations to host and sponsor community activities. These efforts further reinforced brand awareness and Little Sheep's position as a well known catering brand. This public recognition was further bolstered when Little Sheep was named as a *National Consumer Brand in Satisfactory Food Quality*.

Our workforce remains one of our most important assets. Valuing talent, as well as caring for employees and their personal development, is part of our corporate philosophy. On top of our commitment to enhance our internal corporate structure and remuneration system, we also actively listened to our employees' needs, while encouraging more interaction between employees at different levels and organising regular recreational activities. Through these efforts, we hope to foster a stable and harmonic working environment for our employees and raise job satisfaction.

Little Sheep's sound and flexible business model makes us a leader in the Chinese catering industry. In 2011, we aim to further optimise our business and improve our operational efficiency through improving customer service and care for employees. By supporting further restaurant expansion and refurbishment and optimising our operations, we will further increase customer traffic and market share. At the same time, we will drive long-term business growth through a continued focus on food safety and by enhancing the quality of our service in order to satisfy every customer.

Looking forward, China's economic growth and the development of its consumer market will continue to be the main catalyst for our business development. We believe Little Sheep will reach new highs in the coming year.

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 Little Sheep enters the Chinese Year of the Rabbit, we are confident in our ability to seize every opportunity, overcome all challenges, and create long term value for our shareholders.

ZHANG Gang
Chairman

Hong Kong, 22 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2010, China overtook Japan as the world's second-largest economy and is on track to become one of the world's biggest consumer markets. However, excess liquidity drove up consumer prices across the board, particularly for food. According to the National Bureau of Statistics of China, food inflation reached 11.7% year-on-year as of November 2010. Labour costs and rental costs also increased steadily in 2010, adding additional challenges to Little Sheep's business.

This year, Little Sheep focused on implementing various cost control measures and price adjustments to raise its profitability, while maintaining its existing business expansion plan in order to capitalise on the growth of the Chinese consumer market.

Food safety also remained a major priority in the catering industry, with the PRC Ministry of Health increasing regulation and food inspection efforts. In accordance with this national policy, Little Sheep committed itself to strengthening its food safety practices across its entire production chain. This has helped the Company win the confidence of its customers and bolstered the success of its restaurant and food product businesses in 2010.

Business Review

2010 has been a rewarding year for Little Sheep, with its restaurant business continuing to grow strongly. For the year ended 31 December 2010, consolidated revenue increased 22.7% year-on-year to RMB1,925.5 million. Profit attributable to shareholders also increased to RMB187.8 million, an increase of 20.9%. Same-store sales and customer traffic in China expanded at a record pace, increasing 8% and 6% respectively in the year ended 31 December 2010. This strong growth was attributable to China's rapidly growing consumer market, operational enhancements and expansion of Little Sheep's restaurant network.

Inflation remained a key challenge for the Company throughout the year. In response, the Company's adopted an integrated business model to improve its overall profitability by applying a number of cost control measures to its recurring expenses and purchases of raw materials, as well as through stringent monitoring of its work flow efficiency. The Company further eased pressure on its profitability by opening new restaurants, reopening some of its refurbished restaurants and through strategic price adjustments.

In recognition of Little Sheep's ongoing commitment to food safety, sustainability and providing a high quality dining service, the Company was named as one of the *500 most valuable brands in China* for the sixth time by World Brand Lab, as well as a *National Consumer Brand in Satisfactory Food Quality* by Xinhuanet and by the China Foundation of Consumer Protection.

Restaurant Operations

The Company's restaurant operations remained the largest contributor to revenue in 2010, accounting for 76.7% of total revenue. Revenue from company-owned restaurants increased 20.7% year-on-year to RMB1,476.2 million. This increase in revenue was attributable to the opening of new restaurants, growth in same-store sales, the launch of new products, and the continuous enhancement of services and dining environments. To further sustain this growth, the Company also implemented the following strategies in 2010.

- ***Strategic expansion and refurbishment program of company-owned restaurants***

Little Sheep continued to implement its prudent long-term expansion strategy in China. New store locations were prioritised based on rigorous research undertaken by the Company on factors such as local income levels, population and market dynamics.

