Little Sheep Group Limited
小肥羊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 968

INTERIM REPORT 2009

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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. Li Baofang

Non-executive Directors
Mr. Chen Hongkai
Mr. Su Jing Shyh Samuel (appointed on 2 June 2009)
Mr. Koo Benjamin Henry Ho Chung (appointed on 2 June 2009)
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*

COMPANY'S HEAD OFFICE

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
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

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

COMPLIANCE ADVISOR

NM Rothschild & Sons (Hong Kong) Limited

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young
Certified Public Accountants

STOCK CODE

968

COMPANY WEBSITE

www.LittleSheep.com

	Six month ended 30 June		
	2009 (Unaudited) RMB'000	2008 (Unaudited) RMB'000	% Change Increase/ (Decrease)
Financial Highlights			
Consolidated revenue	**626,298**	528,558	18.5%
Sales from restaurant operations	**516,657**	445,672	15.9%
Consolidated profit before tax	**57,607**	57,865	(0.4%)
Profit attributable to shareholders	**39,155**	42,207	(7.2%)
Basic earnings per share (RMB)	**3.81 cents**	4.84 cents	(21.3%)

	First half of 2009	First half of 2008
Operational Statistics for Company-owned Restaurants		
Same store sales growth	**1.3%**	12.0%
Average per capita spending	**RMB53.57**	RMB52.92
Utilization rate	**1.22**	1.23

Total number of company-owned restaurants and franchise restaurants as of 30 June 2008 reached 146 and 276 respectively which are located in the following areas:

	Number of Restaurants			
	As of 30 June 2009		As of 31 December 2008	
Region and Province/City	**Company-owned**	**Franchise**	Company-owned	Franchise
Northern PRC	**42**	**138**	32	110
Eastern PRC	**48**	**53**	44	54
Southern PRC	**30**	**22**	29	22
Northeastern PRC	**7**	**5**	5	5
Northwestern PRC	**13**	**45**	11	46
Special Administrative Regions	**5**	**0**	5	—
Overseas	**1**	**13**	1	11
Total	**146**	**276**	127	248

	30 June 2009	31 December 2008
Liquidity and Gearing		
Current ratio[(1)]	**3.39**	3.30
Quick ratio[(2)]	**2.63**	2.43
Gearing ratio[(3)]	**—**	—

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,

The unfavorable environment in the first half of 2009 brought significant challenges to the catering service industry. Consumers have cut back spending due to slowing income growth and uncertain economic outlook. Little Sheep Group Limited ("the Company", "Little Sheep" or, together with its subsidiaries, "the Group"), one of the key players in the industry, was inevitably affected, and our business faced pressure. To cope with the situation, additional efforts and initiatives were put in place to attract and retain customers. We have introduced a host of measures to minimize adverse impact and have stayed focused on our strategy to grow through network expansion and product innovations. Thanks to our prominent market position, brand equity and collective efforts, we were able to maintain business growth amid harsh external conditions.

For the six months ended 30 June 2009, revenue grew by 18.5% to RMB626.3 million. Profit attributable to the shareholders of the Company decreased by 7.2% to RMB39.2 million.

To navigate through the economic downturn, we have adjusted menu prices and have introduced new menu items. We have launched national marketing campaigns and carried out renovation works at numerous restaurants. We have advanced our "Project Leader Sheep" to improve store-level efficiency. We remain committed to expanding our restaurant network in a prudent manner. During the period under review, we had launched 11 new company-owned restaurants and acquired nine franchise restaurants, bringing the total number of company-owned restaurants to 146 as of 30 June 2009.

In March 2009, Little Sheep became the sole official sponsor of meat products for the esteemed China Mountaineering Team; and Mr. Wang Yong Feng, the team captain, has become the spokesperson of Little Sheep food products. We believe that the strategic alliance with the China Mountaineering Team will further strengthen Little Sheep's brand equity and recognition in China.

In June 2009 Yum! Brands, Inc. ("Yum"), the world's largest restaurant company, purchased approximately 20% stakes in the Company and became a strategic investor. Mr. Su, Jing Shyh Samuel and Mr. Koo, Benjamin Henry Ho Chung were subsequently nominated by Yum to join the board of directors of the Company (the "Board"). The investment by Yum is a strong validation of our business model and growth potential. I look forward to a close working relationship with Mr. Su and Mr. Koo and to taking the business to new heights together.

Although the prospect of a full economic recovery remains uncertain in the near term, we observe that consumer sentiments have begun to improve as a result of government stimulus plans. We believe we have the strategy and proven capabilities to lead the business through difficult times and to take advantage of the opportunities ahead to grow and prosper.

The year of 2009 marks the 10th anniversary of Little Sheep. The success of Little Sheep is attributable to the unwavering support of our shareholders, business partners, management and staff. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude. After 10 years of development, we are now moving to another chapter in our corporate history. With our proven business model, quality products, devoted management team and staff, I am confident that Little Sheep will continue its success story in the next decade and create value for shareholders.

