10th Anniversary

LITTLE SHEEP 小肥羊

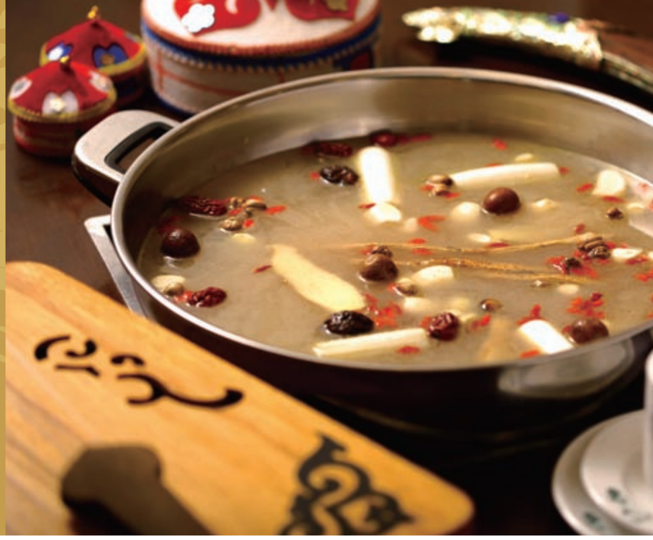
Little Sheep Group Limited
小肥羊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

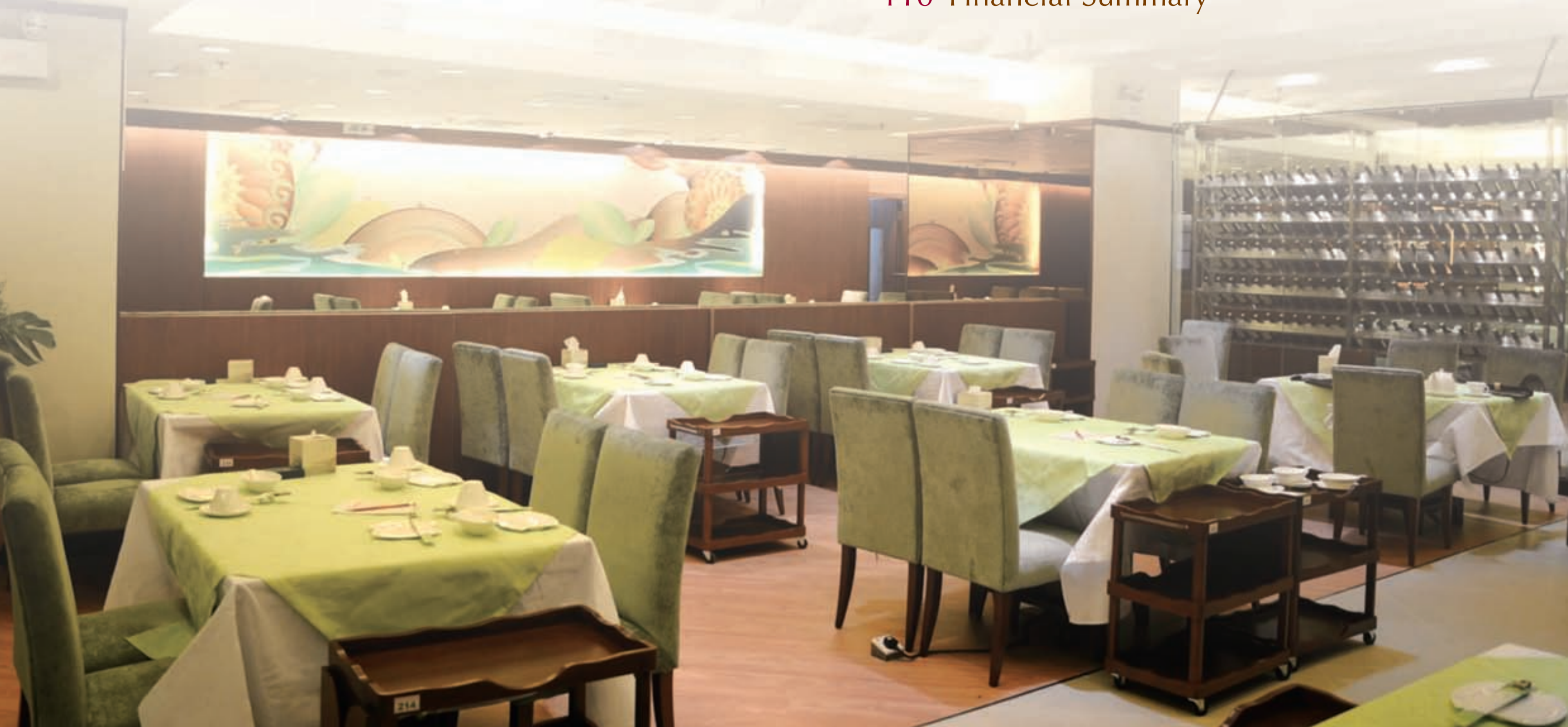
Stock Code : 968

Annual Report 2009

EDICO Design and produced by: EDICO Financial Press Services Limited website: www.edico.com.hk



Contents



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Gang *(Chairman)*
Mr. Lu Wenbing *(Chief Executive Officer)*
Mr. Zhang Zhanhai
Mr. Wang Daizong
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)
Ms. Hsieh Hui-yun Lily
(appointed on 19 November 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 Ka Keung
Dr. Xiang Bing

AUTHORIZED REPRESENTATIVES

Mr. Wang Daizong
Mr. Lee Kwok Wa

COMPANY SECRETARY

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

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

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 ADVISER

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

	For the year ended 31 December		% Change
	2009	2008	Increase/
	RMB'000	*RMB'000*	(Decrease)
Financial Highlights			
Consolidated revenue	**1,569,700**	1,271,523	23.5%
Sales from restaurant operations	**1,223,382**	1,010,690	21.0%
Consolidated profit before tax	**210,467**	165,328	27.3%
Profit attributable to shareholders	**155,364**	128,698	20.7%
Basic earnings per share (RMB cents)	**15.12**	13.55	11.6%
Proposed final dividend per share (HK cents)	**6.9**	7.6	(9.2%)
Operational Highlights			
Same store sales growth	**1.7%**	10.0%	
Average per capita customer spending (RMB)	**52.45**	53.93	(2.7%)
Utilization rate	**1.34**	1.35	(0.7%)

Number of Restaurants

	As of 31 December 2009		As of 31 December 2008	
Region and Province/City	**Company-owned**	**Franchise**	Company-owned	Franchise
Northern PRC	**46**	**142**	32	110
Eastern PRC	**54**	**56**	44	54
Southern PRC	**35**	**22**	29	22
Northeastern PRC	**8**	**6**	5	5
Northwestern PRC	**13**	**49**	11	46
Special Administrative Regions	**5**	**—**	5	—
Overseas	**—**	**18**	1	11
Total	**161**	**293**	127	248

	31 December 2009	31 December 2008
Liquidity and Gearing		
Current ratio(1)	**2.62**	3.30
Quick ratio(2)	**1.81**	2.43
Gearing ratio(3)	**—**	—

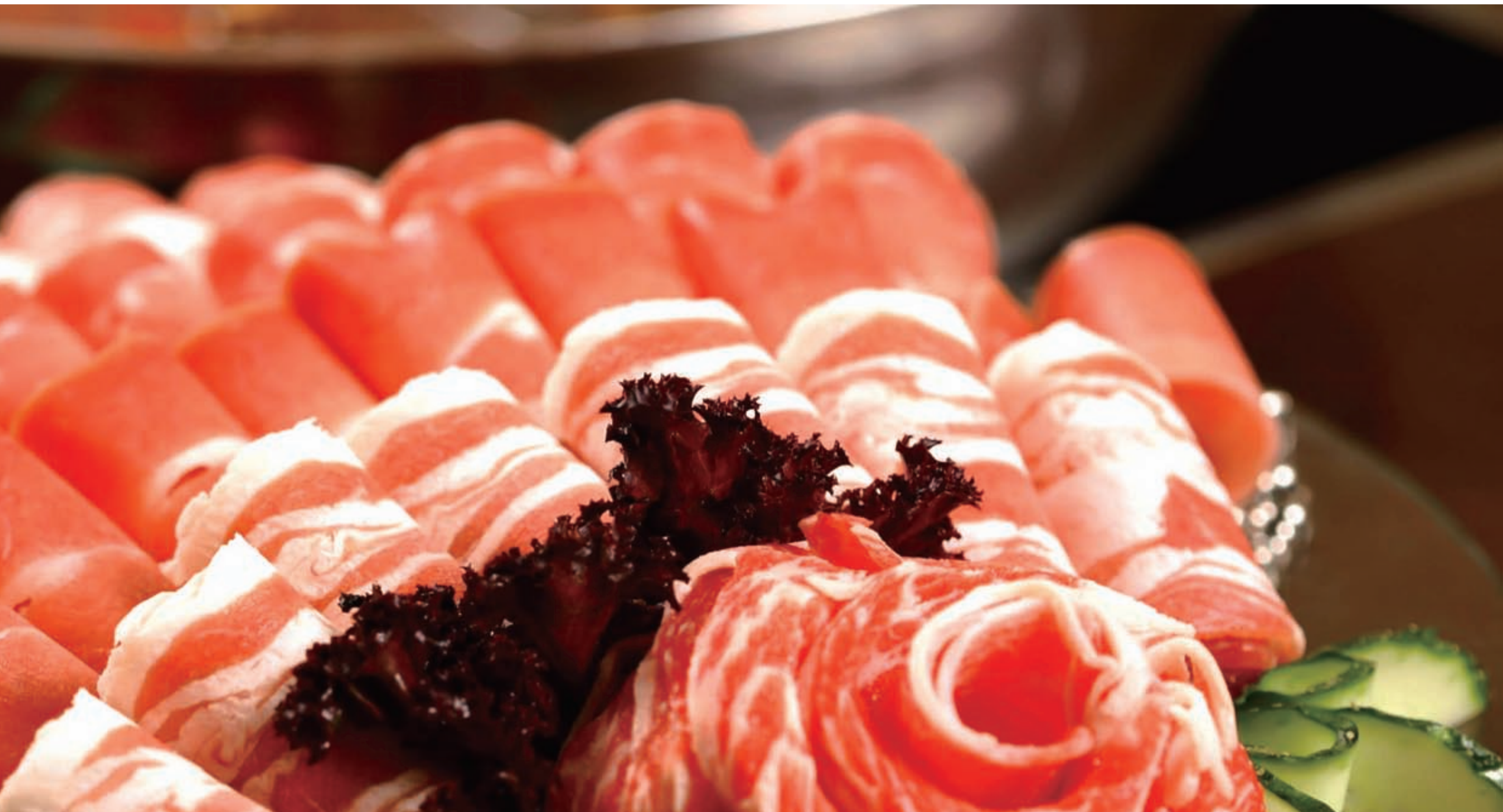
Notes:

(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,

In the first half of 2009, the catering industry was fully impacted by the global financial crisis. However, the global economy showed signs of recovery in the second half as the stimulus packages and aggressive monetary policies adopted after the financial crisis by major countries in the world had gradually revived the global economy. Supported by a solid economic foundation and improved consumer sentiment in China, catering operators saw a more favorable macro environment with expansion opportunities.

In view of this complex and ever-changing operating environment, Little Sheep Group Limited ("the Company", "Little Sheep" or, together with its subsidiaries, "the Group") identified "management enhancement" as its guiding principle for development in 2009. The purpose of which is to further enhance our restaurant operation and overall management through sustained improvement in our IT system and brand value, as well as the establishment of a system framework that ensures food safety. Having achieved "management enhancement", the Company was able to withstand the turbulence of the financial crisis and deliver substantial growth in its operating results.

"The catering industry in China will continue to expand as a result of China's growing economy and increasing popularity of dining out. With the experience we have accumulated, we are well-equipped to seize the immense opportunities ahead to consolidate our leading position in China."

ZHANG Gang
Chairman

Chairman's Statement

For the year ended 31 December 2009, our revenue grew by 23.5% to RMB1,569.7 million. Profit attributable to the shareholders of the Company increased by 20.7% to RMB155.4 million. The results were mainly attributable to our appropriate strategies. The board of directors (the "Directors") of the Company (the "Board") has recommended to pay a final dividend of HK cents 6.9 per share.

Under the guiding principle of "management enhancement" for development, we placed customer needs at the heart of our core value in order to boost customer flow. We established sophisticated platforms to process data and analyze customer needs upon which we designed and rolled out various measures, such as restaurant designs, sales and marketing, research and development, and achieved great results. On the other hand, we launched various innovative products. Coupled with festive promotions we successfully attracted customers and maintained stable restaurant revenue and customers spending.

To support front-end operations, we implemented "management enhancement" in the back office to further promote the sound development of different systems to achieve a unified and effective back-end support platform. We made progress in enhancing the effectiveness of our IT system and achieved improvement in the integration of our operating system. These measures not only have enhanced our efficiency but also lowered our costs. To further enhance our management, we established service headquarters to promote service standards. We also stepped up our quality management efforts with the establishment of a central kitchen, a food safety committee and a food safety department. The food safety committee and the food safety department are tasked with food safety matters to ensure food safety.

Although we have already turned Little Sheep into a household name following years of committed efforts, we continued to enhance the value of the brand and its popularity. To exploit the brand power of Little Sheep to the fullest, we partnered with the China Mountaineering Team and appointed its team captain, Mr Wang Yong Feng as our brand spokesperson. These initiatives have greatly promoted and enhanced the core value of our brand. The marketing campaigns surrounding our tenth anniversary were particularly successful in promoting our brand equity and boosting our business growth.

Our staff is our most valuable asset. Always holding our "people first" philosophy close to heart, we offered competitive remuneration, training and career development to help retain and attract talents with an aim to ensure the smooth operation of the Company and its sustainable development.

Chairman's Statement (continued)

After a decade of development, Little Sheep has grown from its roots as a small restaurant in Inner Mongolia to a leading full-service restaurant chain operator with over 400 outlets across China. In 2009, Yum! Brands, Inc. ("Yum"), became our second largest shareholder. We also received numerous awards in recognition of our unique business model and outstanding performance in 2009, including being nominated as one of the 200 most promising up and comers in China by Forbes China and one of the top 100 brands in China by China Brand Research Institute.

