LITTLE SHEEP,
THE JOY OF SHARING

2010
ANNUAL REPORT

Little Sheep Group Limited
小肥羊集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 968

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Zhang Gang *(Chairman)*
Mr. Lu Wenbing *(Chief Executive Officer)*
Mr. Zhang Zhanhai
Mr. Wang Jianhai *(appointed on 1 October 2010)*
Ms. Li Baofang

Non-executive Directors

Mr. Chen Hongkai
Mr. Su Jing Shyh Samuel
Mr. Koo Benjamin Henry Ho Chung
Ms. Hsieh Hui-yun Lily

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 Jianhai
Mr. Lee Kwok Wa

Company Secretary

Mr. Lee Kwok Wa

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

Auditors

Ernst & Young
Certified Public Accountants

Stock Code

968

Company Website

www.LittleSheep.com

FINANCIAL AND OPERATING HIGHLIGHTS

	For the year ended 31 December 2010 RMB'000	2009 RMB'000	% Change Increase/ (Decrease)
Financial Highlights			
Consolidated revenue	**1,925,500**	1,569,700	22.7%
Sales from restaurant operations	**1,476,204**	1,223,382	20.7%
Consolidated profit before tax	**249,412**	210,467	18.5%
Profit attributable to shareholders	**187,798**	155,364	20.9%
Basic earnings per share (RMB cents)	**18.24**	15.12	20.6%
Proposed final dividend per share (HK cents)	**6.9**	6.9	—
Operational Highlights			
Same store sales growth	**8.0%**	1.7%	
Average per capita customer spending (RMB)	**51.80**	52.45	(1.2%)
Utilization rate	**1.42**	1.34	6.0%

Region and Province/City	Number of Restaurants **As of 31 December 2010** **Company-owned**	**Franchise**	As of 31 December 2009 Company-owned	Franchise
Northern PRC	**63**	**130**	46	142
Eastern PRC	**56**	**58**	54	56
Southern PRC	**40**	**24**	35	22
Northeastern PRC	**7**	**12**	8	6
Northwestern PRC	**13**	**50**	13	49
Special Administrative Regions	**5**	**—**	5	—
Overseas	**—**	**22**	—	18
Total	**184**	**296**	161	293

	31 December 2010	31 December 2009
Liquidity and Gearing		
Current ratio(1)	**2.08**	2.62
Quick ratio(2)	**1.05**	1.81
Gearing ratio(3)	**6.5%**	—

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 net debt divided by capital and net debt.

CHAIRMAN'S STATEMENT

Dear Shareholders,

2010 saw the Chinese economy continue to power ahead, with the biggest uptick reserved for the spending power of the Chinese consumer. Rising wages, rapid urbanisation and a gradual shift away from the export-based economic model has seen China emerge as one of the world's largest consumer markets. This increased wealth continued to flow into the catering sector as Chinese consumers opted to pursue more leisurely activities and quality time with their families.

In order to fully capitalise on these opportunities, Little Sheep Group Limited ("the Company" or "Little Sheep", together with its subsidiaries, "the Group") continued to grow its restaurant and food product businesses, while strengthening the value of its brand by emphasising food safety and the quality of its products. We believe that our achievements this year has further enabled the Little Sheep brand to become synonymous with prairie culture, healthy dining and a memorable dining experience.

ZHANG Gang
Chairman

The consolidated revenue for the year ended 31 December 2010 grew 22.7% year-on-year to RMB1,925.5 million, while the profit attributable to shareholders rose 20.9% to RMB187.8 million. In particular, growth in customer traffic and same-store sales expanded at a record pace, rising 6% and 8% respectively. Having considered the remarkable business performance and the Group's needs of funds for future development, the board of directors (the "Directors") of the Company (the "Board") has recommended to maintain the dividend for 2010 at last year's level and pay a final dividend of HK cents 6.9 per share.

Inflation, particularly food inflation, remains a key challenge to China's economic growth. To counteract its impact on the catering industry, Little Sheep's existing integrated business model played a key role in reinforcing our comprehensive cost controls across our entire business chain, including raw material supply, the production process, and front-end operations. In addition, we have capitalised on our strengths in restaurant operation to increase the competitiveness of our products and services, through menu adjustments and changes to the structure of our food items. These measures enhanced our customers' recognition of Little Sheep's valuable services and ensured that we were able to maintain good profitability in the face of inflation, while contributing to a sustainable increase in profits.

In recent years, food safety has been a major focus of China's national development. This is consistent with Little Sheep's pursuit to provide a healthy catering service. In accordance with the government's monitoring of food safety, we have continuously undertaken stringent quality control measures and we remain at the forefront of positive change in the catering industry in the area of food safety. These efforts included the adoption of a corporate code on food management and reinforcing training and education initiatives across all parts of our business. By maintaining a high level of food quality, we further strengthened our customers' confidence in Little Sheep's catering business.

Throughout the year, we illustrated the value of Little Sheep's brand through different promotional activities. We leveraged on promotional opportunities presented by international events such as the Shanghai World Expo and Asian Games to launch marketing campaigns to drive business growth, while at the same time, we also cooperated with different organisations to host and sponsor community activities. These efforts further reinforced brand awareness and Little Sheep's position as a well known catering brand. This public recognition was further bolstered when Little Sheep was named as a *National Consumer Brand in Satisfactory Food Quality*.

Our workforce remains one of our most important assets. Valuing talent, as well as caring for employees and their personal development, is part of our corporate philosophy. On top of our commitment to enhance our internal corporate structure and remuneration system, we also actively listened to our employees' needs, while encouraging more interaction between employees at different levels and organising regular recreational activities. Through these efforts, we hope to foster a stable and harmonic working environment for our employees and raise job satisfaction.

Little Sheep's sound and flexible business model makes us a leader in the Chinese catering industry. In 2011, we aim to further optimise our business and improve our operational efficiency through improving customer service and care for employees. By supporting further restaurant expansion and refurbishment and optimising our operations, we will further increase customer traffic and market share. At the same time, we will drive long-term business growth through a continued focus on food safety and by enhancing the quality of our service in order to satisfy every customer.

Looking forward, China's economic growth and the development of its consumer market will continue to be the main catalyst for our business development. We believe Little Sheep will reach new highs in the coming year.

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 unwavering support. As Little Sheep enters the Chinese Year of the Rabbit, we are confident in our ability to seize every opportunity, overcome all challenges, and create long term value for our shareholders.

ZHANG Gang
Chairman
22 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2010, China overtook Japan as the world's second-largest economy and is on track to become one of the world's biggest consumer markets. However, excess liquidity drove up consumer prices across the board, particularly for food. According to the National Bureau of Statistics of China, food inflation reached 11.7% year-on-year as of November 2010. Labour costs and rental costs also increased steadily in 2010, adding additional challenges to Little Sheep's business.

This year, Little Sheep focused on implementing various cost control measures and price adjustments to raise its profitability, while maintaining its existing business expansion plan in order to capitalise on the growth of the Chinese consumer market.

Food safety also remained a major priority in the catering industry, with the PRC Ministry of Health increasing regulation and food inspection efforts. In accordance with this national policy, Little Sheep committed itself to strengthening its food safety practices across its entire production chain. This has helped the Company win the confidence of its customers and bolstered the success of its restaurant and food product businesses in 2010.

Business Review

2010 has been a rewarding year for Little Sheep, with its restaurant business continuing to grow strongly. For the year ended 31 December 2010, consolidated revenue increased 22.7% year-on-year to RMB1,925.5 million. Profit attributable to shareholders also increased to RMB187.8 million, an increase of 20.9%. Same-store sales and customer traffic in China expanded at a record pace, increasing 8% and 6% respectively in the year ended 31 December 2010. This strong growth was attributable to China's rapidly growing consumer market, operational enhancements and expansion of Little Sheep's restaurant network.

Inflation remained a key challenge for the Company throughout the year. In response, the Company's adopted an integrated business model to improve its overall profitability by applying a number of cost control measures to its recurring expenses and purchases of raw materials, as well as through stringent monitoring of its work flow efficiency. The Company further eased pressure on its profitability by opening new restaurants, reopening some of its refurbished restaurants and through strategic price adjustments.

In recognition of Little Sheep's ongoing commitment to food safety, sustainability and providing a high quality dinning service, the Company was named as one of the *500 most valuable brands in China* for the sixth time by World Brand Lab, as well as a *National Consumer Brand in Satisfactory Food Quality* by Xinhuanet and by the China Foundation of Consumer Protection.

RESTAURANT OPERATIONS

The Company's restaurant operations remained the largest contributor to revenue in 2010, accounting for 76.7% of total revenue. Revenue from company-owned restaurants increased 20.7% year-on-year to RMB1,476.2 million. This increase in revenue was attributable to the opening of new restaurants, growth in same-store sales, the launch of new products, and the continuous enhancement of services and dining environments. To further sustain this growth, the Company also implemented the following strategies in 2010.

- ### Strategic expansion and refurbishment program of company-owned restaurants

  Little Sheep continued to implement its prudent long-term expansion strategy in China. New store locations were prioritised based on rigorous research undertaken by the Company on factors such as local income levels, population and market dynamics.

  As of 31 December 2010, the number of company-owned restaurants increased to 184. Throughout the year, the Company opened 26 new restaurants and acquired 7 franchised restaurants. As a part of routine strategy adjustment, the Company closed down 5 restaurants and sold 5 restaurants during the year.