ZHANG Gang
Chairman

Hong Kong, 7 September 2009

BUSINESS REVIEW

The global financial turmoil triggered by the US subprime mortgage crisis last year continued to depress the world economy in the first half of 2009. China was inevitably impacted. A slowdown in economic growth and contraction in consumer spending were felt at many levels and across industries. In China, southern regions, such as Guangdong province, and some coastal areas around Shanghai were particularly hard hit due to significantly reduced export demand.

The Company adopted a series of measures to cope with the external challenges. We have adjusted down menu prices and offered a variety of promotions; we have launched new products and stepped up on marketing campaigns; we have accelerated programs to upgrade store image; we have enhanced management and operation systems to improve back-of-the-house efficiency. As a result, the Company achieved both overall and same store sales growth during the period under review and expanded its restaurant network according to plan.

In the six months ended 30 June 2009, revenue increased by 18.5% to RMB626.3 million and profit attributable to shareholders slid by 7.2% to RMB39.2 million, respectively, from the same period of last year.

Restaurant operations

Restaurant operations remained the largest revenue contributor for the Company, accounting for 82.5% of total revenue. During the period under review, revenue from company-owned restaurants rose 15.9% to RMB516.7 million from the same period of last year.

As of 30 June 2009, the Company had a total of 146 company-owned restaurants. The Company launched 11 new company-owned restaurants and acquired nine franchise restaurants during the period. The Company had also closed down one company-owned restaurant during the period.

To further enhance and improve customer experience, the Company renovated ten existing company-owned restaurants and unified interior design with new trendy elements added. To better penetrate different trade zones, we have developed four types of restaurants: flagship restaurant, mainstream restaurant, community restaurant as well as shopping mall unit. The first shopping mall unit was opened in Beijing during the period.

The Company continued to implement *Project Leader Sheep* which covers marketing and promotion, and market and product developments. A new module has been ramified to focus on enhancing efficiency in kitchen operations and has been test-run in selected restaurants. The objective is to improve staff efficiency, reduce customers waiting time and increase table turns through streamlined workflows, multi-tasking among staff and more flexible rostering.

The Company has also rolled out a *Program Happy Sheep* which emphasizes the importance of delivering quality services. The program encourages self initiative and a sense of belonging among restaurant staff, and enhances customer dining experiences and loyalty as a whole.

We have developed a new seasonal product "Qing-Liang-Guo" (清涼鍋) which is a hot pot soup base with a fresh flavour of mint and chrysanthemum and suits the summer weather. In addition, we have also introduced a special cut of lamb "精品羊肋腹肉" to go with "Qing-Liang-Guo". To promote the new dishes, we launched national advertising through both conventional channels like print and radio and new media such as popular websites and screen panels on buses and metro lines. The products were well received by customers and boosted traffic and sales in our restaurants.

Sale of food products

The Company provides a range of fresh and dried food products including lamb, hot pot soup base and seasonings to wholesale distributors. The popularity of our restaurants and our brand enabled us to grow this business rapidly during the period. Moreover, Little Sheep has introduced new brands of mid and high-end lamb products, which have further expanded our upstream business and broadened our distribution channels.

During the period, revenue from sales of food products increased by 23.3% year-on-year to RMB86.6 million. The growth was attributable to increased brand recognition of our products, in particular lamb and seasoning products.

Franchise restaurants

Revenue from franchise operations amounted to RMB22.2 million, up 93.2% from the same period last year. The increase in franchise income was mainly attributable to contribution from new franchise restaurants. To enhance the Company's presence and market share in targeted markets, the Company purchased nine franchise restaurants from various individual franchisees during the period, six of them in Henan province, two in Fujian province and one in Gansu province. Acquisition of quality franchise restaurants is one of the Company's stated growth strategies. As of 30 June 2009, the Company had a total of 276 franchise restaurants.

Food safety

It is a top priority of the Company to ensure that the food products it provides are safe and healthy and meet relevant food safety standards. The Chinese government has recently escalated efforts in the inspection and supervision of food safety in the country. A new food safety regulation was recently promulgated and became effective on 1 June 2009. To further strengthen our compliance and control systems, we have established a food quality and safety team in our headquarters in Baotou. The team is responsible for overseeing food safety compliance within the Group and co-ordinating food safety efforts across departments and business segments. It is essential to build and reinforce a safety net in our business for the Company to continue its growth and expansion.

BUSINESS OUTLOOK

Same store sales growth in our restaurants has shown a steady recovery in the most recent months, a sign that consumer sentiments have started to turn around. Due to seasonality of our business, both revenue and profit contributions in the second half of a year will normally far exceed that in the first half of the year. With the strategy and measures we have put in place, we are optimistic that the business will grow on the back of improved macro economic condition and achieve the growth target set earlier this year.

