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Little Sheep Recorded Remarkable Growth amid Economic Adversity in 2008 Profit Attributable to Shareholders boosted 41.2% to RMB 128.7 Million

Hong Kong, 16 March, 2009 - **Little Sheep Group Limited** (“Little Sheep” or the “Company”; SEHK Stock Code: 0968), the leading full-service restaurant chain operator in China, reported its first annual results for the year ended 31 December 2008 since its listing.

<u>Financial Highlights</u>	<u>2008</u>	<u>% change over 2007</u>
	(RMB '000)	
Revenue	1,271,523	+34.0%
Sales from restaurant operations	1,010,690	+34.6%
Consolidated profit before tax	165,328	+27.8%
Profit attributable to shareholders of the Company	128,698	+41.2%
Basic earnings per share (RMB cents)	13.55	+26.8%
Proposed final dividend per share (HK cents)	7.6	N/A
<u>Operational Highlights</u>	<u>2008</u>	<u>2007</u>
Same store sales growth	10.0%	3.3%
Average per capita customer spending	53.93	51.16
(RMB dollars)		
Number of company-owned restaurants	127	90
(as at 31 December 2008)		
Number of franchise restaurants	248	257
(as at 31 December 2008)		

In 2008, Little Sheep continued to expand its restaurant networks in China and to enhance organizational and operational capabilities. During the year, revenue from the restaurants operation increased by 34.6%, contributing to the Company’s overall performance. Revenue grew by 34.0% year-on-year to approximately RMB1,271.5 million, and profit attributable to

shareholders surged by 41.2% to RMB128.7 million. Basic earnings per share increased to RMB13.55 cents, up 26.8%. In view of strong financial results, the Board of Directors resolved to declare a final dividend of HK\$7.6 cents per share.

Business Review

Restaurant Operations

As of 31 December 2008, Little Sheep had a total of 127 company-owned restaurants. The Company 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. The adoption of fashionable interior design has successfully attracted more customers and thus enhanced the restaurant business of the Company. In addition, the Company acquired 10 highly qualified franchise restaurants during the year, and converted 3 company-owned restaurants in Japan to franchise restaurants in order to improve its operating revenue.

Since its listing in June 2008, Little Sheep has been committed to enhancing its operating efficiency. The Company has launched the “Project Leader Sheep” (領頭羊計劃) 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.

The Company had conducted a series of marketing and promotion campaigns in 2008 to reinforce its corporate profile and brand image. Moreover, with the openings of new restaurants and the continued improvement of its product mix, the Company achieved satisfactory results with revenue from the restaurants operation up 34.6%. The launch of new menus such as “Cha Xiang Guo” (茶香鍋) were well received by customers and boosted consumption. During the year, the average customer spending increased by 5.4% and same store sales went up 10.0% from last year.

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 retail sales in hypermarkets, supermarkets, and convenience stores. With increasing customer recognition and enhanced distribution networks, Little Sheep achieved remarkable sales growth in hot pot soup base and lamb products. Revenue from sales of food products recorded a growth of 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. The Company processed approximately 6,909 tons of lamb, up from 5,158 tons in 2007, representing an increase of 33.9%.

Franchise Restaurants

Revenue from franchise business of Little Sheep reached RMB18.9 million, representing a year-on-year decrease of 28.4%. The drop was due to the closure and acquisition of a number of franchise restaurants. As of 31 December 2008, the Company operated a total of 248 franchise restaurants.

During the year, the Company had implemented a new franchise fee payment structure, adjusting the previous one-off franchise fee of fixed amount to royalty payment equal to a certain percentage of total operating revenue. 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.

Future Outlook

In 2009, Little Sheep will continue to expand its restaurant network in China by establishing 40 new company-owned restaurants nationwide. The Company will also develop innovative signature dishes and products to keep its menu refreshing and attractive. In addition, the Company will increase its brand competitiveness by intensifying brand promotion and further raising its corporate profile. On the other hand, Little Sheep will continue to strengthen management and put additional focus on corporate reform by evolving around the “Project Leader Sheep”, so as to enhance its overall competitiveness.

“Looking forward to 2009, stalemated global economy and uncertain outlook 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. Little Sheep was successfully listed in Hong Kong in 2008, while the year of 2009 marks the tenth anniversary of the Company. The above measures will continue to improve our front line operations and back end support systems, lay a solid foundation for our development for the next decade and invigorate the Company to create more breakthroughs in the future.” Mr Lu Wenbing, Executive Director and Chief Executive Officer of Little Sheep concluded.

About Little Sheep

Little Sheep is the leading full-service restaurant chain operator in the PRC with a nationwide restaurant network. As of 31 December, 2008, the Company operated a total of 127 company-owned restaurants and 248 franchise restaurants. The Company ranked No.1 among Chinese restaurant operators in the chained consumer food services industry and No.1 in full-services chain restaurants with 6% and 11.8% brand market share respectively in 2006. Little Sheep also has a highly scalable and vertically integrated business model from lamb processing and soup base production to restaurant operations and wholesale food distribution. Little Sheep was listed on the Main Board of SEHK on June 12, 2008.

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For further enquiries, please contact Hill and Knowlton Asia Ltd.:

Carol Mak

Tel: 852-2894 6283

Mobile: 852-6126 5261

Email: carol.mak@hillandknowlton.com.hk

Anna Chan

Tel: 852-2894 6262

Mobile: 852-9129 8690

Email: anna.chan@hillandknowlton.com.hk

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Year ended 31 December 2008	
	2008	2007
	RMB'000	RMB'000
REVENUE	1,271,523	949,174
Other income	29,964	9,551
Cost of inventories sold	(524,390)	(377,073)
Staff costs	(257,342)	(165,886)
Depreciation and amortisation	(40,591)	(32,096)
Rental expenses	(119,534)	(96,904)
Fuel and utility expenses	(55,752)	(41,892)
Other operating expenses	(131,947)	(94,895)
Finance costs	(6,603)	(20,610)
PROFIT BEFORE TAX	165,328	129,369
Tax	(30,793)	(34,318)
PROFIT FOR THE PERIOD	134,535	95,051
Attributable to:		
Shareholders of the Company	128,698	91,163
Minority interests	5,837	3,888
	134,535	95,051
DIVIDEND	68,852	—
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		
- Basic (RMB)	13.55cents	10.69cents
- Diluted (RMB)	13.53cents	10.68cents