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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 2008

### FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Change (%)
	2008 (RMB'000)	2007 (RMB'000)	
Revenue	<b>1,271,523</b>	949,174	34.0%
Sales from restaurant operations	<b>1,010,690</b>	750,867	34.6%
Consolidated profit before tax	<b>165,328</b>	129,369	27.8%
Profit attributable to shareholders of the Company	<b>128,698</b>	91,163	41.2%
Basic earnings per share (RMB cents)	<b>13.55</b>	10.69	26.8%
Proposed final dividend per share (HK cents)	<b>7.6</b>	N/A	N/A

### OPERATIONAL HIGHLIGHTS

	2008	2007	
Same store sales growth	<b>10.0%</b>	3.3%	
Average per capita customer spending	<b>RMB53.93</b>	RMB51.16	5.4%
Utilization rate	<b>1.35</b>	1.40	(3.6%)
No. of company-owned restaurants (at 31 December)	<b>127</b>	90	41.1%
No. of franchise restaurants (at 31 December)	<b>248</b>	257	(3.5%)

## CHAIRMAN'S STATEMENT

Dear shareholders,

It is my great pleasure to present you the first annual results of Little Sheep Group Limited (“the Company” or “Little Sheep”, together with its subsidiaries, the “Group”) since the Company’s listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 June. 2008 was a meaningful year for Little Sheep, which marked the Company’s official presence in the equity market, the most strategic move in the Company’s history. At the same time, there were cataclysmic changes in the macro economies during the year, ranging from operating pressures brought by natural disasters and increasing prices of raw materials in the first half of the year to contraction of global economy and declining consumer confidence caused by the financial crisis in the second half. These adverse factors placed great challenges to every industry. However, leveraging on our distinguished business model, strong frontline and back office operations, highly competitive brand reputation, as well as our further consolidated financial strength after the listing, the Company’s businesses had developed steadily and substantially throughout the year under review.

The Company achieved outstanding performances in 2008. During the year, we had opened a total of 33 company-owned restaurants and 41 franchise restaurants, being the record highs in terms of restaurants opened in a single year since the Company was established. Meanwhile, our diversified marketing strategies were paying off. Same store sales growth reached 10.0% during the year. Generally speaking, the performances throughout the year were outstanding. Revenue and the profit attributable to the shareholders of the Company for the year ended 31 December 2008 were RMB1,271.5 million and RMB128.7 million respectively, increasing by 34.0% and 41.2% respectively when compared with 2007. In view of the outstanding financial results of the year, the board of directors (the “Directors”) of the Company (the “Board”) resolved to declare a final dividend of HK cents 7.6 per share.

During the year, we launched a management system named “Project Leader Sheep” which centralised the openings of new restaurant and management of restaurant operations across regions. We also set up a special team to strengthen the research and development capacity in new products. In respect of franchise restaurants, we continued to implement the new franchise fee payment structure and reinforced our management and support towards the operations of franchise restaurants. More than 70 franchisees had agreed to adopt the new fee payment structure, which in turn had largely increased the quality and stability of our franchise income.

Meanwhile, we proactively enhanced the capacity of our back office in order to keep pace with the rapid growth of frontline operations. An integrated information platform was established through successful upgrade of the information management system and the completion of switching of systems between finance and supply chains. As a result, we are able to centralise and unify data. With regard to human resources, we further improved our corporate organization structure and remuneration system, and strengthened our staff training. We also set up “Little Sheep Management Associate Training Base” in December 2008, which served to provide constant and professional training for staff improvement and develop strong human resources support for the Company’s rapid and sustainable

development. During the year, we had put vigorous efforts into enhancing our corporate profile, and further consolidated and strengthened the Little Sheep brand by launching marketing campaigns that continued to improve over time with different cooperative vehicles.

Looking forward to 2009, unfavourable factors such as the deepening financial crisis, stalemated global economy, uncertain outlook and weakened employment market will severely enervate consumer's confidence and sentiment. However, given the relatively solid foundation of China's economy, it is expected that China's economic stimulus policies and measures to boost domestic demand will provide great support to the steady growth of its economy and consumption as well as the development of the catering industry. Therefore, we remain prudently optimistic about our prospects.

The Company will expand its restaurant network in a prudent manner by establishing approximately 40 new company-owned restaurants nationwide, with the aim to further expand the domestic market. We will also develop innovative signature dishes and products to keep our menu refreshing and attractive. In addition, the Company will elevate its brand competitiveness by intensifying brand promotion and further raising its corporate profile. In short, we are committed to retaining existing customers and attracting new customers through various measures.