We will continue to open company-owned restaurants so as to add 40 new stores this year as planned. We will continue to drive same store sales and traffic growth by introducing new products and implementing effective marketing and promotions. We will further enhance our brand equity by leveraging on key events such as the Company's 10th anniversary and the 60th anniversary of the PRC, as well as our strategic alliance with the China Mountaineering Team. We will step up our efforts in cost reduction and efficiency enhancement. Additionally, we will continue to seek opportunity to acquire profitable franchise restaurants at reasonable prices.

Looking forward, tremendous challenges still lie ahead. A full recovery of the global economy may not be forthcoming soon, and a new cycle of inflation could be imminent, leading to increases in raw materials prices such as lamb price.

However, we believe the adjustments and preparations we made early in the year have placed us in a good position to overcome the challenges. We believe we have the right strategy in place to deliver strong business growth in future.

FINANCIAL REVIEW

Net revenue

During the period, our total revenue increased by 18.5% year-on-year to RMB626.3 million. The increase was primarily due to increases in revenues from restaurant operations, sales of food products and franchise operations.

Revenue from restaurant operations

Revenue from restaurant operations increased by 15.9% year-on-year to RMB516.7 million, primarily due to the contribution from newly opened restaurants.

Revenue from sales of food products

Revenue from sales of food products increased by 23.3% year-on-year to RMB86.6 million, mainly due to increase in sales volume and growth in the client base.

Revenue from franchise operations

Revenue from franchise operations increased by 93.2% year-on-year to RMB22.2 million, primarily due to the contributions from newly opened franchise restaurants.

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 period, revenue from management service fee decreased by 29.1% year-on-year to RMB0.8 million, mainly due to the decrease in the number of franchise restaurants which have entrusted management to the Group.

Other income

Other income, which represents income received from non-core operations, decreased by 47.4% year-on-year to RMB9.1 million. It was mainly due to the absence of income from wavier of interest expenses on convertible bonds.

Cost of inventories sold

The cost of inventories sold increased by 15.4% year-on-year to RMB241.1 million. The increase was mainly attributable to the growth in revenue.

Staff costs

Our staff costs increased by 24.2% year-on-year to RMB147.5 million, primarily due to the increase in headcount resulting from the opening of new restaurants and the overall increase in salaries and other employee benefits.

Depreciation and amortization

Depreciation and amortization amounted to RMB23.2 million, representing a increase of 1.1% year-on-year. Such increase was mainly due to the increase in the number of company-owned restaurants.

Rental expenses

Rental expenses increased by 18.1% year-on-year to RMB68.5 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 11.5% year-on-year to RMB28.4 million, attributable to the increase in the number of company- owned restaurants.

Other operating expenses

Other operating expenses increased by 47.4% year-on-year to RMB69.0 million, mainly due to the increases in the number of restaurants and in the advertising and promotion expenses as well as administrative expenses.

Finance costs

Our finance costs were RMB18,000, which arose from interest expenses on bank loans.

Tax

Our tax expenses increased by 18.3% year-on-year to RMB15.4 million, as a result of the increase in tax rate in the transitional period and changes in tax benefit policies.

Net profit attributable to shareholders of the Company

Our net profit attributable to the Company's shareholders for the reporting period decreased by 7.2% year-on-year to RMB39.2 million as a result of the cumulative effect of the foregoing factors.

Liquidity and financial resources

As at 30 June 2009, cash and bank balances stood at RMB311.0 million and net current assets were RMB359.4 million with a current ratio of 3.4. The stable 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 30 June 2009, the Group had a bank loan of RMB0.9 million which was made to our subsidiary Bayannur City Little Sheep Meat Co., Ltd. with an annual interest rate of 2.40%.

During the period, the Group's revenue and business incomes and expenses were mainly denominated in Renminbi while those from our 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 of 30 June 2009, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash flow

Net cash inflow from operating activities were RMB67.3 million in the first half of 2009, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities were RMB112.6 million in the first half of 2009, consisting primarily of investment in restaurants of RMB102.2 million and investment in production facilities of RMB8.3 million.

Net cash outflow from financing activities were RMB67.5 million in the first half of 2009, due primarily to payments of dividends of RMB67.5 million for the year of 2008.

Capital expenditures

Our capital expenditures for the period totalled RMB74.10 million and were primarily related to expenditures on the opening and refurbishment of company-owned restaurants and investment in production facilities. 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 of 30 June 2009, the Group had 11,326 employees. Human capital is one of the most important assets of Little Sheep. To ensure it can attract and retain talents for its continuous development, Little Sheep offers competitive remuneration packages and regular training and development programs to its employees. Since the beginning of this year, we have implemented a unified compensation structure and introduced a 360 degree feedback module to the performance appraisal schemes. We are also setting up our first human resources information system. We will continue to grow and develop our staff to keep pace with our growth and development in business.

