INTERIM REPORT
2011

LITTLE SHEEP

畅享自然生活
Enjoy Natural Life

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
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

COMPANY'S HEAD OFFICE

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

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

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 Highlights and Operating Statistics

	For the six months ended 30 June 2011 (Unaudited) RMB'000	30 June 2010 (Unaudited) RMB'000	% Change Increase/ (Decrease)
Financial Highlights			
Consolidated revenue	**804,483**	701,470	14.7%
Sales from restaurant operations	**729,093**	625,199	16.6%
Consolidated profit before tax from continuing operations	**48,028**	57,228	(16.1%)
Profit after tax from continuing operations	**39,100**	42,206	(7.4%)
Profit attributable to owners of the parent	**30,606**	38,083	(19.6%)
Basic earnings per share (RMB cents)	**2.96**	3.70	(20.0%)
Basic earnings per share for continuing operations (RMB cents)	**3.28**	3.96	(17.2%)

	For the six months ended 30 June 2011	30 June 2010
Operating Statistics of Company-owned Restaurants		
Same store sales growth	**6.9%**	6.9%
Average spending per customer (RMB)	**53.7**	49.9
Utilization rate	**1.32**	1.31

Total number of company-owned restaurants and franchise restaurants as of 30 June 2011 reached 192 and 277 respectively which are located in the following areas:

	Number of Restaurants			
	As of 30 June 2011		As of 31 December 2010	
Region and Province/City	Company-owned	Franchise	Company-owned	Franchise
Northern PRC	**67**	**108**	63	130
Eastern PRC	**54**	**63**	56	58
Southern PRC	**44**	**23**	40	24
Northeastern PRC	**7**	**14**	7	12
Northwestern PRC	**14**	**47**	13	50
Special Administrative Regions	**6**	**—**	5	—
Overseas	**—**	**22**	—	22
Total	**192**	**277**	184	296

	30 June 2011	31 December 2010
Liquidity and Gearing		
Current ratio(1)	**2.71**	2.08
Quick ratio(2)	**1.70**	1.05
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 debts divided by capital and net debts.

Chairman's Statement

Dear Shareholders,

China's economy continued to sustain its strong economic growth in the first half of 2011, further expanding the level of consumer spending. However, inflation, especially for food products, continued to be a major challenge affecting the entire industry. Therefore, Little Sheep Group Limited ("the Company" or "Little Sheep", together with its subsidiaries, "the Group") sought to expand business and control cost by further optimising all corners of the business and by strengthening our deserved reputation for food quality and safety.

The consolidated revenue for the six months ended 30 June 2011 grew 14.7% year-on-year to RMB804.5 million, with same-store sales growing by 6.9%. However, due to the increase in investment for business expansion, the profit attributable to shareholders fell 19.6% to RMB30.6 million.

To counter the effects of inflation, we focused strongly on enhancing our operations and backend management by further optimising our business chain, improving store workflows, and applying more economies of scales to the sourcing of raw materials. We also expanded measures to increase customer traffic by continuing to roll-out our store renovation program, as well as through the use of seasonal campaigns and promotions. Each of these efforts minimised price increases while ensuring that our customers continue to return and enjoy a healthy and memorable dining experience.

A continuous focus on food safety remains of paramount importance to Little Sheep as we continued to align ourselves with the concerns and demands of the public. The Company further reinforced its accountability system and corporate code on management through training and educational initiatives, all of which have been regularly updated to raise the standard of internal inspections. Through these measures, we remained at the forefront of pushing positive change on the issue of food safety within the catering industry while our customers continued to place their trust and confidence in the quality and safety of the products sold under the Little Sheep brand.

Through events such as 315 Quality Month, we sought to increase public awareness on our food safety standards and the health values of our products. These efforts were publically recognised after we were once again named the 2010–2011 China Outstanding Franchise Brand of the Year (2010至2011年度中國特許經營年度大獎) by the China Chain Operation Association (中國連鎖經營協會) and ranked second in the Top 100 Chinese Catering Brands (中國餐飲企業百強) by China Cuisine Association (中國烹飪協會).

On 13 May 2011, we jointly announced with Yum! Brands, Inc. ("Yum!") and Wandle Investments Limited (the "Offeror") (an indirect wholly-owned subsidiary of Yum!) in relation to a pre-conditional proposal for the privatisation of our Company by the Offeror by way of a scheme of arrangement. Yum! (through the Offeror) will offer Little Sheep shareholders HK$6.50 in cash per scheme share. The making of the proposal is subject to the satisfaction of the pre-condition that consent and approval have been obtained from the Ministry of Commerce and other relevant regulatory bodies of the People's Republic of China. We will keep shareholders updated on ongoing developments.