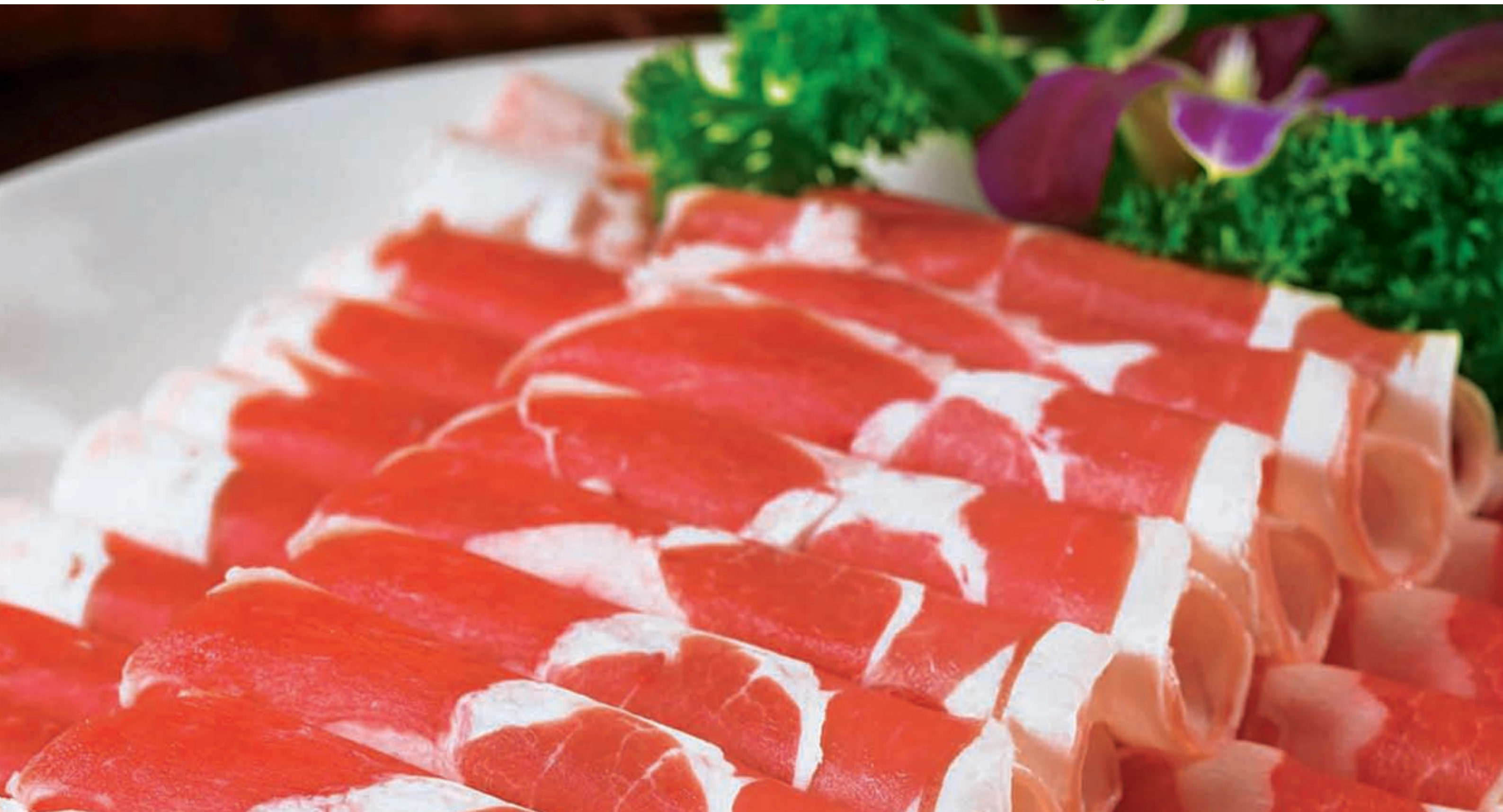
Year 2010 marks not only the start of a new decade but also a new chapter in our corporate history. The catering industry in China will continue to expand as a result of China's growing economy and increasing popularity of dining out. With the experience we have accumulated, we are well-equipped to seize the immense opportunities ahead to consolidate our leading position in China. In 2010, we will continue to build and perfect our operational systems to reinforce efficiency, management standard and operational capability. At the same time we will place stronger emphasis on service quality improvement, and on the continued development of network expansion, product development, promotion and brand building and will allocate more resources to ensure food safety.

On behalf of the Board, I would like to express my sincere gratitude to our management and staff for their dedication and hard work. I would also like to thank our shareholders and business partners for their unfailing support. Looking ahead, we are confident that Little Sheep will continue to create long term value for shareholders.

ZHANG Gang
Chairman

Hong Kong, 23 March 2010

Management Discussion and Analysis



MARKET REVIEW

The financial crisis had slowed global economic growth and made 2009 one of the most challenging years for businesses in recent history. China's economy was among the quickest to recover, and post-crisis influence on the catering industry has gradually come through. The catering sector in the Mainland remained steady and stable in 2009, with government data showing that total sales of the catering sector in the year reached approximately RMB1,799.8 billion, a growth of 16.8% Y-o-Y.

As food safety has raised concerns in the community, the Chinese government promulgated and enforced the Regulation on the Implementation of the Food Safety Law since June 2009. The regulation details the requirement for food manufacturers and wholesalers in food processing and distribution. With the implementation of the Law, food quality, safety and hygiene have become significant thresholds in entering the catering sector. Caterers with a sound record on food safety will enjoy more market share.

BUSINESS REVIEW

Little Sheep is a leading restaurant chain operator and specializes in Mongolian-style hot pot cuisine with a vertically integrated business model.

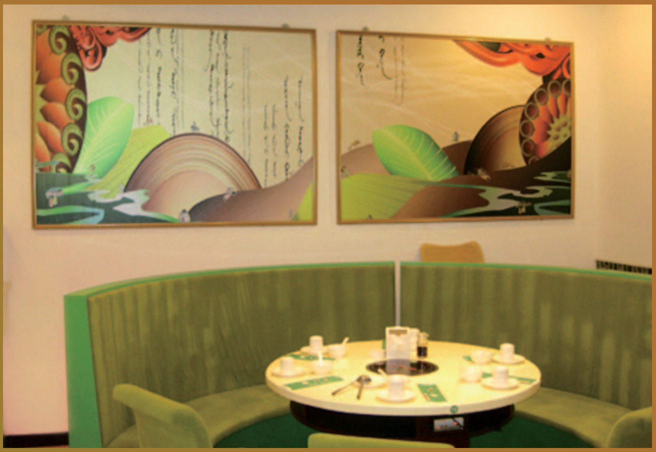
Despite the challenging environment in 2009, the Company achieved satisfactory performance and realized growth during the year. Revenue grew 23.5% Y-o-Y to RMB1,569.7 million, while profit attributable to shareholders was up 20.7% to RMB155.4 million for the year ended 31 December 2009.

2009 marked the 10th anniversary of the Company. Since the establishment of the first restaurant in 1999 in Baotao, the Company has grown to become a well-known restaurant brand in China and around the world, thanks to the unwavering support of its business partners, shareholders and the public. During the year, Yum! Brands, Inc.("Yum"), had become the second largest shareholder of Little Sheep. The investment by Yum demonstrated its confidence in Little Sheep's business and future prospects.

The Company continued to win recognition created by its highly competitive brand reputation. In 2009, Little Sheep received a number of awards that recognized its efforts in sales & marketing and corporate brand-building, including being ranked 54th in Forbes' "200 China Enterprises with the Most Potential", and one of the "First 100 Brands" by China Brand Research Institute, the most authoritative goodwill assessment institution in China.

Restaurant Operations

Restaurant operations remained the largest revenue contributor for the Company, accounting for 77.9% of total revenue. This business segment achieved strong performance

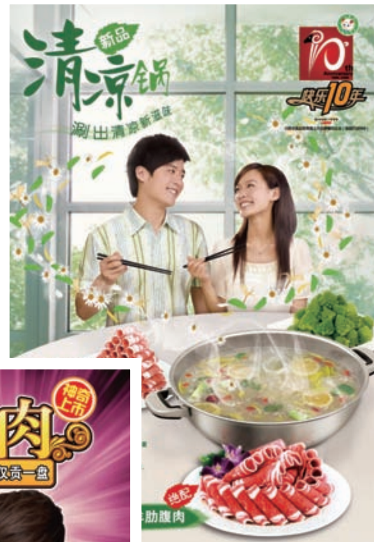


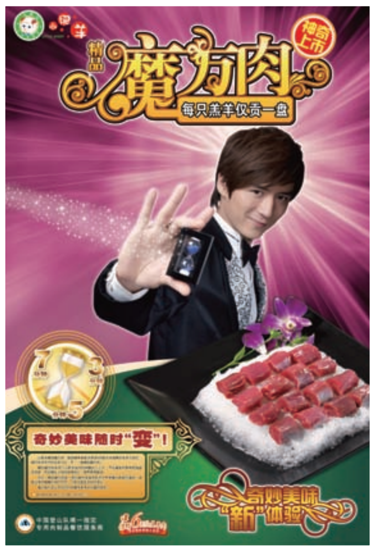
in 2009. Revenue from company-owned restaurants increased 21.0% Y-o-Y to RMB1,223.4 million, and same-store-sales recorded a growth of 1.7% from the previous year. The key initiatives to achieve growth included the opening of new company-owned restaurants and the refurbishment of existing restaurants, brand enhancement and intensive marketing campaigns, launch of new menus, and enhancement of customer satisfaction.

- **Opening of new company-owned restaurants and refurbishing existing restaurants** —- The Company stays focused on its long-standing strategy and continues its efforts in market expansion and earnings enhancement by expanding our company-owned restaurant network in 2009. During the year, the Company augmented 34 company-owned restaurants. Most of them are located in first and second tier cities with higher spending power. As at 31 December 2009, the Company had a total of 161 company-owned restaurants.

Management
Discussion and Analysis

In order to build a unified and energized brand image and provide customers with a more comfortable dining environment, the Company had carried out renovation work in a number of company-owned restaurants during the year, blending traditional cultural and trendy fashion elements to create a more distinctive interior. The renovated restaurants have attracted more customer traffic and enhanced customers' dining experience.





- **Brand Enhancement and Intensive Marketing Campaigns** — The Company continued to drive brand development and enhancement strategies during the year to promote brand awareness and goodwill. In 2009, the Company focused its efforts in improving its brand management and sales & marketing system, and integrating resources from different channels. It also ran a series of brand promotion campaigns across China. In January 2009, Mr Lu Wenbing, the Company's CEO, was named one of the top ten "Business People of the Year in 2008" by CCTV. This honor has greatly enhanced Little Sheep's profile and corporate identity in the nation, validating the important role that Little Sheep plays and its influence in the society. Moreover, the Company became the sole official food and beverage sponsor and its lamb meat as the official meat product for the esteemed China Mountaineering Team in 2009. The team captain Mr. Wang Yong Feng was invited to act as the brand spokesperson of the Little Sheep's brand. The Company has also launched a series of marketing campaigns since July to celebrate the Company's tenth anniversary. The intensive marketing campaigns not only attracted more customer traffic, but also elevated the brand image of Little Sheep nationwide.

- **Launch of New Menus** — One of the Company's major strategies for increasing customer traffic and enhancing profitability is to explore and promote new menus. With its years of experience, the Company has identified a systematic and effective menu exploration and promotion system. In 2009, the Company introduced a number of new seasonal hot pot soup bases and food menus, such as "Qing-Liang-Guo" (清涼鍋), a hot pot soup base featuring herbs and flower essence that's ideal for the summer weather; "Jing-Gu-Guo" (勁骨鍋), a tonic hot pot soup base with a bone flavor complemented with small cuts of tender meat that suits the winter weather. It has also introduced innovative food products with excellent texture, such as tenderloin cubes (精品魔方肉) and special cuts of ribs (精品肋腹肉). The combination of innovative products and effective marketing promotion campaigns was well-received by customers and has contributed to higher customer traffic during the period.

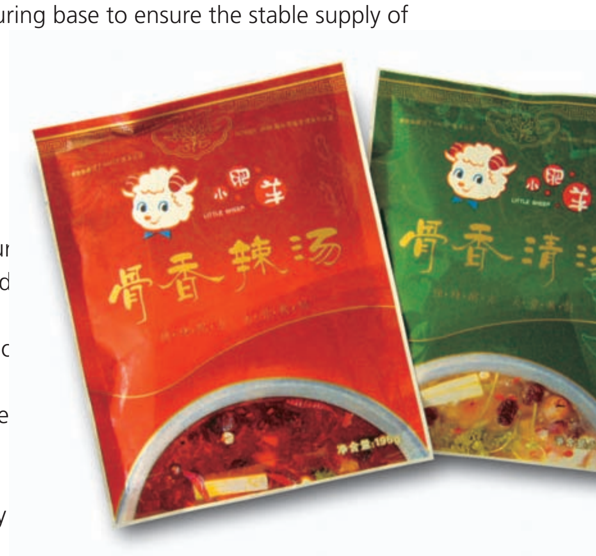
Management Discussion and Analysis (continued)

- **Enhancement of Customers' Satisfaction** — Our mission is to provide quality services and to enhance customers' satisfaction. Since March 2009, the Company has rolled out a "Program Happy Sheep" in restaurants nationwide which emphasizes the importance of delivering quality services. Through encouraging effective communications and interaction between staff and customers, the Company hopes to draw people closer to each other, while improving customers' dining experience and loyalty to Little Sheep. In the first ten months since launch, the Company has seen improvement in customer satisfaction. The Company also carried out 'mystery shopper' program during the period. Through independent inspection and observation during anonymous visits, the Group can effectively monitor its daily operation and improve operational efficiency.

Sale of Food Products

Little Sheep provides a range of fresh and dried food products including lamb meat, hot pot soup base and other seasonings to wholesale distributors nationwide for their retail sales in hypermarkets, supermarkets, and convenience stores. With increasing customer recognition of our products, and our enhanced wholesaling structure, we have achieved remarkable sales in hot pot soup base and lamb products. Revenue from sales of food products increased by 30.8% year-on-year to RMB313.8 million during the year.

As the largest lamb processing company in the China, Little Sheep operates two lamb processing facilities in Inner Mongolia, both of which are equipped with modern lamb processing equipment and technology. During the year, the Company processed approximately 8,789 tons of lamb, representing an increase of 27.2% Y-o-Y. The Company is dedicated to expanding its upstream business and establishing nurturing base to ensure the stable supply of lamb. In addition, the Company has further enhanced its product mix to better meet customers' demand, and ensure product quality through a comprehensive quality control system, crisis management mechanism, as well as constant innovation and R&D.



With the increasing popularity and demand for our food product, our seasoning business not only provides the Company with standardized hot pot soup bases, but also manufactures hot pot soup bases and seasoning products for wholesalers utilizing the production capacity of the seasoning manufacturing plant. During the year, our seasoning business closely monitored the market trend and launched innovative products. A number of innovative hot pot soup bases and seasoning products had been successfully launched to the market, and core manufacturing know-how were mastered. Meanwhile, the Company

Management Discussion and Analysis (continued)

intensified production management, matured production management systems, implemented stringent cost-control measures and enhanced management efficiency. The Company also made its best efforts to ensure the safety and cost-control effectiveness of raw materials procurement. At the same time, the Company plans to increase investment in the seasoning business to enhance competitiveness.

Franchise Business

During the year, revenue from the franchise operations increased to RMB30.9 million. As at 31 December 2009, the Company had a total of 293 franchise restaurants. In 2009, the Company had put substantial efforts in developing franchise business in domestic and overseas markets, attracting new franchisees in order to increase the Company's market share. The Company also strengthened the management and services to franchisees. Through regular visits and mystery shopper program, the Company is able to offer franchise restaurants advice on operation and product launch, provide support to ensure smooth operation, and enhance management and service standards. Moreover, to ensure a consistent shop image and enhance brand equity, some of the Company's franchise restaurants were refurbished according to the new restaurant design guidelines during the year.

To further enhance services quality and restaurant performance, Little Sheep provided comprehensive training programs to the existing and new franchisees during the year. In February and March 2009, the Company rolled out the first regional training program in first tier cities such as Beijing, Shanghai and Shenzhen, and familiarized franchisees with the Company's management system known as "Project Leader Sheep" management program, as well as its latest marketing plans. In July 2009, the Company held the fourth annual franchisee conference in Beijing, allowing participants to share their experiences and exchange market intelligence.

Food Quality

Food safety is an integral part of Little Sheep's long term development. Therefore the Company attaches utmost importance to food safety and food quality. The Company has set up a food safety office to ensure its products meet the highest food safety standards.

During the year, the Company gradually developed a comprehensive food safety management system, clearly set out a standardized system on measuring food safety and developed relevant information communication system to prevent any potential food safety crisis. In addition, the Company provided regular training on food safety to its staff to increase their awareness on the issue. Furthermore, the Company has made food safety an important part of its restaurant mystery shopper program in 2010, in order to ensure stringent food safety measures were carried out in all its restaurants.

Central Kitchen

The first full-scale central kitchen was established in Shenzhen in October 2009. The central kitchen serves as a well-equipped platform to centralize, standardize and manage the processes of food delivery, R&D of new products, logistics and storage, and personnel training. The Company will gradually set up more central kitchens in order to boost the operating efficiency of its restaurants.