As of 31 December 2010, the number of company-owned restaurants increased to 184. Throughout the year, the Company opened 26 new restaurants and acquired 7 franchised restaurants. As a part of routine strategy adjustment, the Company closed down 5 restaurants and sold 5 restaurants during the year.

To attract more customer traffic by providing a distinctive and comfortable dining environment, Little Sheep continued to carry out its restaurant refurbishment program. In 2010, 24 restaurants completed renovations and resumed operations, which contributed to an increase in both revenue and customer traffic.

As part of its refurbishment program, the Company adopted a standardised restaurant design to meet the needs of its customers, as well as reduce design costs and the time required for renovation work on its restaurants. Standardised restaurant layouts also further improved work flow efficiency, which improved the profitability of new and refurbished restaurants.

- ***Work flow optimisation and efficiency improvements***

Throughout the year, Little Sheep worked to improve its efficiency across all aspects of its restaurant business. This year, the Company introduced central kitchens in Shenzhen and Shanghai which assisted nearby restaurants by producing and delivering commonly used products. This significantly modernised and streamlined the backend operations and reduced operation costs. This helped the Company to allocate its resources more effectively to enhance scale efficiency and lift productivity. At the store level, the Company adopted membership management, as well as customer ordering and queuing systems, which allowed staff to handle orders more efficiently, increased customer turnover and shorten customer waiting time.

Over the period, the Company also launched a “Super Speed” (超級時速) campaign in some stores to demonstrate the results of improved operation efficiency.

- ***Promotional campaigns and new product launches***

This year, Little Sheep carried out regular seasonal campaigns to introduce new products and strengthen customer loyalty. Notable examples include the autumn promotion of certified organic food products, which delivered double-digit growth to both customer traffic and same-store sales, increasing 11% and 17% respectively. Apart from seasonal promotions, Little Sheep also introduced a number of new products that proved popular among the general public, such as “Xiang-Qian-Pi-Dan-Guo” (香茜皮蛋鍋), “Low-fat Organic Lamb” (有機低脂羔羊肉), and “Mongolian-style Handmade Yogurt” (蒙式手造酸奶) etc.

In the second half of the year, Little Sheep launched a “Beer and Lamb” (啤酒羔羊肉) promotion to coincide with the 2010 FIFA World Cup, as well as a series of promotional campaigns alongside the 2010 Asian Games in Guangzhou. The Asian Games campaigns were well received by the public and boosted customer traffic by 5%.

To further support the new product launches and promotional campaigns in an innovative manner, the Company optimised its menu and provided value-adding services in order to maintain the competitiveness of its restaurants and revitalise the dining experience of each company. These initiatives supported an increase in customer spending and contributed to the bounce back in profit over the period.

- ***Improving service quality by championing employees***

Little Sheep believes that employee morale plays a big part in enhancing the quality of services it provides to customers. Throughout the year, the Company promoted greater interaction between employees to enhance communication and dedicated itself to interacting with employees to better understand their needs. The Company also stimulated employee morale by providing attractive remuneration packages and benefits. The Company also encouraged its staff and managers to share their experiences in improving customer service. As a result, there was significant improvement over the year in areas such as employee morale, service efficiency and quality. A culture focused on customer service was also fostered amongst employees over the period, which improved the dining experience of customers.

Franchise Business

Little Sheep is committed to enhancing the operation of its franchises. In 2010, the Company increased its efforts in regulating franchised restaurants and worked closer with them. Areas where the Company focused its regulation included business operations, the standardisation of restaurant designs, menus, products, service quality and food safety standards. This helped unify the service standards and image of Little Sheep’s franchises. 34 franchised restaurants were also renovated throughout the period.

Little Sheep also continued to provide comprehensive operational training to new and existing franchisees both in China and overseas. This training covered restaurant set-up, operations, and details such as the use of information systems. These raised the ability of managers and the quality of service at franchises. The Company also raised quality standards by encouraging franchisees to learn from each other through the establishment of regional role-model stores and by organising sharing sessions in Beijing and Shenzhen. The Company also carried out site visits and evaluations, while providing detailed reports to franchisees in order to fine-tune their management and operations.

This year, Little Sheep was recognised for its excellence in this area when it was named the *2009–2010 China Outstanding Franchise Brand of the Year*.