Going forward, the growth of China's consumer sector will continue to be the main catalyst of our corporate development and we will continue to explore ways to further optimise our operations, while prudently taking advantage of strong growth and business opportunities. We will also continue to closely monitor and react to inflationary pressures in order to minimise its effect on our business and customers.

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 we head into the remainder of 2011, we are confident in our ability to protect our profitability, grow our business and create value for all our shareholders.

ZHANG Gang
Chairman

22 August 2011

Management Discussion and Analysis

MANAGEMENT DISCUSSION & ANALYSIS

Market Review

The Chinese economy continued to sustain its upward momentum. In the second quarter of 2011, China's gross domestic product rose 9.5% from a year earlier, while excess liquidity continued to fuel an upsurge in food prices. According to the National Bureau of Statistics of China, food inflation reached 14.4% year-on-year in June 2011, representing a key challenge for Little Sheep's operations. To counter this challenge, Little Sheep focused on business expansion, cost control and operational enhancements to alleviate the effects of surging costs.

With food safety remaining a major concern within society, the PRC Ministry of Health continued to reinforce inspections and regulations within the catering industry. Little Sheep, as an industry leader, persisted in implementing stringent food safety practices across its entire production chain, allowing it to continue providing high quality products and services to retain customers.

Business Review

Little Sheep continued to grow at a steady pace across all business segments. In the six months ended 30 June 2011, the Company's consolidated revenue increased 14.7% year-on-year to RMB804.5 million. The restaurant business remained a key revenue contributor, with same-store sales increasing by 6.9% in the first half of 2011.

To facilitate the future growth of its business, the Company continued its restaurant network expansion and renovation plans, as well as relocating and upgrading its food production facilities. Factors such as inflation, the temporary closure of some stores for renovation and the relocation of production facilities added some pressure to the bottom line in the short-term. As a result, profit attributable to shareholders fell 19.6% to RMB30.6 million in the six months ended 30 June 2011.

Little Sheep's commitment to providing a high quality catering experience once again gained public recognition. In the first half of the year, the Company ranked second in the *Top 100 Chinese Catering Brands* (中國餐飲企業百強) by China Cuisine Association (中國烹飪協會) and was named as one of the *2010 Top 100 Chinese Chain Enterprises* (2010中國連鎖百強企業名單), demonstrating the Company's leadership in the Chinese catering sector.

Restaurant Operations

Restaurant operations were the largest contributor to the Company's revenue in the first half of 2011, accounting for 90.6% of total revenue. Revenue from company-owned restaurants increased 16.6% year-on-year to RMB729.1 million. This increase in revenue was attributable to the opening of new restaurants, growth in same-store sales, and the continuous enhancement of service and dining environments. To further sustain this growth, the Company also implemented the following strategies in the first half of 2011.

- *Strategic network expansion and refurbishment program*

  As part of the Company's prudent long-term expansion strategy, Little Sheep has based dedicated market development teams in different regions. In the first half of 2011, the Company standardized the criteria and execution for the opening of new stores. As a part of routine strategy adjustment, the Company launched 11 new stores and closed 3 stores during the period under review. As of 30 June 2011, the number of company-owned restaurants increased to 192.

  In order to attract more customer traffic and increase customer satisfaction, the Company continued to carry out its restaurant refurbishment program for existing company-owned restaurants. These restaurants were fitted-out with new and innovative designs to provide a comfortable dining environment for customers. In the first half of the year, the Company completed renovation work on eight restaurants, all of which have since resumed operations. Seven restaurants are still undergoing refurbishment.

  All renovation and construction work carried out on new and existing stores was undertaken under systematic management in order to reduce costs, to ensure a standardised and high quality construction process.

- *Work flow optimisation and efficiency improvements*

  Following the successful implementation of centralised kitchens last year, the Company has continued to push initiatives to improve efficiency. In the first half of 2011, the Company further improved front-end and back-end operations by streamlining the ordering and handling process, increasing the speed of delivering table orders and reducing labour workloads. These streamlined processes allowed the Company to allocate its resources more effectively to enhance scale efficiency and lift productivity.

  The Company also introduced and trialled standardised kitchen management policies and inventory management procedures in some restaurants, in order to protect the quality of products and services while reducing wastage. The Company also rolled out new plans to optimise its menus in order to provide better value for money to customers, as well as enhance overall profitability.