On the other hand, we will continue to strengthen management and put additional focus on corporate reform. We will improve our operating procedures by evolving around the "Project Leader Sheep", expanding information technology application in back office, optimizing corporate structure and implementing continuous performance evaluation, so as to achieve enhanced management, centralization of resources and increased efficiency. Our goal is to boost the overall competitiveness of Little Sheep and strive to maintain stable operation in the face of various challenges. At the same time, we will keep an eye on opportunities created in the current economic downturn and closely watch and identify merger & acquisition opportunities that can create value to the Company, with an aim of expanding business operations and increasing long-term profits and returns.

The year of 2009 marks the tenth anniversary of the Company. The above measures will continue to improve our frontline and back office operations, lay a solid foundation for our development for the next decade and invigorate the Company to create more breakthroughs in the future. On behalf of the Board, I would like to thank our customers, shareholders and business partners for their trust and support. I would also like to express my gratitude to the Directors and the management for their well-planned strategies and to all of our staff for their devoted services in the past year. We will work with determination and great effort in a bid to attain success and open a new chapter in the Company's development.

**Zhang Gang**  
*Chairman*

Hong Kong, 16 March 2009

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

2008 was a year full of challenges and opportunities. In the first three quarters of 2008, the Chinese economy expanded steadily. The improved living standards, urbanization, coupled with a considerable increase in household income and individual consumption power, had sparked a remarkable increase in consumer spending, and in particular, dining out has become one of the major activities in people's daily lives. This trend has created a favourable market environment for operators in China's catering industry. However, the financial crisis had slowed global economic growth in the fourth quarter. Although China's economy was not the most impacted, consumers have become relatively cautious as a result of the uncertain economic outlook.

The series of food safety issues in 2008 has raised concerns in the community and the government has strengthened its efforts in regulating unscrupulous caterers. As a result, consumers are now more aware of food safety. The middle-class, in particular, who have higher consuming power and are more focused on quality of life, are more prone to opt for restaurants with trusted brands and vast scale. This provided prime opportunities to qualified catering operators.

### Business Review

Little Sheep specializes in Mongolian-style hot pot cuisine with a vertically integrated business model. We operate restaurants in China and overseas markets under the "Little Sheep" brand, and engage in the processing and sales of lamb and soup base products and the wholesale distribution of fresh and dried food products. Leveraging on its proprietary soup base and superior quality of its lamb meat, Little Sheep has grown to become a restaurant chain with the highest brand awareness in hot pot cuisine in China.

The Company achieved satisfactory performances with revenue and profit attributable to shareholders up by 34.0% and 41.2% year-on-year to RMB1,271.5 million and RMB128.7 million respectively during the year. We are devoted to enhancing modernised management and the operational efficiency of our restaurants. During the year, revenue from the restaurants operation segment increased by 34.6%, contributing to the favourable performance by the Company as a whole.

#### *Restaurant operations*

During the year, our company-owned restaurants achieved excellent results. Our revenue from restaurant operations recorded an increase of 34.6% to RMB1,010.7 million compared to the corresponding period last year. The growth was mainly attributable to the enhancement of our brand image, openings of new restaurants as well as continued improvement of our product mix. The launch of new menus such as "Cha-Xiang-Guo", a special hot pot with additions of teas and essence of flowers, were well received by our customers, which resulted in a booming consumption. During the year, the average customer spending increased by 5.4% and same store sales went up 10.0% from last year.

To enhance our brand image and promote our products, we had conducted a series of marketing and promotion campaigns during the year. From October to December in 2008, we ran marketing campaigns and advertisements to promote our new product “Cha-Xiang-Guo” on Mobile Media of CCTV and the railway transport media of Data Media Group (DMG), both of which covered a wide range of network across the major cities in China.

We set up 33 new company-owned restaurants during the year. Those new restaurants are mainly located in first- and second-tier cities with better developed economy and higher spending power in Eastern and Southern China. With the adoption of fashionable interior design, they successfully attracted more customers and thus enhanced our restaurant business. In addition, we acquired ten highly qualified franchise restaurants during the year in order to improve the operating revenue of the Company. During the year, the Company closed down three company-owned restaurants and converted three company-owned restaurants in Japan to franchise restaurants. As of 31 December 2008, the Company had a total of 127 company-owned restaurants.

