

Little Sheep Group Limited 小肥羊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 968



LITTLE SHEEP

Interim Report 2008



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Corporate Information

Board of Directors

Executive Directors

Mr. Zhang Gang (*Chairman*)
Mr. Lu Wenbing (*Chief Executive Officer*)
Mr. Yeung Yiu Keung
Mr. Wang Daizong
Mr. Zhang Zhanhai
Ms. Kou Zhifang
Ms. Li Baofang

Non-executive Directors

Mr. Chen Hongkai
Mr. Nishpank Rameshbabu Kankiwala

Independent non-executive Directors

Dr. Xiang Bing
Mr. Yeung Ka Keung
Mr. Shin Yick, Fabian

Audit Committee

Mr. Yeung Ka Keung (*Chairman*)
Mr. Shin Yick, Fabian
Dr. Xiang Bing

Remuneration Committee

Dr. Xiang Bing (*Chairman*)
Mr. Zhang Gang
Mr. Lu Wenbing
Mr. Shin Yick, Fabian
Mr. Yeung Ka Keung

Nomination Committee

Mr. Shin Yick, Fabian (*Chairman*)
Mr. Zhang Gang
Mr. Yeung Yiu Keung
Mr. Yeung Ka Keung
Dr. Xiang Bing

Authorized Representatives

Mr. Wang Daizong
Mr. Lee Kwok Wa

Company Secretary

Mr. Lee Kwok Wa, *FCCA, solicitor of HKSAR*

Qualified Accountant

Mr. Lee Kwok Wa, *FCCA, solicitor of HKSAR*

Registered Office

Cricket Square
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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Unit 1104
11/F, Jubilee Centre
42-46 Gloucester Road
Wanchai
Hong Kong

Company's Head Office

No. 8 Qingnian Road
Kundulun District
Baotou
Inner Mongolia, PRC

Principal Share Registrar

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Agricultural Bank of China, Kunqu branch
Bank of Communications, Wantong branch
China Merchants Bank, Huhhot Branch

Compliance Advisor

N M Rothschild & Sons (Hong Kong) Limited

Auditors

Ernst & Young
Certified Public Accountants

Stock Code

968

Company Website

www.LittleSheep.com

Financial and Operational Highlights

	Six month ended 30 June		
	2008	2007	% Change
	(Unaudited) RMB'000	(Unaudited) RMB'000	Increase/ (Decrease)
Financial Highlights			
Consolidated revenue	528,558	356,721	48.2%
Sales from restaurant operations	445,672	304,604	46.3%
Consolidated profit before tax	57,865	34,693	66.8%
Profit attributable to shareholders	42,207	23,201	81.9%
Basic earnings per share (RMB)	4.84 cents	2.72 cents	77.9%
Operational Highlights			
Average per capita customer spending (RMB)	52.92	49.67	6.5%
Utilization rate	1.23	1.19	3.4%

Same store sales for the first half of 2008 achieved a remarkable growth of 12.0%.

Total number of company-owned restaurants and franchise restaurants as of 30 June 2008 reached 103 and 240 respectively which are located in the following areas:

Region and Province/City	Number of Restaurants			
	As of 30 June 2008		As of 31 December 2007	
	Company-owned	Franchise	Company-owned	Franchise
Northern PRC	22	100	20	114
Eastern PRC	37	47	32	49
Southern PRC	24	22	20	24
Northeastern PRC	4	7	4	8
Northwestern PRC	7	48	5	44
Special Administrative Regions	5	—	5	—
Overseas	4	7	4	8
Other	—	9	—	10
Total	103	240	90	257

	30 June 2008	31 December 2007
Liquidity and Gearing		
Current ratio ⁽¹⁾	2.81	1.49
Quick ratio ⁽²⁾	2.41	0.97
Gearing ratio ⁽³⁾	0.04	0.37

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Gearing ratio is calculated as total debts (interest-bearing bank borrowings and convertible bonds) divided by total assets.



Chairman's Statement

Dear Shareholders,

It is my great pleasure to present to you the first interim report of Little Sheep Group Limited ("the Company" or "Little Sheep") for the six months ended 30 June 2008 since the Company's listing on the Stock Exchange of Hong Kong on 12 June 2008.

2008 is a milestone year for Little Sheep. Our listing in Hong Kong has been our most strategic transformation and has prepared us for our next phase of exponential growth. We were pleased that the Company's IPO received overwhelming response from investors despite the bearish market sentiment in mid 2008. The raised net proceeds of over HK\$460 million have strengthened our financial base to support our future development and expansion. Leveraging on the resources and opportunities brought by the listing, we will continue our efforts to enhance our corporate standing and optimize our competitive strengths in both the domestic and international markets, with the aim of bringing our trademark hot pot cuisine to every corner of the world.

The rise of the middle-class and accelerating urbanization in China has led to a significant transformation in the eating patterns of the Chinese. People are dining out more for convenience, fun, business or simply meeting other people. As a leading full-service restaurant chain operator in China with the highest brand awareness in the hot pot sector[#], we are well positioned to benefit from the enormous business opportunity in the consumer food market in China.

Little Sheep is no ordinary restaurant chain. We have a distinctive vertically integrated business model which ranges from meat processing and soup base production, to restaurant operations and wholesale food distribution. We truly believe that our renowned brand, broad restaurant network, integrated business model and food service capabilities enable us to expand more quickly and operate more efficiently than our peers in a competitive market.

Leveraging on our brand recognition and market leadership in China, we endeavor to increase our market share and penetration and continue to build up our support systems and internal teams, thus bringing our business to new heights.

With our motto of "Enjoying Chinese cuisine with the world", we are devoted to creating Little Sheep synonymous to great Chinese hot pot cuisine and sharing our joyful dining experience and food aspiration with people of different nationalities.

On behalf of the Board of Directors of the Company, I would like to express my heartfelt thanks to our shareholders and business partners for their unwavering support. We look forward to continued success during the rest of 2008 and to creating valuable returns to our shareholders.

ZHANG Gang
Chairman

Hong Kong, 16 September 2008

[#] Statistics shown in Nielson Company's survey conducted in Beijing, Tianjin, Baotou, Shanghai, Guangzhou and Shenzhen in December 2007.



Management Discussion and Analysis

Business Review

In the first half of 2008, the Chinese economy expanded steadily with a year-on-year GDP growth of 10.4%. The average income of workers in urban areas and the per capita disposable income of urban household recorded year-on-year growth of 18.0% and 6.3% respectively, and drove the expansion of the consumer food services industry in China. According to the National Bureau of Statistics of China, the retail sales of hotel and catering services increased by 24.0% to RMB720.7 billion. As the leading home-grown restaurant brand in China, we believe we are well positioned to benefit from the rapid sector growth and robust market fundamentals in China.

Leveraging on our competitive advantages, such as our superior quality of lamb, proprietary soup base as well as scalable and vertically integrated model, we experienced rapid growth in the first half of 2008, with revenue and net profit attributable to shareholders of the Company increasing by 48.2% and 81.9% to RMB528.6 million and RMB42.2 million respectively. The Company developed in line with our business plan set out in the prospectus. We expanded our restaurant network, focused on enhancing operational efficiency and upgrading internal systems. Our efforts were recognized by the increases in the number of Little Sheep restaurants and in the same store sales.