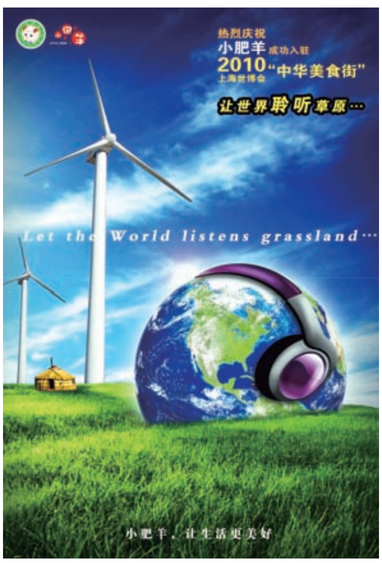
Management Discussion and Analysis (continued)

Information System

During the year, the Company had strengthened its efforts in information collection and analysis so as to formulate more targeted sales and marketing initiatives and strategies. On an organizational level, the Company is dedicated to enhancing communication between regions and encouraging experience sharing by upgrading its IT platform. The Company restructured its core data analysis system by linking up POS, ERP, supply chain and the Company's financial system, and designed an integrated BI system to analyze data from restaurants, regional branches and the headquarters. Through in-depth investigations and scientific analyses, the comprehensive organizational online platform enables the management to monitor the operation of the Company more effectively and in a scientific manner. The management can also retrieve supporting data for decision making.

BUSINESS OUTLOOK

Looking ahead, it is expected that China's growth momentum will continue, benefiting the catering business and offering it with ample market opportunities. The rising living standards in China resulting from increased household income and rapid emergence of the middle class has also increased public awareness on food safety. As a result, food safety and systematic business management will be the two critical elements for operators to survive and excel in the industry. In view of this, the Company will continue to strengthen its competitiveness in order to realise the huge market opportunities ahead in China.



In 2010, the Company targets to add 45 new company-owned restaurants nationwide to further expand and enhance its restaurant coverage. The Company will step up its efforts in store development by enhancing the procedures and system in opening new restaurants. Furthermore, the Company will also elevate its brand competitiveness and enhance its brand building work by intensifying brand promotion on seasonal products and further raising its corporate profile through various channels, such as the Shanghai World Expo. In addition, by putting forward the "Project Leader Sheep" management program, the Company is committed to boosting the overall operating capabilities to improve customer satisfaction, and hence the competitiveness of Little Sheep. In 2010, Little Sheep will also step up its food safety and quality services, and continue to enhance its food safety management system to provide safe and quality products to customers.

Management Discussion and Analysis (continued)

The Company will continue to put forward its management philosophy, intensify and solidify its production management systems, and strictly implement the systems to all levels of employees to enhance operational and management efficiency. Furthermore, the Company has strengthened its quality management, utilized and integrated its resources, and encouraged service responsibilities in ensuring the quality of our services and products and enhancing overall competitiveness. Little Sheep has established a solid foundation for future development and will continue to create shareholders' value.

FINANCIAL REVIEW

Revenue

During the year, our total revenue increased by 23.5% year on-year to RMB1,569.7 million. The increase was primarily due to the increase in the number of restaurants and the increase in revenue from sale of food products.

Revenue from restaurant operations

Revenue from restaurant operations increased by 21.0% year-on-year to RMB1,223.4 million, primarily due to the contribution from newly opened restaurants and the growth in existing restaurants sales.

Revenue from sales of food products

Revenue from sales of food products increased by 30.8% year-on-year to RMB313.8 million, mainly due to the increase in customers derived from new markets, and increases in the sales volume of our soup base and lamb products.

Revenue from franchise operations

Revenue from franchise operations was up 63.5% year-on-year to RMB30.9 million. This was due to the increase in the number of franchise restaurants during the year.

Revenue from management service fee

Revenue from management service fee represents monthly fees that the Group receives for the provision of restaurant management services to franchisees. During the year, revenue from management service fee dropped by 20.6% year-on-year to RMB1.7 million. The decrease was primarily due to the Company's acquisitions of some of the franchise restaurants to which the Group had provided management services before the acquisitions.

Management Discussion and Analysis (continued)

Other income

Other income, which represents income from non-core operations, slightly dropped by 1.6% year-on-year to RMB29.5 million. This was primarily attributable to the increase of government subsidies, combined with the absence of an one-off waiver on convertible bonds interest this year.

Cost of inventories sold

The cost of inventories sold increased by 24.1% year-on-year to RMB650.6 million. The increase was mainly attributable to the rise in sales volume and costs of raw materials.

Staff costs

Our staff costs increased by 20.0% year-on-year to RMB308.8 million, primarily due to the overall increase in salaries and other employee benefits, as well as the increase in headcount resulting from the opening of new restaurants.

Depreciation and amortization

Depreciation and amortization amounted to RMB54.6 million, representing an year-on-year increase of 34.4%. Such increase was attributable to the overall increase in depreciation and amortization expenses resulting from an increase in the number of restaurants, the renovations undertaken at existing restaurants, and increase in non-current assets of the back office.

Rental expenses

Rental expenses increased by 19.6% year-on-year to RMB142.9 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 19.1% year-on-year to RMB66.4 million, attributable to the increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 25.1% year-on-year to RMB165.1 million, mainly due to the increase in the number of company-owned restaurants and the increase in the advertisement, promotional and marketing expenses.

Finance costs

Our finance costs during the year amounted to RMB0.4 million which were primarily interest expenses.

Management Discussion and Analysis (continued)

Tax

Our tax expenses increased by 45.5% to RMB44.8 million mainly attributable to the combined effect of increase in profit before tax and changes in the policy of tax concessions.

Profit for the year

Our profit for the year increased by 23.1% year-on-year to RMB165.7 million as a result of the cumulative effect of the foregoing factors.

Net profit attributable to shareholders

Our net profit attributable to shareholders reached RMB155.4 million, a Y-on-Y increase of 20.7%, as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 31 December 2009, cash and bank balances stood at RMB325.2 million and net current assets were RMB363.9 million with a current ratio of 2.62.

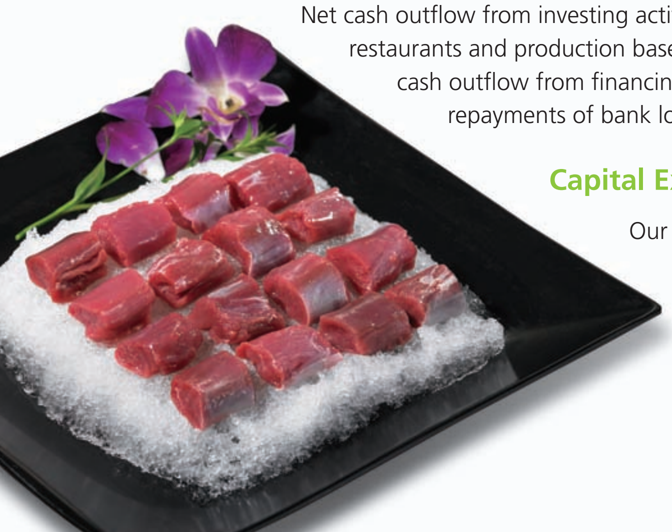
As at 31 December 2009, total bank loans were RMB0.375 million.

Regarding the foreign exchange fluctuations, during the year, the Group's revenue and business incomes and expenses were mainly denominated in Renminbi while those from our overseas company-owned restaurants outside mainland China were denominated in foreign currencies, including Hong Kong dollars. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to take effective measures and monitor closely the foreign currency movement. As at 31 December 2009, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in 2009 were RMB200.6 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in 2009 were RMB229.9 million, consisting primarily of investment in restaurants and production bases of RMB165.1 million, acquisition of restaurants of RMB75.5 million. Net cash outflow from financing activities in 2009 were RMB69.7 million, which mainly comprised repayments of bank loans of RMB0.5 million and payments of dividends of RMB68.8 million.



Capital Expenditures

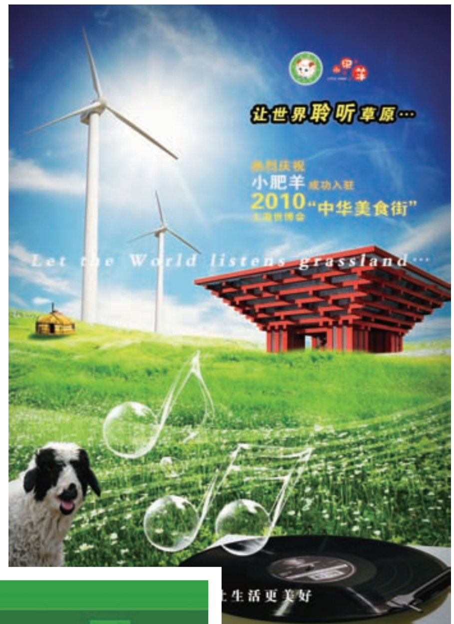
Our capital expenditures for the whole year of 2009 were RMB165.1 million which were primarily related to the expenditures on information technology, the opening and refurbishment of company-owned restaurants, and construction of production bases.

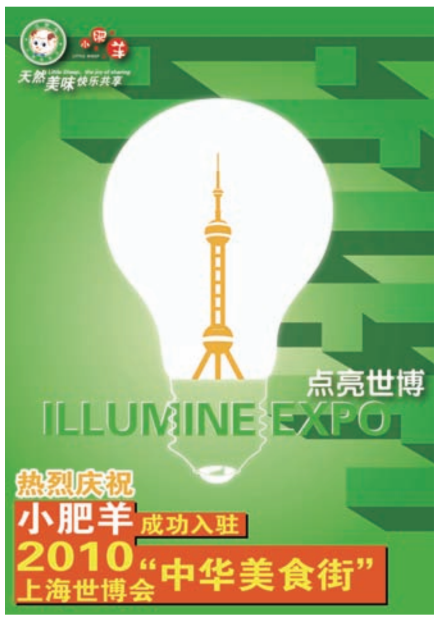
Management Discussion and Analysis (continued)

Our planned capital expenditures for 2010 are approximately RMB212.6 million which will be funded by internal resources and proceeds from the initial public offering of the Company.

Human Resources

As at 31 December 2009, the Group had 13,957 employees. To ensure smooth operation and sustainable development, the Group places high emphasis on human capital and adopts effective measures including offering competitive remuneration packages, training courses and a promising career to attract and certain high quality employees. Remuneration packages and promotions are commensurate with market conditions and the individual's qualification and work experience. The Group has also established elite program such as "Reserve Executive" (儲備幹部) and "Project 320", and further strengthened employee's loyalty through seminars and constant interaction. In addition, to further strengthen the management of human resources, the Group had also enhanced its EAS system, and completed the construction of the HR-ERP system during the year. The system allows the efficient management of the Company's human resources, with a standardized management procedure.





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.

Corporate Governance Report

The Board is committed to creating value and maximizing returns to the shareholders of the Company (the "Shareholders") while striving to maintain high standards of corporate governance. The Board will continue to review and enhance the quality of corporate governance practices with reference to local and international standards.

During the year ended 31 December 2009, the Company adopted and complied with all applicable code provisions under the Code on Corporate Governance Practices ("CG Code") as set forth 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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The Board is responsible for formulating the Group's overall strategic policies, setting objectives for the management and monitoring the performance of the management.

The Board comprises 13 Directors, including five Executive Directors, five Non-executive Directors and three Independent Non-executive Directors. The Non-executive Directors and Independent Non-executive Directors who have diverse business and professional backgrounds have brought in a wealth of experience and expertise that promote the best interests of the Group and Shareholders.

The brief biographical details of the Directors are set out in the "Directors Profile" section on pages 38 to 40 of this annual report.

The Board has received from each of the Independent Non-executive Directors an annual confirmation of his independence and considers that all the Independent Non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Under the Company's Articles of Association, Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily shall hold office until the forthcoming annual general meeting of the Company ("AGM") and being eligible, shall offer themselves for re-election at the AGM. Besides, Mr. Zhang Gang, Mr. Wang Daizong, Mr. Nishpank Rameshbabu Kankiwala and Mr. Yeung Ka Keung shall retire by rotation at the AGM. Except for Mr. Nishpank Rameshbabu Kankiwala who would like to dedicate more time to his role as Executive Chairman of Mayborn Group Limited and to his other business engagements and will not seek for re-election at the AGM, all the other Directors retiring by rotation, being eligible, shall offer themselves for re-election at the AGM. None of the Directors for re-election at the AGM has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation.

Each of the Executive Directors of the Company had entered into a service contract with the Company for an initial term of three years commencing from 15 May 2008 and may be terminated in accordance with the provisions of the service contract by either party giving the other not less than six months' prior written notice.

Corporate Governance Report (continued)

The Company has issued a letter of appointment to each of the Independent Non-executive Directors, Mr. Chen Hongkai and Mr. Nishpank Rameshbabu Kankiwala for a term of three years commencing from 15 May 2008 unless terminated by either party giving to the other not less than six months' prior written notice.

In addition, Mr. Su Jing Shyh Samuel and Mr. Koo Benjamin Henry Ho Chung had each entered into a letter appointment with the Company on 2 June 2009 for the appointment as a Non-executive Director for a term of three years. Ms. Hsieh Hui-yun Lily had entered into a letter of appointment with the Company on 19 November 2009 for the appointment as a Non-executive Director for a term of three years.

THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. To ensure a balance of power and authority, Mr. Zhang Gang and Mr. Lu Wenbing have been appointed as the Chairman and Chief Executive Officer of the Company, respectively.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee particular aspects of the Company's affairs. Each of these committees has been established with written terms of references.

A summary of the membership, duties and responsibilities of each of the committees are set out below:

Audit Committee

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

Duties and responsibilities include:

- Provide an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems
- Review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process
- Monitor the integrity of the Company's financial statements, annual reports and account
- Review the Group's financial and accounting policies and practices

The Audit Committee had reviewed the internal control, connected transactions, interim results and annual results of the Group for the year ended 31 December 2009 and the accounting principles and practices adopted by the Group. Our Chief Financial Officer, external auditors and senior management attended the meetings to answer questions raised by the Audit Committee.

Corporate Governance Report (continued)

Nomination Committee

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

Duties and responsibilities include:

- Formulate nomination policy for the Board's consideration
- Identify and nominate candidates to become members of the Board
- Review and recommend the structure, size and composition of the Board
- Recommend to the Board on relevant matters relating to the succession planning for Directors

For the year ended 31 December 2009, the Nomination Committee had not convened any meeting.

Remuneration Committee

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

Duties and responsibilities include:

- Recommend to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration
- Review and approve performance – based remuneration by reference to corporate goals and objectives
- Review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct
- Consider the granting of share options to directors pursuant to any share option scheme adopted by the Company

For the year ended 31 December 2009, the Remuneration Committee had convened a meeting to review and approve the structure of the Company's management and the remuneration policy for the Directors and other senior management of the Company.

Corporate Governance Report (continued)

BOARD MEETINGS AND INDIVIDUAL ATTENDANCES

The Board is scheduled to meet regularly at least four times a year, and Directors will receive at least 14 days, prior written notice of such meetings. For any ad hoc board meetings, Directors are given as much notice as is reasonably practicable in those circumstances.

Details of the Directors' attendance at Board meetings and Board committee meetings held during the year ended 31 December 2009 (or as the case may be, attendance at meetings held after being appointed a Director) are set forth in the following table:

Attendance at meetings	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mr. Zhang Gang *(Chairman)*	4/4	—	1/1	—
Mr. Lu Wenbing *(Chief Executive Officer)*	4/4	—	1/1	—
Mr. Zhang Zhanhai	4/4	—	—	—
Mr. Wang Daizong	4/4	4/4	—	—
Ms. Li Baofang	4/4	—	—	—
Non-Executive Directors				
Mr. Chen Hongkai	4/4	—	—	—
Mr. Su Jing Shyh Samuel *(appointed on 2 June 2009)*	3/3	—	—	—
Mr. Koo Benjamin Henry Ho Chung *(appointed on 2 June 2009)*	2/3	—	—	—
Ms. Hsieh Hui-yun Lily *(appointed on 19 November 2009)*	1/1	—	—	—
Mr. Nishpank Rameshbabu Kankiwala	1/4	—	—	—
Independent Non-Executive Directors				
Dr. Xiang Bing	2/4	3/4	1/1	—
Mr. Yeung Ka Keung	4/4	4/4	1/1	—
Mr. Shin Yick, Fabian	4/4	4/4	1/1	—

Corporate Governance Report (continued)

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs, results and cash flow of the Group in accordance with relevant law and disclosure requirements under the Listing Rules. The external auditors are responsible for forming an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the Shareholders as a body and for no other purpose.