During the year, we proactively renovated our existing company-owned restaurants to build a unified image. Restaurants were divided into four categories by location and consuming capacity, namely, flagship restaurant, standard restaurant, community restaurant and shopping mall unit. Each category has its own unified interior design and new fashion elements were introduced into the design. All of which contributed to a well-established image of the Company. Moreover, food and services from the four categories are differentiated to cater for various demands and consuming capacity, so as to expand our customer bases.

In line with our commitment towards offering diversity to the customers, we began to offer business lunch in four restaurants for trial in December 2008, aiming to increase our sales during lunch hour. We plan to expand the scope in Shanghai based on the operating results and customer’s response in the first half of 2009. We target to expand the trial to all restaurants in China eventually, so as to increase customer traffic and expand our source of revenue.

Since its listing in June 2008, Little Sheep has been committed to enhancing its operating efficiency. We have launched the “Project Leader Sheep” during the year for the purpose of establishing a sophisticated and scientific operating and management system, as well as improving customer’s level of satisfaction. The Company gave its support to each regional unit through the operating center in Shanghai in respect of resources and strategy. Our operating center in Shanghai has four major functions: operation management, expansion of restaurant network, marketing, and research and development (R&D) of products.

- Operational management — Integrate the information reporting structure and streamline the process, strengthen effort on information collection and analysis so as to better grasp the market trend and the ever changing consumption pattern and taste; identify and select potential partners of acquisition and cooperation, realizing synergy effect and solid development.

- Expansion of restaurant network — Standardise the approval process for opening new restaurants to realize scientific decision-making process; unify design and material specification; leverage on economy of scale and efficiency of centralized purchase to control the cost. Meanwhile maintaining consistency of quality to create a comfortable environment for customers and improve their level of satisfaction.
- Marketing — Launch marketing campaigns on a unified basis by formulating more comprehensive plans on the allocation of resources, advertisement design and media selection, etc.; leverage on the economy of scale of our national restaurant network to speed up the development of the Company as well as unify the brand image.
- R&D of products — Set up a new R&D department with more resources input to develop more new products tailored for the consumer taste based on market research.

#### *Sale of food products*

Little Sheep provides a range of fresh and dried food products including lamb, hot pot soup base and other seasonings to wholesale distributors nationwide for their retail sales in hypermarkets, supermarkets, and convenience stores. With increasing customer recognition of our products, and our enhanced wholesaling structure, we achieved remarkable sales in hot pot soup base and lamb products, the revenue from sales of food products increased by 40.7% year-on-year to RMB239.9 million during the year.

As the largest lamb processing company in the PRC, Little Sheep operates two lamb processing facilities in Inner Mongolia, both of which are equipped with modern lamb processing equipment and technology. During the year, the Company processed approximately 6,909 tons of lamb, up from about 5,158 tons in 2007, representing an increase of 33.9%.

#### *Franchise restaurants*

During the year, revenue from franchise operations reached RMB18.9 million, representing a year-on-year decrease of 28.4%. The drop was due to closure and acquisition of a number of franchise restaurants. The Company had implemented and consolidated the new franchise fee payment structure, adjusting the previous one-off franchise fee of fixed amount to franchise fee equal to a certain percentage of the total operating revenue. The Company believes the new payment structure may incur short term impacts, but will achieve better allocation of operating revenue, which in the long-run will boost the Company's revenue from franchise operations, stimulate the enthusiasm of franchisees, raise the operating standards of franchise restaurants and provide customers with products and services of higher quality. During the year, more than 70 franchisees had agreed to adopt the new franchise fee payment structure. The Company aims to have the new scheme fully implemented by the end of 2010.

During the year, 41 new franchise restaurants were established, all of which adopted the new franchise fee payment structure. By the end of 31 December 2008, the Company operated a total of 248 franchise restaurants.

To further strengthen the management of franchise restaurants, the Company has further improved its code of practice for franchise restaurants. Meanwhile, a computer management system was also installed at franchise restaurants to collect and analyze operating and revenue information of franchise restaurants, which could allow us to monitor the latest sales performance.

#### *Stringent control on food quality*

With food quality as its top priority, the Company has established a food quality and safety supervising team to conduct stringent control on various operating procedures, including origin of production, plantation of raw materials, procurement and supply, storage, manufacturing, product sales, product protection, and food and beverage consumption, etc. In 2008, the Company continued to invest a substantial amount of resources in food safety test and plantation base construction, so as to ensure that our products meet the highest food safety standards.