Restaurant operations

During the reporting period, we continued our expansion in first-tier and second-tier cities in China bringing our number of company-owned restaurants from 90 as of 31 December 2007 to 103 as of 30 June 2008. Thanks to the adjustment in menu prices and better product mix, the average per-customer spending increased by 6.5%. This partly contributed to the remarkable 12.0% growth in comparable restaurant sales achieved during the period. A surge in customer traffic was witnessed due to effective brand marketing initiatives including joint nation-wide and regional promotion campaigns with Coca-Cola and Bank of China respectively. In addition, the running of brand and products promotion advertisements in "mobile media" since the start of the year in particular helped boost customer traffic.

In spite of the escalating inflation in China, we imposed effective cost control measures, introduced higher-margin food items on our menus, stepped up our efforts to centralize more supply purchases and negotiated better pricing with our vendors to combat the issue. As a result, the increase in cost of inventories sold was in line with the growth in revenue and was within our estimation.

Sale of food products

In 2005, we began to sell a range of fresh and dry 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 the increase in sales of lamb and seasoning products as well as the increase in the total number of retail wholesale distributors from 130 to 154, the revenue from food products sales increased by 83.9% to RMB70.2 million during the reporting period.

Franchise income

During the reporting period, we focused on transitioning to a new franchise fee payment structure. The new franchise fee payment structure, which comprises a fixed franchise fee paid upfront and an ongoing brand use fee as a percentage of the franchisees' annual revenues, will provide better alignment of interest and raise the operating standards of franchised restaurants eventually. During the reporting period, more than 30 franchisees had agreed to adopt the new fee payment structure. We aim to have the new scheme fully implemented by the end of 2010.

Business Outlook

Looking ahead, the Chinese economy will continue to expand at a healthy pace and the domestic consumer food services industry will continue to see significant potential for growth on the back of improving household income, better living standards and changing lifestyles. The Ministry of Commerce of China estimated that the growth momentum of the retail sales of hotel and catering services will continue in the second half of 2008, giving an overall increase of 24.5% for the whole of 2008. We are optimistic about the prospect of the consumer food services industry in China and will continue to expand to capture the immense business opportunities.



Management Discussion and Analysis *(continued)*

In the second half of 2008, we will continue to expand our restaurant network strategically to increase market penetration and achieve overall revenue growth. We target to open more than 25 new company-owned restaurants in developed and larger cities in China. We are also in negotiations to acquire profitable franchise restaurants.

We will continue to renovate existing restaurants and plan to introduce convenient lunch combination menus to increase lunchtime sales. A pilot scheme will commence in the second half of 2008 in restaurants with significant existing lunchtime customer traffic.

To further expand our product range, new menu items are under development and are scheduled to be launched in the second half of 2008. We will allocate more resources in marketing and advertising initiatives to strengthen customer loyalty and attract new customers. Given the enormous potential of expansion, restaurant operations will remain our core business and a key growth driver.

Within the sale of food products business segment, we will extend the product offerings by leveraging our strong brand recognition as the "lamb expert in China". Several superb lamb and soup base products will be introduced in the second half of 2008. In addition, we will continue to expand the network of wholesale distributors to over 200 by the end of 2008. It is expected that sales contribution from the food products business segment will experience a drastic surge in the foreseeable future and boost the overall growth of the Group.

In the second half of 2008, the implementation of the new franchise payment structure will continue which could enhance the franchise income as well as strengthen the management and supervision of our franchisees.

Food prices in China have been stabilizing. The growth pace of the consumer price index slowed down to 6.3% in July 2008 from 8.5% in April 2008. We expect the trend will continue in the second half of 2008. With the stabilizing food prices as well as our effective menu adjustments and introduction of new products, we expect our gross margin will remain largely stable in the second half of 2008. Thanks to efficiency gains in rental and other operating expenses, the operating margins will also remain stable in spite of growing labour costs.

We are very optimistic about the operating environment in the second half of 2008 and believe Little Sheep will continue its robust growth and strengthen its position as a leading full-service restaurant chain operator in China.

Financial Review

Revenue

Our revenue increased by 48.2% year-on-year to RMB528.6 million. This increase was primarily due to increases in revenues from our restaurant operations and sale of food products.

Revenue from restaurant operations

Our revenue from restaurant operations increased by 46.3% year-on-year to RMB445.7 million, primarily due to the contribution from new restaurants opened in the first half of 2008 as well as the strong growth in comparable restaurant sales.

Revenue from the sale of food products

Our sales of food products increased by 83.9% year-on-year to RMB70.2 million. This increase was due to increases in the volume of food products sold to wholesale distributors and franchise restaurants.

Revenue from franchise income

Our revenue from franchise income decreased by 13.8% year-on-year to RMB11.5 million primarily due to the decrease in the number of franchise restaurants. During the reporting period, our focus was to transition the existing franchises to the new fee payment structure rather than to procure new franchisees.



Management Discussion and Analysis *(continued)*

Revenue from management service fee income

Our management service fee income represents monthly fees that the Group receives for the provision of restaurant management services to a small number of franchisees. During the reporting period, primarily due to increases in the rates of management fees charged to the franchisees, revenue from management service fee income increased by 96.7% year-on-year to RMB1.2 million.

Other income

Our other income represents income received from non-core operations. It increased by 126.8% year-on-year to RMB7.6 million. This was primarily attributable to the increase of government grants during the period.

Cost of inventories sold

Our cost of inventories sold increased by 67.1% year-on-year to RMB209.0 million. The increase was attributable to the increases in sales volume and costs of raw materials including cost of lamb, which was one of the largest component of the cost of inventories sold.

Staff costs

Our staff costs increased by 56.3% year-on-year to RMB118.8 million, which increased in line with the growth in our revenue. The increase in staff costs resulted both from an increase in headcount resulting from the additional company-owned restaurants opened as well as an overall increase in the levels of salaries and other employee benefits.

Depreciation and amortization

Depreciation and amortization amounted to RMB23.0 million, representing an increase of 37.8% year-on-year. Such increase was mainly due to the increase in our depreciation and amortization expenses, which was attributable to the increase in the number of company-owned restaurants and the renovations undertaken at certain existing company-owned restaurants.

Rental expenses

Rental expenses increased by 27.5% year-on-year to RMB58.0 million, which was mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 47.8% year-on-year to RMB25.4 million, which was mainly due to the increase in the number of restaurants.

Other operating expenses

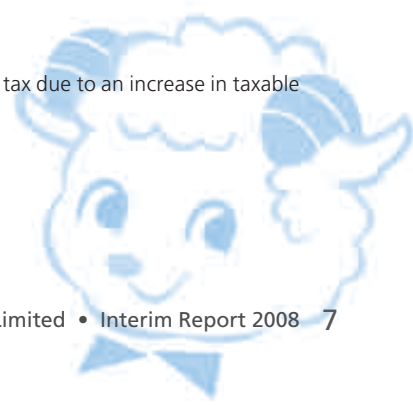
Other operating expenses increased by 33.9% year-on-year to RMB46.8 million. The increase was due to the increase in the number of restaurants.

Finance income

Our finance income during the period was RMB2.7 million while a finance cost of RMB10.0 million was recorded for the same period last year. A finance income was recorded primarily due to the waiving of part of last year's convertible bonds interest by the convertible bond holders during the period.

Tax

Our tax expenses increased by 23.3% year-on-year to RMB13.0 million, as a result of an increase in our income tax due to an increase in taxable profit in the first half of 2008.



Management Discussion and Analysis *(continued)*

Profit for the period

Our profit for the period increased by 85.9% year-on-year to RMB44.8 million as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 30 June 2008, cash and bank balances stood at RMB554.3 million and net current assets were RMB463.3 million with a current ratio of 2.81. 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 this year.