Sale of Food Products

Throughout the year, Little Sheep spared no effort in expanding the market share of its food products, particularly lamb products and seasonings. In response to increasing market demand, the Company focused on expanding its sales channels, integrating its food markets and adjusting its business structure in order to achieve growth in both the sale of food products and market share. Over the period, revenue from the food product rose 33.1% to RMB417.7 million, increasing its contribution to overall revenue to 21.7%.

As household incomes continue to rise, so did the demand for healthy organic products. To cater for this emerging market, Little Sheep introduced a range of “Organic Lamb” (有機羊肉) products. Incorporating Little Sheep’s consistently high standard of food safety and monitoring of food sources, the “Organic Lamb” products received organic food certification from the China Quality Certification Centre, making Little Sheep the first lamb production company to receive official certification.

In response to increasing market demand, the Company further increased the capacity of its production facilities through technology upgrades and the modification of its production line. The Company also established its third lamb production base in Hulunbuir, which enhanced its lamb sourcing strategy in Inner Mongolia and stabilised the supply of quality lamb. At the same time, the Company also maintained its flexible strategy of adjusting external purchase volumes based on the close monitoring of market price movements. This greatly enhanced the Company’s control of resources and risk management, and raised the overall profitability of the lamb business.

This year, the market share of Little Sheep in seasoning products increased significantly. Throughout the year, the Company launched innovative products according to the needs of its customers, improved its product mix, and actively expanded the wholesale and retail channels for its products. The Company also completed the first phase of construction for its new seasoning factory, which is expected to commence production in 2011 and support the future development of Little Sheep’s seasoning products business.

Brand image reinforcement

In 2010, food safety and prairie culture were the two main themes for Little Sheep's brand building campaign. By running a series of new marketing campaigns and leveraging on the promotional opportunities linked to the major international events held in China this year, the Company sought to drive business performance by reinforcing public recognition of its brand and conveying aspects of its brand value and corporate culture.

"Make the World Listen to the Prairie" (讓世界聆聽草原) was one of the major campaigns for Little Sheep this year. Initiatives included the Company's participation in the Shanghai World Expo, where it ran a restaurant on the "Chinese Food Street", as well as the launch of a website which leveraged on the World Expo's themes. These initiatives strengthened the Company's image as a global ambassador for Mongolian hot pot, and introduced Little Sheep's delicious and healthy food products to both international and domestic visitors. The Company also held the first "Prairie Culture Summit" (草原文化高峰論壇) and prairie field trips, which allowed participants to learn more about Little Sheep's safe and pollution-free production processes. By working closely with the major media, Little Sheep's marketing activities were widely covered and achieved maximum promotional effect.

Apart from marketing activities, Little Sheep also carried out a brand study to enhance Little Sheep's image and to effectively convey the value of its brand towards the public. The Company also launched brand surveys in several major cities throughout China. Through in-depth conversations with its customers, Little Sheep was able to study its customer's perceptions towards its brand image, along with external evaluations and expectations, in order to set the Company's future direction for the enhancement of service quality. This contributed to increased customer satisfaction, and raised the Little Sheep's competitiveness overtime.

Food Safety

Little Sheep is dedicated to raising food safety standards and providing hygienic and additive-free products to its customers. It is also committed to raising employees' awareness towards food safety through training, as well as aligning with international standards to make full use of its comprehensive risk management protocols.

Over the past year, the Company introduced and enforced a corporate code on food safety management based on HACCP (Hazard Analysis and Critical Control Points) principles. This code pre-empts any risks in the production chain which could jeopardise food safety, while providing all units with a set of clear and strict instructions to comply with. To further reinforce these efforts, the Company also introduced a Management Accountability System, which ensures staff at all levels understand the importance of food safety in order to ensure the high quality of Little Sheep's products and services. The implementation of central kitchens also facilitated the unification of food safety management and centralised the monitoring of food quality. The use of state-of-the-art equipment standardised and automated the Company's production processes, which lowered the risk of human error.

Little Sheep was also at the forefront of change in the catering industry where, in 2010, it led a group of over 100 companies in the food industry to lobby for a ban on the use of discarded cooking oil. The Company also signed a self-disciplinary agreement to prohibit the use of food or raw materials which are processed using hazardous chemicals. As part of its 315 Quality Month Promotion (315品質月), the Company introduced its holistic approach to food safety management, as well as its tracing system. This assured customers that all process in Little Sheep's production chain is taken good care of. These activities represent a milestone for the entire industry for healthy development and the protection of customers.