  To attract more customer traffic by providing a distinctive and comfortable dining environment, Little Sheep continued to carry out its restaurant refurbishment program. In 2010, 24 restaurants completed renovations and resumed operations, which contributed to an increase in both revenue and customer traffic.

  As part of its refurbishment program, the Company adopted a standardised restaurant design to meet the needs of its customers, as well as reduce design costs and the time required for renovation work on its restaurants. Standardised restaurant layouts also further improved work flow efficiency, which improved the profitability of new and refurbished restaurants.

- **Work flow optimisation and efficiency improvements**

  Throughout the year, Little Sheep worked to improve its efficiency across all aspects of its restaurant business. This year, the Company introduced central kitchens in Shenzhen and Shanghai which assisted nearby restaurants by producing and delivering commonly used products. This significantly modernised and streamlined the backend operations and reduced operation costs. This helped the Company to allocate its resources more effectively to enhance scale efficiency and lift productivity. At the store level, the Company adopted membership management, as well as customer ordering and queuing systems, which allowed staff to handle orders more efficiently, increased customer turnover and shorten customer waiting time.

  Over the period, the Company also launched a "Super Speed" (超級時速) campaign in some stores to demonstrate the results of improved operation efficiency.

- **Promotional campaigns and new product launches**

  This year, Little Sheep carried out regular seasonal campaigns to introduce new products and strengthen customer loyalty. Notable examples include the autumn promotion of certified organic food products, which delivered double-digit growth to both customer traffic and same-store sales, increasing 11% and 17% respectively. Apart from seasonal promotions, Little Sheep also introduced a number of new products that proved popular among the general public, such as "Xiang-Qian-Pi-Dan-Guo" (香茜皮蛋鍋), "Low-fat Organic Lamb" (有機低脂羔羊肉), and "Mongolian-style Handmade Yogurt" (蒙式手造酸奶) etc.

  In the second half of the year, Little Sheep launched a "Beer and Lamb" (啤酒羔羊肉) promotion to coincide with the 2010 FIFA World Cup, as well as a series of promotional campaigns alongside the 2010 Asian Games in Guangzhou. The Asian Games campaigns were well received by the public and boosted customer traffic by 5%.

  To further support the new product launches and promotional campaigns in an innovative manner, the Company optimised its menu and provided value-adding services in order to maintain the competitiveness of its restaurants and revitalise the dining experience of each company. These initiatives supported an increase in customer spending and contributed to the bounce back in profit over the period.

- **Improving service quality by championing employees**

  Little Sheep believes that employee morale plays a big part in enhancing the quality of services it provides to customers. Throughout the year, the Company promoted greater interaction between employees to enhance communication and dedicated itself to interacting with employees to better understand their needs. The Company also stimulated employee morale by providing attractive remuneration packages and benefits. The Company also encouraged its staff and managers to share their experiences in improving customer service. As a result, there was significant improvement over the year in areas such as employee morale, service efficiency and quality. A culture focused on customer service was also fostered amongst employees over the period, which improved the dining experience of customers.

Franchise Business

Little Sheep is committed to enhancing the operation of its franchises. In 2010, the Company increased its efforts in regulating franchised restaurants and worked closer with them. Areas where the Company focused its regulation included business operations, the standardisation of restaurant designs, menus, products, service quality and food safety standards. This helped unify the service standards and image of Little Sheep's franchises. 34 franchised restaurants were also renovated throughout the period.

Little Sheep also continued to provide comprehensive operational training to new and existing franchisees both in China and overseas. This training covered restaurant set-up, operations, and details such as the use of information systems. These raised the ability of managers and the quality of service at franchises. The Company also raised quality standards by encouraging franchisees to learn from each other through the establishment of regional role-model stores and by organising sharing sessions in Beijing and Shenzhen. The Company also carried out site visits and evaluations, while providing detailed reports to franchisees in order to fine-tune their management and operations.

This year, Little Sheep was recognised for its excellence in this area when it was named the *2009–2010 China Outstanding Franchise Brand of the Year*.

Sale of Food Products

Throughout the year, Little Sheep spared no effort in expanding the market share of its food products, particularly lamb products and seasonings. In response to increasing market demand, the Company focused on expanding its sales channels, integrating its food markets and adjusting its business structure in order to achieve growth in both the sale of food products and market share. Over the period, revenue from the food product rose 33.1% to RMB417.7 million, increasing its contribution to overall revenue to 21.7%.

As household incomes continue to rise, so did the demand for healthy organic products. To cater for this emerging market, Little Sheep introduced a range of "Organic Lamb" (有機羊肉) products. Incorporating Little Sheep's consistently high standard of food safety and monitoring of food sources, the "Organic Lamb" products received organic food certification from the China Quality Certification Centre, making Little Sheep the first lamb production company to receive official certification.

In response to increasing market demand, the Company further increased the capacity of its production facilities through technology upgrades and the modification of its production line. The Company also established its third lamb production base in Hulunbuir, which enhanced its lamb sourcing strategy in Inner Mongolia and stabilised the supply of quality lamb. At the same time, the Company also maintained its flexible strategy of adjusting external purchase volumes based on the close monitoring of market price movements. This greatly enhanced the Company's control of resources and risk management, and raised the overall profitability of the lamb business.

This year, the market share of Little Sheep in seasoning products increased significantly. Throughout the year, the Company launched innovative products according to the needs of its customers, improved its product mix, and actively expanded the wholesale and retail channels for its products. The Company also completed the first phase of construction for its new seasoning factory, which is expected to commence production in 2011 and support the future development of Little Sheep's seasoning products business.

Brand image reinforcement

In 2010, food safety and prairie culture were the two main themes for Little Sheep's brand building campaign. By running a series of new marketing campaigns and leveraging on the promotional opportunities linked to the major international events held in China this year, the Company sought to drive business performance by reinforcing public recognition of its brand and conveying aspects of its brand value and corporate culture.

"Make the World Listen to the Prairie" (讓世界聆聽草原) was one of the major campaigns for Little Sheep this year. Initiatives included the Company's participation in the Shanghai World Expo, where it ran a restaurant on the "Chinese Food Street", as well as the launch of a website which leveraged on the World Expo's themes. These initiatives strengthened the Company's image as a global ambassador for Mongolian hot pot, and introduced Little Sheep's delicious and healthy food products to both international and domestic visitors. The Company also held the first "Prairie Culture Summit" (草原文化高峰論壇) and prairie field trips, which allowed participants to learn more about Little Sheep's safe and pollution-free production processes. By working closely with the major media, Little Sheep's marketing activities were widely covered and achieved maximum promotional effect.

Apart from marketing activities, Little Sheep also carried out a brand study to enhance Little Sheep's image and to effectively convey the value of its brand towards the public. The Company also launched brand surveys in several major cities throughout China. Through in-depth conversations with its customers, Little Sheep was able to study its customer's perceptions towards its brand image, along with external evaluations and expectations, in order to set the Company's future direction for the enhancement of service quality. This contributed to increased customer satisfaction, and raised the Little Sheep's competitiveness overtime.

FOOD SAFETY

Little Sheep is dedicated to raising food safety standards and providing hygienic and additive-free products to its customers. It is also committed to raising employees' awareness towards food safety through training, as well as aligning with international standards to make full use of its comprehensive risk management protocols.

Over the past year, the Company introduced and enforced a corporate code on food safety management based on HACCP (Hazard Analysis and Critical Control Points) principles. This code pre-empts any risks in the production chain which could jeopardise food safety, while providing all units with a set of clear and strict instructions to comply with. To further reinforce these efforts, the Company also introduced a Management Accountability System, which ensures staff at all levels understand the importance of food safety in order to ensure the high quality of Little Sheep's products and services. The implementation of central kitchens also facilitated the unification of food safety management and centralised the monitoring of food quality. The use of state-of-the-art equipment standardised and automated the Company's production processes, which lowered the risk of human error.

Little Sheep was also at the forefront of change in the catering industry where, in 2010, it led a group of over 100 companies in the food industry to lobby for a ban on the use of discarded cooking oil. The Company also signed a self-disciplinary agreement to prohibit the use of food or raw materials which are processed using hazardous chemicals. As part of its 315 Quality Month Promotion (315品質月), the Company introduced its holistic approach to food safety management, as well as its tracing system. This assured customers that all process in Little Sheep's production chain is taken good care of. These activities represent a milestone for the entire industry for healthy development and the protection of customers.

INFORMATION SYSTEM

In 2010, Little Sheep adopted a tailor-made RIF information system. RIF is a value-adding service and is an important decision making tool for the management. It provides objective evaluation of consumer markets and allows the monitoring of restaurant operations in a scientific manner. The effect of adopting this system was well recognised in the industry, with RIF awarded the *2010 Chinese Catering Science and Technology Advancement First Prize* from the Chinese Cuisine Association.

The rapid development of information technology at Little Sheep was a significant achievement. The strengthening of its internal systems and the improvement of its operation infrastructure resulting from the introduction of information technology has enhanced and supported Little Sheep's customer relationship management, work flow systems, cost control, restaurant management and operation decisions. It also supported the scientific management and healthy development of Little Sheep.

BUSINESS OUTLOOK

Looking forward, as China continued its transformation into a consumer economy, rising consumer purchasing power and rapid urbanisation will continue to underpin the growth of Little Sheep's businesses. In face of continued inflationary pressure, the Company remains confident about the future prospects of the Chinese catering industry. The Company will continue to focus on reinforcing customer service, service quality and brand building, as well as making use of its high customer flow operation model and other competitive advantages to counteract inflation and achieve good results.