As at 30 June 2008, total bank loans amounted to RMB45.9 million which were all denominated in Renminbi. Out of which, RMB45.0 million, RMB0.5 million and RMB0.4 million were repayable within one year, in the second year and in the third to fifth year, respectively.

As at 30 June 2008, while the Group had no material contingent liabilities, bank loans of approximately RMB21.1 million were secured by pledges of certain buildings and equipment of the Group with an aggregate carrying value of RMB17.4 million.

The annual interest rates on short-term bank loans during the reporting period varied from 2.40% to 5.91%. The annual interest rate on long-term bank loans during the reporting period was 2.40%.

Regarding foreign exchange fluctuations, during the reporting period, the Group's earned revenue and incurred costs and expenses were mainly denominated in Renminbi while those for 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 proactive measures and monitor closely our exposure to foreign currency movement. As at 30 June 2008, the Group did not have any derivative instruments for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities were RMB82.3 million in the first half of 2008, attributable primarily to (1) a net cash inflow of RMB79.8 million from profit before tax after adjustments mainly for depreciation and amortization expenses and finance income, (2) a decrease of RMB43.9 million in inventories, and (3) a decrease of RMB5.5 million in prepayments, deposits and other receivables. Net cash inflow from operating activities in the first half of 2008 was partially offset by (1) an increase of RMB10.5 million in trade payables, and (2) the income taxes paid of RMB25.5 million.

Net cash outflow from investing activities in the first half of 2008 were RMB47.9 million, consisting primarily of (1) purchase of property, plant and equipment of RMB27.2 million, (2) acquisition of subsidiaries, net of cash acquired, of RMB12.0 million, and (3) payment of deposits for purchases of plant and equipment of RMB11.0 million.

Net cash inflow from financing activities in the first half of 2008 were RMB319.4 million, consisting primarily of (1) net proceeds from initial public offering of RMB469.8 million, and (2) proceeds of RMB21.0 million of new bank loans, which were partially offset by (1) repayments of bank loans of RMB74.0 million and (2) payments of dividends by the group companies in the total amount of RMB83.0 million.

Capital Expenditures

Our capital expenditures for the first half of 2008 were RMB40.3 million which were primarily related to the opening and refurbishment of company-owned restaurants. Our planned capital expenditures for the second half year of 2008 are approximately RMB150.0 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.



Management Discussion and Analysis *(continued)*

Human Resources

As at 30 June 2008, the Group had 6,407 employees. In order to attract and retain high quality staff to ensure smooth operation and cater for the Group's continued expansion, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and Share Option Scheme, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. For details of the schemes, please refer to the paragraph headed "Share Option Schemes" under the "Other Information" section in this report.



Report on Review of Condensed Consolidated Financial Statements



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To the board of directors of Little Sheep Group Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 32 which comprises the condensed consolidated balance sheet of Little Sheep Group Limited and its subsidiaries as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("HKSRE 2410") issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Without modifying our review conclusion above, we draw attention to the fact that the comparative condensed consolidated statements of income, changes in equity and cash flows for the six months ended 30 June 2007 have not been reviewed in accordance with HKSRE 2410.



Ernst & Young
Certified Public Accountants
Hong Kong

16 September 2008

Condensed Consolidated Income Statement

Six months ended 30 June 2008

	Notes	Six months ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
REVENUE	4	528,558	356,721
Other income	4	7,638	3,367
Cost of inventories sold	5	(209,011)	(125,063)
Staff costs	5	(118,782)	(75,981)
Depreciation and amortization		(22,960)	(16,657)
Rental expenses		(57,990)	(45,495)
Fuel and utility expenses		(25,423)	(17,199)
Other operating expenses		(46,847)	(34,999)
Finance income/(costs), net	6	2,682	(10,001)
PROFIT BEFORE TAX	5	57,865	34,693
Tax	7	(13,032)	(10,571)
PROFIT FOR THE PERIOD		44,833	24,122
Attributable to:			
Shareholders of the Company		42,207	23,201
Minority interests		2,626	921
		44,833	24,122
DIVIDEND	8	78,506	31,850
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9		
— Basic (RMB)		4.84 cents	2.72 cents
— Diluted (RMB)		4.81 cents	N/A



Condensed Consolidated Balance Sheet

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	191,644	181,975
Deposits for purchases of items of plant and equipment		7,405	8,517
Intangible assets		154,701	143,193
Lease prepayments		11,839	11,858
Long-term rental deposits		22,176	17,814
Deferred income tax assets		4,064	2,756
		391,829	366,113
CURRENT ASSETS			
Inventories	11	101,300	144,143
Trade receivables	12	12,843	5,373
Due from the ultimate holding company and a shareholder	13	—	78
Prepayments, deposits and other receivables	14	51,217	55,208
Cash and bank balances	15	554,280	204,126
		719,640	408,928
CURRENT LIABILITIES			
Bank loans	16	44,990	97,992
Trade payables	17	26,900	37,448
Deposits, other payables and accruals	18	147,487	92,715
Due to minority equity holders/shareholders of subsidiaries	19	30,988	28,685
Tax payable		6,025	16,947
		256,390	273,787
NET CURRENT ASSETS		463,250	135,141
TOTAL ASSETS LESS CURRENT LIABILITIES		855,079	501,254
NON-CURRENT LIABILITIES			
Convertible bonds	20	—	190,966
Bank loans	16	910	910
Long-term payables		6,507	4,771
Deferred income tax liabilities		52	292
		7,469	196,939
NET ASSETS		847,610	304,315



Condensed Consolidated Balance Sheet *(continued)*

As at 30 June 2008

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	21	90,823	—
Reserves		743,242	287,952
		834,065	287,952
Minority interests		13,545	16,363
TOTAL EQUITY		847,610	304,315



Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2008

	Attributable to shareholders of the Company									
	Issued capital	Capital reserves	PRC reserve funds	Foreign currency translation reserve	Equity component of convertible bonds	Share option reserve	Retained profits	Total	Minority interests	Total equity
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
At 1 January 2008	—	125,314	34,553	10,641	3,486	100	113,858	287,952	16,363	304,315
Change in foreign currency translation reserve	—	—	—	(1,366)	—	—	—	(1,366)	—	(1,366)
Total income and expense for the period recognised directly in equity	—	—	—	(1,366)	—	—	—	(1,366)	—	(1,366)
Profit for the period	—	—	—	—	—	—	42,207	42,207	2,626	44,833
Total income and expense for the period	—	—	—	(1,366)	—	—	42,207	40,841	2,626	43,467
Conversion of Bonds (note 20)	—	198,300	—	(20,523)	(3,486)	—	—	174,291	—	174,291
Issue of ordinary shares, net of share issue expenses (note 21)	90,823	316,980	—	—	—	—	—	407,803	—	407,803
Acquisition of minority interests of subsidiaries	—	—	—	—	—	—	—	—	(891)	(891)
Equity-settled share option arrangement	—	—	—	—	—	1,684	—	1,684	—	1,684
Dividend declared	—	—	—	—	—	—	(78,506)	(78,506)	—	(78,506)
Dividend declared by subsidiaries of the Company	—	—	—	—	—	—	—	—	(4,553)	(4,553)
At 30 June 2008	90,823	640,594	34,553	(11,248)	—	1,784	77,559	834,065	13,545	847,610
At 1 January 2007	—	116,902	27,763	2,091	3,486	—	61,335	211,577	8,243	219,820
Change in foreign currency translation reserve	—	—	—	4,088	—	—	—	4,088	—	4,088
Total income and expense for the period recognised directly in equity	—	—	—	4,088	—	—	—	4,088	—	4,088
Profit for the period	—	—	—	—	—	—	23,201	23,201	921	24,122
Total income and expense for the period	—	—	—	4,088	—	—	23,201	27,289	921	28,210
Dividend declared	—	—	—	—	—	—	(31,850)	(31,850)	—	(31,850)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	206	206
At 30 June 2007	—	116,902	27,763	6,179	3,486	—	52,686	207,016	9,370	216,386



Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	(Unaudited) RMB'000	(Unaudited) RMB'000
Net cash inflow from operating activities	82,339	25,927
Net cash outflow from investing activities	(47,932)	(56,792)
Net cash inflow/(outflow) from financing activities	319,449	(36,192)
Net increase/(decrease) in cash and cash equivalents	353,856	(67,057)
Cash and cash equivalents at beginning of period	204,126	168,720
Effect of foreign exchange rate changes, net	(3,702)	(1,589)
Cash and cash equivalents at end of period	554,280	100,074
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	554,280	100,074



Notes to the Condensed Consolidated Financial Statements

30 June 2008

1. Corporate Information and Reorganisation

Little Sheep Group Limited (the "Company") was incorporated on 18 December 2007 in the Cayman Islands with limited liability. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The ordinary shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2008. In the opinion of the directors, the ultimate holding company of the Company is Possible Way International Limited ("Possible Way") which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in the People's Republic of China (the "PRC"), Hong Kong, 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.

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 (the "Group") 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 note 21 to the condensed consolidated financial statements and 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 condensed 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 period presented rather than from the date of acquisition of China XiaoFeiYang applying the principles of merger accounting.

In the opinion of the directors, the condensed consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant transaction and balances among the companies now comprising the Group are eliminated on consolidation.

2. Basis of Presentation and Impact of New and Revised International Financial Reporting Standards

Basis of presentation

The condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The condensed consolidated financial statements do not include all the information and disclosures required in the financial statements and should be read in conjunction with the Company's prospectus dated 2 June 2008.



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

2. Basis of Presentation and Impact of New and Revised International Financial Reporting Standards *(continued)*

Impact of new and revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the financial information for the year ended 31 December 2007 contained in the Company's prospectus dated 2 June 2008, except for the adoption of new or revised International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as noted below.

IFRIC 11	IFRS 2 — Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The adoption of these standards and interpretations did not have any effect on the financial position or the performance of the Group.

Impact of issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements:

IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment — Vesting Conditions and Cancellations</i> ¹
IFRS 3 (Revised)	<i>Business Combinations</i> ³
IFRS 8	<i>Operating Segments</i> ¹
IFRS 1 and IAS 27 Amendments	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> ¹
IAS 1 (Revised)	<i>Presentation of Financial Statements</i> ¹
IAS 23 (Revised)	<i>Borrowing Costs</i> ¹
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ³
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation</i> ¹
IAS 39 Amendments	<i>Eligible Hedged Items</i> ³
IFRIC 13	<i>Customer Loyalty Programmes</i> ²
IFRIC 15	<i>Agreements for the Construction of Real Estate</i> ¹
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> ⁴
Improvements to IFRSs ⁵	

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ The International Accounting Standards Board has issued Improvements to IFRSs which sets out 35 amendments to 20 IFRSs resulting from its annual improvements project. Except for the amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation* which is effective for the annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

3. Segment Information

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments.

Details of the business segments are summarised as follows:

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

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.

The following table presents revenue and profit information regarding the Group's business segments for the six months ended 30 June 2008 and 2007, respectively.

Six months ended 30 June 2008 (unaudited)	Restaurant operations and provision of catering services RMB'000	Food products RMB'000	Franchise income RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	445,672	70,212	11,490	1,184	—	528,558
Intersegment sales	—	81,466	—	11,482	(92,948)	—
Total	445,672	151,678	11,490	12,666	(92,948)	528,558
Segment results	57,824	266	8,623	(3,356)	308	63,665
Other income and unallocated gains						7,638
Unallocated expenses						(16,120)
Finance income, net						2,682
Profit before tax						57,865
Tax						(13,032)
Profit for the period						44,833
Assets and liabilities:						
Segment assets	420,474	249,487	556,527	703,197	(818,216)	1,111,469
Segment liabilities	240,567	133,631	208,423	511,110	(829,872)	263,859
Other segment information:						
Depreciation and amortization	21,517	632	614	197	—	22,960
Capital expenditure	34,208	1,590	3,456	1,070	—	40,324

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

3. Segment Information *(continued)*

Six months ended 30 June 2007 (unaudited)	Restaurant operations and provision of catering services RMB'000	Food products RMB'000	Franchise income RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	304,604	38,185	13,330	602	—	356,721
Intersegment sales	—	49,325	—	4,827	(54,152)	—
Total	304,604	87,510	13,330	5,429	(54,152)	356,721
Segment results						
	42,451	486	6,767	(2,531)	235	47,408
Other income and unallocated gains						3,367
Unallocated expenses						(6,081)
Finance costs, net						(10,001)
Profit before tax						34,693
Tax						(10,571)
Profit for the period						24,122
Assets and liabilities:						
Segment assets	303,332	216,249	314,195	221,226	(536,910)	518,092
Segment liabilities	153,664	66,236	170,717	216,001	(304,895)	301,723
Other segment information:						
Depreciation and amortization	15,364	577	561	155	—	16,657
Capital expenditure	27,991	2,443	328	213	—	30,975



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

4. Revenue and Other Income

Revenue

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

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Restaurant operations and provision of catering services	445,672	304,604
Sale of food products	70,212	38,185
Franchise income	11,490	13,330
Management service fee income	1,184	602
	528,558	356,721

Other Income

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Government grants	3,719	1,129
Sale of low-value consumables	738	146
Others	3,181	2,092
	7,638	3,367

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.



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

5. Profit before Tax

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

	Six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Cost of inventories sold	209,011	125,063
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	99,972	68,489
Expense of share-based payments	1,684	—
Pension scheme costs	7,655	2,525
Social welfare and other costs	9,471	4,967
	118,782	75,981
Depreciation	22,613	16,487
Amortization of intangible assets	45	126
Amortization of land lease prepayments	302	44
Minimum lease payments under operating leases in respect of buildings	57,990	45,495

6. Finance Income/(Costs), Net

	Six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Interest expense on bank loans and other borrowings	(1,230)	(21)
Interest expense on convertible bonds	(5,747)	(10,791)
Interest income on bank balances	1,196	811
Waiver of 2007 interest expenses on convertible bonds*	8,463	—
	2,682	(10,001)

* 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, LP ("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.



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

7. Tax

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Income tax		
Current income tax	14,579	10,706
Deferred income tax	(1,547)	(135)
	13,032	10,571

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

Under the relevant PRC income tax law, except for the preferential treatment available to certain subsidiaries operating in the PRC, the companies of the Group which operate in the PRC are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method (31 December 2007: 33%). During the six months ended 30 June 2008, after obtaining approval from the relevant PRC tax authorities, 12 (30 June 2007: 12) entities of the Group were subject to a preferential corporate income tax rate of 18% (30 June 2007: 15%), 3 (30 June 2007: 4) entities of the Group were exempt from the PRC corporate income tax and 26 (30 June 2007: 16) entities of the Group were assessed based on the verification collection method. All the tax concessions enjoyed by the Group were granted by various competent tax bureaus.

The provision for Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the year ended 30 June 2007 (30 June 2007: 17.5%).