Information System

In 2010, Little Sheep adopted a tailor-made RIF information system. RIF is a value-adding service and is an important decision making tool for the management. It provides objective evaluation of consumer markets and allows the monitoring of restaurant operations in a scientific manner. The effect of adopting this system was well recognised in the industry, with RIF awarded the *2010 Chinese Catering Science and Technology Advancement First Prize* from the Chinese Cuisine Association.

The rapid development of information technology at Little Sheep was a significant achievement. The strengthening of its internal systems and the improvement of its operation infrastructure resulting from the introduction of information technology has enhanced and supported Little Sheep's customer relationship management, work flow systems, cost control, restaurant management and operation decisions. It also supported the scientific management and healthy development of Little Sheep.

Business Outlook

Looking forward, as China continued its transformation into a consumer economy, rising consumer purchasing power and rapid urbanisation will continue to underpin the growth of Little Sheep's businesses. In face of continued inflationary pressure, the Company remains confident about the future prospects of the Chinese catering industry. The Company will continue to focus on reinforcing customer service, service quality and brand building, as well as making use of its high customer flow operation model and other competitive advantages to counteract inflation and achieve good results.

With customer service remaining Little Sheep's first and most important task, the Company will allocate more resources to strengthen food quality controls and ensure food safety. Meanwhile, Little Sheep will also further commit to training its employees and improving service standards to maintain the current high levels of customer satisfaction and increase customer traffic.

In the coming year, Little Sheep plans to open 40 new company-owned restaurants and refurbish 29 in order to further expand its restaurant network, attract more customers and capitalise on their increasing spending power. The Company will also maintain its stringent cost control measures and adopt new technologies to further improve efficiency and work flow, as well as streamline its production process to ensure profitability. The Company will also continue to develop sales channels and launch popular new products with higher profit margins to facilitate the stable development of its food business.

Through a combination of effective cost control, forward-looking business expansion and the pursuit of greater efficiency, Little Sheep is prudently optimistic about maintaining its strong business growth. Little Sheep is confident that it will further build on its success and create shareholder value in 2011.

Financial Review

Revenue

During the year of 2010, our total revenue increased by 22.7% year-on-year to RMB1,925.5 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 20.7% year-on-year to RMB1,476.2 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 33.1% year-on-year to RMB417.7 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 was RMB30.8 million, which remained unchanged over the period.

Revenue from management service fee

Revenue from management service fees represents the monthly fees the Group receives for the provision of restaurant management services to franchisees. During the year, revenue from management service fees dropped by 56.6% year-on-year to RMB0.7 million. The decrease was primarily due to a decrease in the number of franchise restaurants to which the Group had provided management services.

Other income

Other income, which includes income from the Company's non-core operations, increased by 34.1% year-on-year to RMB39.5 million. This was primarily attributable to the increase in government's subsidies, gain on disposal of restaurants, and sale of low-value consumables.

Cost of inventories sold

The cost of inventories sold increased by 30.7% year-on-year to RMB850.5 million. The increase was mainly attributable to the rise in sales volume and costs of raw materials.

Staff costs

Our staff costs increased by 14.4% year-on-year to RMB353.1 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 amortisation

Depreciation and amortisation amounted to RMB74.6 million, representing an increase of 36.8% year-on-year. Such increase was attributable to the overall increase in depreciation and amortisation 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 9.0% year-on-year to RMB155.8 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 18.0% year-on-year to RMB78.3 million, attributable to the increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 21.7% year-on-year to RMB200.9 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 RMB2.3 million which were primarily interest expenses.

Income tax expense

Our income tax expenses increased by 9.5% year-on-year to RMB49.0 million mainly attributable to the increase in pre-tax profit during the period.

Profit for the year

Our profit for the year increased by 21.0% year-on-year to RMB200.4 million as a result of the cumulative effect of the foregoing factors.

Net profit attributable to shareholders

Our net profit attributable to shareholders for the year was RMB187.8 million, recording an increase of 20.9% year-on-year, as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 31 December 2010, cash and bank balances stood at RMB261.4 million and net current assets were RMB390.0 million with a current ratio of 2.08.