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

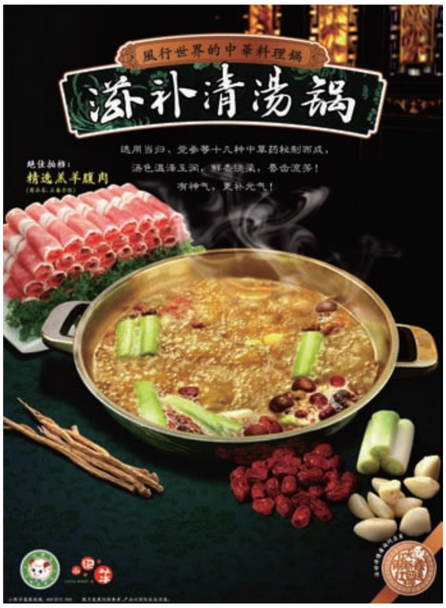
The Board has overall responsibility for maintaining the soundness and effectiveness of the internal control and risk management systems of the Group. Such systems are designed to meet the Group's particular needs and the risk by which it is exposed. The Group has adopted the "Internal Control Integrated Framework" formulated by the Reporting Committee of Sponsoring Organisations of the Treadway Committee, which is a recommended framework under the HKICPA Corporate Governance Guidelines. Procedures have been set up for safeguarding the Group's assets against any unauthorized use or disposition and ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal or external use.

The Company has established an internal audit department which is responsible for performing regular and systematic review of internal control and risk management systems. The reviews provide reasonable assurance that the internal control and risk management systems continue to operate effectively within the Group.

The Company also has an internal compliance team which is charged with the duties of monitoring the application and maintenance of licenses, approvals, permits and registration of the Company-owned restaurants. It is also responsible for overseeing the implementation of our internal compliance guidelines so as to ensure that all the requisite requirements are complied with prior to the opening of the Company-owned restaurants. During the year, the internal compliance team had conducted regular review to ensure that all licenses and approvals are valid and subsisting and that renewals of licenses are made in a timely manner. The results of the review were satisfactory.

For the year ended 31 December 2009, the Board had, through the Audit Committee's reviews, the reports by the internal audit department and the internal compliance team, reviewed the Group's internal control procedures and compliance with the internal compliance guidelines and considered them having been effectively implemented and properly complied with.

Corporate Governance Report (continued)



EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2009 the total remuneration for the audit services provided by the external auditors amounted to RMB3.5 million (equivalent to approximately HK$4.0 million) (2008: RMB4.5 million (equivalent to approximately HK$5.0 million)).

For the year ended 31 December 2009 the total remuneration for the permissible non-audit services provided by the external auditors amounted to nil (2008: RMB0.5 million (equivalent to approximately HK$0.6 million)).

The re-appointment of Ernst & Young as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the AGM.

INVESTOR RELATIONS

The Company believes that effective communications with the investment community are pivotal in enhancing investors' understanding of the Company's business and development. To achieve this and to enhance transparency, the Company maintains a proactive approach in promoting investor relations and communications. As such, the objectives of the Company's investor relations policy is to enable investors to have access, on a fair and timely basis, to information relating to the Group so that they can make informed decisions.

Investors are welcome to share their views with the Board by writing to the Company or sending enquiries to the Company's website at www.LittleSheep.com. The website also enables investors and the public to obtain up-to-date corporate information of the Group.

Report of the Directors

Report of the Directors

The Directors have pleasure in presenting this annual report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2009.

GROUP REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 18 December 2007. Pursuant to a group reorganization in preparation for listing on the Stock Exchange, the Company had become the holding company of the subsidiaries now comprising the Group since 23 May 2008. Further details of the Group's reorganization are set forth in the Company's listing prospectus dated 2 June 2008 (the "Prospectus"). Shares in the Company had been listed on the Main Board of the Stock Exchange since 12 June 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the operation of full-service restaurants chain, provision of catering services and sale of related food products.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 43 to 51.

The Company has not declared any interim dividend during the year. The Directors recommend the payment of a final dividend of HK cents 6.9 per share (equivalent to approximately RMB cents 6.0 per share) in respect of the year. Subject to the approval of the Shareholders at the AGM, the final dividend will be distributed on or about 2 June 2010 to the Shareholders whose names appear on the register of members of the Company on 20 May 2010.

The register of members of the Company will be closed from 17 May 2010 to 20 May 2010, both days inclusive, during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend and attending the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 14 May 2010.

Report of the Directors (continued)

USE OF PROCEEDS FROM THE COMPANY'S LISTING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in June 2008, after deduction of the related issuance expenses, amounted to approximately HK$488.4 million (equivalent to approximately RMB430.7 million). These proceeds were applied during the year ended 31 December 2009 in accordance with the proposed applications set out in the Prospectus, as follows:

	Per Prospectus		**Utilized**		**Unutilized as at 31 December 2009**	
	HK$ million	*Equivalent to approximately RMB million*	*HK$ million*	*Equivalent to approximately RMB million*	*HK$ million*	*Equivalent to approximately RMB million*
Set up and refurbishment of company-owned restaurants	293.0	258.4	145.0	127.7	148.0	130.7
Upgrade and expansion of lamb processing and soup base production facilities	97.7	86.2	62.9	55.4	34.8	30.8
IT system upgrade and establishment of central kitchens	24.4	21.5	11.7	10.3	12.7	11.2
Acquisition of franchise restaurants	48.9	43.1	43.8	38.5	5.1	4.6
General working capital	24.4	21.5	22.7	20.0	1.7	1.5
	488.4	430.7	286.1	251.9	202.3	178.8

The unutilized balances have been placed with licensed banks and financial institutions in Hong Kong and the PRC as interest-bearing deposits.

Report of the Directors (continued)

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Change in Equity on page 47 and note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to approximately RMB264.6 million, of which approximately RMB62.1 million has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set forth in note 13 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2009 are set out in note 16 to the financial statements.

Report of the Directors (continued)

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report have been:

Executive Directors
Mr. Zhang Gang *(Chairman)*
Mr. Lu Wenbing *(Chief Executive Officer)*
Mr. Zhang Zhanhai
Mr. Yeung Yiu Keung *(resigned on 31 December 2009)*
Mr. Wang Daizong
Ms. Kou Zhifang *(resigned on 1 April 2009)*
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)*
Ms. Hsieh Hui-yun Lily *(appointed on 19 November 2009)*
Mr. Nishpank Rameshbabu Kankiwala

Independent Non-Executive Directors
Dr. Xiang Bing
Mr. Yeung Ka Keung
Mr. Shin Yick, Fabian

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the AGM has entered or has proposed to enter into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors of the Company are set out in the "Directors' Profile" section on pages 38 to 40.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2009, none of the Directors of the Company was, within the meaning of Rule 8.10 of the Listing Rules, interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than that Mr. Su Jing Shyh Samuel is Vice Chairman of the board of directors of Yum which is a company listed on the New York Stock Exchange and operates various restaurant brands.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 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 in the Company	**Total number of shares/ underlying shares held**	**Total**	**Approximate percentage of shareholding**
Name of Director				
Zhang Gang	Interest of controlled corporation	3,091,000		
	Personal interest	28,358,859	31,449,859[(1)]	3.05%
Chen Hongkai	Personal interest	11,300,000		
	Founder of a discretionary trust	234,103	11,534,103[(2)]	1.12%
Lu Wenbing	Personal interest	10,286,348[(3)]		1.00%
Zhang Zhanhai	Personal interest	4,870,339		0.47%
Wang Daizong	Personal interest	1,509,992[(4)]		0.15%
Li Baofang	Personal interest	6,312,989[(5)]		0.61%

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 28,358,859 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 234,103 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 7,798,668 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 1,359,992 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.

(5) The interest comprises (a) interest in 5,582,989 Shares owned by Ms. 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.

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

Report of the Directors (continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 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 International Limited ("Possible Way")	Beneficial Owner	308,301,875	30.00%
	Interest of a party to an agreement to acquire shares	280,571,030[1]	27.30%
Yum! Brands, Inc. ("Yum")	Interest of controlled corporation	280,571,030[2]	27.30%
	Interest of a party to an agreement to acquire shares	308,301,875[3]	30.00%

Notes:

1. *Possible Way is taken to be interested in the 280,571,030 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 280,571,030 Shares were held by Wandle Investment, an indirect wholly owned subsidiary of Yum. Accordingly, Yum is taken to be interested in such 280,571,030 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.

Report of the Directors (continued)

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements. The Company currently has two share option schemes in force to incentivise eligible participants who contribute to the success of the Group's.

(1) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO share option scheme ("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 adoption date. Up to 31 December 2009, 26,379,680 options, representing approximately 2.57% of the total issued share capital of the Company as at the date of this annual report, had been granted under the Pre-IPO Share Option Scheme, and out of which 35,500 and 1,302,300 options had been exercised and cancelled respectively during the year. Details of the share options outstanding as at 31 December 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 year	Options exercised during the year	Options lapsed on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 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
Li Baofang	730,000	—	—	—	—	730,000
Directors of subsidiaries						
Li Lichan	100,000	—	—	—	—	100,000
Hu Guili	50,000	—	—	—	—	50,000
Guo Lili	50,000	—	—	—	—	50,000
Wang Yuzhu	50,000	—	—	—	—	50,000
Xu Zhonggang	50,000	—	—	—	—	50,000
Li Jianbo	50,000	—	—	—	—	50,000
Li Chunmei	50,000	—	—	—	—	50,000
Xie Lixia	50,000	—	—	—	—	50,000
Zhang Xiuping	400,000	—	—	—	—	400,000
Other employees	21,862,000	—	35,500	—	1,302,300	20,524,200
	26,379,680	—	35,500	—	1,302,300	25,041,880

Report of the Directors (continued)

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 ("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 total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 102,764,287 Shares, representing 10% of the total number of Shares in issue upon listing of the Company on 12 June 2008 unless the Company obtains a fresh approval from the Shareholders to refresh the limit.

Report of the Directors (continued)

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting 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 annual report, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the paragraph headed "Share Capital and Share Option Schemes" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those lease transactions set out in the paragraph headed "Connected Transactions", at the end of the year or at any time during the year, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

Report of the Directors (continued)

CONNECTED TRANSACTIONS

During the year, the Group entered into the following connected transactions which are subject to the reporting requirements under Chapter 14A of the Listing Rules:

(1) Leasing of Properties from certain Directors

Pursuant to the tenancy agreements (collectively, the "Tenancy Agreements") entered into between some members of the Group and two current Directors and a former Director named in the table below, the Group has leased from the current and former Directors some properties in the PRC for use as hot pot restaurants and offices for a term of three years commencing from 1 January 2008. Details of the Tenancy Agreements are as follows:

Premises	Landlord(s)	Tenant	Approximate Gross Floor Area *(square meters)*	Annual Rental *(RMB)*
No. 69 Beichen West Road, Chaoyang District, Beijing	Mr. Zhang Gang	Little Sheep PRC Beijing Catering Management Branch (內蒙古小肥羊餐飲連鎖有限公司北京餐飲管理分公司)	626.7	540,000
Ground Floor and 1st Floor, No. 1679 Huangxing Road, Yangpu District, Shanghai	Mr. Zhang Gang Mr. Chen Hongkai	Shanghai Yangpu Little Sheep Catering Co., Ltd. (上海楊浦小肥羊餐飲有限公司)	Total: 1,548.55	Total: 1,000,000[1] (Mr. Zhang Gang: 590,000, Mr. Chen Hongkai: 410,000)
Block A (1st–3rd Floor), Dushi Huating Yindu Dasha, Xilin South Road, Hohhot City, Inner Mongolia	Mr. Zhang Gang	Little Sheep PRC Hohhot City Little Sheep No. 2 Branch (內蒙古小肥羊餐飲連鎖有限公司呼市小肥羊二分公司)	3,420	1,000,000
No. 1332 Lujiabang Road, Huangpu District, Shanghai	Mr. Chen Hongkai: Rooms 1902, 1905, 1907–1909 Mr. Zhang Gang: Rooms 1901, 1903, 1904, 1906 and 1910	Little Sheep PRC Shanghai Branch (內蒙古小肥羊餐飲連鎖有限公司上海分公司)	Total: 1,013.46	Total: 910,800 (Mr. Zhang Gang: 466,800, Mr. Chen Hongkai: 444,000)
1st Floor, No. 1392 Lujiabang Road, Huangpu District, Shanghai	Mr. Zhang Gang: Room 103 Mr. Chen Hongkai: Room 101 Ms. Kou Zhifang: Room 102	Shanghai Lujiabang Little Sheep Catering Co., Ltd. (上海陸佳濱小肥羊餐飲有限公司)	Total: 416.37	Total: 720,000[2] (Mr. Zhang Gang: 253,360, Mr. Chen Hongkai: 233,320, Ms. Kou Zhifang[3]: 233,320)

Report of the Directors (continued)

Notes:

(1) The annual rent for this property was RMB1,000,000 for each of the two years ended 31 December 2009 and shall be RMB1,450,000 for the year ending 31 December 2010.

(2) This property was rent-free for the two years ended 31 December 2009 and an annual rent of RMB720,000 is payable for the year 2010.

(3) Ms. Kou Zhifang resigned as a director of the Company with effect from 1 April 2009. Under the Listing Rules, she continues to be a connected person of the Company in the 12 months period following her resignation.

The aggregate annual cap for the Tenancy Agreements for the year ended 31 December 2009 is RMB3,450,800. The total rent paid by the Group, during the year in respect of the foregoing properties amounted to RMB3,450,800.

Waiver from The Stock Exchange

The leasing of properties under the Tenancy Agreements constitute continuing connected transactions and are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Group applied to the Stock Exchange and the Stock Exchange has granted, a waiver from strict compliance with the disclosure requirements stipulated in Chapter 14A of the Listing Rules in respect of each of the continuing connected transaction under the Tenancy Agreements.

The Board, including the Independent Non-Executive Directors, has reviewed and confirmed that the Tenancy Agreements have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Directors are further of the opinion that the caps for the leases under the Tenancy Agreements are arrived at after due and careful consideration and are fair and reasonable.

The auditors of the Company have performed certain agreed-upon procedures and reported their findings as to whether the continuing connected transactions entered into by the Group set out above for the year ended 31 December 2009:

(i) have received the approval of the Company's Board of Directors;

(ii) have been entered into in accordance with the relevant terms of the agreements governing the transactions; and

(iii) have not exceeded the relevant cap amount disclosed in the Prospectus.

Report of the Directors (continued)

As Mr. Zhang Gang, Mr. Chen Hongkai and Ms. Kou Zhifang have interests in the Tenancy Agreements, they had abstained from physically attending meetings or had abstained from voting on any such board resolution approving the Tenancy Agreements.

(2) Disposal of Interest in Little Sheep US

On 8 December 2009, Inner Mongolia Little Sheep Catering Chain Co., Ltd. (內蒙古小肥羊餐飲連鎖有限公司) ("Little Sheep PRC"), a wholly-owned subsidiary of the Company, entered into a transfer agreement ("Transfer Agreement") with Ms. Wang Fang. Pursuant to the Transfer Agreement Little Sheep PRC had agreed to transfer to Ms. Wang Fang a 69% equity interest in Inner Mongolia Little Lamb USA Corporation ("Little Sheep US") (which represents the entire equity interest of Little Sheep PRC in Little Sheep US) for a total consideration of US$345,000.