With customer service remaining Little Sheep's first and most important task, the Company will allocate more resources to strengthen food quality controls and ensure food safety. Meanwhile, Little Sheep will also further commit to training its employees and improving service standards to maintain the current high levels of customer satisfaction and increase customer traffic.

In the coming year, Little Sheep plans to open 40 new company-owned restaurants and refurbish 29 in order to further expand its restaurant network, attract more customers and capitalise on their increasing spending power. The Company will also maintain its stringent cost control measures and adopt new technologies to further improve efficiency and work flow, as well as streamline its production process to ensure profitability. The Company will also continue to develop sales channels and launch popular new products with higher profit margins to facilitate the stable development of its food business.

Through a combination of effective cost control, forward-looking business expansion and the pursuit of greater efficiency, Little Sheep is prudently optimistic about maintaining its strong business growth. Little Sheep is confident that it will further build on its success and create shareholder value in 2011.

FINANCIAL REVIEW

Revenue

During the year of 2010, our total revenue increased by 22.7% year-on-year to RMB1,925.5 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 the Company's restaurant operations increased by 20.7% year-on-year to RMB1,476.2 million, which was mostly attributable to the contribution from newly opened restaurants, the growth in same-store sales from its existing restaurants, and the increase in customer traffic.

Revenue from sales of food products

Revenue from sales of the Company's food products increased by 33.1% year-on-year to RMB417.7 million, which was mainly due to an increase in the sales volume of its soup base and lamb products, as well as the introduction of new products.

Revenue from franchise operations

Revenue from the Company's franchise operations was RMB30.8 million, which remained unchanged over the period.

Revenue from management service fee

Revenue from management service fees represents the monthly fees the Group receives for the provision of restaurant management services to franchisees. During the year, revenue from management service fees dropped by 56.6% year-on-year to RMB0.7 million. The decrease was primarily due to a decrease in the number of franchise restaurants to which the Group had provided management services.

Other income

Other income, which includes income from the Company's non-core operations, increased by 34.1% year-on-year to RMB39.5 million. This was primarily attributable to the increase in government's subsidies, gain on disposal of restaurants, and sale of low-value consumables.

Cost of inventories sold

The cost of inventories sold increased by 30.7% year-on-year to RMB850.5 million. The increase was mainly attributable to the rise in sales volume and costs of raw materials.

Staff costs

Our staff costs increased by 14.4% year-on-year to RMB353.1 million, which was mostly attributable 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 amortisation

Depreciation and amortisation amounted to RMB74.6 million, representing an increase of 36.8% year-on-year. Such increase was attributable to the overall increase in depreciation and amortisation expenses resulting from an increase in the number of restaurants, the renovations of existing restaurants, and increase in non-current assets of the back office.

Rental expenses

Rental expenses increased by 9.0% year-on-year to RMB155.8 million, mainly due to the increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 18.0% year-on-year to RMB78.3 million, attributable to the increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 21.7% year-on-year to RMB200.9 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 period amounted to RMB2.3 million which were primarily interest expenses.

Income tax expense

Our income tax expenses increased by 9.5% year-on-year to RMB49.0 million mainly attributable to the increase in pre-tax profit during the period.

Profit for the year

Our profit for the year increased by 21.0% year-on-year to RMB200.4 million as a result of the cumulative effect of the foregoing factors.

Net profit attributable to shareholders

Our net profit attributable to shareholders for the year was RMB187.8 million, recording an increase of 20.9% year-on-year, as a result of the cumulative effect of the foregoing factors.

Liquidity and Financial Resources

As at 31 December 2010, cash and bank balances stood at RMB261.4 million and net current assets were RMB390.0 million with a current ratio of 2.08.

As at 31 December 2010, total outstanding bank loans stood at RMB136.0 million.

Regarding the foreign exchange fluctuations, during the period, 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 2010, the Group did not have any derivative instrument for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in 2010 was RMB92.8 million, attributable primarily to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in 2010 were RMB234.9 million, consisting primarily of investments in restaurants and production bases of RMB194.5 million, and acquisition of restaurants of RMB51.0 million. Net cash inflow from financing activities over the period were RMB78.4 million, which mainly comprised the net increase in bank loans of RMB135.6 million offset by the payments of dividends of RMB62.0 million.

Capital Expenditures

Our capital expenditures for the year of 2010 were RMB198.1 million which were primarily related to the expenditures on information technology, the opening and refurbishment of company-owned restaurants, and construction of production bases.

Our planned capital expenditures for 2011 are approximately RMB196.7 million which will be mainly funded by internal resources of the Company.

Human Resources

As at 31 December 2010, the Group had 14,498 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 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. In addition, the Group has implemented a number of initiatives this year to create a caring and harmonious team atmosphere, raise employee commitment, and build closer ties between employees and customers. Over the period, the Group has also conducted training courses for front-store managers and employed external training institution to improve management and team work.

Use of proceeds from the Company's listing

Up to the year ended 31 December 2010, the Company has fully applied all the listing proceeds in accordance with the proposed applications set out in the Company's prospectus 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 2010, 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 2010.

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 12 Directors, including five Executive Directors, four 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 35 to 36 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. Wang Jianhai will hold office until the forthcoming annual general meeting of the Company ("AGM") and will, being eligible, offer himself for re-election at the AGM. Besides, Mr. Lu Wenbing, Ms. Li Baofang, Dr. Xiang Bing and Mr. Shin Yick, Fabian shall retire by rotation at the AGM and shall, being eligible, 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.

The current service contracts of Mr. Zhang Gang, Mr. Lu Wenbing, Mr. Zhang Zhanhai and Ms. Li Baofeng will expire on 14 May 2011 and they have all entered into new service contracts with the Company for a new term of three years commencing on 15 May 2011. Mr. Wang Jianhai had entered into a service contract with the Company on 1 October 2010. All the existing and new service contracts with the Executive Directors 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.

The current letters of appointment of Mr. Chen Hongkai and each of the Independent Non-executive Directors will expire on 14 May 2011 and they have all entered into new letters of appointment with the Company. Each of the new letters of appointment has a term of three years commencing from 15 May 2011 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 2010 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.

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 2010, the Nomination Committee had convened a meeting to consider the independence of the Independent Non-executive Directors.

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 2010, the Remuneration Committee had convened a meeting to review and approve the remuneration package of the Directors and other senior management of the Company.

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 2010 (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	1/1
Mr. Lu Wenbing *(Chief Executive Officer)*	4/4	—	1/1	—
Mr. Zhang Zhanhai	4/4	—	—	—
Mr. Wang Jianhai *(appointed on 1 October 2010)*	1/1	—	—	—
Ms. Li Baofang	4/4	—	—	—
Non-Executive Directors				
Mr. Chen Hongkai	4/4	—	—	—
Mr. Su Jing Shyh Samuel	4/4	—	—	—
Mr. Koo Benjamin Henry Ho Chung	4/4	—	—	—
Ms. Hsieh Hui-yun Lily	4/4	—	—	—
Independent Non-Executive Directors				
Dr. Xiang Bing	3/4	2/2	1/1	1/1
Mr. Yeung Ka Keung	4/4	2/2	1/1	1/1
Mr. Shin Yick, Fabian	3/4	2/2	1/1	1/1

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 the Group's 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 2010, 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.

External Auditor'S Remuneration

For the year ended 31 December 2010 the total remuneration for the audit services provided by the external auditors amounted to RMB3.4 million (equivalent to approximately HK$3.9 million) (2009: RMB3.5 million (equivalent to approximately HK$4.0 million)).

For the year ended 31 December 2010 the total remuneration for the permissible non-audit services provided by the external auditors amounted to nil (2009: nil).

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

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 2010.

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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 47.

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 5.9 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 31 May 2011 to the Shareholders whose names appear on the register of members of the Company on 18 May 2011.

The register of members of the Company will be closed from 12 May 2011 to 18 May 2011, 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 11 May 2011.

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). All such proceeds have been fully used and applied in accordance with the proposed applications set out in the Prospectus by the end of 2010.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Equity on page 43 and note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, 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 RMB203.4 million, of which approximately RMB60.6 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 2010 are set out in note 16 to the financial statements.

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. Wang Daizong *(resigned on 30 September 2010)*
Mr. Wang Jianhai *(appointed on 1 October 2010)*
Ms. Li Baofang

Non-executive Directors
Mr. Chen Hongkai
Mr. Su Jing Shyh Samuel
Mr. Koo Benjamin Henry Ho Chung
Ms. Hsieh Hui-yun Lily
Mr. Nishpank Rameshbabu Kankiwala *(retired on 20 May 2010)*

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 35 to 36.