ERNST & YOUNG
安 永

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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 31 which comprises the condensed consolidated balance sheet of Little Sheep Group Limited and its subsidiaries as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive 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" 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.

Ernst & Young
Certified Public Accountants
Hong Kong

7 September 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2009

	Notes	Six months ended 30 June 2009 (Unaudited) RMB'000	30 June 2008 (Unaudited) RMB'000
REVENUE	4	**626,298**	528,558
Other income	4	**9,090**	17,297
Cost of inventories sold	5	**(241,106)**	(209,011)
Staff costs	5	**(147,539)**	(118,782)
Depreciation and amortisation	5	**(23,210)**	(22,960)
Rental expenses	5	**(68,507)**	(57,990)
Fuel and utility expenses		**(28,356)**	(25,423)
Other operating expenses		**(69,045)**	(46,847)
Finance costs	6	**(18)**	(6,977)
PROFIT BEFORE TAX		**57,607**	57,865
Tax	7	**(15,421)**	(13,032)
PROFIT FOR THE PERIOD		**42,186**	44,833
Attributable to:			
Shareholders of the Company		**39,155**	42,207
Minority interests		**3,031**	2,626
		42,186	44,833
INTERIM DIVIDEND	8	**—**	78,506
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9		
— Basic (RMB)		**3.81 cents**	4.84 cents
— Diluted (RMB)		**3.79 cents**	4.81 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2009

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	**42,186**	44,833
Exchange differences on translation of foreign operations	**(453)**	(1,366)
Other comprehensive income for the period, net of tax	**(453)**	(1,366)
Total comprehensive income for the period, net of tax	**41,733**	43,467
Attributable to:		
Shareholders of the Company	**38,702**	40,841
Minority interests	**3,031**	2,626
	41,733	43,467

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2009

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	311,264	277,684
Deposits for purchases of items of plant and equipment		12,018	5,567
Intangible assets		220,149	171,131
Lease prepayments		11,594	11,717
Long-term rental deposits		15,565	13,281
Deferred income tax assets		4,209	2,928
		574,799	482,308
CURRENT ASSETS			
Inventories	11	114,196	179,400
Trade receivables	12	19,019	12,175
Prepayments, deposits and other receivables	13	65,847	65,902
Cash and bank balances	14	310,986	424,038
		510,048	681,515
CURRENT LIABILITIES			
Bank loans	15	535	535
Trade payables	16	29,181	40,803
Deposits, other payables and accruals	17	100,686	137,807
Due to minority equity holders/shareholders of subsidiaries	18	12,225	12,528
Dividend payable		1,004	—
Tax payable		6,996	14,994
		150,627	206,667
NET CURRENT ASSETS		359,421	474,848
TOTAL ASSETS LESS CURRENT LIABILITIES		934,220	957,156
NON-CURRENT LIABILITIES			
Bank loans	15	375	375
Long-term payables		8,240	6,885
		8,615	7,260
NET ASSETS		925,605	949,896

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	19	**90,824**	90,823
Reserves		**821,922**	850,776
		912,746	941,599
Minority interests		**12,859**	8,297
TOTAL EQUITY		**925,605**	949,896

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2009

	Attributable to shareholders of the Company									
	Issued capital (Unaudited) RMB'000 (note 19)	Capital reserves (Unaudited) RMB'000 (note 19)	PRC reserve funds (Unaudited) RMB'000	Foreign currency translation reserve (Unaudited) RMB'000	Equity component of convertible bonds (Unaudited) RMB'000	Share option reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000	Minority interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
At 1 January 2009	90,823	655,382	36,152	(6,718)	—	3,509	162,451	941,599	8,297	949,896
Profit for the period	—	—	—	—	—	—	39,155	39,155	3,031	42,186
Other comprehensive income	—	—	—	(453)	—	—	—	(453)	—	(453)
Total comprehensive income	—	—	—	(453)	—	—	39,155	38,702	3,031	41,733
Transfer to the PRC reserve funds	—	—	25	—	—	—	(25)	—	—	—
Equity-settled share option arrangement	—	—	—	—	—	1,278	—	1,278	—	1,278
Exercise of employee share options	1	12	—	—	—	—	—	13	—	13
Dividend paid	—	(68,846)	—	—	—	—	—	(68,846)	—	(68,846)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	1,531	1,531
At 30 June 2009	90,824	586,548	36,177	(7,171)	—	4,787	201,581	912,746	12,859	925,605
At 1 January 2008	—	125,314	34,553	10,641	3,486	100	113,858	287,952	16,363	304,315
Period for the period	—	—	—	—	—	—	42,207	42,207	2,626	44,833
Other comprehensive income	—	—	—	(1,366)	—	—	—	(1,366)	—	(1,366)
Total comprehensive income	—	—	—	(1,366)	—	—	42,207	40,841	2,626	43,467
Conversion of bonds	—	198,300	—	(20,523)	(3,486)	—	—	174,291	—	174,291
Issue of ordinary shares, net of share issue expenses	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 paid by subsidiaries to their then shareholders	—	—	—	—	—	—	(78,506)	(78,506)	(4,553)	(83,059)
At 30 June 2008	90,823	640,594	34,553	(11,248)	—	1,784	77,559	834,065	13,545	847,610