As at 31 December 2010, total outstanding bank loans stood at RMB136.0 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 31 December 2010, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in 2010 was RMB92.8 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in 2010 were RMB234.9 million, consisting primarily of investments in restaurants and production bases of RMB194.5 million, and acquisition of restaurants of RMB51.0 million. Net cash inflow from financing activities over the period were RMB78.4 million, which mainly comprised the net increase in bank loans of RMB135.6 million offset by the payments of dividends of RMB62.0 million.

Capital Expenditures

Our capital expenditures for the year of 2010 were RMB198.1 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 2011 are approximately RMB196.7 million which will be mainly funded by internal resources of the Company.

Human Resources

As at 31 December 2010, the Group had 14,498 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 implemented a number of initiatives this year to create a caring and harmonious team atmosphere, raise employee commitment, and build closer ties between employees and customers. Over the period, the Group has also conducted training courses for front-store managers and employed external training institution to improve management and team work.

Use of proceeds from the Company's listing

Up to the year ended 31 December 2010, the Company has fully applied all the listing proceeds in accordance with the proposed applications set out in the Company's prospectus 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 2010 together with the comparative figures for the year ended 31 December 2009 as follows:

Consolidated Income Statement

Year ended 31 December 2010

		2010	2009
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	4	1,925,500	1,569,700
Other income and gains	4	39,537	29,482
Cost of inventories sold		(850,500)	(650,545)
Staff costs		(353,128)	(308,795)
Depreciation and amortisation		(74,612)	(54,561)
Rental expenses		(155,823)	(142,911)
Fuel and utility expenses		(78,307)	(66,381)
Other operating expenses		(200,912)	(165,114)
Finance costs		(2,343)	(408)
		<u> </u>	<u> </u>
PROFIT BEFORE TAX	5	249,412	210,467
Income tax expense	6	(49,044)	(44,807)
		<u> </u>	<u> </u>
PROFIT FOR THE YEAR		<u>200,368</u>	<u>165,660</u>
Attributable to:			
Owners of the Company		187,798	155,364
Non-controlling interests		<u>12,570</u>	<u>10,296</u>
		<u>200,368</u>	<u>165,660</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY			
— Basic (<i>RMB</i>)	8	<u>18.24 cents</u>	<u>15.12 cents</u>
— Diluted (<i>RMB</i>)		<u>18.05 cents</u>	<u>14.98 cents</u>
Dividends	7	<u>60,587</u>	<u>62,146</u>

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
PROFIT FOR THE YEAR	<u>200,368</u>	<u>165,660</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		
Exchange differences on translation of foreign operations	<u>(286)</u>	<u>(231)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>200,082</u>	<u>165,429</u>
Attributable to:		
Owners of the Company	187,512	155,133
Non-controlling interests	<u>12,570</u>	<u>10,296</u>
	<u>200,082</u>	<u>165,429</u>

Consolidated Statement of Financial Positions

31 December 2010

	<i>Notes</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		468,685	358,544
Deposits for purchases of items of plant and equipment		3,340	15,903
Intangible assets		279,158	236,774
Land lease prepayments		49,808	50,055
Long-term rental deposits		20,140	15,984
Long-term rental receivables		2,000	—
Deferred tax assets		6,367	5,455
Total non-current assets		829,498	682,715
CURRENT ASSETS			
Inventories		370,941	182,126
Trade receivables	9	33,681	19,297
Prepayments, deposits and other receivables		84,287	61,584
Cash and cash equivalents		261,428	325,207
Total current assets		750,337	588,214
CURRENT LIABILITIES			
Bank loans		86,000	375
Trade payables	10	69,340	51,098
Deposits, other payables and accruals		136,311	134,207
Due to non-controlling equity holders of subsidiaries		38,489	14,900
Tax payable		30,229	23,764
Total current liabilities		360,369	224,344
NET CURRENT ASSETS		389,968	363,870
TOTAL ASSETS LESS CURRENT LIABILITIES		1,219,466	1,046,585