Ms. Wang Fang was a director of a former subsidiary of the Company which was dissolved within the preceding 12 months period before the parties entered into the Transfer Agreement and thus, was a connected person of the Company at the time of entering into the Transfer Agreement pursuant to Chapter 14A of the Listing Rules. The transaction contemplated under the Transfer Agreement therefore constituted a connected transaction for the Company under the Listing Rules.

Little Sheep US is principally engaged in the operation of a Chinese hot pot restaurant, the provision of catering services and the sale of related food products in the United States. As disclosed in the prospectus of the Company dated 2 June 2008, the Group intends to stay highly focused on expanding restaurant network by increasing the number of company-owned restaurants in larger and more developed cities in the PRC. The Directors believe that the Transfer allows the Group to better allocate its resources to its core business in the PRC and is in line with the business strategies of the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transfer Agreement and the transactions contemplated under it were on normal commercial terms, which were fair and reasonable and were in the best interest of the Group and the Shareholders as a whole.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Details of the Group's bank loans and other borrowings as at 31 December 2009 are set out in note 24 to the financial statements.

Report of the Directors (continued)

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 4.3% of the Group's total revenue and sales to the largest customer accounted for approximately 1.3% of the Group's total revenue for year 2009. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 13.8% of the Group's total purchases and purchases from the largest supplier accounted for approximately 4.9% of the Group's total purchases for year 2009.

None of the Directors, their associates, or any Shareholder which to the knowledge of the Directors own more than 5% of the Company's issued share capital has any interest in the Group's five largest suppliers or the Group's five largest customers.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes of the Group are set out in note 3 to the financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued share of the Company under the Listing Rules.

AUDITORS

The financial statements were audited by Ernst & Young who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhang Gang
Chairman

Hong Kong, 23 March 2010

Directors' Profile

EXECUTIVE DIRECTORS

ZHANG Gang, aged 45, is the co-founder of the Group and the Company's Executive Director and Chairman. He is responsible for the operation of the Board and the key decision-maker of the Group. Mr. Zhang founded the first Little Sheep restaurant in Inner Mongolia in 1999 and has played a vital role in the development of the Group since its commencement in July 2001. Mr. Zhang is an experienced entrepreneur and has over nine years of experience in the catering industry. He is a deputy member of the People's Congress in Inner Mongolia. Mr. Zhang completed the Executive Master of Business Administration program at the Guanghua School of Management of Peking University.

LU Wenbing, aged 42, is an Executive Director and Chief Executive Officer of the Company. He joined the Group in 2004. Before joining the Group, he served as an Investment Controller and Vice President of Inner Mongolia Mengniu Milk Industry (Group) Co., Limited and had also served as Deputy General Manager of the Third Investment Banking Department and Chief Representative of the Inner Mongolia Representation Office of Everbright Securities Co., Ltd. He holds a master's degree in Executive Business Administration from Renmin University of China and a master's degree of Laws in International Economic Law from China University of Political Science and Law.

ZHANG Zhanhai, aged 42, is currently an Executive Director and Chief Operating Officer of the Company. Since joining the Group in November 2001, Mr. Zhang has held various senior positions in the Group including the General Manager of northern PRC region and the Chief Brand Officer of the Company, mainly responsible for the management of the operations in the northern PRC region and the Group's branding strategy and food safety control. Before joining Little Sheep, Mr. Zhang worked as the Deputy Director of the Beijing Office of the People's Government of Hengshui City, Hebei province. Mr. Zhang obtained a bachelor's degree of Business Administration from Northeastern University and an EMBA degree from the School of Economics and Management of Tsinghua University. He is currently the Deputy Director of the Hot Pot Cuisine Committee of China Cuisine Association and a standing committee member of China Chain Store & Franchise Association.

WANG Daizong, aged 35, is an Executive Director and Chief Financial Officer of the Company and is in charge of investor relation, strategy and planning, and human resources. He joined Little Sheep PRC as Senior Vice President in October 2007 and was appointed as a Director of the Company in December 2007. From 2005 to 2007, Mr. Wang was an associate Director of 3i Asia Pacific plc. where he originated and executed 3i's investment in Little Sheep PRC in 2006. From 2001 to 2005, he had worked in the investment banking division of Goldman Sachs (Asia) LLC. He holds a master's degree of Business Administration from the Wharton School of the University of Pennsylvania.

LI Baofang, aged 44, is an Executive Director and Senior Vice President of the Company and General Manager of the southern PRC region. She is responsible for overseeing the overall business management of the Group in the Southern PRC region. Ms Li joined the Group in 2001. She is an experienced entrepreneur and has over eight years of experience in the catering industry. Ms. Li holds a postgraduate diploma from the Chinese Academy of Social Sciences.

Directors' Profile (continued)

NON-EXECUTIVE DIRECTORS

CHEN Hongkai, aged 42, is the co-founder of the Group. Mr. Chen played a vital role in the founding of the Group's business with Mr. Zhang Gang since 1999 and with his extensive experience in the catering industry, contributed to our Group's further development and expansion. Mr. Chen is an experienced entrepreneur and has over eight years of experience in the catering industry.

SU Jing Shyh Samuel, aged 57, joined the Group on 2 June 2009 as a Non-executive Director. Mr. Su is Vice Chairman of the board of directors of Yum and President of China Division of Yum. Mr. Su earned his undergraduate degree at the National Taiwan University, a M.Sc. degree of Chemical Engineering at Pennsylvania State University and an MBA at the Wharton School. Before joining Yum, Mr. Su worked with Procter & Gamble in Germany and Taiwan. Mr. Su started his career with Yum in 1989 as KFC International's Director of Marketing for the North Pacific region. In 1993, he became Vice President of North Asia for both KFC and Pizza Hut. Mr. Su was named President of Greater China for Tricon Global Restaurants International upon Pepsi's spin-off of the restaurant business in 1997. Yum China Division today leads the development of the KFC, Pizza Hut Dine-in restaurants, Pizza Hut Home Service and East Dawning brands in mainland China, Thailand and KFC Taiwan.

KOO Benjamin Henry Ho Chung, aged 57, joined the Group on 2 June 2009 as a Non-executive Director. Mr. Koo is Vice-President of Marketing Services and Information Technology of China Division of Yum. Mr. Koo has a B.Sc. degree and a M.Sc. degree in Chemical Engineering from University of Wisconsin and Massachusetts Institute of Technology respectively and an MBA at the Wharton School. Before joining Yum China, Mr. Koo worked for CITIC Pacific Ltd. and Dah Chong Hong Ltd. in Hong Kong and Mars, Inc. He started his career with Yum China from 1994 and has since worked in areas of operations, marketing and information technology.

HSIEH Hui-yun Lily, aged 55, joined the Group on 19 November 2009 as a Non-executive Director. Ms. Hsieh is the Chief Financial Officer of Yum, China Division. Ms. Hsieh earned her B.A. at National Taiwan University and an MBA (Finance Major) at University of Toronto. She also obtained the qualification as a Certified Management Accountant (CMA) in 1984. Before joining Yum, Ms. Hsieh worked with Kraft, Hydro and Pillsbury in Canada as well as Kraft Foods in Asia. Ms. Hsieh started her career with Yum in 1996 and has been the Chief Financial Officer at Yum China since 2002.

Nishpank Rameshbabu KANKIWALA, aged 52, joined the Group in June 2006. Mr. Kankiwala is currently Executive Chairman of Mayborn Group Limited. From 2003 to 2005, he acted as the President of Burger King International. Before joining Burger King International, Mr. Kankiwala spent nine years working at PepsiCo Beverages International. He joined PepsiCo Beverages International in Ireland in 1994 as the General Manager of the International Concentrate Business, and he was the Vice President of Operations, Sales, Franchise VP Africa from 1996 to 2000. From 2000 to 2003, he acted as the President of the Europe Business Unit of PepsiCo Beverages International. From 1979 to 1994, Mr. Kankiwala worked at Unilever where he held a number of marketing, sales, operations and general management roles in Europe, Asia and the USA. Mr. Kankiwala obtained a bachelor's degree of Science (Chemical Engineering) with first class Honors from the University of London in 1979, and he was admitted to the Fellowship of University College of London in 2005.

Directors' Profile (continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

XIANG Bing, aged 47, joined the Group in May 2008 as an Independent Non-executive Director and also serves as Chairman of the Remuneration Committee. Dr. Xiang holds a bachelor's degree of Engineering from Xi'an Jiaotong University and a doctoral degree in philosophy of accounting from the University of Alberta, Canada. Dr. Xiang is currently the founding dean and professor of the Cheung Kong Graduate School of Business. He is also currently an independent non-executive director and a committee member of the audit committee of Dan Form Holdings Company Limited, HC International, Inc., Jutal Offshore Oil Services Limited and China Dongxiang (Group) Co., Ltd., all of which are companies listed on the Stock Exchange. He is also an independent director of Shenzhen Terca Technology Co., Ltd. and TCL Corporation, all of which are listed on the Shenzhen Stock Exchange. He is also an independent non-executive director of LDK Solar Co. Ltd., Perfect World Co., Ltd., and EHouse (China) Holdings Limited, all of which are listed on the New York Stock Exchange. He was a director of Wuhan Jianmin Pharmaceutical Groups Co., Ltd., which is a company listed on the Shanghai Stock Exchange. He was also a director of Shaanxi Qinchuan Machine Development Co., Ltd. and Guangdong Midea Electric Appliances Co., Ltd., all of which are listed on the Shenzhen Stock Exchange.

YEUNG Ka Keung, aged 50, joined the Group in May 2008 as an Independent Non-executive Director and also serves as Chairman of the Audit Committee. Mr. Yeung is the executive Vice President and Chief Financial Officer of Phoenix Satellite Television Co. Ltd. and Phoenix Satellite Television Holdings Limited, a company listed on the Stock Exchange. He is also the qualified accountant and company secretary of Phoenix Satellite Television Holdings Limited. Mr. Yeung graduated from the University of Birmingham and obtained qualification as a chartered accountant with the Institute of Chartered Accountants in England and Wales.

SHIN Yick, Fabian, aged 41, joined the Group in May 2008 as an Independent Non-executive Director and also serves as Chairman of the Nomination Committee. He is currently the Deputy CEO of CMB International Capital Corporation Limited. He is also an independent director of C & O Pharmaceutical Technology (Holdings) Limited, a company listed on Singapore Exchange Securities Trading Limited. Mr. Shin is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Mr. Shin holds a bachelor's degree in Commerce from the University of Birmingham in England.

Independent Auditors' Report

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Phone : +852 2846 9888
Fax : +852 2868 4432
www.ey.com

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

We have audited the financial statements of Little Sheep Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 43 to 109, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and the true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report (continued)

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

23 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**1,569,700**	1,271,523
Other income	5	**29,482**	29,964
Cost of inventories sold		**(650,545)**	(524,390)
Staff costs	6	**(308,795)**	(257,342)
Depreciation and amortisation		**(54,561)**	(40,591)
Rental expenses		**(142,911)**	(119,534)
Fuel and utility expenses		**(66,381)**	(55,752)
Other operating expenses		**(165,114)**	(131,947)
Finance costs	7	**(408)**	(6,603)
PROFIT BEFORE TAX		**210,467**	165,328
Income tax expense	9	**(44,807)**	(30,793)
PROFIT FOR THE YEAR		**165,660**	134,535
Attributable to:			
Owners of the Company	11	**155,364**	128,698
Minority interests		**10,296**	5,837
		165,660	134,535
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY			
— Basic (RMB)	12	**15.12 cents**	13.55 cents
— Diluted (RMB)		**14.98 cents**	13.53 cents

Details of the dividends payable and proposed for the year are disclosed in note 10 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 *RMB'000*	2008 *RMB'000*
PROFIT FOR THE YEAR	**165,660**	134,535
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		
Exchange differences on translation of foreign operations	**(231)**	3,164
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**165,429**	137,699
Attributable to:		
Owners of the Company	**155,133**	131,862
Minority interests	**10,296**	5,837
	165,429	137,699

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**358,544**	277,684
Deposits for purchases of items of plant and equipment		**15,903**	5,567
Intangible assets	14	**236,774**	171,131
Land lease prepayments	15	**50,055**	11,717
Long-term rental deposits	17	**15,984**	13,281
Deferred tax assets	18	**5,455**	2,928
Total non-current assets		**682,715**	482,308
CURRENT ASSETS			
Inventories	20	**182,126**	179,400
Trade and bills receivables	21	**19,297**	12,175
Prepayments, deposits and other receivables	22	**61,584**	65,902
Cash and cash equivalents	23	**325,207**	424,038
Total current assets		**588,214**	681,515
CURRENT LIABILITIES			
Bank loans	24	**375**	535
Trade payables	25	**51,098**	40,803
Deposits, other payables and accruals	26	**134,207**	137,807
Due to minority equity holders of subsidiaries	27	**14,900**	12,528
Tax payable		**23,764**	14,994
Total current liabilities		**224,344**	206,667
NET CURRENT ASSETS		**363,870**	474,848

Consolidated Statement of Financial Position (continued)

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,046,585**	957,156
NON-CURRENT LIABILITIES			
Bank loans	*24*	**—**	375
Long-term payables	*28*	**8,763**	6,885
Total non-current liabilities		**8,763**	7,260
NET ASSETS		**1,037,822**	949,896
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*35*	**90,826**	90,823
Reserves	*36*	**939,952**	850,776
		1,030,778	941,599
Minority interests		**7,044**	8,297
TOTAL EQUITY		**1,037,822**	949,896

Zhang Gang
Director

Lu Wenbing
Director

Consolidated
Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners of the Company								
	Issued capital *RMB'000*	Capital reserves *RMB'000*	PRC reserve funds *RMB'000*	Foreign currency translation reserve *RMB'000*	Share option reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
At 1 January 2009	90,823	655,382	36,152	(6,718)	3,509	162,451	941,599	8,297	949,896
Total comprehensive income for the year	—	—	—	(231)	—	155,364	155,133	10,296	165,429
Equity-settled share option arrangement	—	—	—	—	2,556	—	2,556	—	2,556
Exercise of employee share options	3	73	—	—	(10)	—	66	—	66
Dividend paid	—	(68,846)	—	—	—	—	(68,846)	—	(68,846)
Dividend paid by subsidiaries to the minority equity holders	—	—	—	—	—	—	—	(11,857)	(11,857)
Transfer to the PRC reserve funds	—	—	1,536	—	—	(1,536)	—	—	—
Acquisition of minority interests of subsidiaries	—	—	—	—	—	—	—	(10)	(10)
Waiver of minority interest of subsidiaries from the then equity holders	—	270	—	—	—	—	270	(270)	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	1,832	1,832
Transfer upon disposal of subsidiaries	—	—	(703)	—	—	703	—	(1,244)	(1,244)
At 31 December 2009	90,826	586,879*	36,985*	(6,949)*	6,055*	316,982*	1,030,778	7,044	1,037,822

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2009

	Attributable to owners of the Company									
	Issued capital RMB'000	Capital reserves RMB'000	PRC reserve funds RMB'000	Foreign currency translation reserve RMB'000	Equity component of convertible bonds RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	—	125,314	34,553	10,641	3,486	100	113,858	287,952	16,363	304,315
Total comprehensive income for the year	—	—	—	3,164	—	—	128,698	131,862	5,837	137,699
Conversion of bonds	—	198,300	—	(20,523)	(3,486)	—	—	174,291	—	174,291
Issue of ordinary shares, net of share issue expenses	90,823	331,768	—	—	—	—	—	422,591	—	422,591
Equity-settled share option arrangement	—	—	—	—	—	3,409	—	3,409	—	3,409
Dividend paid by subsidiaries to their then shareholders	—	—	—	—	—	—	(78,506)	(78,506)	(12,558)	(91,064)
Transfer to the PRC reserve funds	—	—	1,599	—	—	—	(1,599)	—	—	—
Acquisition of minority interests of subsidiaries	—	—	—	—	—	—	—	—	(892)	(892)
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	149	149
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(602)	(602)
At 31 December 2008	90,823	655,382*	36,152*	(6,718)*	—*	3,509*	162,451*	941,599	8,297	949,896