Six months ended 30 June 2009

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash inflow from operating activities	**67,299**	82,339
Net cash outflow from investing activities	**(112,623)**	(47,932)
Net cash inflow/(outflow) from financing activities	**(67,452)**	319,449
Net increase/(decrease) in cash and cash equivalents	**(112,776)**	353,856
Cash and cash equivalents at beginning of period	**424,038**	204,126
Effect of foreign exchange rate changes, net	**(276)**	(3,702)
Cash and cash equivalents at end of period	**310,986**	554,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**310,986**	554,280

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 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 period presented rather than from the date of acquisition of China XiaoFeiYang applying the principles of merger accounting.

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 2009 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

This 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 Group's audited financial statements for the year ended 31 December 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 Group's financial statements for the year ended 31 December 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.

IFRS 1 and IAS 27	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS Amendments 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based payment — Vesting Conditions and Cancellations*
IFRS 7	*Financial Instruments Disclosure*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39	Amendment — *Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

Apart from the above, IASB has also issued Improvements to IFRSs which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording.

IAS 1	*Presentation of Financial Statements*
IFRS 7	*Financial Instruments: Disclosures*
IAS 8	*Accounting Policies, Change in Accounting Estimates and Error*
IAS 10	*Events after the Reporting Period*
IAS 16	*Property, Plant and Equipment*
IAS 18	*Revenue*
IAS 19	*Employee Benefits*
IAS 20	*Accounting for Government Grants and Disclosures of Government Assistance*
IAS 23	*Borrowing Costs*
IAS 27	*Consolidated and Separate Financial Statements*
IAS 28	*Investment in Associates*
IAS 29	*Financial Reporting in Hyperinflationary Economies*
IAS 31	*Interest in Joint ventures*
IAS 34	*Interim Financial Reporting*
IAS 36	*Impairment of Assets*
IAS 38	*Intangible Assets*
IAS 39	*Financial Instruments: Recognition and Measurement*
IAS 40	*Investment Property*
IAS 41	*Agriculture*

2. BASIS OF PRESENTATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Impact of new and revised International Financial Reporting Standards *(continued)*

Except for the adoption of IAS 1 (Revised) and IFRS 8 resulted in new or amended disclosures and the adoption of improvements to IAS 16 and IAS 23 resulted in changes in accounting policies, the adoption of these new interpretations and amendments has had no significant financial effect on these Interim Financial Information and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

IFRS 8 *Operating Segments*
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. This standard requires an entity, including an entity with a single reportable segment, to disclose information for the entity as a whole about its products and services, geographical areas and major customers. Additional disclosures about each of these segments are shown in note 3, including revised comparative information.

IAS 1 (Revised) *Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Improvements to IFRSs
The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment: Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one — the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and sevices, and has four reportable operating segments as follows:

(a) the operation of restaurants and provision of catering services segment engages in Chinese hot pot restaurants;

(b) the sale of food products segment engages in the production of soup-based seasoning and the sale of lamb meat;

(c) the franchise income segment represents the charges to the franchisees for the rights of using the trademark of Little Sheep; and

(d) the "others" segment represents the provision of services of sales promotion, purchase, training, and other administrative services rendered to franchise restaurants.

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

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2009 and 2008, respectively.

Six months ended 30 June 2009 (unaudited)	Restaurant operations and provision of catering services RMB'000	Food products RMB'000	Franchise income RMB'000	Others RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:						
Third party	516,657	86,602	22,199	840	—	626,298
Inter-segment[1]	—	88,314	—	10,880	(99,194)	—
Total revenue	516,657	174,916	22,199	11,720	(99,194)	626,298
Results						
Segment profit/(loss) before tax[2]	65,226	(260)	12,154	(9,798)	(9,715)	57,607

3. SEGMENT INFORMATION *(continued)*

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	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:						
Third party	445,672	70,212	11,490	1,184	—	528,558
Inter-segment[1]	—	81,466	—	11,482	(92,948)	—
Total revenue	445,672	151,678	11,490	12,666	(92,948)	528,558
Results						
Segment profit/(loss) before tax[2]	57,824	266	8,623	(3,356)	(5,492)	57,865

Notes:

1. Inter-segment revenue are eliminated on consolidation.

2. The profit for each operating segment does not include other income (2009: RMB9,090,000; 2008: RMB17,297,000), unallocated expenses (2009: RMB18,787,000; 2008: RMB15,812,000), nor finance cost (2009: RMB18,000; 2008: RMB6,977,000).

The following table presents segment assets of the Group's operating segments as at 30 June 2009 and 31 December 2008.