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.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of People's Republic of China (the "New CIT Law"), which will be effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to the domestic companies from 1 January 2008 will decrease from 33% to 25% or increase progressively from 15% to 25% within five years. This unification in enterprise income tax rate will directly reduce the Group's effective tax rate prospectively from 2008.

8. Dividend

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividend on ordinary shares:		
Final dividend		
2006	—	31,850
2007	78,506	—

The board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2008.

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

9. Earnings Per Share Attributable to Shareholders of the Company

The calculation of basic earnings per share for the period is based on the profit attributable to shareholders of the Company for the period of RMB42,207,000 (30 June 2007: RMB23,201,000) and the weighted average number of 871,383,542 ordinary shares (30 June 2007: 852,943,000) of the Company.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2007 was based on the 852,943,000 ordinary shares issued in accordance with the Reorganisation, as further detailed in note 21 to the condensed consolidated financial statements. The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months ended 30 June 2008 includes the 174,699,870 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange on 12 June 2008.

There were no potential dilutive ordinary shares in existence for the six months ended 30 June 2007, and therefore no diluted earnings per share amount has been presented.

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the profit attributable to shareholders for the period of RMB42,207,000 and on 878,410,598 ordinary shares, being the weighted average of 871,383,542 ordinary shares, as used in the calculation of basic earnings per share and the weighted average of 7,027,056 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme (as defined in note 24 to the condensed consolidated financial statements).

For the purpose of calculating diluted earnings per share for the six months ended 30 June 2008, the fair value of ordinary shares assumed to have been issued upon the deemed exercise of these options was determined as HK\$2.88 per share being the price at which the Company listed its ordinary shares on the Stock Exchange on 12 June 2008. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration.

The Over-allotment Option (as defined in note 21 to the condensed consolidated financial statements) has not been presented in the calculation of the diluted earnings per share for the six months ended 30 June 2008 as the exercise price of the Over-allotment Option was greater than the market price of the Company's shares during the period, so the effect of potential ordinary shares would be anti-dilutive. The Over-allotment Option had not been exercised and it lapsed on 4 July 2008.

10. Property, Plant and Equipment

During the six months ended 30 June 2008, the Group acquired property, plant and equipment at a total cost of RMB38,386,000 (31 December 2007: RMB54,635,000), not including property, plant and equipment acquired through business combination.

Property, plant and equipment with a net book value of RMB1,888,000 (31 December 2007: RMB5,722,000) were disposed of by the Group during the six months ended 30 June 2008, resulting in a net gain on disposal of RMB81,000 (31 December 2007: net loss on disposal of RMB3,583,000).

As at 30 June 2008, certain buildings of the Group were pledged as security for bank loans of the Group as disclosed in note 16 to the condensed consolidated financial statements. The aggregate carrying value of the pledged buildings and equipment attributable to the Group as at 30 June 2008 amounted to RMB17,413,000 (31 December 2007: RMB17,996,000).



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

11. Inventories

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Raw materials	4,256	7,513
Consumables	10,111	8,608
Food and beverages	86,933	128,022
	101,300	144,143

At as 30 June 2008, there were no inventories stated at net realisable value (31 December 2007: Nil).

12. Trade Receivables

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

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Neither pass due nor impaired	12,507	5,304
Within 3 months	336	54
Over 3 months but within 6 months	—	15
	12,843	5,373

13. Due from the Ultimate Holding Company and A Shareholder

The amounts due from the ultimate holding company (Possible Way) and a shareholder (Billion Year) of RMB64,000 and RMB14,000, respectively, were interest-free, unsecured and have been settled during the current period.

14. Prepayments, Deposits and Other Receivables

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Rental deposits	18,704	15,709
Deposit to suppliers	6,349	8,082
Prepayments and other receivables	26,164	31,417
	51,217	55,208

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

15. Cash and Bank Balances

Cash and cash equivalents of the Group comprised cash and bank balances. The bank balances earn interest at floating rates based on daily bank deposit rates.

As at 30 June 2008, cash and cash equivalents of the Group aggregating RMB308,312,000 (31 December 2007: RMB169,079,000) were denominated in Renminbi, which is not freely convertible into other currencies. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

16. Bank Loans

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Bank loans:		
Secured	21,070	21,070
Unsecured	24,830	77,832
	45,900	98,902
Bank loans repayable:		
Within one year or on demand	44,990	97,992
In the second year	535	—
In the third to fifth years, inclusive	375	910
Total bank loans	45,900	98,902
Less: Portion classified as current liabilities	(44,990)	(97,992)
Non current portion	910	910

As at 30 June 2008, bank loans of approximately RMB21,070,000 (31 December 2007: RMB21,070,000) were secured by pledges of certain buildings and equipment of the Group with an aggregate carrying value of RMB17,413,000 (31 December 2007: RMB17,996,000) (note 10).

The annual interest rates on short-term bank loans during the period varied from 2.40% to 5.91% (31 December 2007: 2.40% to 6.67%). The annual interest rate on long-term bank loans during the period was 2.40% (31 December 2007: 2.40%). As at 30 June 2008, the Group's interest-bearing bank loans of RMB45,900,000 (31 December 2007: RMB98,902,000) were denominated in Renminbi.



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

17. Trade Payables

An ageing analysis of the trade payables is as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within 3 months	23,184	32,060
Over 3 months	3,716	5,388
	26,900	37,448

18. Deposits, Other Payables and Accruals

An analysis of customers' deposits, other payables and accruals as at the balance sheet date is as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Deposits from customers	31,885	32,257
Construction fee payables	10,003	11,568
Accrued wages and salaries	18,695	14,598
Other payables and accruals	86,904	34,292
	147,487	92,715

19. Due to Minority Equity Holders/Shareholders of Subsidiaries

Except for the amount due to the minority shareholder of a Japanese subsidiary of RMB23,076,000 (31 December 2007: RMB23,076,000) which bears interest at the rate from 1.375% to 2.8% per annum (31 December 2007: 1.375% to 2.8% per annum), is unsecured and is repayable within one year, the remaining amounts due to the minority equity holders/shareholders of subsidiaries are unsecured and interest-free, and have no fixed terms of repayment.

20. Convertible Bonds

On 30 June 2006, the Group entered into a Convertible Bond Instrument (the "Bonds Agreement") with 3i and PraxCapital. Pursuant to the Bonds Agreement, the Group issued 6% fixed rate convertible bonds due 2011 to 3i and PraxCapital with subscription prices of US\$20,000,000 and US\$5,000,000 (the "Bonds"), respectively.

On 14 May 2008, 3i and PraxCapital exercised their conversion rights attaching to the Bonds at a conversion price of US\$7,375 per share. The Bonds were converted into 3,390 ordinary shares of China XiaoFeiYang, out of which 2,712 ordinary shares were held by 3i, with the remaining 678 ordinary shares held by PraxCapital. After the conversion, all the rights of 3i and PraxCapital attaching to the Bonds as bondholders against the Group were terminated immediately upon the initial public offering.