	<i>Notes</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Bank loans		50,000	—
Long-term payables		10,486	<u>8,763</u>
Total non-current liabilities		<u>60,486</u>	<u>8,763</u>
NET ASSETS		<u><u>1,158,980</u></u>	<u><u>1,037,822</u></u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		91,198	90,826
Reserves		<u>1,064,671</u>	<u>939,952</u>
		1,155,869	1,030,778
Non-controlling interests		<u>3,111</u>	<u>7,044</u>
Total equity		<u><u>1,158,980</u></u>	<u><u>1,037,822</u></u>

Notes:

1. CORPORATE INFORMATION

Little Sheep Group Limited 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 is an investment holding company. The Group is principally engaged in the operation of full service restaurants chain, provision of catering services and sale of related food products. The Group has established a principal place of business in Hong Kong at Unit 1104, 11/F, Jubilee Center, 42–46 Gloucester Road, Wanchai, Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the company for the year ended 31 December 2010 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 restaurant operations and provision of catering services segment engages in operating 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 the provision of services of sales promotion, purchase, training, and other administrative services rendered to franchised restaurants.

Management monitors the results of the Group’s 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.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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 2010	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	1,476,204	417,728	30,848	720	1,925,500
Intersegment sales	<u>—</u>	<u>649,483</u>	<u>—</u>	<u>27,469</u>	<u>676,952</u>
	1,476,204	1,067,211	30,848	28,189	2,602,452
<i>Reconciliation:</i>					
Elimination of intersegment sales					<u>(676,952)</u>
Revenue from operations					<u><u>1,925,500</u></u>
Segment results	242,522	46,085	22,958	(31,365)	280,200
<i>Reconciliation:</i>					
Elimination of intersegment results					4,325
Other income					39,537
Unallocated expenses					(72,307)
Finance costs					<u>(2,343)</u>
Profit before tax					<u><u>249,412</u></u>
Segment assets	637,524	736,175	1,094,861	485,248	2,953,808
Elimination of intersegment receivables					<u>(1,373,973)</u>
Total assets					<u><u>1,579,835</u></u>
Segment liabilities	573,957	519,536	135,954	565,381	1,794,828
Elimination of intersegment payables					<u>(1,373,973)</u>
Total liabilities					<u><u>420,855</u></u>
Other segment information:					
Depreciation and amortisation	57,470	10,985	4,559	1,598	74,612
Capital expenditure	131,994	61,224	4,295	632	198,145*

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

Year ended	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>
31 December 2009					
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

Geographical information

In prior years, the Group's geographical information was presented by different geographic areas of Mainland China and other locations. For 2010, the geographical information has been presented by country of domicile in order to be fully compliant with IFRS 8. The presentation of the 2009 geographical information has been amended accordingly.

(a) Revenue from external customers

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Mainland China	1,799,342	1,432,808
Overseas	<u>126,158</u>	<u>136,892</u>
	<u>1,925,500</u>	<u>1,569,700</u>

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

(b) Non-current assets

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Mainland China	813,554	673,024
Overseas	<u>15,944</u>	<u>9,691</u>
	<u>829,498</u>	<u>682,715</u>

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

4. REVENUE, OTHER INCOME AND GAINS

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, other income and gains from continuing operations is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Restaurant operations and provision of catering services	1,476,204	1,223,382
Sale of food products	417,728	313,773
Franchise income	30,848	30,887
Management service fee income	<u>720</u>	<u>1,658</u>
	<u>1,925,500</u>	<u>1,569,700</u>

Other Income

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Government grants*	8,726	10,767
Promotion income	4,891	3,054
Sales of low value consumables	7,541	2,615
Rental income	2,968	2,381
Interest income on bank balances	1,652	5,938
Waiver of accrued rental	919	864
Others	6,194	3,168
	<u>32,891</u>	<u>28,787</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.

Gains

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Excess over the cost of a business combination	257	—
Gain on disposal of subsidiaries	5,242	—
Gain on disposal of fixed assets	1,147	695
	<u>6,646</u>	<u>695</u>
	<u>39,537</u>	<u>29,482</u>

5. PROFIT BEFORE TAX

	Group	
	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	308,404	268,542
Expense of share-based payments	1,313	2,556
Pension scheme costs	10,900	8,891
Social welfare and other costs	32,511	28,806
	<u>353,128</u>	<u>308,795</u>
Depreciation	74,259	54,217
Amortisation of intangible assets	106	98
Amortisation of lease prepayments	247	246
Auditors' remuneration	3,400	3,500
Net loss on disposal of items of property, plant and equipment	4,933	1,039
Minimum lease payments under operating leases in respect of buildings	155,823	142,911

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 relevant PRC income tax law, except for the preferential treatment available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China 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 2010, after obtaining approval from the relevant PRC tax authorities, 20 (2009: 18) entities of the Group were subject to a preferential corporate income tax rate of 22%, 5 (2009: 5) entities of the Group were exempt from the corporate income tax and 53 (2009: 41) 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 2010 (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.