	Restaurant operations and provision of catering services RMB'000	**Food products RMB'000**	**Franchise income RMB'000**	**Others RMB'000**	**Adjustments and eliminations RMB'000**	**Total RMB'000**
Segment assets						
At 30 June 2009 (unaudited)[1]	**485,337**	**266,624**	**534,558**	**528,076**	**(729,748)**	**1,084,847**
At 31 December 2008 (audited)[1]	478,717	323,920	547,466	557,481	(743,761)	1,163,823

Note:

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

4. REVENUE AND OTHER INCOME

Revenue

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

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Restaurant operations and provision of catering services	**516,657**	445,672
Sale of food products	**86,602**	70,212
Franchise income	**22,199**	11,490
Management service fee income	**840**	1,184
	626,298	528,558

Other Income

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Government grants	**1,153**	3,719
Sale of low-value consumables	**643**	738
Interest income on bank balances	**1,089**	1,196
Waiver of 2007 interest expenses on convertible bonds*	**—**	8,463
Others	**6,205**	3,181
	9,090	17,297

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.

* Pursuant to a supplementary agreement between the Company and the bond holders of the convertible bonds, namely, 3i Group plc ("3i") and PraxCapital Fund I ("PraxCapital"), on 14 May 2008, 3i and PraxCapital agreed to waive part of their respective interest entitlements on the convertible bonds for 2007 in the sum of US$1.2 million (equivalent to RMB8,463,000), in view of the decrease in the general borrowing rates in the global financial market for that period.

5. PROFIT BEFORE TAX

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

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**241,106**	209,011
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	**126,815**	99,972
Expense of share-based payments	**1,278**	1,684
Pension scheme costs	**6,917**	7,655
Social welfare and other costs	**12,529**	9,471
	147,539	118,782
Depreciation and amortisation	**23,210**	22,960
Minimum lease payments under operating leases in respect of buildings	**68,507**	57,990

6. FINANCE COSTS

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expense on bank loans	**18**	1,230
Interest expense on convertible bonds	**—**	5,747
	18	6,977

7. TAX

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Income tax		
Current income tax	**16,702**	14,579
Deferred income tax	**(1,281)**	(1,547)
	15,421	13,032

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

Under the relevant PRC income tax law, except for the preferential treatment available to certain subsidiaries operating in the PRC, the companies of the Group which operate in the PRC are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method. During the six months ended 30 June 2009, after obtaining approval from the relevant PRC tax authorities, 18 (30 June 2008: 12) entities of the Group were subject to a preferential corporate income tax rate of 20% (30 June 2008: 18%), 3 (30 June 2008: 3) entities of the Group were exempt from the PRC corporate income tax and 42 (30 June 2008: 26) entities of the Group were assessed based on the verification collection method. All the tax concessions enjoyed by the Group were granted by various competent tax bureaus.

The provision for Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2009 (30 June 2008: 16.5%).

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

8. DIVIDEND

	Six months ended	
	30 June 2009	30 June 2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividend paid by China XiaoFeiYang to the then shareholders	**—**	78,506

No interim dividend has been declared by the Company for the six months ended 30 June 2009.

9. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the period based on the profit attributable to shareholders of the Company for the period of RMB39,155,000 (30 June 2008: RMB42,207,000) and the weighted average number of 1,027,650,870 ordinary shares (30 June 2008: 871,383,542 ordinary shares) of the Company.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the six months period ended 30 June 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 calculation of diluted earnings per share for the six months period ended 30 June 2009 is based on the profit attributable to shareholders for the period of RMB39,155,000 (30 June 2008: RMB42,207,000) and on 1,034,012,660 ordinary shares (30 June 2008: 878,410,598 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 6,361,790 ordinary shares (30 June 2008: 7,027,056 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme adopted by the Company on 20 December 2007.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired property, plant and equipment at a total cost of RMB52,160,000 (31 December 2008: RMB153,437,000), not including property, plant and equipment acquired through business combination.

Property, plant and equipment with a net book value of RMB2,392,000 (31 December 2008: RMB2,409,000) were disposed of by the Group during the six months ended 30 June 2009, resulting in a net gain on disposal of RMB125,000 (30 June 2008: RMB81,000).

As at 30 June 2009, certain buildings of the Group were pledged as security for bank loans of the Group as disclosed in note 15 to the condensed consolidated financial statements. The aggregate carrying value of the pledged buildings and equipment attributable to the Group as at 30 June 2009 amounted to RMB813,000 (31 December 2008: RMB922,000).

11. INVENTORIES

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Raw materials	**2,593**	5,782
Consumables	**14,140**	13,469
Food and beverages	**97,463**	160,149
	114,196	179,400

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 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	**12,933**	9,370
3 to 6 months	**3,874**	2,045
6 to 12 months	**2,212**	760
	19,019	12,175

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Rental deposits	**21,312**	18,062
Deposits to suppliers	**5,503**	5,632
Prepayments and other receivables	**39,032**	42,208
	65,847	65,902

14. CASH AND BANK BALANCES

The bank balances earn interest at floating rates based on daily bank deposit rates.