Invited by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (國家質量監督檢驗檢疫總局) and the National Testing Center of Agricultural and Sideline Products and Condiments (國家農副產品及調味品檢測中心), the Company participated in the drafting of *National Standards for Seasonings of Hot Pot Soup Base* (《火鍋底料國家標準》) during the year. This reflects the public's recognition and appreciation of Little Sheep's efforts in food quality supervision.

#### **Business outlook**

Looking forward, the global economy in 2009 will continue to experience various uncertainties as a result of the current financial crisis. However, the Company believes that there are still considerable demands for the catering industry in the Chinese market, as people are dining out more frequently nowadays with the rapid emerging of the middle class over the past few years, and the government endeavours to stimulate domestic demand by various measures. Therefore, Little Sheep will concentrate its resources on continually expanding its restaurants network in a prudent manner by establishing about 40 new company-owned restaurants nationwide, aiming at further expanding the domestic market. Meanwhile, the Company will develop innovative signature dishes and products on a constant basis to cater to the market trend and the customer's taste. The Company will also elevate its brand competitiveness by intensifying brand promotion and further raising its corporate profile through various channels. In addition, the Company will continue to strengthen management and put additional focus on corporate reform. By carrying out the "Project Leader Sheep", the Company is committed to boost the overall competitiveness of Little Sheep and seize various opportunities in the market.

## **Financial Review**

### *Revenue*

During the year, our total revenue increased by 34.0% year-on-year to RMB1,271.5 million. The increase was primarily due to the significant increase in revenue from restaurant operations and sales of food products, which was resulted from the higher customer consumption and product sales boosted by the opening of new shops, launch of new products coupled with the well-received brand image and promotion campaign.

### *Revenue from restaurant operations*

Revenue from restaurant operations increased by 34.6% year-on-year to RMB1,010.7 million, primarily due to the contribution from newly opened restaurants as well as the growth in existing restaurants sales.

### *Revenue from sales of food products*

Revenue from sales of food products increased by 40.7% year-on-year to RMB239.9 million, mainly due to increases in the sales volume of our soup base and lamb products.

### *Revenue from franchise operations*

Revenue from franchise operations decreased by 28.4% year-on-year to RMB18.9 million. This was due to closure and acquisition of a number of franchise restaurants during the year.

### *Revenue from management service fee*

Revenue from management service fee represents monthly fees that the Group receives for the provision of restaurant management services to franchisees. During the year, revenue from management service fee increased by 43.8% year-on-year to RMB2.1 million. This rise was due to adjustments of the rates of fees and the growth in the number of restaurants.

### *Other income*

Regarding the rest of the income, it represents income received from non-core operations, increased by 213.7% year-on-year to RMB30.0 million during the year. This was primarily attributed to the increases in government grants, gains on disposal of our restaurants in Japan and income from waiver of interest expenses on convertible bonds.

### *Cost of inventories sold*

The cost of inventories sold increased by 39.1% year-on-year to RMB524.4 million. The growth was mainly attributed to the rise in sales volume and costs of raw materials.

### *Staff costs*

Our staff costs increased by 55.1% year-on-year to RMB257.3 million, primarily due to the overall increase in salaries and other employee benefits, as well as the increase in headcount resulting from the opening of new restaurants and the improvement of productivity in sectors such as seasoning.

### *Depreciation and amortisation*

Depreciation and amortisation amounted to RMB40.6 million, representing an increase of 26.5% year-on-year. Such increase was attributable to the overall increase in depreciation and amortisation expenses resulted from an increase in the number of restaurants and the renovations undertaken at certain existing restaurants.

### *Rental expenses*

Rental expenses increased by 23.4% year-on-year to RMB119.5 million, mainly due to the increase in the number of company-owned restaurants.

### *Fuel and utility expenses*

Fuel and utility expenses increased by 33.1% year-on-year to RMB55.8 million, attributable to the increase in the number of company-owned restaurants.

### *Other operating expenses*

Other operating expenses increased by 39.0% year-on-year to RMB131.9 million, mainly due to the increase in the number of company-owned restaurants.

### *Finance costs*

Our finance costs during the year were RMB6.6 million, primarily attributable to interest expenses, while finance costs of RMB20.6 million were recorded for last year. Finance costs decreased significantly as convertible bonds had been converted into shares during the year, and bank loans from last year had been settled.