Directors' Interests in Competing Business

During the year ended 31 December 2010, 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.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of the Directors in the shares, 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	21,810,626	24,901,626[1]	2.41%
Chen Hongkai	Personal interest	8,819,122		
	Founder of a discretionary trust	234,103	9,053,225[2]	0.88%
Lu Wenbing	Personal interest	6,531,944[3]		0.63%
Zhang Zhanhai	Personal interest	2,033,343		0.20%
Wang Jianhai	Personal interest	750,000[4]		0.07%
Li Baofang	Personal interest	6,047,321[5]		0.59%

Notes:

(1) *The interest comprised (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 21,810,626 Shares owned by Mr. Zhang.*

(2) *The interest comprised (a) interest in 8,519,122 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 comprised (a) interest in 4,044,264 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 represented 750,000 underlying shares in respect of the outstanding share options granted to Mr.Wang Jianhai pursuant to the Pre-IPO Share Option Scheme.*

(5) *The interest comprised (a) interest in 5,317,321 Shares owned by Ms. Li Baofang; and (b) interest in 730,000 underlying shares in respect of the share options granted to Ms. Li pursuant to the Pre-IPO Share Option Scheme.*

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of every person, 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	29.88%
	Interest of a party to an agreement to acquire shares	280,571,030[1]	27.19%
Yum! Brands, Inc. ("Yum")	Interest of controlled corporation	280,571,030[2]	27.19%
	Interest of a party to an agreement to acquire shares	308,301,875[3]	29.88%
FIL Limited	Investment Manager	63,160,000[4]	6.12%
FMR LLC	Investment Manager	63,048,000[5]	6.11%

Notes:

1. *Possible Way was 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 280,571,070 Shares were held by Wandle Investment, an indirect wholly owned subsidiary of Yum. Accordingly, Yum was taken to be interested in such 280,571,030 Shares under the SFO.*

3. *Yum was 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.*

4. *Based on the disclosure of interest form filed with the Stock Exchange, FIL Limited was interested as an investment manager in 63,160,000 Shares.*

5. *Based on the disclosure of interests form filed with the Stock Exchange, FMR LLC was interested as investment manager in 63,048,000 Shares through its controlled corporations Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC which were interested in 58,398,000 and 4,650,000 Shares respectively.*

All of the above interests in the Company held by Possible Way, Yum, FIL Limited and FMR LLC were long positions.

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 by the Company 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. Since the adoption of the scheme, 26,379,680 options, representing approximately 2.56% of the total issued share capital of the Company as at the date of this annual report, has been granted under the Pre-IPO Share Option Scheme. During the year ended 31 December 2010 4,259,650 and 1,033,500 options had been exercised and cancelled respectively. Details of the share options outstanding as at 31 December 2010 which had been granted under the Pre-IPO Share Option Scheme were as follows:

Name of Grantees	Options outstanding at 1 January 2010	Options granted during the year	Options exercised during the year	Options lapse on expiry	Options cancelled upon termination of employment	Options outstanding at 31 December 2010
Directors of the Company						
Chen Hongkai	300,000	—	—	—	—	300,000
Lu Wenbing	2,487,680	—	—	—	—	2,487,680
Wang Jianhai	1,000,000	—	250,000	—	—	750,000
Li Baofang	730,000	—	—	—	—	730,000
Directors of subsidiaries						
Li Lichan	100,000	—	25,000	—	—	75,000
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	—	12,000	—	—	38,000
Xie Lixia	50,000	—	12,000	—	—	38,000
Zhang Xiuping	400,000	—	100,000	—	—	300,000
Other employees	19,674,200	—	3,860,650	—	1,033,500	14,780,050
	25,041,880	—	4,259,650	—	1,033,500	19,748,730

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 relevant percentage 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 the 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 the 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 the 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.

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 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.

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: 1,450,000[1] (Mr. Zhang Gang: 850,000 Mr. Chen Hongkai: 600,000)
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[2] (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[3] (Mr. Zhang Gang: 253,360, Mr. Chen Hongkai: 233,320, Ms. Kou Zhifang[4]: 233,320)

Notes:

(1) The total annual rent for the property for the year ended 31 December 2010 under the Tenancy Agreements was RMB1,450,000, of which RMB260,000 and RMB190,000 were waived by Mr. Zhang Gang and Mr.Chen Hongkai respectively.

(2) The property was occupied by the Group's Shanghai branch for use as office. No rents for the property had been paid to Mr. Zhang Gang and Mr. Chen Hongkai since the Group's Shanghai Branch moved to a self-owned property of the Group in Shanghai in 2009.

(3) The total annual rent for the property for the year ended 31 December 2010 under the Tenancy Agreements was RMB720,000, and all of which were waived by Mr. Zhang Gang, Mr. Chen Hongkai and Ms. Kou Zhifang.

(4) 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 2010 was RMB4,620,800. The total rent paid by the Group, during the year in respect of the foregoing properties amounted to RMB2,540,000.

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 Company's auditor was engaged to report on the Group's continuing connected transactions for the year end 31 December 2010 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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) Acquisition of Interest in Little Sheep Meat

On 19 November 2010, 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 an equity transfer agreement ("Equity Transfer Agreement") with Inner Monoglia Rixin Guarantee and Investment (Group) Limited (內蒙古日信擔保投資（集團）有限公司) ("Rixin Group"), pursuant to which Little Sheep PRC agreed to acquire a 12.556% equity interest in Inner Mongolia Little Sheep Meat Company Limited (內蒙古小肥羊肉業有限公司) ("Little Sheep Meat") for a consideration of RMB13,630,700 in accordance with the terms of the Equity Transfer Agreement.

Little Sheep Meat, a company established in the PRC, is principally engaged in the operation of lamb processing facilities. Before completion of the Equity Transfer Agreement, Little Sheep Meat is owned by Little Sheep PRC as to 87.444% and by Rixin Group as to 12.556%. The equity transfer under the Equity Transfer Agreement was completed on 19 November 2010. Little Sheep Meat is now a wholly-owned subsidiary of the Group.

Rixin Group is a substantial shareholder of Little Sheep Meat, a subsidiary of the Company, and is therefore a connected person of the Company for the purposes of Chapter 14A of the Listing Rules. The Equity Transfer Agreement constitutes a connected transaction for the Company under the Listing Rules.

In order to enhance efficiency and benefit from economies of scale, the Group contemplates enlarging the capital and shareholder bases of its lamb processing facilities. The equity transfer forms part of a restructuring plan which would involve enlargement of the capital base of Little Sheep Meat, consolidation of the shareholding structure of the Company's lamb processing facilities and subsequent introduction of new investors into the restructured entity. As at the date of this annual report, the terms of the restructuring have not been finalized. The Company will make further announcement with respect to the restructuring to update Shareholders as and when appropriate.

The Directors (including the independent non-executive Directors), who do not have any material interest in the Equity Transfer Agreement, are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated under it are on normal commercial terms and fair and reasonable and 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 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS

Details of the Group's bank loans as at 31 December 2010 are set out in note 24 to the financial statements.

Major Customers and Suppliers

The aggregate sales to the five largest customers of the Group accounted for approximately 4.1% of the Group's total revenue and sales to the largest customer accounted for approximately 1.4% of the Group's total revenue for year 2010. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 13.0% of the Group's total purchases and purchases from the largest supplier accounted for approximately 3.4% of the Group's total purchases for year 2010.

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 2.4 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, 22 March 2011

Directors' Profile

Executive Directors

ZHANG Gang, aged 46, 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 eleven 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 43, 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 43, 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 Jianhai, aged 40, is an Executive Director and Chief Financial Officer of the Company and is in charge of the Group's financial management and IT and Business Information Systems. He joined the Group in 2004. Before joining the Company, he was a Financial Manager of Mengniu Diary Tai'an Co., Ltd. In 2002, he obtained a qualification certificate of accounting issued by the Ministry of Finance of PRC (中華人民共和國財政部). In 1994, he obtained a bachelor's degree in Corporate Management from Inner Mongolia Finance and Economics College. Currently, he is taking the Master of Business Administration programme at Inner Mongolia University.

LI Baofang, aged 45, 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 ten years of experience in the catering industry. Ms. Li holds a postgraduate diploma from the Chinese Academy of Social Sciences.

Non-executive Directors

CHEN Hongkai, aged 43, 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 ten years of experience in the catering industry.

SU Jing Shyh Samuel, aged 58, 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 58, joined the Group on 2 June 2009 as a Non-executive Director. Prior to his retirement, Mr. Koo was 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 56, 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.

Independent non-executive Directors

XIANG Bing, aged 48, 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 51, 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 42, 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

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安永

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

We have audited the consolidated financial statements of Little Sheep Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

22 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
REVENUE	*5*	**1,925,500**	1,569,700
Other income and gains	*5*	**39,537**	29,482
Cost of inventories sold		**(850,500)**	(650,545)
Staff costs	*6*	**(353,128)**	(308,795)
Depreciation and amortisation		**(74,612)**	(54,561)
Rental expenses		**(155,823)**	(142,911)
Fuel and utility expenses		**(78,307)**	(66,381)
Other operating expenses		**(200,912)**	(165,114)
Finance costs	*7*	**(2,343)**	(408)
PROFIT BEFORE TAX		**249,412**	210,467
Income tax expense	*9*	**(49,044)**	(44,807)
PROFIT FOR THE YEAR		**200,368**	165,660
Attributable to:			
Owners of the Company	*11*	**187,798**	155,364
Non-controlling interests		**12,570**	10,296
		200,368	165,660
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY			
— Basic (RMB)	*12*	**18.24 cents**	15.12 cents
— Diluted (RMB)		**18.05 cents**	14.98 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 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	**200,368**	165,660
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		
Exchange differences on translation of foreign operations	**(286)**	(231)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**200,082**	165,429
Attributable to:		
Owners of the Company	**187,512**	155,133
Non-controlling interests	**12,570**	10,296
	200,082	165,429