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

20. Convertible Bonds *(continued)*

The Bonds have been split as to the liability and equity components as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Nominal value of convertible bonds issued on 30 June 2006 (original currency of US\$25,000,000)	195,218	195,218
Equity component	(3,486)	(3,486)
Direct transaction costs attributable to the liability component	(7,097)	(7,097)
Liability component at the issuance date	184,635	184,635
Interest expenses payable on the Bonds	18,642	18,886
Exchange realignment	(20,523)	(12,555)
Waiver of 2007 interest expense on the Bonds	(8,463)	—
Converted into China XiaoFeiYang's shares and transferred to the Group's capital reserves	(174,291)	—
	—	190,966

Upon conversion of the Bonds by 3i and PraxCapital on 14 May 2008, the amounts converted into China XiaoFeiYang's shares and transferred to capital reserves of the Group are further analysed as follows:

	RMB'000
Transferred from the liability component of the Bonds	174,291
Transferred from the equity component of the Bonds	3,486
Released from the foreign currency translation reserve	20,523
	198,300



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

21. Share Capital

	Notes	Number of ordinary shares of HK\$0.10 each '000	Nominal value RMB'000
Authorized:			
On incorporation and at 31 December 2007	(i)	500	44
Increase in authorized share capital	(ii)	9,999,500	883,756
At 30 June 2008		10,000,000	883,800
Allotted and issued as nil paid:			
Upon incorporation and at 31 December 2007	(i)	10	—
Upon conversion of the Bonds	(iii)	3	—
On acquisition of China XiaoFeiYang:			
Consideration shares	(iv)	852,930	75,382
Nil paid shares credited as fully paid	(iv)	—	1
New issue of shares by way of public offering	(v)	174,700	15,440
At 30 June 2008		1,027,643	90,823

Notes:

- (i) On 18 December 2007, the Company was incorporated in the Cayman Islands as a limited liability company with an authorized share capital of HK\$50,000 divided into 500,000 ordinary shares of HK\$0.10 each. On the same date, 8,205 and 1,795 ordinary shares of HK\$0.10 each were allotted and issued nil paid to Possible Way and Billion Year. The said ordinary shares were subsequently credited as fully paid as described in (iv) below.
- (ii) Pursuant to written resolutions of all shareholders of the Company passed on 15 May 2008, the authorized share capital of the Company was increased from HK\$500,000 to HK\$1,000,000,000 by the creation of 9,999,500,000 new ordinary shares of HK\$0.10 each.
- (iii) A total of 2,712 ordinary shares and 678 ordinary shares of HK\$0.10 each were allotted and issued to 3i and PraxCapital, respectively, on 22 May 2008.
- (iv) On 23 May 2008, the Company allotted and issued 522,650,295, 114,339,705, 172,751,688 and 43,187,922 ordinary shares of HK\$0.10 each to Possible Way, Billion Year, 3i and PraxCapital, respectively, credited as fully paid, in consideration for the transfer of the entire issued share capital of China XiaoFeiYang as described in note 1 to the condensed consolidated financial statements and the Company's prospectus dated 2 June 2008.
- At the same date, the 10,000 nil paid ordinary shares of HK\$0.10 each held by Possible Way and Billion Year as described in (i) were credited as fully paid.
- (v) In connection with the Company's initial public offering, 174,699,870 new ordinary shares of HK\$0.10 each were issued at a price of HK\$3.18 per share for a total cash consideration, before expenses, of approximately HK\$555,546,000 (equivalent to RMB488,436,000). Dealings in these ordinary shares on the Stock Exchange commenced on 12 June 2008.
- (vi) In connection with the public offering, the Company, 3i and PraxCapital granted to the international underwriters the over-allotment option (the "Over-allotment Option"), exercisable by the joint global coordinators, Merrill Lynch International and Deutsche Bank, for themselves and on behalf of the international underwriters within 30 days from 5 June 2008, to require the Company to issue and 3i and PraxCapital to sell up to an aggregate of 36,778,000 additional ordinary shares at HK\$3.18, among other things, to cover over-allocations in the offering, if any. The Over-allotment Option had not been exercised and it lapsed on 4 July 2008.

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

22. Commitments

(i) Operating lease commitments — as lessee

The Group leases certain properties under operating lease arrangements. These leases have an average life of between 1 and 13 years. In entering into these lease agreements, no restrictions were placed upon the Group.

As at 30 June 2008, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	92,300	82,370
In the second to fifth years, inclusive	180,047	153,830
After five years	41,272	19,923
	313,619	256,123

(ii) Capital commitments

The Group has the following capital commitments at the balance sheet date:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Authorized, but not contracted for: Acquisition of subsidiaries	—	12,420

23. Related Party Transactions

In addition to the transactions and balances which are disclosed elsewhere in these condensed consolidated financial statements, the Group had the following significant transactions with related parties during the period:

	Note	Six months ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Rental expenses	(i)	1,725	1,810

Note:

- (i) The amount represented rental expenses payable to Mr. Zhang Gang and Mr. Chen Hongkai for leasing five (six months ended 30 June 2007: four) office buildings. The amounts of rental expenses were agreed by the parties by reference to market rentals.

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

23. Related Party Transactions *(continued)*

Prior to the acquisition of the following branches, the Group had significant transactions with these branches during the period as follows:

	Acquisition date (dd/mm/yyyy)	Six months ended 30 June			
		2008		2007	
		Sales to related parties RMB'000	Amounts due from/(to) related parties RMB'000	Sales to related parties RMB'000	Amounts due from related parties RMB'000
Sale of lamb meat and additives					
Shanghai Changning Little Sheep Catering Company Limited	01/07/2007	—	—	305	—
Shanghai Pengpu Little Sheep Catering Company Limited	01/07/2007	—	—	256	—
Shanghai Luyuan Little Sheep Catering Company Limited (formerly known as Shanghai Chuangbao Shuangcheng Little Sheep Catering Company Limited)	01/07/2007	—	—	242	—
Foshan Mengjie Catering Company Limited	01/07/2007	—	—	328	—

24. Employee Share-based Payment

On 20 December 2007, a share option scheme (the "Pre-IPO Option Scheme") was approved pursuant to written resolutions of the Company. The purpose of the Pre-IPO Option Scheme is to recognise the contribution of certain employees of the Group to its growth. On 28 December 2007, the Company granted to 439 eligible employees of the Group a total of 26,379,680 share options for nil consideration and each with an exercise price of HK\$2.11 (HK\$1 = RMB0.944) per share and subject to the vesting schedule as set out in the Company's prospectus dated 2 June 2008. Further details of the share options granted are set out below:

Directors	Outstanding number of share options at 31 December 2007 and 30 June 2008
Chen Hongkai	300,000
Lu Wenbing	2,487,680
Kou Zhifang	510,000
Li Baofang	730,000
Wang Daizong	150,000
Yeung Yiu Keung	1,400,000
	5,577,680
Other employees	20,802,000
	26,379,680

Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

24. Employee Share-based Payment *(continued)*

The fair value of the options granted is estimated at the date of grant using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted.

The fair value of options granted during the year ended 31 December 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.923
Expected volatility (%)	37
Risk-free interest rate (%)	2.907
Expected life (year)	5
Share price (HK\$)	1.69

25. Business Combinations

(i) Acquisition of branches

On 1 January 2008, the Group entered into various sale and purchase agreements to acquire the Beijing Yunjingli Branch, Tianjin Nankai Branch and Xiamen Hexiang Branch from various independent third parties for an aggregate cash consideration of RMB12,426,000, which generated goodwill of RMB10,149,000 upon acquisition.