- *Promotional campaigns and new product launches*

  Little Sheep launched its annual promotion event — the 315 Quality Month Promotion (315 品質月) on World Consumer Rights Day on March 15. This year, the Company used online media, in addition to the traditional media to showcase Little Sheep's stringent food safety measures which it applies across the entire production chain. The event also featured the introduction of healthy soup bases, which was well received by the public.

  The Company also ran seasonal campaigns to introduce new products and strengthen customer loyalty. Notable examples include the Chinese New Year Promotion and the new product campaign — Mixed Hotpot (愛上混搭), which boosted same-store sales by 15% and 5% respectively.

  Little Sheep's Summer promotion, Golden Natural Tour (金色自然之旅), tied into the introduction of its new Spring-Summer product — Xian-Shu-Yu-Mi-Guo (鮮蔬玉米鍋). The promotion featured discounts for hot pot sets, which aimed at providing new products with better value for money to the customers.

- *Raising customer satisfaction and by enhancing service quality*

  Customer satisfaction is the key driver that underpins Little Sheep's success. In order to measure ongoing customer satisfaction and pinpoint areas for improvement, the Company continued to carry out its "mystery shopper" program. The results of this research were used to develop recommendations and provide training to different restaurants in order to enhance service quality. The Company also regularly organized training workshops to share in-depth knowledge and experience in different regions.

Franchise Business

As of 30 June 2011, revenue from the Company's franchise business fell 18.6% to RMB11.0 million. This was attributable to a lower number of franchise stores as the Company continued to enhance its franchise business by terminating underperforming franchises.

In the first half of 2011, the Company launched a comprehensive training program for its five major franchise districts, alongside internal guidance to facilitate the standardisation of restaurant designs, products, operation and food safety standards. The Company also continued its efforts to regulate franchised restaurants and work more closely with them.

Through the above efforts, Little Sheep continued to be recognised for the excellence of its franchise business by once again being named the *2010–2011 China Outstanding Franchise Brand of the Year* (2010至2011年度中國特許經營年度大獎). The Company also gained recognition for the innovation of its franchise business management and information systems, receiving the *2010–2011 Innovative Franchise Management Award* (2010至2011年度特許經營創新大獎) from the China Chain Store and Franchise Association (中國連鎖經營協會). This recognition is evidence of Little Sheep's unwavering commitment to enhancing the operation of its franchises.

Sale of Food Products

In response to increasing market demand for its food products, the Company further increased the capacity of its production facilities through technology upgrades, the modification of production lines, and by moving production facilities to areas with better peripheral infrastructure. The Company also sought to develop new sales channels. In regions where Little Sheep has a weaker brand presence, the Company increased marketing expenditure to raise brand awareness. In well-developed markets, the Company further enhanced its distribution network. These efforts helped expand Little Sheep's product coverage in both top-tier and lower-tier cities, helping the Company capture more market share.

As of 30 June 2011, revenue from the Company's food product business slightly increased 2.6% to RMB64.0 million. During the period under review, the production and sales of food products were temporarily affected by the relocation of production facilities, and hence slowed down the growth of food business.

In April 2011, the Company announced the deemed disposal of 70% interest in its then subsidiary Inner Mongolia Little Sheep Meat Company Limited ("Little Sheep Meat"). Following the disposal, revenue from the sale of food products by Little Sheep Meat is no longer consolidated into the accounts of the Group.

Brand image reinforcement

Leveraging on its efforts to strengthen the Company's brand image in 2010, Little Sheep continued to maintain a leading role in the catering industry by providing first-class healthy products to its customers. In the first half of 2011, the Company launched a campaign under a theme of "Enjoying Natural Life", which included a series of marketing activities featuring the China Mountaineering Team and the Erguna Band to promote natural lifestyles and the consumption of healthy products. The campaign was widely covered by the traditional and creative media, achieving maximum promotional effect.

In July, Little Sheep organized a concert using the "Enjoying Natural Life" theme to celebrate the 90th anniversary of the Communist Party of China. Featuring fashion styles and prairie culture, the Erguna Band and Little Sheep promoted the history and culture of the prairie, as well as the benefits of a natural and healthy diet. In March, the Company participated in the global "Earth Hour" event, highlighting Little Sheep's commitment to environmental protection and promotion of natural lifestyles.