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**2010 RMB'000**	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**468,685**	358,544
Deposits for purchases of items of plant and equipment		**3,340**	15,903
Intangible assets	*14*	**279,158**	236,774
Land lease prepayments	*15*	**49,808**	50,055
Long-term rental deposits	*17*	**20,140**	15,984
Long-term rental receivables		**2,000**	—
Deferred tax assets	*18*	**6,367**	5,455
Total non-current assets		**829,498**	682,715
CURRENT ASSETS			
Inventories	*20*	**370,941**	182,126
Trade receivables	*21*	**33,681**	19,297
Prepayments, deposits and other receivables	*22*	**84,287**	61,584
Cash and cash equivalents	*23*	**261,428**	325,207
Total current assets		**750,337**	588,214
CURRENT LIABILITIES			
Bank loans	*24*	**86,000**	375
Trade payables	*25*	**69,340**	51,098
Deposits, other payables and accruals	*26*	**136,311**	134,207
Due to non-controlling equity holders of subsidiaries	*27*	**38,489**	14,900
Tax payable		**30,229**	23,764
Total current liabilities		**360,369**	224,344
NET CURRENT ASSETS		**389,968**	363,870

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,219,466**	1,046,585
NON-CURRENT LIABILITIES			
Bank loans	*24*	**50,000**	—
Long-term payables	*28*	**10,486**	8,763
Total non-current liabilities		**60,486**	8,763
NET ASSETS		**1,158,980**	1,037,822
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*35*	**91,198**	90,826
Reserves	*36*	**1,064,671**	939,952
		1,155,869	1,030,778
Non-controlling interests		**3,111**	7,044
Total equity		**1,158,980**	1,037,822

Zhang Gang
Director

Lu Wenbing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	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	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	90,826	586,879	36,985	(6,949)	6,055	316,982	1,030,778	7,044	1,037,822
Profit for the year	—	—	—	—	—	187,798	187,798	12,570	200,368
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	(286)	—	—	(286)	—	(286)
Total comprehensive income for the year	—	—	—	(286)	—	187,798	187,512	12,570	200,082
Equity-settled share option arrangement *(note 36)*	—	—	—	—	1,313	—	1,313	—	1,313
Exercise of employee share options	372	8,121	—	—	(1,389)	—	7,104	—	7,104
Dividend paid	—	(61,991)	—	—	—	—	(61,991)	—	(61,991)
Dividend paid by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(14,144)	(14,144)
Transfer to the PRC reserve funds	—	—	2,240	—	—	(2,240)	—	—	—
Acquisition of non-controlling interests of subsidiaries	—	(8,847)	—	—	—	—	(8,847)	(3,539)	(12,386)
Acquisition of subsidiaries	—	—	—	—	—	—	—	860	860
Transfer upon disposal of subsidiaries	—	—	(76)	—	—	76	—	320	320
At 31 December 2010	91,198	524,162*	39,149*	(7,235)*	5,979*	502,616*	1,155,869	3,111	1,158,980

Year ended 31 December 2010

	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	Non-controlling 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
Profit for the year	—	—	—	—	—	155,364	155,364	10,296	165,660
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	(231)	—	—	(231)	—	(231)
Total comprehensive income for the year	—	—	—	(231)	—	155,364	155,133	10,296	165,429
Equity-settled share option arrangement *(note 36)*	—	—	—	—	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 non-controlling interests	—	—	—	—	—	—	—	(11,857)	(11,857)
Transfer to the PRC reserve funds	—	—	1,536	—	—	(1,536)	—	—	—
Acquisition of non-controlling interests of subsidiaries	—	—	—	—	—	—	—	(10)	(10)
Waiver of non-controlling interests 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

* *These reserve accounts comprise the consolidated reserves of RMB1,064,671,000 (2009: RMB939,952,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**249,412**	210,467
Adjustments for:			
Finance costs	*7*	**2,343**	408
Interest income on bank balances	*5*	**(1,652)**	(5,938)
Depreciation	*6*	**74,259**	54,217
Amortisation of intangible assets	*6*	**106**	98
Amortisation of lease prepayments	*6*	**247**	246
Net loss on disposal of items of property, plant and equipment	*6*	**4,933**	1,039
Excess over the cost of a business combination	*5*	**(257)**	—
Gain on disposal of a subsidiary	*5*	**(5,242)**	—
Equity-settled share option arrangement	*6*	**1,313**	2,556
		325,462	263,093
(Increase)/decrease in inventories		**(186,964)**	1,297
Increase in trade and bills receivables		**(14,325)**	(7,023)
Increase in prepayments, deposits and other receivables		**(22,288)**	(5,902)
(Increase)/decrease in amounts due to non-controlling equity holders of subsidiaries		**6,766**	(7,847)
Increase in trade payables		**16,162**	9,119
(Increase)/decrease in deposits, other payables and accruals		**13,898**	(13,063)
Decrease in long-term payables		**(2,433)**	(825)
Cash generated from operating activities		**136,278**	238,849
Income tax paid		**(43,492)**	(38,246)
Net cash inflow from operating activities		**92,786**	200,603

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**7,031**	3,706
Purchases of items of property, plant and equipment		**(194,496)**	(110,636)
Additions to intangible assets	*14*	**—**	(8)
Additions to lease prepayments	*15*	**—**	(38,584)
Acquisition of subsidiaries and branches	*19*	**(50,985)**	(75,506)
Acquisitions of non-controlling interests		**(13,631)**	—
Deposits paid for purchases of items of plant and equipment		**12,563**	(15,903)
Proceeds from disposal of a subsidiary	*30*	**2,944**	1,124
Interest received		**1,652**	5,938
Net cash outflow from investing activities		**(234,922)**	(229,869)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**276,000**	—
Exercise of share options		**7,104**	66
Repayment of bank loans		**(140,375)**	(535)
Dividends paid		**(61,991)**	(68,846)
Interest paid	*7*	**(2,343)**	(408)
Net cash inflow/(outflow) from financing activities		**78,395**	(69,723)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(63,741)**	(98,989)
Cash and cash equivalents at beginning of year	*23*	**325,207**	424,038
Effect of foreign exchange rate changes, net		**(38)**	158
CASH AND CASH EQUIVALENTS AT END OF YEAR	*23*	**261,428**	325,207
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**261,428**	325,207

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**11**	16
Investment in a subsidiary	*16*	**92**	92
		103	108
CURRENT ASSETS			
Due from subsidiaries	*16*	**377,682**	406,100
Prepayments, deposits and other receivables		**138**	165
Cash and cash equivalents	*23*	**5,401**	249
		383,221	406,514
CURRENT LIABILITIES			
Deposits, other payables and accruals		**94,161**	46,683
NET CURRENT ASSETS		**289,060**	359,831
NET ASSETS		**289,163**	359,939
EQUITY			
Issued capital	*35*	**91,198**	90,826
Reserves	*36(b)*	**197,965**	269,113
TOTAL EQUITY		**289,163**	359,939

Zhang Gang
Director

Lu Wenbing
Director

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2010

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, P.O. 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 Mainland China, Hong Kong and Macau. 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

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 Basis of Presentation (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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 (Revised)	*First-time Adoption of IFRSs*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments 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*
Improvements to IFRSs 2009	*Amendments to a number of IFRSs issued in May 2009*

Other than as further explained below regarding the impact of IFRS 3 (Revised) and IAS 27 (Revised), and the amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009,* the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 Changes in Accounting Policy and Disclosures (continued)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) *Consolidated and Separate Financial Statements*

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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in May 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

  The Group has reassessed its leases in Mainland China, Hong Kong and Macau, previously classified as operating leases, upon the adoption of the amendments. All the lands held under leases by the Group are located in Mainland China. The classification of leases in Mainland China remained as operating leases.

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 Amendment	Amendment to IFRS 1 *First-time Adoption of IFRSs — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendments	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 12 Amendments	Amendments to IFRS 12 Income Taxes — *Deferred Tax: Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 *Effective for annual periods beginning on or after 1 February 2010*
2 *Effective for annual periods beginning on or after 1 July 2010*
3 *Effective for annual periods beginning on or after 1 January 2011*
4 *Effective for annual periods beginning on or after 1 July 2011*
5 *Effective for annual periods beginning on or after 1 January 2012*
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 these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (continued)

Business combination and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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. For the purpose of impairment testing, goodwill acquired in 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 groups 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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 an 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.

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 Group 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

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.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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 the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

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.

2.4 Summary of Significant Accounting Policies (continued)

Financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, amounts due to the non-controlling equity holders/shareholders of subsidiaries and interest-bearing loans and borrowings 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.

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; or

- 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.

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 a 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

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 Summary of Significant Accounting Policies (continued)

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.

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, 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 utilised, except:

- where the deferred tax assets 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the 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 income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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:

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.

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.13% has been applied to the expenditure on the individual assets.

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 benefit 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 benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to pay the ongoing required contributions. Contributions made to the defined contribution retirement benefit scheme are charged to the income statement as incurred.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Pension schemes and other retirement benefits (continued)

The Group operates a Mandatory Provident Fund retirement benefit 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.

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.

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Equity-settled transactions (continued)

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.

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 dates 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.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, 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. Further details are given in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was RMB1,014,000 (2009: Nil). The amount of unrecognised tax losses at 31 December 2010 was RMB8,988,000 (2009: RMB10,128,000). Further details are contained in note 18 to the financial statements.

Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at end of the reporting period. 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.

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

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.

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 restaurant operations 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 the provision of services of sales promotion, purchase, training, and other administrative services rendered to franchised 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.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2010	Restaurant operations and provision of catering services RMB'000	Sale of food products RMB'000	Franchise income RMB'000	Others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	1,476,204	417,728	30,848	720	1,925,500
Intersegment sales	—	649,483	—	27,469	676,952
	1,476,204	1,067,211	30,848	28,189	2,602,452
Reconciliation:					
Elimination of intersegment sales					(676,952)
Revenue from operations					1,925,500
Segment results	242,522	46,085	22,958	(31,365)	280,200
Reconciliation:					
Elimination of intersegment results					4,325
Other income					39,537
Unallocated expenses					(72,307)
Finance costs					(2,343)
Profit before tax					249,412
Segment assets	637,524	736,175	1,094,861	485,248	2,953,808
Elimination of intersegment receivables					(1,373,973)
Total assets					1,579,835
Segment liabilities	573,957	519,536	135,954	565,381	1,794,828
Elimination of intersegment payables					(1,373,973)
Total liabilities					420,855
Other segment information:					
Depreciation and amortisation	57,470	10,985	4,559	1,598	74,612
Capital expenditure	131,994	61,224	4,295	632	198,145*

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

4. Operating Segment Information (continued)

Year ended 31 December 2010	Restaurant operations and provision of catering services RMB'000	Sale 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

4. Operating Segment Information (continued)

Geographical information

In prior years, the Group's geographical information was presented by different geographic areas of Mainland China and other locations. For 2010, the geographical information has been presented by country of domicile in order to be fully compliant with IFRS 8. The presentation of the 2009 geographical information has been amended accordingly.

(a) Revenue from external customers

	2010 RMB'000	2009 RMB'000
Mainland China	**1,799,342**	1,432,808
Overseas	**126,158**	136,892
	1,925,500	1,569,700

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
Mainland China	**813,554**	673,024
Overseas	**15,944**	9,691
	829,498	682,715

The non-current asset information above is based on the location of assets and consists 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.

5. Revenue, Other Income and Gains

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, other income and gains from continuing operations is as follows:

	2010 RMB'000	2009 RMB'000
Restaurant operations and provision of catering services	**1,476,204**	1,223,382
Sale of food products	**417,728**	313,773
Franchise income	**30,848**	30,887
Management service fee income	**720**	1,658
	1,925,500	1,569,700

Other income

	2010 RMB'000	2009 RMB'000
Government grants*	**8,726**	10,767
Promotion income	**4,891**	3,054
Sales of low value consumables	**7,541**	2,615
Rental income	**2,968**	2,381
Interest income on bank balances	**1,652**	5,938
Waiver of accrued rental	**919**	864
Others	**6,194**	3,168
	32,891	28,787

* *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.*

Gains

	2010 RMB'000	2009 RMB'000
Excess over the cost of a business combination	**257**	—
Gain on disposal of subsidiaries (note 30)	**5,242**	—
Gain on disposal of fixed assets	**1,147**	695
	6,646	695
	39,537	29,482

6. Profit Before Tax

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

	Group	
	2010	2009
	RMB'000	RMB'000
Staff costs including directors' remuneration *(note 8):*		
Wages, salaries and bonuses	**308,404**	268,542
Expense of share-based payments	**1,313**	2,556
Pension scheme costs	**10,900**	8,891
Social welfare and other costs	**32,511**	28,806
	353,128	308,795
Depreciation *(note 13)*	**74,259**	54,217
Amortisation of intangible assets *(note 14)*	**106**	98
Amortisation of lease prepayments *(note 15)*	**247**	246
Auditors' remuneration	**3,400**	3,500
Net loss on disposal of items of property, plant and equipment	**4,933**	1,039
Minimum lease payments under operating leases in respect of buildings	**155,823**	142,911

7. Finance Costs

	2010	2009
	RMB'000	RMB'000
Interest expense on bank loans and other borrowings	**2,343**	408

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	
	2010	2009
	RMB'000	RMB'000
Fees	**615**	633
Other emoluments:		
Salaries, allowances, bonuses and other benefits	**7,503**	7,428
Equity-settled share option expenses	**326**	491
Pension scheme contributions	**51**	49
	8,495	8,601

(a) Independent non-executive directors

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

	2010	2009
	RMB'000	RMB'000
Mr. Xiang Bing	**205**	211
Mr. Yeung Ka Keung	**205**	211
Mr. Shin Yick, Fabian	**205**	211
	615	633

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
2010					
Executive directors:					
Mr. Zhang Gang	—	2,000	—	—	2,000
Mr. Lu Wenbing	—	2,000	174	8	2,182
Mr. Wang Daizong[1]	—	495	10	8	513
Mr. Zhang Zhanhai	—	1,300	—	22	1,322
Ms. Li Baofang	—	1,100	51	5	1,156
Mr. Wang Jianhai[2]	—	505	70	8	583
	—	7,400	305	51	7,756
Non-executive directors:					
Mr. Chen Hongkai	—	—	21	—	21
Mr. Nishpank Rameshbabu Kankiwala[6]	—	103	—	—	103
Mr. Su Jing Shyh Samuel[3]	—	—	—	—	—
Mr. Koo Benjamin Henry Ho Chung[3]	—	—	—	—	—
Ms. Hsieh Hui-yun Lily[3]	—	—	—	—	—
	—	7,503	326	51	7,880

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
2009					
Executive directors:					
Mr. Zhang Gang	—	1,500	—	—	1,500
Mr. Lu Wenbing	—	1,412	241	8	1,661
Mr. Yeung Yiu Keung[4]	—	1,525	136	13	1,674
Mr. Wang Daizong[1]	—	824	14	13	851
Mr. Zhang Zhanhai	—	854	—	11	865
Ms. Kou Zhifang[5]	—	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[6]	—	317	—	—	317
Mr. Su Jing Shyh Samuel[3]	—	—	—	—	—
Mr. Koo Benjamin Henry Ho Chung[3]	—	—	—	—	—
Ms. Hsieh Hui-yun Lily[3]	—	—	—	—	—
	—	7,428	491	49	7,968

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

1 *Mr. Wang Daizong resigned as a director of the Company in September 2010.*
2 *Mr. Wang Jianhai was appointed as a director of the Company in October 2010.*
3 *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.*
4 *Mr. Yeung Yiu Keung resigned as a director of the Company in December 2009.*
5 *Ms. Kou Zhifang resigned as a director of the Company in April 2009.*
6 *Mr. Nishpank Rameshbabu Kankiwala retired as a non-executive director of the Company in May 2010.*

8. Directors' and Senior Executives' Emoluments (continued)

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

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 financial statements. The fair value of such options, which has been recognised in 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.

The five highest paid employees during the year included four (2009: four) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2009: one) non-director, highest paid employee in 2010 is as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**660**	769
Performance related bonuses	**440**	150
Equity-settled share option expenses	**—**	83
Pension scheme contributions	**—**	11
	1,100	1,013

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 relevant PRC income tax law, except for the preferential treatment available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in 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 2010, after obtaining approval from the relevant PRC tax authorities, 20 (2009: 18) entities of the Group were subject to a preferential corporate income tax rate of 22%, 5 (2009: 5) entities of the Group were exempt from the corporate income tax and 53 (2009: 41) 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 2010 (2009: 16.5%).

9. INCOME TAX EXPENSE (CONTINUED)

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

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

	Note	2010 RMB'000	2009 RMB'000
Group			
Current		**49,956**	47,334
Deferred	*18*	**(912)**	(2,527)
		49,044	44,807

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 rates is as follows:

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Others RMB'000	%	Total RMB'000	%
Group — 2010								
Profit/(loss) before tax	**8,052**		**246,357**		**(4,997)**		**249,412**	
Tax at the statutory tax rates	**1,329**	**16.5**	**61,589**	**25.0**	**45**	**(0.9)**	**62,963**	**25.2**
Tax effect of preferential income tax rates	**—**	**—**	**(3,612)**	**(1.5)**	**—**	**—**	**(3,612)**	**(1.4)**
Effect of the verification collection method	**—**	**—**	**(6,314)**	**(2.5)**	**—**	**—**	**(6,314)**	**(2.5)**
Income not subject to tax	**—**	**—**	**(5,342)**	**(2.1)**	**(9)**	**0.2**	**(5,351)**	**(2.1)**
Expenses not deductible for tax	**203**	**2.5**	**820**	**0.3**	**—**	**—**	**1,023**	**0.4**
Tax losses not recognised	**—**	**—**	**2,245**	**0.9**	**—**	**—**	**2,245**	**0.9**
Others	**250**	**3.1**	**(2,160)**	**(0.9)**	**—**	**—**	**(1,910)**	**(0.8)**
Tax charge at the Group's effective rate	**1,782**	**22.1**	**47,226**	**19.2**	**36**	**(0.7)**	**49,044**	**19.7**

9. Income Tax Expense (continued)

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Others RMB'000	%	Total RMB'000	%
Group — 2009								
Profit/(loss) before tax	10,654		211,192		(11,379)		210,467	
Tax at the statutory tax rates	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

10. Dividends

	2010 RMB'000	2009 RMB'000
Proposed final — HK6.9 cents per share (equivalent to approximately RMB5.9 cents per share) (2009: HK6.9 cents per share (equivalent to approximately RMB6 cents per share))	**60,587**	62,146

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

11. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a loss of RMB7,321,000 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 RMB187,798,000 (2009: RMB155,364,000) and the weighted average number of 1,029,835,487 ordinary shares (2009: 1,027,678,370 ordinary shares) of the Company.