The aggregate fair values of the identifiable assets and liabilities acquired by the Group during the period were:

	Recognised on acquisition RMB'000	Carrying value RMB'000
Property, plant and equipment	1,344	1,344
Inventories	1,041	1,041
Prepayments, deposits and other receivables	767	767
Cash and cash equivalents	824	824
	3,976	3,976
Customers' deposits, other payables and accruals	(1,699)	(1,699)
Fair value of net assets acquired by the Group	2,277	2,277
Goodwill on acquisition	10,149	
Consideration	12,426	



Notes to the Condensed Consolidated Financial Statements *(continued)*

30 June 2008

25. Business Combinations *(continued)*

(i) Acquisition of branches *(continued)*

The net cash outflow in respect of the acquisition is as follows:

	RMB'000
Net cash and cash equivalents acquired	824
Cash paid	(12,426)
Net cash outflow in respect of the acquisition of branches	(11,602)

Since their acquisition, the Beijing Yunjingli Branch, Tianjin Nankai Branch and Xiamen Hexiang Branch contributed in aggregate approximately RMB2,972,000, RMB4,200,000 and RMB4,482,000 to the Group's revenue, respectively and approximately RMB594,000, RMB737,000 and RMB764,000 to the Group's net profit, respectively, for the six months ended 30 June 2008.

(ii) Acquisition of minority interests of subsidiaries

(a) Inner Mongolia Little Sheep Meat Company Limited ("Little Sheep Meat")

On 1 January 2008, the Group entered into a sale and purchase agreement with a third party to acquire an 0.87% equity interest in Little Sheep Meat, an 87% subsidiary of the Group, for a cash consideration of RMB1,966,000. The 0.87% share of the carrying value of the net assets of Little Sheep Meat as at 31 December 2007 was RMB995,000. The difference of RMB971,000 between the consideration and the carrying value of the interest acquired has been recognised as goodwill.

(b) Inner Mongolia Little Sheep Seasoning Company Limited ("Little Sheep Seasoning")

On 1 January 2008, the Group entered into a sale and purchase agreement with a related party to acquire a 0.99% equity interest in Little Sheep Seasoning, a 99% subsidiary of the Group, for a cash consideration of RMB767,000. The 0.99% share of the carrying value of the net assets of Little Sheep Seasoning as at 31 December 2007 was RMB517,000. The difference of RMB250,000 between the consideration and the carrying value of the interest acquired has been recognised as goodwill.

(c) Bayannur Little Sheep Meat Company Limited ("Bayannur Little Sheep")

On 1 January 2008, the Group entered into a sale and purchase agreement with a third party to acquire a 0.99% equity interest in Bayannur Little Sheep, a 99% subsidiary of the Group, for a cash consideration of RMB267,000. The 0.99% share of the carrying value of the net assets of Bayannur Little Sheep as at 31 December 2007 was RMB86,000. The difference of RMB181,000 between the consideration and the carrying value of the interest acquired has been recognised as goodwill.

26. Event after the Balance Sheet Date

On 5 September 2008, the Group entered into a sale and purchase agreement with an independent third party to purchase an office premises in Shanghai for a total consideration of RMB60,956,000. For details, please refer to the announcement of the Company dated 5 September 2008.

27. Approval of the Financial Statements

The condensed consolidated financial statements were approved and authorized for issue by the board of directors on 16 September 2008.

Other Information

Code on Corporate Governance Practices

During the six months ended 30 June 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 as set out in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by the directors of the Company ("Directors"), all Directors have confirmed that they complied with the required standards set out in the Model Code during the six months ended 30 June 2008.

Audit Committee

The Audit Committee of the Company has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2008 are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. The interim results for the six months ended 30 June 2008 have been reviewed by the Audit Committee of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Directors' Interests in Securities

As at 30 June 2008, the interests and short positions of the Directors in the share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers ("Model code") were as below:

	Capacity	Total number of ordinary shares	Approximate percentage of shareholding
(1)	The Company		
<i>Name of Director</i>			
Zhang Gang	Interest of a controlled corporation ⁽¹⁾	1,030,000	0.10%



Other Information *(continued)*

	Capacity	Total number of ordinary shares	Approximate percentage of shareholding
(2) Associated Corporation: Possible Way International Limited ("Possible Way")			
<i>Name of Director</i>			
Zhang Gang	Personal interest	2,550	25.50%
Chen Hongkai	Personal interest	1,836	18.36%
Kou Zhifang	Personal interest	739	7.39%
Li Baofang	Personal interest	613	6.13%
Zhang Zhanhai	Personal interest	450	4.50%
Lu Wenbing	Personal interest	557	5.57%
Wang Daizong	Personal interest	163	1.63%
Yeung Yiu Keung	Personal interest	103	1.03%
Nishpank Rameshbabu Kankiwala	Personal interest	7	0.07%

Notes:

- (1) These shares were held by Beefup Group Limited of which Mr. Zhang Gang is interested in the entire issued share capital.
- (2) The interest of Directors in the underlying of equity derivatives in respect of options granted to them pursuant to the Pre-IPO Share Scheme are detailed in "Share Option Schemes" below.
- (3) All interests disclosed above represent long position in the respective shares of the Company and the associated corporation.

Substantial Shareholders' Interests in Securities

As at 30 June 2008, the interests and short positions of every persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register maintained and kept by the Company under section 336 of the SFO were as below:

Name	Name of registered owner	Name of beneficial owner	Number of shares	Approximate percentage of issued share capital
Possible Way	Possible Way	Possible Way	522,685,500	50.86%(L)
Billion Year International Limited ("Billion Year")	Billion Year	Billion Year	114,341,500	11.13%(L)
3i Investments plc ⁽¹⁾	N/A	N/A	116,363,896 ⁽²⁾	11.32% ^{(3)(L)}
3i GP 2006-08 Limited ⁽¹⁾	N/A	N/A	78,948,956 ⁽²⁾	7.68% ^{(3)(L)}
3i Holdings plc ⁽¹⁾	N/A	N/A	78,948,956 ⁽²⁾	7.68% ^{(3)(L)}
3i Group plc ("3i") ⁽¹⁾	3i	3i	116,363,896 ⁽²⁾	11.32% ^{(3)(L)}
3i Global Growth 2006-08 LP ^{(1)(b)}	3i Nominees Limited	3i Global Growth 2006-08 LP ^{(1)(b)}	51,831,706 ^{(1)(b)}	5.04% ^{(3)(L)}
Merrill Lynch & Co. Inc.	N/A	N/A	61,617,000 ⁽⁴⁾	6.00%(L)
			36,778,000 ⁽⁴⁾⁽⁵⁾	3.58%(S)

Other Information *(continued)*

Name	Name of registered owner	Name of beneficial owner	Number of shares	Approximate percentage of issued share capital
Merrill Lynch International Incorporated	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
Merrill Lynch International Holdings Inc.	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
Merrill Lynch Europe Plc	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
Merrill Lynch Europe Intermediate Holdings	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
Merrill Lynch Holdings Limited	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
ML UK Capital Holdings	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)
Merrill Lynch International	N/A	N/A	61,617,000 ⁽⁴⁾ 36,778,000 ⁽⁴⁾⁽⁵⁾	6.00%(L) 3.58%(S)

(L) denotes long position

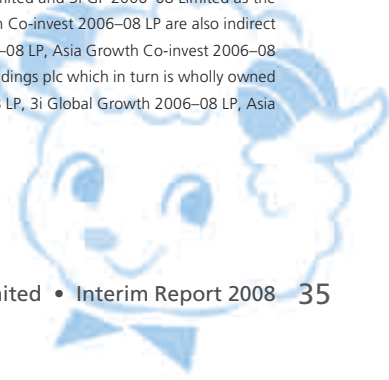
(S) denotes short position

Notes:

(1) 3i, a shareholder of the Company, is a company incorporated in England having its shares listed on the London Stock Exchange. 3i legally and beneficially owns 37,414,940 Shares, representing approximately 3.64% of the issued share capital of the Company. 3i Nominees Limited is a shareholder of the Company and acts:

- (a) as nominee of 3i Asia Growth 2006–08 LP, an English limited partnership. 3i Asia Growth 2006–08 LP beneficially owns 25,915,853 Shares, representing approximately 2.52% of the issued share capital of the Company;
- (b) as nominee of 3i Global Growth 2006–08 LP, an English limited partnership. 3i Global Growth 2006–08 LP beneficially owns 51,831,706 Shares, representing approximately 5.04% of the issued share capital of the Company;
- (c) as nominee of Asia Growth Co-invest 2006–08 LP, an English limited partnership. Asia Growth Co-invest 2006–08 LP beneficially owns 1,072,676 Shares, representing approximately 0.10% of the issued share capital of the Company; and
- (d) as nominee of Global Growth Co-invest 2006–08 LP, a limited partnership registered under the laws of Jersey. Global Growth Co-invest 2006–08 LP beneficially owns 128,721 Shares, representing approximately 0.01% of the issued share capital of the Company.