* *These reserve accounts comprise the consolidated reserves of RMB939,952,000 (2008: RMB850,776,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**210,467**	165,328
Adjustments for:			
Finance costs	7	**408**	6,603
Interest income on bank balances	5	**(5,938)**	(4,019)
Waiver of 2007 interest expenses on convertible bonds	5	**—**	(8,463)
Depreciation	6	**54,217**	40,247
Amortisation of intangible assets	6	**98**	98
Amortisation of lease prepayments	6	**246**	246
Net loss on disposal of items of property, plant and equipment	6	**1,039**	288
Provision against trade receivables	6	**—**	250
Gain on disposal of a subsidiary	5	**—**	(4,158)
Equity-settled share option arrangement	6	**2,556**	3,409
Operating profit before working capital changes		**263,093**	199,829
Decrease/(increase) in inventories		**1,297**	(33,319)
Increase in trade and bills receivables		**(7,023)**	(7,088)
Increase in prepayments, deposits and other receivables		**(5,902)**	(28,741)
Decrease in amounts due from the holding company and a shareholder		**—**	78
Decrease in amounts due to minority equity holders of subsidiaries		**(7,847)**	(15,318)
Increase in trade payables		**9,119**	2,777
Increase/(decrease) in deposits, other payables and accruals		**(13,063)**	50,375
Increase/(decrease) in long-term payables		**(825)**	6,647
Cash generated from operating activities		**238,849**	175,240
Income tax paid		**(38,246)**	(33,096)
Net cash inflow from operating activities		**200,603**	142,144

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**3,706**	2,121
Purchases of items of property, plant and equipment		**(110,636)**	(148,967)
Additions to intangible assets	14	**(8)**	(9)
Additions to lease prepayments	15	**(38,584)**	(105)
Acquisition of subsidiaries and branches	19	**(75,506)**	(28,976)
Acquisitions of minority interests		**—**	(3,000)
Deposits paid for purchases of items of plant and equipment		**(15,903)**	(5,567)
Proceeds from disposal of a subsidiary	30	**1,124**	1,011
Interest received		**5,938**	4,019
Net cash outflow from investing activities		**(229,869)**	(179,473)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**—**	21,000
Net proceeds from issuance of new shares upon listing		**—**	430,666
Exercise of share options		**66**	—
Repayment of bank loans		**(535)**	(92,503)
Dividends paid		**(68,846)**	(91,064)
Interest paid	7	**(408)**	(6,603)
Net cash inflow/(outflow) from financing activities		**(69,723)**	261,496
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(98,989)**	224,167
Cash and cash equivalents at beginning of year	23	**424,038**	204,126
Effect of foreign exchange rate changes, net		**158**	(4,255)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**325,207**	424,038
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**325,207**	424,038

Balance Sheet

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**16**	20
Investment in a subsidiary	16	**92**	92
		108	112
CURRENT ASSETS			
Due from a subsidiary	16	**406,100**	411,156
Prepayments, deposits and other receivables		**165**	2,519
Cash and cash equivalents	23	**249**	14,019
		406,514	427,694
CURRENT LIABILITIES			
Deposits, other payables and accruals		**46,683**	13,979
NET CURRENT ASSETS		**359,831**	413,715
NET ASSETS		**359,939**	413,827
EQUITY			
Issued capital	35	**90,826**	90,823
Reserves	36(b)	**269,113**	323,004
TOTAL EQUITY		**359,939**	413,827

Zhang Gang
Director

Lu Wenbing
Director

Notes to Financial Statements

31 December 2009

1. CORPORATE INFORMATION

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

The 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"). 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.

2.1 BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IASs") and Interpretations promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Notes to Financial Statements (continued)

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 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 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosure about Financial Instruments*
IFRS 8	*Operating Segments*
IFRS 8 Amendment*	Amendment to IFRS 8 *Operating Segments — Disclosure of information about segment assets* (early adopted)
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 Revenue — *Determining whether an entity is acting as a principal or as an agent*
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-Int 9 and IAS 39 Amendments	Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC-Int 13	*Customer Loyalty Programmes*
IFRIC-Int 15	*Agreements for the Construction of Real Estate*
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* *Included in Improvements to IFRSs 2009 (as issued in April 2009)*

** *The Group adopted all the improvements to IFRSs issued in May 2008 except for the amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary which is effective for annual periods beginning on or after 1 July 2009. The Group adopted all the amendments from 1 January 2009.*

Other than as further explained below regarding the impact of IAS 1 (Revised) and IFRS 8, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

IFRS 8 Operating Segments

IFRS 8, which replaces IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

Notes to Financial Statements (continued)

31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IFRS 8 Operating Segments (continued)

The Group has early adopted in these financial statements the Amendment to IFRS 8 issued in the Improvements to IFRSs 2009 which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

IAS 1 (Revised) Presentation of Financial Statements

IAS 1 (Revised) introduces changes in the presentation and disclosures 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 all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 (Revised)	First-time Adoption of IFRSs[1]
IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of IFRSs — Additional Exemptions for First-time Adopters[2]
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment — Group Cash-settled Share-based Payment Transactions[2]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[6]
IAS 24 (Revised)	Related Party Disclosures[5]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 Amendment	Amendment to IAS 32 Financial Instruments: Presentation — Classification of Rights Issues[3]
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: Recognition and Measurement — Eligible Hedged Items[1]
IFRIC 14 Amendments	Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement[5]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[4]
Amendments to IFRS 5 included in Improvements to IFRSs issued in October 2008	Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary[1]

Notes to Financial Statements (continued)

31 December 2009

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Apart from the above, IASB has also issued Improvements to IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. The amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that except for the adoption of IFRS 3 (Revised), IFRS 9 and IAS 27 (Revised) which may result in changes in accounting policies as further explained below, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39. IAS 39 is aimed to be replaced by IFRS 9 in its entirety by the end of 2010. The Group expects to adopt IFRS 9 from 1 January 2013.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Goodwill

Goodwill arising on business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill arising on a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is credited in the income statement in the period in which it arises.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and provision for any impairment loss.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item of property, plant and equipment to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the items of property, plant and equipment, the expenditure is capitalised as an additional cost of that items of property, plant and equipment.

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life, after taking into account its estimated residual value, as follows:

Buildings	40 years
Leasehold improvements	Over the unexpired period of the lease
Motor vehicles	5 to 8 years
Equipment and fixtures	5 to 8 years

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents storage facilities under construction, or renovation works of restaurants and office in progress and is stated at cost less any impairment loss, and is not depreciated. Cost comprises development and construction expenditure incurred and other costs directly attributable to the development less any accumulated impairment losses. On completion, the relevant assets are transferred to property, plant and equipment at cost less accumulated impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease prepayments

Lease prepayments represent land use rights paid to the PRC government authorities. Land use rights are carried at cost and are charged to the consolidated income statement on the straight-line basis over the respective periods of the rights ranging from 40 to 70 years. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Financial assets

The Group's financial assets in the scope of IAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Financial liabilities at amortised cost (including bank loans)

Financial liabilities including trade and other payables, amounts due to the minority equity holders of subsidiaries and bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The fair values of derivative components of convertible bonds at issuance date are determined using market value basis and are recognised as liabilities in the statement of financial position, net of transaction costs. Subsequent changes in fair values of derivative components are recognised in the income statement.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned among the liability, derivative and equity components of the convertible bonds based on the allocation of proceeds to the liability, derivative and equity components when the instruments are first recognised.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories represent ingredients, consumables and food and beverages and are stated at the lower of cost and net realisable value, after making due allowances for any obsolete or slow-moving items. Cost is determined on the first-in, first-out basis, and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks and on hand and short term deposits, which are not restricted as to use.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation provided and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Income tax

Income tax comprises current and deferred tax. Income tax relating items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in a joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in a joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant assets by equal annual instalments. Government grants received where the attaching conditions have not yet been fulfilled are recognised as liabilities.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following basis:

Revenue from restaurant operations and provision of catering services
Revenue is recognised when the related services have been rendered to customers.

Sale of food products
Revenue is recognised when the products are delivered and accepted by customers and the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Franchise income
Franchise income for the rights granted is recognised as the rights have been used.

Interest income
Interest income is recognised as interest accrues, using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Management service fee income
Management service fee income is recognised when the relevant services are rendered.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Salaries, bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans are recognised as an expense in the income statement as incurred.

Pension schemes and other retirement benefits
Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a retirement benefits scheme organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the retirement benefits scheme. The only obligation of the Group with respect to the retirement benefits scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefits scheme are charged to the income statement as incurred.

The Group operates a Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Share-based payment transactions
Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is measured at each reporting date until settlement.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 37 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements (continued)

31 December 2009

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's presentation currency. The functional currency of the Company is United States dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rates ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of overseas subsidiaries are their respective local currencies. As at the end of the reporting period, the assets and liabilities of these overseas subsidiaries are translated into the Company's presentation currency at the exchange rates ruling at the end of the reporting period and the income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve inside the equity. On disposal of a foreign entity, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year, are translated into Renminbi at the weighted average exchange rates for the year.

Notes to Financial Statements (continued)

31 December 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of inventories
Inventories are stated at the lower of cost and net realisable value at the balance sheet date. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value of inventories based primarily on the latest transaction prices and current market conditions. In addition, the directors perform an inventory review at each year end date and assess the need for the write-down of inventories.

Depreciation
Depreciation of each item of property, plant and equipment is calculated on the straight-line basis over its expected useful life, after taking into account their estimated residual value. The Group has estimated the useful lives of its property, plant and equipment of 5 to 40 years after taking into account their estimated residual values. This requires an estimation of the residual value and useful life of assets if the related assets were already of the age and in condition expected at end of its useful life.

Notes to Financial Statements (continued)

31 December 2009

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit before tax from operations except that interest income, finance costs, and corporate expenses are excluded from such measurement.

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.

Notes to Financial Statements (continued)

31 December 2009

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009	**Restaurant operations and provision of catering services** *RMB'000*	**Sales of food products** *RMB'000*	**Franchise income** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue					
Sales to external customers	1,223,382	313,773	30,887	1,658	1,569,700
Intersegment sales	—	376,307	—	24,783	401,090
	1,223,382	690,080	30,887	26,441	1,970,790
Reconciliation:					
Elimination of intersegment sales					(401,090)
Revenue from operations					1,569,700
Segment results	200,312	36,374	14,424	(22,384)	228,726
Reconciliation:					
Elimination of intersegment results					14
Other income					29,482
Unallocated expenses					(47,347)
Finance costs					(408)
Profit before tax					210,467
Segment assets	584,092	429,449	941,721	476,069	2,431,331
Elimination of intersegment receivables					(1,160,402)
Total assets					1,270,929
Segment liabilities	500,963	262,893	111,319	518,334	1,393,509
Elimination of intersegment payables					(1,160,402)
Total liabilities					233,107
Other segment information:					
Depreciation and amortisation	45,057	5,391	2,879	1,234	54,561
Capital expenditure	94,185	59,077	10,358	1,511	165,131*

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

Notes to Financial Statements (continued)

31 December 2009

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008	Restaurant operations and provision of catering services *RMB'000*	Sales of food products *RMB'000*	Franchise income *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue					
Sales to external customers	1,010,690	239,858	18,886	2,089	1,271,523
Intersegment sales	—	314,625	—	23,290	337,915
	1,010,690	554,483	18,886	25,379	1,609,438
Reconciliation:					
Elimination of intersegment sales					(337,915)
Revenue from operations					1,271,523
Segment results	167,833	10,557	9,869	(4,068)	184,191
Reconciliation:					
Elimination of intersegment results					(508)
Other income					29,964
Unallocated expenses					(41,716)
Finance costs					(6,603)
Profit before tax					165,328
Segment assets	478,717	323,920	547,466	557,481	1,907,584
Elimination of intersegment receivables					(743,761)
Total assets					1,163,823
Segment liabilities	221,706	90,498	166,739	478,745	957,688
Elimination of intersegment payables					(743,761)
Total liabilities					213,927
Other segment information:					
Impairment losses recognised in the consolidated income statement	—	—	250	—	250
Depreciation and amortisation	37,311	1,306	1,394	580	40,591
Capital expenditure	72,962	16,483	63,980	1,223	154,648

Notes to Financial Statements (continued)

31 December 2009

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2009	2008
	RMB'000	*RMB'000*
North China	**683,354**	465,585
East China	**332,179**	291,881
South China	**306,845**	275,427
North West China	**81,469**	49,715
North East China	**28,961**	14,012
Others	**136,892**	174,903
	1,569,700	1,271,523

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

(b) Non-current assets

	2009	2008
	RMB'000	*RMB'000*
North China	**476,628**	285,275
East China	**80,230**	94,953
South China	**92,527**	61,515
North West China	**14,287**	16,145
North East China	**9,352**	6,539
Others	**9,691**	17,881
	682,715	482,308

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

Notes to Financial Statements (continued)

31 December 2009

5. REVENUE AND OTHER INCOME

Revenue

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

	2009 *RMB'000*	2008 *RMB'000*
Restaurant operations and provision of catering services	**1,223,382**	1,010,690
Sale of food products	**313,773**	239,858
Franchise income	**30,887**	18,886
Management service fee income	**1,658**	2,089
	1,569,700	1,271,523

Other Income

	Notes	2009 *RMB'000*	2008 *RMB'000*
Government grants	*(i)*	**10,767**	5,038
Promotion income		**3,054**	1,028
Sales of low value consumables		**2,615**	2,318
Interest income on bank balances		**5,938**	4,019
Gain on disposal of a subsidiary		**—**	4,158
Waiver of 2007 interest expenses on convertible bonds	*(ii)*	**—**	8,463
Others		**7,108**	4,940
		29,482	29,964

(i) Various local government grants have been granted to reward the Group for its contributions to the local economy. There were no unfulfilled conditions or contingencies attaching to these government grants.

(ii) Pursuant to the letter of confirmation dated 14 May 2008 from holders of the convertible bonds, namely, 3i Group plc ("3i") and PraxCapital Fund I ("PraxCapital"), to China XiaoFeiYang Catering Chain Co., Ltd., 3i and PraxCapital have agreed to waive part of their respective entitlement to interest on the convertible bonds for 2007 of US$1.2 million (equivalent to RMB8,463,000), in view of the change in the financial market condition after the parties entering into the convertible bonds in June 2006.