### *Tax*

Our tax expenses decreased by 10.3% from the previous year to RMB30.8 million year-on-year, as a result of the decrease in corporate income tax rate from the original 33% to 25% in China. In addition, the consolidation of tax payments of the head office and its branches which has begun this year also helped the inter-tax deduction.

### *Profit for the year*

Our profit for the year increased by 41.5% year-on-year to RMB134.5 million as a result of the cumulative effect of the foregoing factors.

### *Liquidity and financial resources*

As at 31 December 2008, cash and bank balances stood at RMB424.0 million and net current assets were RMB474.8 million with a current ratio of 3.30. The strong cash position and relatively high current ratio was mainly due to inflow of proceeds from the initial public offering of the Company in June 2008.

As at 31 December 2008, total bank loans were RMB0.9 million which was an agricultural development loan made for our subsidiary Bayannur City Little Sheep Meat Co., Ltd. Out of which, RMB0.5 million was repayable within one year, and RMB0.4 million was repayable from the second year to the fifth year.

The annual interest rates on bank loans during the year varied from 2.40% to 5.91%, and the annual interest rates on long-term bank loans stood at 2.40%.

Regarding the foreign exchange fluctuations, during the year, the Group's revenue and business incomes and expenses were mainly denominated in Renminbi while those from our overseas company-owned restaurants outside mainland China were denominated in foreign currencies, including Hong Kong dollars. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to take effective measures and monitor closely the foreign currency movement. As at 31 December 2008, the Group did not have any derivative instrument for hedging against foreign exchange risk.

### *Cash flow*

Net cash inflow from operating activities in 2008 were RMB142.1 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in 2008 were RMB179.5 million, consisting primarily of investment in restaurants and bases of RMB86.6 million, acquisition of restaurants of RMB29.0 million and purchase of operation office premises of RMB62.4 million.

Net cash inflow from financing activities in 2008 were RMB261.5 million, consisting primarily of proceeds from listing of RMB430.7 million, repayments of bank loans of RMB92.5 million and payments of dividends of RMB91.1 million.

### *Capital expenditures*

Our capital expenditures for the whole year of 2008 were RMB154.6 million which were primarily related to the expenditures from the opening and refurbishment of company-owned restaurants, bases construction, information technology construction and purchase of office premises. Our planned capital expenditures for 2009 are approximately RMB170.3 million.

### *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.

### *Human resources*

As at 31 December 2008, the Group had 9,106 employees. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various internal training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted a Pre-IPO share option scheme and a share option scheme, under which eligible employees are entitled to various share options to subscribe for the ordinary shares of the Company to reward their past and potential contributions to the growth of the Group.

## 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 2008 together with the comparative figures for the year ended 31 December 2007 as follows:

### Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
<b>REVENUE</b>	4	<b>1,271,523</b>	949,174
Other income	4	<b>29,964</b>	9,551
Cost of inventories		<b>(524,390)</b>	(377,073)
Staff costs		<b>(257,342)</b>	(165,886)
Depreciation and amortisation		<b>(40,591)</b>	(32,096)
Rental expenses		<b>(119,534)</b>	(96,904)
Fuel and utility expenses		<b>(55,752)</b>	(41,892)
Other operating expenses		<b>(131,947)</b>	(94,895)
Finance costs		<b>(6,603)</b>	(20,610)
<b>PROFIT BEFORE TAX</b>	5	<b>165,328</b>	129,369
Tax	6	<b>(30,793)</b>	(34,318)
<b>PROFIT FOR THE YEAR</b>		<b><u>134,535</u></b>	<b><u>95,051</u></b>
Attributable to:			
Shareholders of the Company		<b>128,698</b>	91,163
Minority interests		<b><u>5,837</u></b>	<u>3,888</u>
		<b><u>134,535</u></b>	<b><u>95,051</u></b>
<b>DIVIDENDS</b>			
Proposed final	7	<b><u>68,852</u></b>	<u>—</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY</b>	8		
— Basic (RMB)		<b><u>13.55 cents</u></b>	<u>10.69 cents</u>
— Diluted (RMB)		<b><u>13.53 cents</u></b>	<u>10.68 cents</u>