Food Safety

Little Sheep believes food safety has remained a pivotal element of the Company's success. Therefore, the Company is committed to raising employee awareness towards food safety through training and education, as well as aligning itself with international standards to make full use of risk management protocols.

The Company continued to reinforce its 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 Company also fine-tuned its corporate code to raise the standard of internal inspections on food safety.

As part of the 315 Quality Month Promotion (315 品質月), the Company introduced a holistic approach to food safety management, as well a tracing system. These measures were aimed at reassuring customers that every process of Little Sheep's production chain is carefully monitored.

Information System

In the first half of 2011, the Company continued to promote the adoption of its information system. RIF is a value-adding service which allows users of the system to objectively assess the consumer market and monitor their operations in an effective and scientific manner. The BI system provides business intelligence to Little Sheep's company-owned restaurants on the Company's entire supply chain, as well as performance data on its restaurants, regional branches and headquarters, making it an important decision making tool for management.

The rapid development of information technology at Little Sheep has been a significant achievement, with the strengthening of its internal systems and the improvement of its operation infrastructure. This has continued to enhance and support Little Sheep's customer relationship management, work flow systems, cost control, restaurant management and operation decisions. It has also supported the scientific management and healthy development of Little Sheep.

Business Outlook

Looking ahead, the ongoing transformation of China's economy will support greater consumer activity, which in turn will strongly support ongoing growth in the catering sector, which will underpin the growth of Little Sheep's business. With comprehensive cost control measures already in place, the Company is well placed to deal with rising cost pressures to maintain revenue growth and its profit ratio. However, as the government continues to implement austerity measures to calm inflation, the Company will closely monitor the impact of such austerity measures on food prices, as well as on consumer behaviour, in order to flexibility adjust its business strategy during the rest of 2011.

Customer satisfaction remains the utmost priority for Little Sheep's business development and the Company will continue to deepen its food quality controls to ensure food safety. Little Sheep also remains committed to training its employees and improving its service standards to maintain a higher level of customer satisfaction and customer traffic.

The Company will also continue to strategically expand its restaurant network to capitalise on the increasing spending power of Chinese consumers. The Company will also further enhance workforce efficiency through process optimization and the adoption of information technology.

Through a combination of effective cost controls, forward-looking business expansion and the pursuit of greater efficiency, Little Sheep is optimistic about maintaining its business growth and its ability to create shareholder value.

FINANCIAL REVIEW

Revenue

In the first half of 2011, our total revenue increased by 14.7% year-on-year to RMB804.5 million. The increase was primarily due to an increase in the number of restaurants and growth in same-store sales.

Revenue from restaurant operations

Revenue from the Company's restaurant operations increased by 16.6% year-on-year to RMB729.1 million, which was mostly attributable to additional revenue from newly opened restaurants and growth in same-store sales.

Revenue from sales of food products

Revenue from sales of the Company's food products increased slightly by 2.6% year-on-year to RMB64.0 million, which was mainly due to the increased market share through sales channel development, offset by the interruption of production resulting from relocation of production facilities.

Revenue from franchise operations

Revenue from the Company's franchise operations decreased by 18.6% year-on-year to RMB11.0 million. This was due to a lower number of franchise stores as the Company continued to enhance its franchise business by terminating underperforming franchises.

Revenue from management service fees

Revenue from management service fees represents the monthly fees the Group receives for the provision of restaurant management services to franchisees. In the first half of 2011, revenue from management service fees was RMB0.4 million which remained unchanged over the period.

Other income

Other income, which includes income from the Company's non-core operations, increased by 20.6% year-on-year to RMB19.1 million. This was primarily attributable to an increase in government's subsidies and the sale of low value consumables.

Cost of inventories sold

The cost of inventories sold increased by 13.7% year-on-year to RMB306.9 million. The increase was mainly attributable to a rise in sales volume and the costs of raw materials.

Staff costs

Staff costs rose by 23.1% year-on-year to RMB208.5 million, which was mostly attributable to an overall increase in salaries and other employee benefits, as well as an increase in headcount following the opening of new restaurants.

Depreciation and amortization

Depreciation and amortization amounted to RMB43.4 million, representing an increase of 35.2% year-on-year. This increase was attributable to an overall increase in depreciation and amortization expenses resulting from an increase in the number of restaurants, the renovations of existing restaurants, and an increase in non-current assets in the Company's back office.

Rental expenses

Rental expenses increased by 12.4% year-on-year to RMB85.9 million, mainly due to an increase in the number of company-owned restaurants.