As at 30 June 2009, cash and bank balances of the Group aggregating RMB279,586,000 (31 December 2008: RMB371,750,000) 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.

15. BANK LOANS

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Bank loans:		
Secured	**910**	910
Bank loans repayable:		
Within one year or on demand	**535**	535
In the second year	**375**	375
Total bank loans	**910**	910
Less: Portion classified as current liabilities	**(535)**	(535)
Non current portion	**375**	375

As at 30 June 2009, bank loans of approximately RMB910,000 were secured by pledges of certain buildings and equipment of the Group with an aggregate carrying value of RMB813,000 (31 December 2008: RMB922,000) (note 10).

The annual interest rate of the bank loans during the period was 2.4% (31 December 2008: 2.4%). As at 30 June 2009, the Group's interest-bearing bank loans were denominated in Renminbi.

16. TRADE PAYABLES

An ageing analysis of the trade payables is as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	**27,664**	39,546
Over 3 months	**1,517**	1,257
	29,181	40,803

17. DEPOSITS, OTHER PAYABLES AND ACCRUALS

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Deposits from customers	**25,339**	33,330
Construction fees payable	**18,736**	21,170
Accrued wages and salaries	**23,391**	32,064
Other payables and accruals	**33,220**	51,243
	100,686	137,807

18. DUE TO MINORITY EQUITY HOLDERS/SHAREHOLDERS OF SUBSIDIARIES

The amounts are interest-free, unsecured and have no fixed terms of repayment.

19. SHARE CAPITAL AND CAPITAL RESERVES

	Number of ordinary shares issued	**Issue share capital** RMB'000	**Capital reserve** RMB'000
At 1 January 2009	1,027,643	90,823	655,382
Share option exercised by employees	8	1	12
Dividend paid	—	—	(68,846)
At 30 June 2009	1,027,651	90,824	586,548

During the six months ended 30 June 2009, 8,000 share options were exercised at HK$2.11 per share. This gives rise to net proceeds from issue of shares amounting to approximately HK$17,000 (equivalent to approximately RMB15,000).

20. 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.

All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

Maximum percentage exercisable		**Period for vesting of the relevant of options percentage of the option**
Lot 1:	2,637,868 shares (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
Lot 2:	3,956,952 shares (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
Lot 3:	7,913,904 shares (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
Lot 4:	11,870,856 shares (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

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 2008 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$)	1.691

21. COMMITMENTS

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 2009, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within one year	**116,747**	116,660
In the second to fifth years, inclusive	**302,179**	247,883
After five years	**81,946**	84,515
	500,872	449,058

22. 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:

		Six months ended	
	Note	**30 June 2009 (Unaudited) RMB'000**	30 June 2008 (Unaudited) RMB'000
Rental expenses	(i)	**2,085**	3,451

Note:

(i) The amount represented rental expenses payable to persons including Mr. Zhang Gang and Mr. Chen Hongkai, directors of the Company, for leasing five (30 June 2008: five) office buildings and restaurants which are classified as ongoing connected transactions in accordance with Hong Kong Listing Rules. The amounts of the rental expenses were agreed by the parties by reference to market rentals.

23. BUSINESS COMBINATIONS

The Group entered into various sale and purchase agreements to acquire 9 hot pot restaurants (including 8 branches and 1 subsidiary) from various independent third parties for an aggregate cash consideration of RMB60,563,000, which generated goodwill of RMB49,065,000 on 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	2,513	2,513
Trade receivables	4	4
Inventories	3,249	3,249
Prepayments, deposits and other receivables	9,273	9,273
Cash and cash equivalents	3,183	3,183
Customers' deposits, other payables and accruals	(6,724)	(6,724)
Fair value of net assets acquired by the Group	11,498	11,498
Goodwill on acquisition	49,065	
Consideration	60,563	

	RMB'000
The net cash outflow in respect of the acquisition is as follows:	
Net cash and cash equivalents acquired	3,183
Cash paid	(60,563)
Net cash outflow in respect of acquisition of branches and subsidiary	(57,380)

Since their acquisition, the above restaurants contributed in aggregate approximately RMB5,426,000 to the Group's revenue and a net loss of approximately RMB135,000 to the Group's net profit for the six months ended 30 June 2009.

24. EVENT AFTER THE BALANCE SHEET DATE

The Group did not have any significant events taken place subsequent to 30 June 2009.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 7 September 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2009, 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 2009.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2009 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 2009 have been reviewed by the Audit Committee of the Board.