## Consolidated Balance Sheet

As at 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>RMB'000</b>	2007 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>277,684</b>	181,975
Deposits for purchases of items of plant and equipment		<b>5,567</b>	8,517
Intangible assets		<b>171,131</b>	143,193
Lease prepayments		<b>11,717</b>	11,858
Long-term rental deposits		<b>13,281</b>	17,814
Deferred income tax assets		<b>2,928</b>	2,756
		<b>482,308</b>	366,113
<b>CURRENT ASSETS</b>			
Inventories		<b>179,400</b>	144,143
Trade receivables	9	<b>12,175</b>	5,373
Due from the ultimate holding company and a shareholder		—	78
Prepayments, deposits and other receivables		<b>65,902</b>	55,208
Cash and cash equivalents		<b>424,038</b>	204,126
		<b>681,515</b>	408,928
<b>CURRENT LIABILITIES</b>			
Bank loans		<b>535</b>	97,992
Trade payables	10	<b>40,803</b>	37,448
Deposits, other payables and accruals		<b>137,807</b>	92,715
Due to minority equity holders/shareholders of subsidiaries		<b>12,528</b>	28,685
Tax payable		<b>14,994</b>	16,947
		<b>206,667</b>	273,787
<b>NET CURRENT ASSETS</b>		<b>474,848</b>	135,141
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>957,156</b>	501,254

	<i>Notes</i>	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds		—	190,966
Bank loans		<b>375</b>	910
Long-term payables		<b>6,885</b>	4,771
Deferred income tax liabilities		<u>—</u>	<u>292</u>
<b>Total non-current liabilities</b>		<u><b>7,260</b></u>	<u>196,939</u>
<b>NET ASSETS</b>		<u><b>949,896</b></u>	<u>304,315</u>
<b>EQUITY</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital		<b>90,823</b>	—
Reserves		<u><b>850,776</b></u>	<u>287,952</u>
		<b>941,599</b>	287,952
<b>Minority interests</b>		<u><b>8,297</b></u>	<u>16,363</u>
<b>TOTAL EQUITY</b>		<u><b>949,896</b></u>	<u>304,315</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. 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, Macau, the United States of America and Japan. 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.

## **1. CORPORATE INFORMATION AND REORGANISATION (Continued)**

Pursuant to a group reorganisation (the “Reorganisation”) for the purpose of listing the Company’s ordinary shares on the Stock Exchange, the Company acquired the entire issued share capital of China XiaoFeiYang Catering Chain Co., Ltd. (“China XiaoFeiYang”), a company registered in the British Virgin Islands, and its subsidiaries and thereby became the holding company of the companies now comprising the Group on 23 May 2008. Further details of the Reorganisation are set out in the Company’s prospectus dated 2 June 2008.

As the Company and China XiaoFeiYang were under the common control of Possible Way before and after the Reorganisation, the acquisition of China XiaoFeiYang by the Company has been reflected in the consolidated financial statements as a common control transaction. Accordingly, the Company was treated as the holding company of China XiaoFeiYang and its subsidiaries for the year presented rather than from the date of acquisition of China XiaoFeiYang applying the principles of merger accounting.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Company and its subsidiaries (collectively referred to as the “Group”) as a whole.

## **2. PRINCIPAL ACCOUNTING POLICIES**

The consolidated financial statements of the Company for the year ended 31 December 2008 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. SEGMENT INFORMATION

Year ended 31 December 2008	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>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>						
Sales to external customers	1,010,690	239,858	18,886	2,089	—	1,271,523
Intersegment sales	—	314,625	—	23,290	(337,915)	—
<b>Total</b>	<b>1,010,690</b>	<b>554,483</b>	<b>18,886</b>	<b>25,379</b>	<b>(337,915)</b>	<b>1,271,523</b>
<b>Segment results</b>	<b>167,833</b>	<b>10,557</b>	<b>9,869</b>	<b>(4,068)</b>	<b>(508)</b>	<b>183,683</b>
Other income						29,964
Unallocated expenses						(41,716)
Finance cost						(6,603)
Profit before tax						165,328
Tax						(30,793)
Profit for the year						<b>134,535</b>
<b>Assets and liabilities:</b>						
Segment assets	478,717	323,920	547,466	557,481	(743,761)	1,163,823
Segment liabilities	221,706	90,498	166,739	478,745	(743,761)	213,927
<b>Other segment information:</b>						
Depreciation and amortisation	37,311	1,306	1,394	580	—	40,591
Capital expenditure	72,962	16,483	63,980	1,223	—	154,648
Impairment losses recognised in the consolidated income statement	—	—	250	—	—	250