Fuel and utility expenses

Fuel and utility expenses increased by 8.8% year-on-year to RMB38.2 million, which was attributable to an increase in the number of company-owned restaurants.

Other operating expenses

Other operating expenses increased by 19.9% year-on-year to RMB92.4 million, mainly due to an increase in the number of company-owned restaurants and an increase in advertisement, promotional and marketing expenses.

Finance costs

Finance costs during the period amounted to RMB193,000, which primarily comprised of interest expenses.

Income tax expense

Tax expenses fell 40.6% year-on-year to RMB8.9 million, which mainly attributable to a decrease in pre-tax profit during the period.

Profit for the period from continuing operations

Profit from continuing operations for the six month ended 30 June 2011 dropped by 7.4% year-on-year to RMB39.1 million as a result of the cumulative effects of the foregoing factors.

Loss from discontinued operations

The loss from discontinued operations represented the loss after taxation incurred by Inner Mongolia Little Sheep Meat Company Limited up to the date of completion of the deemed disposal of 70% interest in the then subsidiary by the Group.

Profit for the period

Profit for the six months ended 30 June 2011 fell 9.5% year-on-year to RMB35.8 million as a result of the cumulative effects of foregoing factors.

Net profit attributable to owners of the Company

Net profit attributable to owners of the Company in the first half of 2011 was RMB30.6 million, a 19.6% decrease year-on-year due to the cumulative effect of foregoing factors.

Management Discussion and Analysis (continued)

Liquidity and Financial Resources

As at 30 June 2011, the Company's cash and bank balances stood at RMB227.1 million, with net current assets of RMB370.8 million with a current ratio of 2.7.

As at 30 June 2011, total outstanding bank loans stood at RMB40 million.

The Group's revenue and expenses were mainly denominated in Renminbi, while revenue and expenses related to the Group's overseas company-owned restaurants were denominated in foreign currencies, including Hong Kong dollars. Although the Group's operations do not generate significant foreign currency exposure, we will continue to take effective measures and closely monitor foreign currency movements. As at 30 June 2011, the Group did not have any derivative instruments for hedging against foreign exchange risk.

Cash Flow

Net cash inflow from operating activities in the first half of 2011 was RMB134.0 million, which was primarily attributable to increased cash inflow from the Company's revenue.

Net cash outflow from investing activities in the first half of 2011 was RMB82.1 million, which primarily consisted of RMB79.1 million of investments in restaurants, production bases and the acquisition of restaurants. Net cash outflow from financing activities over the period was RMB87.7 million, which mainly comprised of a RMB30.0 million bank loan repayment and dividend payments of RMB59.9 million.

Capital Expenditure

Capital expenditures for the first half of 2011 amounted to RMB58.7 million, which were primarily attributable to expenditures on information technology, the opening and refurbishment of company-owned restaurants, and the construction of production bases.

Our planned capital expenditure for the rest of 2011 was approximately RMB138.0 million which will be funded by internal resources.

Human Resources

As at 30 June 2011, the Group had 14,047 employees. To ensure smooth operation and sustainable development, the Group places high emphasis on human capital and adopts effective measures including competitive remuneration packages and prospects for a promising career to attract and acquire high quality employees. Remuneration packages and promotions are commensurate with market conditions and the individual's qualifications and work experience. In addition, the Group has developed an effective structure to plan, organize, execute and evaluate staff training programs. These programs take place at the Group's headquarters, regional branches and restaurants chains. The Group conducted a number of training courses for front-store managers throughout the period and employed an external training institution to improve management and team work.

Report on Review of Interim Condensed Consolidated Financial Statements

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

We have reviewed the accompanying interim condensed consolidated financial statements of Little Sheep Group Limited (the "Company") and its subsidiaries (together, "the Group") set out on pages 12 to 34, comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