Notes to Financial Statements (continued)

31 December 2009

6. PROFIT BEFORE TAX

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Staff costs including directors' remuneration *(note 8)*:		
Wages, salaries and bonuses	**268,542**	215,662
Expense of share-based payments	**2,556**	3,409
Pension scheme costs	**8,891**	16,529
Social welfare and other costs	**28,806**	21,742
	308,795	257,342
Depreciation *(note 13)*	**54,217**	40,247
Amortisation of intangible assets *(note 14)*	**98**	98
Amortisation of lease prepayments *(note 15)*	**246**	246
Auditors' remuneration	**3,500**	4,500
Net loss on disposal of items of property, plant and equipment	**1,039**	288
Provision against trade receivables *(note 21)*	**—**	250
Minimum lease payments under operating leases in respect of buildings	**142,911**	119,534

7. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expense on bank loans and other borrowings	**408**	856
Interest expense on convertible bonds	**—**	5,747
	408	6,603

Notes to Financial Statements (continued)

31 December 2009

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Fees	**633**	536
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**7,428**	6,500
Equity-settled share option expenses	**491**	721
Pension scheme contributions	**49**	95
	8,601	7,852

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009	2008
	RMB'000	*RMB'000*
Mr. Xiang Bing	**211**	134
Mr. Yeung Ka Keung	**211**	134
Mr. Shin Yick, Fabian	**211**	134
	633	402

Notes to Financial Statements (continued)

31 December 2009

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(b) Executive directors and non-executive directors

	Fees *RMB'000*	Salaries, allowances, bonuses and other benefits *RMB'000*	Equity-settled share option expenses *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2009					
Executive directors:					
Mr. Zhang Gang	—	1,500	—	—	1,500
Mr. Lu Wenbing	—	1,412	241	8	1,661
Mr. Yeung Yiu Keung*	—	1,525	136	13	1,674
Mr. Wang Daizong	—	824	14	13	851
Mr. Zhang Zhanhai	—	854	—	11	865
Ms. Kou Zhifang#	—	155	—	—	155
Ms. Li Baofang	—	841	71	4	916
	—	7,111	462	49	7,622
Non-executive directors:					
Mr. Chen Hongkai	—	—	29	—	29
Mr. Nishpank Rameshbabu Kankiwala	—	317	—	—	317
Mr. Su Jing Shyh Samuel^	—	—	—	—	—
Mr. Koo Benjamin Henry Ho Chung^	—	—	—	—	—
Ms. Hsieh Hui-yun Lily^	—	—	—	—	—
	—	7,428	491	49	7,968

Notes to Financial Statements (continued)

31 December 2009

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(b) Executive directors and non-executive directors (continued)

	Fees *RMB'000*	Salaries, allowances, bonuses and other benefits *RMB'000*	Equity-settled share option expenses *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2008					
Executive directors:					
Mr. Zhang Gang	—	1,000	—	—	1,000
Mr. Lu Wenbing	—	800	322	1	1,123
Mr. Yeung Yiu Keung	—	2,000	181	13	2,194
Mr. Wang Daizong	—	900	19	13	932
Mr. Zhang Zhanhai	—	600	—	12	612
Ms. Kou Zhifang	—	600	66	—	666
Ms. Li Baofang	—	600	94	4	698
	—	6,500	682	43	7,225
Non-executive directors:					
Mr. Chen Hongkai	—	—	39	—	39
Mr. Nishpank Rameshbabu Kankiwala	134	—	—	52	186
	134	6,500	721	95	7,450

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

* *Mr. Yeung Yiu Keung resigned as a director of the Company in December 2009.*
\# *Ms. Kou Zhifang resigned as a director of the Company in April 2009.*
^ *Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily were appointed as non-executive directors in June 2009, June 2009 and November 2009, respectively.*

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the consolidated financial statements. The fair value of such options which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' remuneration disclosures.

Notes to Financial Statements (continued)

31 December 2009

8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(b) Executive directors and non-executive directors (continued)

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2008: one) non-executive director, the highest paid employee for the year is as follows:

	2009 *RMB'000*	2008 *RMB'000*
Salaries, allowances and benefits in kind	**769**	749
Performance related bonuses	**150**	125
Equity-settled share option expenses	**83**	84
Pension scheme contributions	**11**	11
	1,013	969

9. INCOME TAX EXPENSE

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

Under the new PRC corporate income tax law, since 1 January 2008 except for the preferential treatment available to certain subsidiaries operating in the Mainland China, the companies of the Group which operate in the Mainland China are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method. During the year ended 31 December 2009, after obtaining approval from the relevant PRC tax authorities, 18 (2008: 17) entities of the Group were subject to a preferential corporate income tax rate of 20%, 5 (2008: 5) entities of the Group were exempt from the corporate income tax and 41 (2008: 36) entities of the Group were assessed based on the verification collection method. All the tax concessions enjoyed by the Group were granted by various competent tax bureaus.

The provision for Hong Kong profits tax is calculated at 16.5% of the profit for the year ended 31 December 2009 (2008: 16.5%).

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

	Note	**2009** *RMB'000*	2008 *RMB'000*
Group			
Current		**47,334**	31,257
Deferred	*18*	**(2,527)**	(464)
		44,807	30,793

Notes to Financial Statements (continued)

31 December 2009

9. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory income tax rates to the income tax expense at the Group's effective income tax rate is as follows:

	Hong Kong		Mainland China		Others		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Group — 2009								
Profit/(loss) before tax	10,654	100	211,192	100	(11,379)	100	210,467	100
Tax at the statutory tax rate	1,758	16.5	52,722	25.0	1,244	(10.9)	55,724	26.5
Tax effect of preferential income tax rates	—	—	(6,539)	(3.1)	—	—	(6,539)	(3.1)
Effect of the verification collection method	—	—	(4,465)	(2.1)	—	—	(4,465)	(2.1)
Income not subject to tax	—	—	(1,780)	(0.8)	(176)	1.5	(1,956)	(0.9)
Expenses not deductible for tax	609	5.7	1,839	0.8	—	—	2,448	1.1
Tax losses not recognised	—	—	2,532	1.2	—	—	2,532	1.2
Others	(399)	(3.7)	(2,626)	(1.2)	88	(0.8)	(2,937)	(1.4)
Tax charge at the Group's effective rate	1,968	18.5	41,683	19.8	1,156	(10.2)	44,807	21.3

Notes to Financial Statements (continued)

31 December 2009

9. INCOME TAX EXPENSE (continued)

	Hong Kong		Mainland China		Others		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Group — 2008								
Profit/(loss) before tax	9,999	100.0	158,651	100.0	(3,322)	100.0	165,328	100.0
Tax at the statutory tax rate	1,650	16.5	39,663	25.0	640	(19.3)	41,953	25.4
Tax effect of preferential income tax rates	—	—	(8,180)	(5.1)	—	—	(8,180)	(5.0)
Effect of the verification collection method	—	—	(4,190)	(2.6)	—	—	(4,190)	(2.5)
Income not subject to tax	—	—	(160)	(0.1)	(665)	20.0	(825)	(0.5)
Expenses not deductible for tax	318	3.2	1,784	1.1	—	—	2,102	1.2
Tax losses utilised from previous period	—	—	(1,206)	(0.8)	—	—	(1,206)	(0.7)
Tax losses not recognised	—	—	2,985	1.9	—	—	2,985	1.8
Others	22	0.2	(1,722)	(1.1)	(146)	4.4	(1,846)	(1.1)
Tax charge at the Group's effective rate	1,990	19.9	28,974	18.3	(171)	5.1	30,793	18.6

10. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Dividend paid by China XiaoFeiYang Catering Chain Co., Ltd. to the then shareholders	—	78,506
Proposed final — HK6.9 cents per share (equivalent to approximately RMB6 cents per share) (2008: HK7.6 cents per share (equivalent to approximately RMB6.7 cents per share))	**62,146**	68,852

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

Notes to Financial Statements (continued)

31 December 2009

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB13,082,000 which has been dealt with in the financial statements of the Company (note 36(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share for the year is based on the profit attributable to ordinary shareholders of the Company for the year of RMB155,364,000 (2008: RMB128,698,000) and the weighted average number of 1,027,678,370 ordinary shares (2008: 950,104,846 ordinary shares) of the Company.

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary shareholders for the year of RMB155,364,000 (2008: RMB128,698,000) and on 1,037,382,921 ordinary shares (2008: 950,954,446 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 9,704,551 ordinary shares (2008: 849,600 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Options Scheme (as defined in note 37 to the financial statements).

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

Notes to Financial Statements (continued)

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Equipment and fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2009						
At 1 January 2009:						
Cost	67,239	179,435	6,608	88,158	66,628	408,068
Accumulated depreciation	(7,721)	(83,408)	(2,380)	(36,875)	—	(130,384)
Net carrying amount	59,518	96,027	4,228	51,283	66,628	277,684
At 1 January 2009, net of accumulated depreciation	59,518	96,027	4,228	51,283	66,628	277,684
Additions	1,078	72,084	1,662	35,846	22,629	133,299
Transfers from construction in progress	69,938	—	—	546	(70,484)	—
Acquisition of subsidiaries and branches *(note 19)*	—	7,170	—	3,203	—	10,373
Disposal of a subsidiary *(note 30)*	—	(3,134)	—	(326)	—	(3,460)
Disposals	—	(2,860)	(101)	(1,079)	(705)	(4,745)
Exchange differences	—	(368)	—	(22)	—	(390)
Depreciation charge for the year	(2,926)	(35,960)	(890)	(14,441)	—	(54,217)
At 31 December 2009, net of accumulated depreciation	127,608	132,959	4,899	75,010	18,068	358,544
At 31 December 2009:						
Cost	138,255	247,757	8,029	121,162	18,068	533,271
Accumulated depreciation	(10,647)	(114,798)	(3,130)	(46,152)	—	(174,727)
Net carrying amount	127,608	132,959	4,899	75,010	18,068	358,544

Notes to Financial Statements (continued)

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Motor vehicles *RMB'000*	Equipment and fixtures *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2008						
At 1 January 2008:						
Cost	66,660	134,698	5,183	71,617	127	278,285
Accumulated depreciation	(5,976)	(57,450)	(1,833)	(31,051)	—	(96,310)
Net carrying amount	60,684	77,248	3,350	40,566	127	181,975
At 1 January 2008, net of accumulated depreciation	60,684	77,248	3,350	40,566	127	181,975
Additions	9	58,567	1,906	21,071	71,884	153,437
Transfers from construction in progress	729	—	—	4,451	(5,180)	—
Acquisition of subsidiaries and branches	—	—	42	914	—	956
Disposal of a subsidiary *(note 30)*	—	(12,171)	(75)	(2,989)	—	(15,235)
Disposals	—	(370)	(158)	(1,678)	(203)	(2,409)
Exchange differences	—	(347)	—	(446)	—	(793)
Depreciation charge for the year	(1,904)	(26,900)	(837)	(10,606)	—	(40,247)
At 31 December 2008, net of accumulated depreciation	59,518	96,027	4,228	51,283	66,628	277,684
At 31 December 2008:						
Cost	67,239	179,435	6,608	88,158	66,628	408,068
Accumulated depreciation	(7,721)	(83,408)	(2,380)	(36,875)	—	(130,384)
Net carrying amount	59,518	96,027	4,228	51,283	66,628	277,684

All of the Group's buildings are located in the Mainland China.

As at 31 December 2009, certain equipment of the Group was pledged as security for bank loans of the Group as disclosed in note 24 to the financial statements. The aggregate carrying value of the pledged equipment attributable to the Group as at 31 December 2009 amounted to RMB813,000 (2008: RMB922,000).

Notes to Financial Statements (continued)

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Equipment and fixtures *RMB'000*
31 December 2009	
At 1 January 2009:	
Cost	**22**
Accumulated depreciation	**(2)**
Net carrying amount	**20**
At 1 January 2009, net of accumulated depreciation	**20**
Depreciation charge for the year	**(4)**
At 31 December 2009, net of accumulated depreciation	**16**
At 31 December 2009:	
Cost	**22**
Accumulated depreciation	**(6)**
Net carrying amount	**16**
31 December 2008	
At 1 January 2008, net of accumulated depreciation	—
Additions	22
Depreciation charge for the year	(2)
At 31 December 2008, net of accumulated depreciation	20
At 31 December 2008:	
Cost	22
Accumulated depreciation	(2)
Net carrying amount	20

Notes to Financial Statements (continued)

31 December 2009

14. INTANGIBLE ASSETS

The movements in intangible assets during the year are as follows:

Group

	Note	Goodwill *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
31 December 2009				
At 1 January 2009:				
Cost		170,471	972	171,443
Accumulated amortisation		—	(312)	(312)
Net carrying amount		170,471	660	171,131
At 1 January 2009, net of accumulated amortisation		170,471	660	171,131
Additions		—	8	8
Arising from acquisition of subsidiaries and branches	*19*	65,733	—	65,733
Amortisation provided for the year		—	(98)	(98)
At 31 December 2009, net of accumulated amortisation		236,204	570	236,774
At 31 December 2009:				
Cost		236,204	978	237,184
Accumulated amortisation		—	(410)	(410)
Net carrying amount		236,204	570	236,774

Notes to Financial Statements (continued)

31 December 2009

14. INTANGIBLE ASSETS (continued)

Group (continued)

	Note	Goodwill *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
31 December 2008				
At 1 January 2008:				
Cost		142,444	963	143,407
Accumulated amortisation		—	(214)	(214)
Net carrying amount		142,444	749	143,193
At 1 January 2008, net of accumulated amortisation		142,444	749	143,193
Additions		—	9	9
Arising from acquisition of subsidiaries and branches		26,625	—	26,625
Arising from acquisition of minority interests of subsidiaries		1,402	—	1,402
Amortisation provided for the year		—	(98)	(98)
At 31 December 2008, net of accumulated amortisation		170,471	660	171,131
At 31 December 2008:				
Cost		170,471	972	171,443
Accumulated amortisation		—	(312)	(312)
Net carrying amount		170,471	660	171,131

Notes to Financial Statements (continued)

31 December 2009

14. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

Segment	Notes	2009 RMB'000	2008 RMB'000
North China segment	(i)	**119,270**	64,724
East China segment	(ii)	**75,516**	65,314
South China segment	(iii)	**35,952**	35,951
North West China segment	(iv)	**5,466**	4,482
		236,204	170,471

Notes:

(i) North China segment represents the subsidiaries and branches located in Beijing, Tianjin, Shandong Province, Hebei Province, Henan Province and Inner Mongolia Autonomous Region.

(ii) East China segment represents the subsidiaries and branches located in Shanghai, Jiangsu Province, Zhejiang Province, Fujian Province and Anhui Province.

(iii) South China segment represents the subsidiaries and branches located in Guangdong Province, Guangxi Autonomous Region, Hubei Province and Hunan Province.

(iv) North West China segment represents the subsidiaries located in Shanxi Province, Sichuan Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Gansu Province.

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets as approved by senior management which cover a period of five years. The discount rate applied to cash flow projections beyond the one-year period is 14% (2008: 16%).

Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Restaurant revenue — the bases used to determine the future earnings of a restaurant are the historical sales and the average growth rate of similar restaurants of the Group, which operate in the same city, over the last two years.

Notes to Financial Statements (continued)

31 December 2009

14. INTANGIBLE ASSETS (continued)

Key assumptions used in the value in use calculation (continued)

Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation and amortisation, rental expenses, fuel and utility expenses and other operating expenses. The values assigned to the key assumption reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

Discount rates — discount rates reflect management's estimate of the risks specific to these entities. In determining appropriate discount rates for each unit, a consideration has been given to the applicable borrowing rates of the respective units in the current year.

15. LAND LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC government authorities and are amortised on the straight-line basis over their respective lease periods.

Group

	2009 *RMB'000*	2008 *RMB'000*
At 1 January:		
Cost	**12,241**	12,136
Accumulated amortisation	**(524)**	(278)
Net carrying amount	**11,717**	11,858
At 1 January, net of accumulated amortisation	**11,717**	11,858
Additions	**38,584**	105
Amortisation provided for the year	**(246)**	(246)
At 31 December, net of accumulated amortisation	**50,055**	11,717
At 31 December:		
Cost	**50,825**	12,241
Accumulated amortisation	**(770)**	(524)
Net carrying amount	**50,055**	11,717

Notes to Financial Statements (continued)

31 December 2009

16. INVESTMENT IN A SUBSIDIARY

	2009	2008
	RMB'000	*RMB'000*
Unlisted shares, at cost	**92**	92

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Registered share capital**	**Percentage of equity attributable to the Company Direct**	**Percentage of equity attributable to the Company Indirect**	**Principal activities**
China XiaoFeiYang Catering Chain Co., Ltd. (中國小肥羊餐飲連鎖有限公司)	British Virgin Islands	US$445,938.85	100	—	Investment holding
Inner Mongolia Little Sheep Catering Chain Company Limited* (內蒙古小肥羊餐飲連鎖有限公司)	The PRC	RMB540,955,584	—	100	Restaurant and catering services
Inner Mongolia Little Sheep Meat Company Limited** (內蒙古小肥羊肉業有限公司)	The PRC	RMB34,307,700	—	87	Slaughtering and meat processing
Inner Mongolia Little Sheep Seasoning Company Limited** (內蒙古小肥羊調味品有限公司)	The PRC	RMB3,030,000	—	100	Manufacture and trading of food products
Bayannur Little Sheep Meat Company Limited ** (巴彥淖爾市小肥羊肉業有限責任公司)	The PRC	RMB1,010,000	—	100	Slaughtering and meat processing

Notes to Financial Statements (continued)

31 December 2009

16. INVESTMENT IN A SUBSIDIARY (continued)

Name	Place of incorporation/ registration and operations	Registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Little Sheep Catering Chain Company Limited ** (深圳市小肥羊餐飲連鎖有限公司)	The PRC	RMB1,000,000	—	100	Restaurant and catering services
Little Sheep Hong Kong Holdings Company Limited (小肥羊香港控股有限公司)	Hong Kong	HK$18,000,000	—	100	Investment Holding
Baotou Little Sheep Shenhua Catering Company Limited ** (包頭市小肥羊神華餐飲有限公司)	The PRC	RMB3,000,000	—	51	Restaurant and catering services

* *registered as a wholly-foreign-owned enterprise under the PRC law*
** *registered as a limited liability company under the PRC law*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. LONG-TERM RENTAL DEPOSITS

The long-term rental deposits represented the rental deposits paid to the various landlords with lease terms that will expire more than one year after the end of the reporting period.