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

	2010	2009
	RMB'000	RMB'000
Group		
Current	49,956	47,334
Deferred	(912)	(2,527)
	49,044	44,807

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 rates is as follows:

	Hong Kong		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Group — 2010								
Profit/(loss) before tax	<u>8,052</u>		<u>246,357</u>		<u>(4,997)</u>		<u>249,412</u>	
Tax at the statutory tax rates	1,329	16.5	61,589	25.0	45	(0.9)	62,963	25.2
Tax effect of preferential income tax rates	—	—	(3,612)	(1.5)	—	—	(3,612)	(1.4)
Effect of the verification collection method	—	—	(6,314)	(2.5)	—	—	(6,314)	(2.5)
Income not subject to tax	—	—	(5,342)	(2.1)	(9)	0.2	(5,351)	(2.1)
Expenses not deductible for tax	203	2.5	820	0.3	—	—	1,023	0.4
Tax losses not recognised	—	—	2,245	0.9	—	—	2,245	0.9
Others	<u>250</u>	<u>3.1</u>	<u>(2,160)</u>	<u>(0.9)</u>	<u>—</u>	<u>—</u>	<u>(1,910)</u>	<u>(0.8)</u>
Tax charge at the Group's effective rate	<u>1,782</u>	<u>22.1</u>	<u>47,226</u>	<u>19.2</u>	<u>36</u>	<u>(0.7)</u>	<u>49,044</u>	<u>19.7</u>

	Hong Kong		Mainland China		Others		Total	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Group — 2009								
Profit/(loss) before tax	<u>10,654</u>		<u>211,192</u>		<u>(11,379)</u>		<u>210,467</u>	
Tax at the statutory tax rates	1,758	16.5	52,722	25.0	1,244	(10.9)	55,724	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	0.8	—	—	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>(2,626)</u>	<u>(1.2)</u>	<u>88</u>	<u>(0.8)</u>	<u>(2,937)</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>

7. DIVIDENDS

2010	2009
<i>RMB'000</i>	<i>RMB'000</i>

Proposed final — HK6.9 cents per share (equivalent to approximately RMB5.9 cents per share) (2009: HK6.9 cents per share (equivalent to approximately RMB6.0 cents per share))

<u>60,587</u>	<u>62,146</u>
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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 RMB187,798,000 (2009: RMB155,364,000) and the weighted average number of 1,029,835,487 ordinary shares (2009: 1,027,678,370 ordinary shares) of the Company.

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary shareholders for the year of RMB187,798,000 (2009: RMB155,364,000) and on 1,040,242,925 ordinary shares (2009: 1,037,382,921 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 10,407,438 ordinary shares (2009: 9,704,551 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the share options granted under the Pre-IPO Option Scheme of the Company adopted 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 as at the end of the reporting period based on the invoice date and net of provision, is as follows:

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	30,861	17,916
3 to 6 months	1,798	1,119
6 to 12 months	794	94
1 to 2 years	228	168
	<u>33,681</u>	<u>19,297</u>

10. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	66,501	49,565
Over 3 months	2,839	1,533
	<u>69,340</u>	<u>51,098</u>

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK cents 6.9 per share (equivalent to approximately RMB5.9 cents per share) for the year ended 31 December 2010. Subject to the approval of the shareholders at the forthcoming annual general meeting, the final dividend will be distributed on or about 31 May 2011 to shareholders whose names appear on the register of members of the Company at the close of business on 18 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2011 to 18 May 2011, 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 11 May 2011.

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 2011, 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 2010 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 2010, 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 18 May 2011. 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, 22 March 2011

This annual results announcement will be published on the website of the Stock Exchange (www.hkexnews.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, Li Baofang and Wang Jianhai, 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 Xiang Bing, Yeung Ka Keung and Shin Yick, Fabian.