### 3. SEGMENT INFORMATION (Continued)

Year ended 31 December 2007	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>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>						
Sales to external customers	750,867	170,479	26,375	1,453	—	949,174
Intersegment sales	—	245,209	—	6,420	(251,629)	—
<b>Total</b>	<u>750,867</u>	<u>415,688</u>	<u>26,375</u>	<u>7,873</u>	<u>(251,629)</u>	<u>949,174</u>
<b>Segment results</b>	<u>134,448</u>	<u>9,546</u>	<u>10,902</u>	<u>480</u>	<u>(3,643)</u>	151,733
Other income						9,551
Unallocated expenses						(11,305)
Finance costs						<u>(20,610)</u>
Profit before tax						129,369
Tax						<u>(34,318)</u>
Profit for the year						<u>95,051</u>
<b>Assets and liabilities:</b>						
Segment assets	<u>407,897</u>	<u>350,953</u>	<u>437,253</u>	<u>232,796</u>	<u>(653,858)</u>	<u>775,041</u>
Segment liabilities	<u>245,060</u>	<u>177,572</u>	<u>240,424</u>	<u>227,164</u>	<u>(419,494)</u>	<u>470,726</u>
<b>Other segment information:</b>						
Depreciation and amortisation	26,856	3,772	1,152	316	—	32,096
Capital expenditure	47,622	11,898	2,564	369	—	62,453
Impairment losses recognised in the consolidated income statement	<u>—</u>	<u>—</u>	<u>1,075</u>	<u>—</u>	<u>—</u>	<u>1,075</u>

### 3. SEGMENT INFORMATION (Continued)

#### Geographical segments

The following table presents revenue and profit information regarding the Group's geographical segments for years ended 31 December 2008 and 2007.

Year ended	North China	East China	South China	North West	North East	Others	Eliminations	Consolidated
31 December 2008	RMB'000	RMB'000	RMB'000	China	China	RMB'000	RMB'000	RMB'000
				RMB'000	RMB'000			
<b>Segment revenue:</b>								
Sales to external customers	<u>803,500</u>	<u>291,881</u>	<u>275,427</u>	<u>49,715</u>	<u>14,012</u>	<u>174,903</u>	<u>(337,915)</u>	<u>1,271,523</u>
<b>Other segment information:</b>								
Segment assets	<u>954,910</u>	<u>215,358</u>	<u>150,170</u>	<u>29,523</u>	<u>10,870</u>	<u>546,753</u>	<u>(743,761)</u>	<u>1,163,823</u>
Capital expenditure	<u>96,335</u>	<u>23,308</u>	<u>18,074</u>	<u>7,862</u>	<u>4,075</u>	<u>4,994</u>	<u>—</u>	<u>154,648</u>
Year ended	North China	East China	South China	North West	North East	Others	Eliminations	Consolidated
31 December 2007	RMB'000	RMB'000	RMB'000	China	China	RMB'000	RMB'000	RMB'000
				RMB'000	RMB'000			
<b>Segment revenue:</b>								
Sales to external customers	<u>563,954</u>	<u>234,929</u>	<u>186,790</u>	<u>28,269</u>	<u>6,021</u>	<u>180,840</u>	<u>(251,629)</u>	<u>949,174</u>
<b>Other segment information:</b>								
Segment assets	<u>832,622</u>	<u>153,150</u>	<u>103,935</u>	<u>14,150</u>	<u>5,770</u>	<u>319,272</u>	<u>(653,858)</u>	<u>775,041</u>
Capital expenditure	<u>28,822</u>	<u>9,008</u>	<u>7,964</u>	<u>3,021</u>	<u>2,190</u>	<u>11,448</u>	<u>—</u>	<u>62,453</u>

#### 4. REVENUE AND OTHER INCOME

##### Revenue

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

	Year ended	
	31 December 2008 RMB'000	31 December 2007 RMB'000
Restaurant operations and provision of catering services	1,010,690	750,867
Sale of food products	239,858	170,479
Franchise income	18,886	26,375
Management service fee income	<u>2,089</u>	<u>1,453</u>
	<u><b>1,271,523</b></u>	<u><b>949,174</b></u>