Notes to Financial Statements (continued)

31 December 2009

18. DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

31 December 2009	**Balance at 1 January 2009** *RMB'000*	**Recognised in the income statement** *RMB'000*	**Balance at 31 December 2009** *RMB'000*
Deferred tax assets:			
Pre-operating expenses	**2,311**	**1,553**	**3,864**
Accrued rental expenses	**617**	**974**	**1,591**
	2,928	**2,527**	**5,455**

31 December 2008	Balance at 1 January 2008 *RMB'000*	Recognised in the income statement *RMB'000*	Balance at 31 December 2008 *RMB'000*
Deferred tax assets:			
Tax losses	182	(182)	—
Pre-operating expenses	2,100	211	2,311
Accrued rental expenses	474	143	617
	2,756	172	2,928
Deferred tax liabilities:			
Prepaid rental expenses	(292)	292	—
	2,464	464	2,928

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Notes to Financial Statements (continued)

31 December 2009

19. BUSINESS COMBINATIONS

During the year, the Group entered into various sales and purchase agreements to acquire the entire equity interests in 8 branches and 5 subsidiaries from various independent third parties for an aggregate cash consideration of RMB80,532,000 which generated goodwill of RMB65,733,000.

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

	Recognised on acquisition *RMB'000*	**Carrying value** *RMB'000*
Property, plant and equipment	10,373	10,373
Trade receivables	99	99
Inventories	4,216	4,216
Prepayments, deposits and other receivables	3,959	3,959
Cash and cash equivalents	5,026	5,026
Trade payables	(1,404)	(1,404)
Tax payable	(264)	(264)
Deposits, other payables and accruals	(7,206)	(7,206)
Fair value of net assets acquired by the Group	14,799	14,799
Goodwill on acquisition	65,733	
Cash consideration	80,532	

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

	RMB'000
Net cash and cash equivalents acquired	5,026
Cash paid	(80,532)
Net cash outflow in respect of the acquisition of subsidiaries and branches	(75,506)

The aggregate revenue and profit of these subsidiaries and branches, which are franchised restaurants for the period from their respective dates of acquisition to 31 December 2009 amounted to RMB50,178,000 and RMB9,762,000, respectively.

Notes to Financial Statements (continued)

31 December 2009

19. BUSINESS COMBINATIONS (continued)

The Group considers the most important factors to decide the purchase consideration are customer flow and favorable locations, which are not recognised as intangible assets at respective acquisition dates because they cannot be measured reliably.

Due to the fact that the Group is unable to obtain the pre-acquisition results of these franchised restaurants from the vendors, it is impractical to disclose such information as required under paragraph 70 of IFRS 3 Business Combination.

20. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**6,376**	5,782
Consumables	**16,432**	13,469
Food and beverages	**159,318**	160,149
	182,126	179,400

21. TRADE AND BILLS RECEIVABLES

Trade and bills receivables are mainly franchise fees receivable and receivables from the sale of food products to franchisees or independent third party distributors who have an established trading history with the Group. Allowance for trade and bills receivables is provided when it is considered that the trade receivable amounts may not be fully recovered. Trade and bills receivables are non-interest bearing and are generally on three months' terms.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**17,916**	9,370
3 to 6 months	**1,119**	2,045
6 to 12 months	**94**	760
1 to 2 years	**168**	—
	19,297	12,175

Notes to Financial Statements (continued)

31 December 2009

21. TRADE AND BILLS RECEIVABLES (continued)

As at 31 December 2008, trade and bills receivables at nominal value of RMB250,000 were impaired and fully provided for. The movements in provision for impairment of trade and bills receivables are as follows:

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**250**	5,672
Impairment losses recognised *(note 6)*	**—**	250
Amount written off as uncollectible	**(250)**	(5,672)
At 31 December	**—**	250

The aged analysis of trade and bills receivables that are not considered to be impaired is as follows:

	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**17,916**	9,370
Less than 3 months past due	**1,119**	2,045
3 months to 2 years past due	**262**	760
	19,297	12,175

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Notes to Financial Statements (continued)

31 December 2009

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Rental deposits and prepayments	**21,774**	18,062
Deposits to suppliers	**5,380**	5,632
Prepayments and other receivables	**34,430**	42,208
	61,584	65,902

23. CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**325,207**	324,038	**249**	14,019
Short-term deposits	**—**	100,000	**—**	—
	325,207	424,038	**249**	14,019

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

As at 31 December 2009, cash and bank balances, and short-term deposits of the Group aggregating to RMB292,185,000 (2008: RMB371,750,000) were denominated in Renminbi, which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Notes to Financial Statements (continued)

31 December 2009

24. BANK LOANS

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

As at 31 December 2009, the bank loans were secured by pledges of equipment of the Group with net value of RMB813,000 (2008: RMB922,000).

The annual interest rate of bank loans in 2009 was 2.4% (2008: 5.9%). The Group's interest-bearing bank loans were denominated in RMB.

25. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	2009 *RMB'000*	2008 *RMB'000*
Within 3 months	**49,565**	39,546
Over 3 months	**1,533**	1,257
	51,098	40,803

Notes to Financial Statements (continued)

31 December 2009

26. DEPOSITS, OTHER PAYABLES AND ACCRUALS

	2009 *RMB'000*	2008 *RMB'000*
Deposits and advances from customers	**36,364**	33,330
Construction fee payables	**23,370**	20,170
Accrued wages and salaries	**32,316**	32,064
Other payables and accruals	**42,157**	52,243
	134,207	137,807

27. DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES

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

28. LONG TERM PAYABLES

The long-term payables represent the long term portion of accrued rental expenses, and are stated at amortised cost.

29. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2009 (2008: Nil).

Notes to Financial Statements (continued)

31 December 2009

30. DISPOSAL OF A SUBSIDIARY

	2009 RMB'000	2008 RMB'000
Net assets disposed of:		
Property, plant and equipment	**3,460**	15,235
Cash and bank balances	**1,232**	1,160
Trade receivables	**—**	50
Inventories	**193**	176
Prepayments and other receivables	**283**	33,591
Trade payables	**(228)**	(1,035)
Accruals and other payables	**(943)**	(23,655)
Short term loan	**—**	(26,489)
Tax payable	**(582)**	(418)
Minority interests	**(1,059)**	(602)
	2,356	(1,987)
Gain on disposal of a subsidiary	**—**	4,158
	2,356	2,171
Satisfied by:		
Cash	**2,356**	2,171

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2009 RMB'000	2008 RMB'000
Cash consideration	**2,356**	2,171
Cash and bank balances disposed of	**(1,232)**	(1,160)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**1,124**	1,011

Notes to Financial Statements (continued)

31 December 2009

31. 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 31 December 2008, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**123,929**	116,660
In the second to fifth years, inclusive	**343,131**	247,883
After five years	**91,299**	84,515
	558,359	449,058

(ii) Capital commitments

The Group has the following capital commitments at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Construction of a new factory	**26,711**	—

Notes to Financial Statements (continued)

31 December 2009

32. RELATED PARTY TRANSACTIONS

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

	Notes	2009 RMB'000	2008 RMB'000
Rental expenses	(i)	**4,621**	3,451

Note:

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

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short term deposits, which arise directly from its operations.

It is, and has been throughout 2009 and 2008, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expense from interest-bearing financial assets and liabilities. The Company's interest-bearing financial assets and liabilities are predominately denominated in RMB. The Group's financial assets comprised primarily of cash deposits with fixed interest rates and loans and receivables, and the Group does not have any material interest-bearing debt obligations as at 31 December 2009. Therefore, the Group considers that the exposure to interest rate risks is insignificant.

Foreign currency risk

The Group's businesses are principally conducted in RMB. As at 31 December 2009, a substantial amount of the Group's assets and liabilities was denominated in RMB. Therefore, the Group considers that the exposure to foreign currency risks is insignificant.

Notes to Financial Statements (continued)

31 December 2009

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The cash at banks, short term deposits, trade receivables and prepayments, deposits and other receivables included in the consolidated financial statements represent the Group's major exposure to the credit risk attributable to its financial assets. The Group has no other significant concentrations of credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 31 December 2009, the Group had bank loan of RMB375,000 (2008: RMB535,000) which will mature within 12 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

Year ended 31 December 2009

	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Bank loans	—	—	375	—	375
Trade payables	49,565	1,533	—	—	51,098
Due to minority equity holders of subsidiaries	14,900	—	—	—	14,900
Other payables	—	110,837	23,370	—	134,207
	64,465	112,370	23,745	—	200,580

Notes to Financial Statements (continued)

31 December 2009

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended 31 December 2008

	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Bank loans	—	—	535	375	910
Trade payables	—	39,546	1,257	—	40,803
Due to minority equity holders of subsidiaries	12,528	—	—	—	12,528
Other payables	—	116,637	21,170	—	137,807
	12,528	156,183	22,962	375	192,048

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2009 and 2008.

Notes to Financial Statements (continued)

31 December 2009

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group includes within net debt, interest bearing loans, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the owners of the Company.

	2009	2008
	RMB'000	*RMB'000*
Interest bearing loans	**375**	910
Trade and other payables	**185,305**	178,610
Less: cash and short term deposits	**(325,207)**	(424,038)
Net debt	**(139,527)**	(244,518)
Equity	**1,030,778**	941,599
Capital and net debt	**891,251**	697,081
Gearing ratio	**(13.5)%**	(26.0)%

Notes to Financial Statements (continued)

31 December 2009

34. FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments, including that are carried in the financial statements.

	Carrying amount		Fair value	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Cash and cash equivalents	**325,207**	424,038	**325,207**	424,038
Trade and bills receivables	**19,297**	12,175	**19,297**	12,175
Prepayments, deposits and other receivables	**61,584**	65,902	**61,584**	65,902
	406,088	502,115	**406,088**	502,115
Financial liabilities				
Bank loans	**375**	910	**375**	910
Trade payables	**51,098**	40,803	**51,098**	40,803
Other liabilities	**181,634**	172,214	**181,634**	172,214
	233,107	213,927	**233,107**	213,927

35. SHARE CAPITAL

	2009	2008
	RMB'000	*RMB'000*
Authorised:		
10,000,000,000 (2008: 10,000,000,000) ordinary shares of HK$0.10 each	**883,800**	883,800
Issued and fully paid:		
1,027,678,370 (2008:1,027,642,870) ordinary shares of HK$0.10 each	**90,826**	90,823

During the year, the subscription rights attaching to 35,500 share options were exercised at the subscription price of HK$2.11 per share, resulting in the issue of 35,500 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$75,000 (equivalent to approximately RMB66,000).

Notes to Financial Statements (continued)

31 December 2009

35. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital *RMB'000*
Issue of ordinary shares, net of share issue expenses	1,027,642,870	90,823
At 31 December 2008 and 1 January 2009	1,027,642,870	90,823
Share options exercised	35,500	3
At 31 December 2009	1,027,678,370	90,826

36. RESERVES

(a) Group

The movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(i) Capital reserves

The Group's consolidated capital reserve represents the difference between (i) the aggregate of the nominal value of the issued share capital and the capital reserve of China XiaoFeiYang Catering Chain Co., Ltd. acquired pursuant to the reorganisation in 2008; (ii) the nominal value of the Company's shares in issue; and (iii) after the deduction of the Company's declared dividend.

(ii) PRC reserve funds

Pursuant to the relevant PRC laws and regulations, wholly-foreign-owned enterprises ("WFOEs") registered in PRC are required to transfer not less than 10% of their profit after tax, as determined in accordance with PRC GAAP, to the reserve funds, until the balance of the funds reaches 50% of the registered capital of that company. WFOEs registered in PRC are also required to transfer a certain percentage, as approved by the board of directors, of their profit after tax to the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profit after income tax, as determined in accordance with PRC GAAP, to the statutory common reserve, until the balance of the reserve reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory common reserve may be used to offset against accumulated losses, if any. PRC domestic companies are also required to transfer 5% to 10% of net profit, as determined under PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. This fund is non-distributable other than in the event of liquidation.

Notes to Financial Statements (continued)

31 December 2009

36. RESERVES (continued)

(b) Company

	Capital reserves RMB'000	Foreign currency translation reserve RMB'000	Share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2008	—	—	100	(100)	—
Change in the foreign currency translation reserve	—	(807)	—	—	(807)
Loss for the year	—	—	—	(11,366)	(11,366)
Issue of ordinary shares, net of share issue expenses	331,768	—	—	—	331,768
Equity-settled share option arrangement	—	—	3,409	—	3,409
At 31 December 2008	331,768	(807)	3,509	(11,466)	323,004
Change in the foreign currency translation reserve	—	**(746)**	—	—	**(746)**
Profit for the year	—	—	—	**13,082**	**13,082**
Equity-settled share option arrangement	—	—	**2,556**	—	**2,556**
Exercise of employee share options	**73**	—	**(10)**	—	**63**
Dividend paid	**(68,846)**	—	—	—	**(68,846)**
At 31 December 2009	**262,995**	**(1,553)**	**6,055**	**1,616**	**269,113**

Notes to Financial Statements (continued)

31 December 2009

37. 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. The following share options were outstanding under the Pre-IPO Option Scheme during the year:

	2009	2008
At 1 January	**26,379,680**	26,379,680
Exercised during the year	**(35,500)**	—
Cancelled during the year	**(1,302,300)**	—
At 31 December	**25,041,880**	26,379,680

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 percentage of the option**
Lot 1: 2,637,968 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

Notes to Financial Statements (continued)

31 December 2009

37. 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$)	1.691

At 31 December 2009, the Company had 25,041,880 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 25,041,880 additional ordinary shares of the Company and additional share capital of HK$2,504,000 (equivalent to approximately RMB2,205,000) and share premium of HK$50,334,000 (equivalent to approximately RMB44,319,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 24,748,880 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 2.41% of the Company's shares in issue as at that date.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2010.

Financial Summary

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**1,569,700**	1,271,523	949,174	702,713	513,122
Profit before tax	**210,467**	165,328	129,369	102,308	82,809
Income tax expense	**(44,807)**	(30,793)	(34,318)	(21,962)	(20,061)
Profit for the year	**165,660**	134,535	95,051	80,346	62,748
Attributable to:					
Shareholders of the Company	**155,364**	128,698	91,163	79,555	60,078
Minority interests	**10,296**	5,837	3,888	791	2,670
Assets and liabilities					
Total assets	**1,270,929**	1,163,823	775,041	557,783	362,432
Total liabilities	**(233,107)**	(213,927)	(470,726)	(337,963)	(165,956)
Minority interests	**(7,044)**	(8,297)	(16,363)	(8,243)	(5,195)
Equity attributable to shareholders of the Company	**1,030,778**	941,599	287,952	211,577	191,281

The summary of the results and assets and liabilities for each of the three years ended 31 December 2007 were extracted from the Company's prospectus dated 2 June 2008 and were prepared on a combined basis as if the current structure of the Group had been in existence throughout the years.