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit attributable to ordinary shareholders for the year of RMB187,798,000 (2009: RMB155,364,000) and on 1,040,242,925 ordinary shares (2009: 1,037,382,921 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 10,407,438 ordinary shares (2009: 9,704,551 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Option Scheme (as defined in note 37 to the financial statements).

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 2010						
At 1 January 2010:						
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
At 1 January 2010, net of accumulated depreciation	127,608	132,959	4,899	75,010	18,068	358,544
Additions	2,313	100,215	2,849	34,874	51,129	191,380
Transfers from construction in progress	9,659	—	—	7,419	(17,078)	—
Acquisition of subsidiaries and branches *(note 19)*	1,166	5,499	41	1,993	26	8,725
Disposal of a subsidiary *(note 30)*	—	(2,546)	—	(660)	—	(3,206)
Disposals	(136)	(6,231)	(675)	(4,901)	(309)	(12,252)
Exchange differences	—	(164)	—	(83)	—	(247)
Depreciation charge for the year	(3,957)	(49,307)	(1,493)	(19,502)	—	(74,259)
At 31 December 2010, net of accumulated depreciation	136,653	180,425	5,621	94,150	51,836	468,685
At 31 December 2010:						
Cost	151,257	302,912	9,354	148,880	51,836	664,239
Accumulated depreciation	(14,604)	(122,487)	(3,733)	(54,730)	—	(195,554)
Net carrying amount	136,653	180,425	5,621	94,150	51,836	468,685

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 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

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

As at 31 December 2010, certain buildings and land use rights of the Group were pledged as security for bank loans of the Group as disclosed in note 24 to the financial statements. The aggregate net carrying value of the pledged buildings and land use rights attributable to the Group as at 31 December 2010 amounted to RMB18,475,000 (2009: RMB813,000).

13. Property, Plant and Equipment (continued)

Company

	Equipment and fixtures RMB'000
31 December 2010	
At 1 January 2010:	
Cost	**22**
Accumulated depreciation	**(6)**
Net carrying amount	**16**
At 1 January 2010, net of accumulated depreciation	**16**
Depreciation charge for the year	**(5)**
At 31 December 2010, net of accumulated depreciation	**11**
At 31 December 2010:	
Cost	**22**
Accumulated depreciation	**(11)**
Net carrying amount	**11**
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

14. Intangible Assets

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

Group

	Note	Goodwill RMB'000	Trademark RMB'000	Patent RMB'000	Total RMB'000
31 December 2010					
At 1 January 2010:					
Cost		**236,204**	**978**	**2**	**237,184**
Accumulated amortisation		**—**	**(410)**	**—**	**(410)**
Net carrying amount		**236,204**	**568**	**2**	**236,774**
At 1 January 2010, net of accumulated amortisation		**236,204**	**568**	**2**	**236,774**
Additions		**—**	**—**	**—**	**—**
Arising from acquisition of subsidiaries and branches	*19*	**42,490**	**—**	**—**	**42,490**
Amortisation provided for the year		**—**	**(106)**	**—**	**(106)**
At 31 December 2010, net of accumulated amortisation		**278,694**	**462**	**2**	**279,158**
At 31 December 2010:					
Cost		**278,694**	**978**	**2**	**279,674**
Accumulated amortisation		**—**	**(516)**	**—**	**(516)**
Net carrying amount		**278,694**	**462**	**2**	**279,158**

14. INTANGIBLE ASSETS (CONTINUED)

Group (continued)

	Note	Goodwill RMB'000	Trademark RMB'000	Patent 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		—	6	2	8
Arising from acquisition of subsidiaries and branches		65,733	—	—	65,733
Amortisation provided for the year		—	(98)	—	(98)
At 31 December 2009, net of accumulated amortisation		236,204	568	2	236,774
At 31 December 2009:					
Cost		236,204	978	2	237,184
Accumulated amortisation		—	(410)	—	(410)
Net carrying amount		236,204	568	2	236,774

14. Intangible Assets (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating unit of individual acquired entities, mostly restaurants, which are grouped as follows by geographic area, for impairment testing:

	2010 **RMB'000**	2009 RMB'000
Mainland China	**278,694**	236,204

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

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10% (2009: 14%).

Key assumptions were used in the value in use calculation of each of the cash-generating units for 31 December 2010 and 31 December 2009. The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

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.

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

	2010 **RMB'000**	2009 RMB'000
At 1 January:		
Cost	**50,825**	12,241
Accumulated amortisation	**(770)**	(524)
Net carrying amount	**50,055**	11,717
At 1 January, net of accumulated amortisation	**50,055**	11,717
Additions	**—**	38,584
Amortisation provided for the year	**(247)**	(246)
At 31 December, net of accumulated amortisation	**49,808**	50,055
At 31 December:		
Cost	**50,825**	50,825
Accumulated amortisation	**(1,017)**	(770)
Net carrying amount	**49,808**	50,055

As at 31 December 2010, the Group was in the process of applying for the title certificate of certain land use rights acquired by the Group with an aggregate net book value of RMB38,584,000. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned land use rights, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2010.

16. INVESTMENT IN A SUBSIDIARY

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**92**	92

The amount due from subsidiaries 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**	**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)	Mainland China	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)	Mainland China	RMB117,918,753	—	#100	Slaughtering and meat processing
Inner Mongolia Little Sheep Seasoning Company Limited ** (內蒙古小肥羊調味品有限公司)	Mainland China	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)	Mainland China	RMB9,450,000	—	100	Slaughtering and meat processing
Shenzhen Little Sheep Catering Chain Company Limited ** (深圳市小肥羊餐飲連鎖有限公司)	Mainland China	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)	Mainland China	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*
# *During the year, the Group obtained an additional 12.556% equity interest in Inner Mongolia Little Sheep Meat Company from the then sole non-controlling equity holder. As at 31 December 2010, the Group's interest in Inner Mongolia Little Sheep Meat Company was 100%.*

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.

18. Deferred Tax Assets

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

31 December 2010	**Balance at 1 January 2010 RMB'000**	**Recognised in the consolidated income statement RMB'000**	**Balance at 31 December 2010 RMB'000**
Deferred tax assets:			
Tax losses	**—**	**1,014**	**1,014**
Pre-operating expenses and depreciation	**3,864**	**(2,095)**	**1,769**
Accrued rental expenses	**1,591**	**1,993**	**3,584**
	5,455	**912**	**6,367**

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

At 31 December 2010, 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.

19. Business Combinations

(i) Acquisition of restaurants

During the year, the Group entered into various sales and purchase agreements to acquire the entire equity interests in seven hot pot restaurants from various independent third parties for an aggregate cash consideration of RMB52,000,000 which generated goodwill of RMB42,490,000.

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	7,448	7,506
Trade receivables	23	23
Inventories	1,859	1,859
Prepayments, deposits and other receivables	2,615	2,615
Cash and cash equivalents	1,355	1,355
Trade payables	(2,090)	(2,090)
Deposits, other payables and accruals	(1,700)	(1,700)
Fair value of net assets acquired by the Group	9,510	9,568
Goodwill on acquisition	42,490	
Cash consideration	52,000	

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

	RMB'000
Net cash and cash equivalents acquired	1,355
Cash paid	(52,000)
Net cash outflow in respect of the acquisition of subsidiaries and branches	(50,645)

19. BUSINESS COMBINATIONS (CONTINUED)

(ii) Acquisition of a herding subsidiary

On 22 April 2010, the Group acquired a 100% equity interest in Sheep King Herding Co., Ltd. from a manager of the Group and an independent PRC citizen for a cash consideration of RMB500,000 which generated an excess over the cost of business combination recognised in the consolidated income statement of RMB257,000.

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	1,277	1,029
Trade receivables	36	36
Livestock	90	90
Cash and cash equivalents	160	160
Customers' deposits, other payables and accruals	(806)	(806)
Fair value of net assets acquired by the Group	757	509
Excess over the cost of a business combination recognised in the consolidated income statement *(note 5)*	(257)	
Consideration	500	

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

	RMB'000
Net cash and cash equivalents acquired	160
Cash paid	(500)
Net cash outflow in respect of acquisition of a subsidiary	(340)

The aggregate revenue and profit of these restaurants and the herding subsidiary for the period from their respective dates of acquisition to 31 December 2010 amounted to RMB36,003,000 and RMB4,705,000, respectively.

The Group considers the most important factors in deciding the purchase consideration are customer flow and favourable locations, which are not recognised as intangible assets at the 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 and the herding subsidiary from the vendors, it is impractical to disclose such information as required under paragraph 70 of IFRS 3 Business Combinations.

20. Inventories

	2010 RMB'000	2009 RMB'000
Raw materials	**8,332**	6,376
Consumables	**19,487**	16,432
Food and beverages	**343,122**	159,318
	370,941	182,126

21. Trade Receivables

Trade 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 receivables is provided when it is considered that the trade receivable amounts may not be fully recovered. Trade receivables are non-interest-bearing and are generally on three months' terms.