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

During the six months ended 30 June 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 2009, 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/nature of interest	Total number of shares/ underlying shares held	Total	Approximate percentage of shareholding
(1) The Company				
Name of Director				
Zhang Gang	Interest of controlled corporation	3,091,000		
	Personal interest	41,613,370	44,704,370[(1)]	4.35%
Chen Hongkai	Personal interest	11,300,000		
	Founder of a discretionary trust	18,961,627	30,261,627[(2)]	2.94%
Lu Wenbing	Personal interest	11,577,345[(3)]		1.13%
Yeung Yiu Keung	Personal interest	3,080,854[(4)]		0.30%
Wang Daizong	Personal interest	2,809,992[(5)]		0.27%
Li Baofang	Personal interest	10,733,528[(6)]		1.04%
Zhang Zhanhai	Personal interest	7,343,536		0.71%
Nishpank Rameshbabu Kankiwala	Personal interest	114,233		0.01%

Notes:

(1) The interest comprises (a) interest in 3,091,000 shares in the Company ("Share") held by Beefup Group Limited, a company controlled by Mr. Zhang Gang; and (b) interest in 41,613,370 Shares owned by Mr. Zhang.

(2) The interest comprises (a) interest in 11,000,000 Shares owned by Mr. Chen Hongkai; and (b) interest in 18,961,627 Shares held by Palace Glory Investment Limited, a company owned by the trustee of a trust established by Mr. Chen for the benefit of his family; and (c) interest in 300,000 underlying shares in respect of the share options granted to Mr. Chen pursuant to the Pre-IPO Share Option Scheme. Details of the share options granted to the Directors are set out in the section headed "Share Option Schemes" below.

(3) The interest comprises (a) interest in 9,089,665 Shares owned by Mr. Lu Wenbing; and (b) interest in 2,487,680 underlying shares in respect of the share options granted to Mr. Lu pursuant to the Pre-IPO Share Option Scheme.

(4) The interest comprises (a) interest in 1,680,854 Shares owned by Mr. Yeung Yiu Keung; and (b) interest in 1,400,000 underlying shares in respect of the share options granted to Mr. Yeung pursuant to the Pre-IPO Share Option Scheme.

(5) The interest comprises (a) interest in 2,659,992 Shares owned by Mr. Wang Daizong; and (b) interest in 150,000 underlying shares in respect of the share options granted to Mr.Wang pursuant to the Pre-IPO Share Option Scheme.

(6) The interest comprises (a) interest in 10,003,528 Shares owned by Miss Li Baofang; and (b) interest in 730,000 underlying shares in respect of the share options granted to Miss Li pursuant to the Pre-IPO Share Option Scheme.

	Capacity/nature of interest	Total number of ordinary shares	Approximate percentage of shareholding
(2) Associated Corporation: Possible Way International Limited ("Possible Way")			
Name of Director			
Zhang Gang	Personal interest	2,550	25.50%
Chen Hongkai	Founder of a discretionary trust	1,836[(1)]	18.36%
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%

Note:

(1) The shares are held by Palace Glory Investment Limited, a company owned by the trustee of a trust established by Mr. Chen Hongkai for the benefit of his family.

All of the above interests in the Company and Possible Way held by the Directors are long positions.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2009, 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	Capacity	Number of Shares	Approximate percentage to the Company's issued share capital
Possible Way	Beneficial Owner	308,301,875	30.00%
	Interest of a party to an agreement to acquire shares	205,528,574[(1)]	20.00%
Yum! Brands, Inc. ("Yum")	Interest of controlled corporation	205,528,574[(2)]	20.00%
	Interests of parties to an agreement to acquire shares	471,491,563[(3)]	45.88%

Notes:

1. Possible Way is taken to be interested in the 205,528,574 Shares held by Wandle Investment Ltd. ("Wandle Investment"), an indirect wholly owned subsidiary of Yum, under the SFO as Possible Way and Wandle Investment had entered into an agreement to acquire shares to which sections 317(1)(a) and 318 of the SFO applied.

2. The 205,528,574 Shares are held by Wandle Investment, an indirect wholly owned subsidiary of Yum. Accordingly, Yum is taken to be interested in such 205,528,574 shares under the SFO.

3. Yum is taken to be interested in the 308,301,875 Shares held by Possible Way under the SFO as Wandle Investment and Possible Way had entered into an agreement to acquire shares to which sections 317(1)(a) and 318 of the SFO applied.

All of the above interests in the Company held by Possible Way and Yum are long positions.

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 2009, 26,379,680 options had been granted under the Pre-IPO Share Option Scheme, and out of which 7,000 share options had been exercised. Details of the share options outstanding as at 30 June 2009 which had been granted under the Pre-IPO Share Option Scheme are as follows:

Name of Grantees	Options outstanding at 1 January 2009	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 2009
Directors of the Company						
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**
Li Baofang	730,000	—	—	—	—	**730,000**
Directors of subsidiaries						
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**
Other employees	19,852,000	—	7,000	—	531,000	**19,314,000**
	26,379,680	—	7,000	—	531,000	**25,841,680**

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.

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, 7 September 2009

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.