3i Investments plc, as the manager of the investments for each of 3i, 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP, has the discretionary power to control the exercise of the voting rights to the shares beneficially owned by 3i, 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP. Accordingly, 3i Investments plc is deemed to be interested in all the Shares held by 3i, 3i Nominees Limited (as nominee of 3i Asia Growth 2006–08 LP), 3i Nominees Limited (as nominee of 3i Global Growth 2006–08 LP), 3i Nominees Limited (as nominee of Asia Growth Co-invest 2006–08 LP) and 3i Nominees Limited (as nominee of Global Growth Co-invest 2006–08 LP), being a total of 116,363,896 Shares, representing approximately 11.32% of the issued share capital of the Company. 3i Investments plc is an indirect wholly owned subsidiary of 3i. Similarly, 3i Nominees Limited and 3i GP 2006–08 Limited as the general partner of each of 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP are also indirect wholly owned subsidiaries of 3i. 3i GP 2006–08 Limited, as the general partner of each of 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP, has the authority to manage the partnerships. 3i GP 2006–08 Limited is wholly owned by 3i Holdings plc which in turn is wholly owned by 3i. Accordingly, each of 3i GP 2006–08 LP and 3i Holdings plc is deemed to be interested in all the Shares held by 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP.



Other Information *(continued)*

- (2) In addition to the 37,414,940 Shares beneficially owned by 3i itself, 3i is also deemed to be interested in a total of 78,948,956 Shares beneficially owned by 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP. 3i Investments plc, as investment manager, is also be deemed to be interested in those 116,363,896 Shares.
- (3) The 116,363,896 Shares represent the same interests and are therefore duplicated between 3i and 3i Investments plc. The 78,948,956 Shares beneficially owned by 3i Asia Growth 2006–08 LP, 3i Global Growth 2006–08 LP, Asia Growth Co-invest 2006–08 LP and Global Growth Co-invest 2006–08 LP, of which 3i GP 2006–08 Limited is the general partner, represent the same interest and are therefore duplicated among 3i, 3i Investments plc, 3i GP 2006–08 Limited and 3i Holdings plc. Further, the 51,831,706 Shares beneficially owned by 3i Global Growth 2006–08 LP represent the same interest and are therefore duplicated among 3i, 3i Global Growth 2006–08 LP and 3i Investments plc.
- (4) Merrill Lynch International is 97.2% controlled by ML UK Capital Holdings which in turn is 100% controlled by Merrill Lynch Holdings Limited. Merrill Lynch Holdings Limited is 100% controlled by Merrill Lynch Europe Intermediate Holdings which in turn is 100% controlled by Merrill Lynch Europe Plc. Merrill Lynch Europe Plc is 100% controlled by Merrill Lynch International Holdings Inc. which in turn is 100% controlled by Merrill Lynch International Incorporated. Merrill Lynch International Incorporated is 100% controlled by Merrill Lynch & Co. Inc. Accordingly, the interests of Merrill Lynch International are deemed to be the respective interests of Merrill Lynch & Co. Inc., Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe Plc, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited and ML UK Capital Holdings.
- (5) These interests in short position were jointly held with Deutsche Bank AG, Hong Kong Branch, CCB International Capital Limited and First Shanghai Securities Limited.

Share Option Schemes

(1) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted on 20 December 2007, the Company has granted certain options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the grant date. At 30 June 2008, 26,379,680 options were granted under the Pre-IPO Share Option Scheme, and no such share options have been exercised yet. Details of the share options outstanding as at 30 June 2008 which have been granted under the Pre-IPO Share Option Scheme are as follows:

Name of Grantees	Options outstanding at 1 January 2008	Options granted during the period	Options exercised during the period	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 30 June 2008
<i>Directors of the Company</i>						
Chen Hongkai	300,000	—	—	—	—	300,000
Lu Wenbing	2,487,680	—	—	—	—	2,487,680
Wang Daizong	150,000	—	—	—	—	150,000
Yeung Yiu Keung	1,400,000	—	—	—	—	1,400,000
Kou Zhifang	510,000	—	—	—	—	510,000
Li Baofang	730,000	—	—	—	—	730,000



Other Information *(continued)*

Name of Grantees	Options outstanding at 1 January 2008	Options granted during the period	Options exercised during the period	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 30 June 2008
<i>Directors of subsidiaries</i>						
Li Lichen	100,000	—	—	—	—	100,000
Hu Guili	50,000	—	—	—	—	50,000
Guo Lili	50,000	—	—	—	—	50,000
Wang Yuzhu	50,000	—	—	—	—	50,000
Wang Wei	50,000	—	—	—	—	50,000
Xu Zhonggang	50,000	—	—	—	—	50,000
Li Jianbo	50,000	—	—	—	—	50,000
Zhang Guiying	50,000	—	—	—	—	50,000
Li Chunmei	50,000	—	—	—	—	50,000
Xie Lixia	50,000	—	—	—	—	50,000
Zhang Xiuping	400,000	—	—	—	—	400,000
<i>Other employees</i>	19,852,000	—	—	—	—	19,852,000
	26,379,680	—	—	—	—	26,379,680

Notes:

- (1) All options under the Pre-IPO Option Scheme were granted on 28 December 2007 at an exercise price of HK\$2.11 per share.
- (2) All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

Maximum percentage of options exercisable	Period for vesting of the relevant percentage of the option
10% of the total number of the options to any grantee	From the grant date of the options to expiry of the 12-month period after the grant date of the options or of the 6-month period after the date of the initial public offering of the Company (i.e. 12 June 2008), whichever is later
15% of the total number of the options to any grantee	From the grant date of the options to expiry of 24-month period after the grant date of the options
30% of the total number of the options to any grantee	From the grant date of the options to expiry of 36-month period after the grant date of the options
45% of the total number of the options to any grantee	From the grant date of the options to expiry of 48-month period after the grant date of the options

(2) Share Option Scheme

Pursuant to the Share Option Scheme adopted by the Company on 15 May 2008, the Directors may invite participants to take up options at a price determined by the board of Directors provided that it shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an offer is made by our Company to the grantee (which date must be a business day, "Offer Date"); (b) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date (provided that the Offer Price shall be used as the closing price for any business day falling within the period before listing of the shares of the Company where our Company has been listed for less than five business days as at the Offer Date); and (c) the nominal value of a share of the Company.

Other Information *(continued)*

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which may be determined and notified by the board of Directors to the grantee at the time of making an offer which shall not expire later than 10 years from the grant date. As at the date of this report, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Publication of Interim Report

This electronic version of this interim report is published on the website of the Stock Exchange (<http://www.hkex.com.hk>) and on the Company's website (<http://www.littlesheep.com>).

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

Hong Kong, 16 September 2008

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

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