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

	2010 RMB'000	2009 RMB'000
Within 3 months	**30,861**	17,916
3 to 6 months	**1,798**	1,119
6 to 12 months	**794**	94
1 to 2 years	**228**	168
	33,681	19,297

During 2009, trade receivables at a nominal value of RMB250,000 were fully impaired and eventually written off as at 31 December 2009. No trade receivables were identified as impaired as at 31 December 2010:

	2010 RMB'000	2009 RMB'000
At 1 January	**—**	250
Impairment losses recognised	**—**	—
Amount written off as uncollectible	**—**	(250)
At 31 December	**—**	—

21. Trade Receivables (Continued)

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

	2010 **RMB'000**	2009 RMB'000
Neither past due nor impaired	**30,861**	17,916
Less than 3 months past due	**1,798**	1,119
3 months to 2 years past due	**1,022**	262
	33,681	19,297

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.

22. Prepayments, Deposits and Other Receivables

	2010 **RMB'000**	2009 RMB'000
Rental deposits and prepayments	**25,036**	21,774
Deposits to suppliers	**8,944**	5,380
Prepayments and other receivables	**50,307**	34,430
	84,287	61,584

23. Cash and Cash Equivalents

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**261,428**	325,207	**5,401**	249

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

As at 31 December 2010, cash and bank balances of the Group aggregating to RMB235,225,000 (2009: RMB292,185,000) were denominated in Renminbi, which are not freely convertible in the international market. The remittance of funds out of Mainland China is subject to the exchange restrictions imposed by the PRC government.

24. Bank Loans

	2010	2009
	RMB'000	RMB'000
Bank loans:		
Secured	**12,000**	375
Unsecured	**124,000**	—
	136,000	375
Bank loans repayable:		
Within one year or on demand	**86,000**	375
In the second year	**—**	—
In the third year	**50,000**	—
Total bank loans	**136,000**	375
Less: Portion classified as current liabilities	**(86,000)**	(375)
Non-current portion	**50,000**	—

As at 31 December 2010, the bank loans were secured by pledges of buildings and land use rights of the Group with a net value of RMB18,475,000 (2009: RMB813,000).

The annual interest rates of the bank loans in 2010 were in the range from 4.78% to 5.56% (2009: 2.4%). The Group's interest-bearing bank loans were denominated in RMB.

25. Trade Payables

An aged analysis of the trade payables is as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	**66,501**	49,565
Over 3 months	**2,839**	1,533
	69,340	51,098

26. Deposits, Other Payables and Accruals

	2010 RMB'000	2009 RMB'000
Deposits and advances from customers	**43,425**	36,364
Construction fee payables	**19,966**	23,370
Accrued wages and salaries	**31,460**	32,316
Other payables and accruals	**41,460**	42,157
	136,311	134,207

27. Due to Non-Controlling 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 2010 (2009: Nil).

30. Disposal of Subsidiaries

During the year, the Group disposed of various equity interests in four restaurants to independent PRC citizens for an aggregate consideration in the form of cash of RMB2,985,000.

	2010 **RMB'000**	2009 RMB'000
Net assets disposed of:		
Property, plant and equipment	**3,206**	3,460
Cash and bank balances	**41**	1,232
Inventories	**98**	193
Prepayments and other receivables	**201**	283
Trade payables	**(10)**	(228)
Accruals and other payables	**(6,113)**	(943)
Tax payable	**—**	(582)
Non-controlling interests	**320**	(1,059)
	(2,257)	2,356
Gain on disposal of subsidiaries	**5,242**	—
	2,985	2,356
Satisfied by:		
Cash	**2,985**	2,356

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

	2010 **RMB'000**	2009 RMB'000
Cash consideration	**2,985**	2,356
Cash and bank balances disposed of	**(41)**	(1,232)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**2,944**	1,124

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 2010, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

	2010 **RMB'000**	2009 RMB'000
Within one year	**154,276**	123,929
In the second to fifth years, inclusive	**468,480**	343,131
After five years	**223,463**	91,299
	846,219	558,359

(ii) Capital commitments

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

	2010 **RMB'000**	2009 RMB'000
Authorised, but not contracted for:		
Construction of a new factory	**16,239**	26,711

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:

	Note	**2010** **RMB'000**	2009 RMB'000
Rental expenses	*(i)*	**2,540**	3,451

Note:

(i) The amount represented rental expenses payable to Mr. Zhang Gang, Mr. Chen Hongkai and Ms. Kou Zhifang for leasing three (2009: 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 2010 and 2009, 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 receivables, cash deposits and loans with fixed interest rates as at 31 December 2010. 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 2010, 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.

Credit risk

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 2010, the Group had bank loans of RMB136,000,000 (2009: RMB375,000) which will mature within 30 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

33. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

Year ended 31 December 2010

	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	**—**	**—**	**86,000**	**50,000**	**136,000**
Trade payables	**66,501**	**2,839**	**—**	**—**	**69,340**
Due to non-controlling equity holders of subsidiaries	**38,489**	**—**	**—**	**—**	**38,489**
Other payables	**—**	**116,345**	**19,966**	**—**	**136,311**
	104,990	**119,184**	**105,966**	**50,000**	**380,140**

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 non-controlling equity holders of subsidiaries	14,900	—	—	—	14,900
Other payables	—	110,837	23,370	—	134,207
	64,465	112,370	23,745	—	200,580

33. Financial Risk Management Objectives and Policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years end 31 December 2010 and 2009.

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

	2010	2009
	RMB'000	RMB'000
Bank loans	**136,000**	375
Trade and other payables	**205,651**	185,305
Less: cash and cash equivalents	**(261,428)**	(325,207)
Net debt	**80,223**	(139,527)
Equity	**1,155,869**	1,030,778
Capital and net debt	**1,236,092**	891,251
Gearing ratio	**6.49%**	—

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**261,428**	325,207	**261,428**	325,207
Trade receivables	**33,681**	19,297	**33,681**	19,297
Prepayments, deposits and other receivables	**84,287**	61,584	**84,287**	61,584
	379,396	406,088	**379,396**	406,088
Financial liabilities				
Bank loans	**136,000**	375	**136,641**	375
Trade payables	**69,340**	51,098	**69,340**	51,098
Other liabilities	**215,515**	181,634	**215,515**	181,634
	420,855	233,107	**421,496**	233,107

Cash and cash equivalents, trade receivables, prepayments, deposits and other receivables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for bank loans on similar terms, credit risk and remaining maturities.

35. Share Capital

	2010	2009
	RMB'000	RMB'000
Authorised:		
10,000,000,000 (2009: 10,000,000,000) ordinary shares of HK$0.10 each	**883,800**	883,800
Issued and fully paid:		
1,031,938,020 (2009: 1,027,678,370) ordinary shares of HK$0.10 each	**91,198**	90,826

During the year, the subscription rights attaching to 4,259,650 share options were exercised at the subscription price of HK$2.11 per share, resulting in the issue of 4,259,650 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$8,988,000 (equivalent to approximately RMB7,648,000).

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
At 31 December 2009 and 1 January 2010	1,027,678,370	90,826
Share options exercised	4,259,650	372
At 31 December 2010	1,031,938,020	91,198

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 reserves represent 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 the 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 the 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 GAAP, 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.

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 2009	**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**
Change in the foreign currency translation reserve	—	(9,881)	—	—	(9,881)
Loss for the year	—	—	—	(7,321)	(7,321)
Equity-settled share option arrangement	—	—	1,313	—	1,313
Exercise of employee share options	8,121	—	(1,389)	—	6,732
Dividend paid	(61,991)	—	—	—	(61,991)
At 31 December 2010	209,125	(11,434)	5,979	(5,705)	197,965

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:

	2010	2009
At 1 January	**25,041,880**	26,379,680
Exercised during the year	**(4,259,650)**	(35,500)
Cancelled during the year	**(1,033,500)**	(1,302,300)
At 31 December	**19,748,730**	25,041,880

All holders of options granted under the Pre-IPO 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 relevant percentage 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 the 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 the 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 the 48-month period after the grant date of the options

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 2010, the Company had 19,748,730 share options outstanding under the Pre-IPO 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 19,748,730 additional ordinary shares of the Company and additional share capital of HK$1,975,000 (equivalent to approximately RMB1,681,000) and share premium of HK$39,695,000 (equivalent to approximately RMB33,776,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 19,660,730 share options outstanding under the Pre-IPO Option Scheme, which represented approximately 1.91% of the Company's shares in issue as at that date.

38. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised IFRSs during the current year, the presentation and description of certain items and balances in the financial statements have been revised to comply with the new requirements.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.

FINANCIAL SUMMARY

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**1,925,500**	1,569,700	1,271,523	949,174	702,713
Profit before tax	**249,412**	210,467	165,328	129,369	102,308
Income tax expense	**(49,044)**	(44,807)	(30,793)	(34,318)	(21,962)
Profit for the year	**200,368**	165,660	134,535	95,051	80,346
Attributable to:					
Shareholders of the Company	**187,798**	155,364	128,698	91,163	79,555
Minority interests	**12,570**	10,296	5,837	3,888	791
Assets and liabilities					
Total assets	**1,579,835**	1,270,929	1,163,823	775,041	557,783
Total liabilities	**(420,855)**	(233,107)	(213,927)	(470,726)	(337,963)
Minority interests	**(3,111)**	(7,044)	(8,297)	(16,363)	(8,243)
Equity attributable to shareholders of the Company	**1,155,869**	1,030,778	941,599	287,952	211,577

The summary of the results and assets and liabilities for each of the two 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.