##### Other Income

	Notes	Year ended	
		31 December 2008 RMB'000	31 December 2007 RMB'000
Government grants	(i)	5,038	3,440
Gain on disposal of a subsidiary		4,158	—
Sales of low value consumables		2,318	1,173
Interest income on bank balances	(ii)	4,019	1,772
Waiver of 2007 interest expenses on convertible bonds		8,463	—
Others		<u>5,968</u>	<u>3,166</u>
		<u><b>29,964</b></u>	<u><b>9,551</b></u>

##### Notes:

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

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended	
	31 December 2008 RMB'000	31 December 2007 RMB'000
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	215,662	146,575
Expense of share-based payments	3,409	100
Pension scheme costs	16,529	5,883
Social welfare and other costs	<u>21,742</u>	<u>13,328</u>
	<u>257,342</u>	<u>165,886</u>
Depreciation	40,247	31,876
Amortisation of intangible assets	98	97
Amortisation of lease prepayments	246	123
Auditors' remuneration	4,500	2,224
Net loss on disposal of items of property, plant and equipment	288	3,583
Provision against trade receivables	250	1,075
Minimum lease payments under operating leases in respect of buildings	<u>119,534</u>	<u>96,904</u>

## 6. TAX

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

Under the New PRC corporate income tax law, since 1 January 2008 except for the preferential treatment available to certain subsidiaries operating in the PRC, the companies of the Group which operate in the PRC are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method. During the year ended 31 December 2008, after obtaining approval from the relevant PRC tax authorities, 17 (2007: 13) entities of the Group were subject to a preferential corporate income tax rate of 18%, 5 (2007: 4) entities of the Group were exempt from the corporate income tax and 36 (2007: 28) 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 profits for the year ended 31 December 2008 (2007: 17.5%).

	Year ended	
	31 December 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
Income tax		
Current income tax	31,257	33,950
Deferred income tax	<u>(464)</u>	<u>368</u>
	<u><b>30,793</b></u>	<u><b>34,318</b></u>

	Year ended	
	31 December 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
Mainland China	28,974	31,542
Hong Kong	1,990	2,046
Others	<u>(171)</u>	<u>730</u>
	<u><b>30,793</b></u>	<u><b>34,318</b></u>

## 7. DIVIDENDS

	Year ended	
	31 December 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
Dividend paid by China XiaoFeiYang to the then shareholders	78,506	31,850
Proposed final — HK cents 7.6 per share (equivalent to approximately RMB6.7 cents per share)	<u><b>68,852</b></u>	<u>—</u>

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

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

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of the Company for the year of RMB128,698,000 (2007: RMB91,163,000) and the weighted average number of 950,104,846 ordinary shares (2007: 852,943,000) of the Company.

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

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2007 was based on the 852,943,000 ordinary shares issued in accordance with the Reorganisation, as further detailed in note 37 to the consolidated financial statements.

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit attributable to shareholders for the year of RMB128,698,000 (2007: RMB91,163,000) and on 950,954,446 ordinary shares (2007: 853,313,007 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 849,600 ordinary shares (2007: 370,007 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme (as defined in note 40 to the consolidated financial statements).

## 9. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provision, is as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within 3 months	9,370	5,304
3 to 6 months	2,045	54
6 to 12 months	<u>760</u>	<u>15</u>
	<u><u>12,175</u></u>	<u><u>5,373</u></u>

Trade receivables are non-interest bearing and are generally on a term of three months.

## 10. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Within 3 months	39,546	32,060
Over 3 months	<u>1,257</u>	<u>5,388</u>
	<u><u>40,803</u></u>	<u><u>37,448</u></u>

## FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK cents 7.6 per share (equivalent to approximately RMB6.7 cents per share) (2007: Nil) for the year ended 31 December 2008, to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on 18 May 2009, subject to the approval in the annual general meeting.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 13 May 2009 to 18 May 2009, 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 12 May 2009.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the period from the Company's listing on the Stock Exchange on 12 June 2008 ("Listing Date") to 31 December 2008, 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 period from the Listing Date to 31 December 2008.

## **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 2009, 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 2008 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 period from the Listing Date to 31 December 2008, 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 2009. 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, 16 March 2009

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

*As at the date of this announcement, the executive Directors of the Company are Zhang Gang, Lu Wenbing, Yeung Yiu Keung, Wang Daizong, Zhang Zhanhai, Kou Zhifang, Li Baofang, the non-executive Directors are Chen Hongkai, Nishpank Rameshbabu Kankiwala and the independent non-executive directors are Xiang Bing, Yeung Ka Keung and Shin Yick, Fabian.*