SCOPE OF REVIEW

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

CONCLUSION

Base on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

22 August 2011

Interim Condensed Consolidated Income Statement

Six months ended 30 June 2011

	Notes	For the six months ended 30 June 2011 (Unaudited) RMB'000	30 June 2010 (Unaudited) RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**804,483**	701,470
Other income and gains	4	**19,072**	15,816
Cost of inventories sold	5	**(306,915)**	(269,912)
Staff costs	5	**(208,520)**	(169,393)
Depreciation and amortisation	5	**(43,380)**	(32,076)
Rental expenses	5	**(85,915)**	(76,466)
Fuel and utility expenses		**(38,226)**	(35,148)
Other operating expenses		**(92,378)**	(77,063)
Finance costs	6	**(193)**	—
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS BEFORE TAX		**48,028**	57,228
Income tax expense	7	**(8,928)**	(15,022)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**39,100**	42,206
DISCONTINUED OPERATIONS			
Loss after tax for the period from discontinued operations	10	**(3,264)**	(2,609)
PROFIT FOR THE PERIOD		**35,836**	39,597
Attributable to:			
Owners of the parent		**30,606**	38,083
Non-controlling interests		**5,230**	1,514
		35,836	39,597
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
— Basic (RMB)	9	**2.96 cents**	3.70 cents
— Diluted (RMB)	9	**2.94 cents**	3.67 cents
EARNINGS PER SHARE FOR CONTINUING OPERATIONS:			
— Basic (RMB)		**3.28 cents**	3.96 cents
— Diluted (RMB)		**3.25 cents**	3.92 cents

Interim Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2011

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	**35,836**	39,597
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		
Exchange differences on translation of foreign operations	**1,190**	(1,949)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**37,026**	37,648
Attributable to:		
Owners of the parent	**31,796**	36,134
Non-controlling interests	**5,230**	1,514
	37,026	37,648

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**425,923**	468,685
Deposits for purchases of items of plant and equipment		**23,745**	3,340
Intangible assets		**277,401**	279,158
Land lease prepayments	12	**39,639**	49,808
Long-term deposits		**21,378**	20,140
Long-term receivables		**1,000**	2,000
Investment in associates		**22,083**	—
Deferred tax assets		**7,729**	6,367
		818,898	829,498
CURRENT ASSETS			
Inventories	13	**219,447**	370,941
Trade receivables	14	**12,442**	33,681
Prepayments, deposits and other receivables	15	**128,137**	84,287
Cash and cash equivalents	16	**227,052**	261,428
		587,078	750,337
TOTAL ASSETS		**1,405,976**	1,579,835
CURRENT LIABILITIES			
Bank loans	17	**—**	86,000
Trade payables	18	**39,977**	69,340
Deposits, other payables and accruals	19	**131,263**	136,311
Due to non-controlling equity holders of subsidiaries	20	**43,791**	38,489
Tax payable		**1,270**	30,229
		216,301	360,369
NET CURRENT ASSETS		**370,777**	389,968
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,189,675**	1,219,466
NON-CURRENT LIABILITIES			
Bank loans	17	**40,000**	50,000
Long-term payables		**10,248**	10,486
		50,248	60,486
NET ASSETS		**1,139,427**	1,158,980

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2011

	Note	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
EQUITY			
Equity attributable to owners of the parent			
Issued capital	21	**91,369**	91,198
Reserves		**1,040,426**	1,064,671
		1,131,795	1,155,869
Non-controlling interests		**7,632**	3,111
TOTAL EQUITY		**1,139,427**	1,158,980

Interim Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2011

	Attributable to owners of the Company								
	Issued Capital (Unaudited) RMB'000 (note 21)	**Capital Reserves (Unaudited) RMB'000** (note 21)	**PRC reserve Funds (Unaudited) RMB'000**	**Foreign currency translation Reserve (Unaudited) RMB'000**	**Share option Reserve (Unaudited) RMB'000**	**Retained Profits (Unaudited) RMB'000**	**Total (Unaudited) RMB'000**	**Non-controlling Interests (Unaudited) RMB'000**	**Total Equity (Unaudited) RMB'000**
At 1 January 2011	91,198	524,162	39,149	(7,235)	5,979	502,616	1,155,869	3,111	1,158,980
Profit for the period	—	—	—	—	—	30,606	30,606	5,230	35,836
Other comprehensive income for the period	—	—	—	1,190	—	—	1,190	—	1,190
Total comprehensive income	—	—	—	1,190	—	30,606	31,796	5,230	37,026
Equity-settled share option arrangement (note 5)	—	—	—	—	421	—	421	—	421
Exercise of employee share options	171	5,426	—	—	(2,005)	—	3,592	—	3,592
Dividend paid (note 8)	—	(59,883)	—	—	—	—	(59,883)	—	(59,883)
Acquisition of subsidiaries	—	—	—	—	—	—	—	273	273
Disposal of subsidiaries	—	—	—	—	—	—	—	(982)	(982)
At 30 June 2011	91,369	469,705*	39,149*	(6,045)*	4,395*	533,222*	1,131,795	7,632	1,139,427
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 period	—	—	—	—	—	38,083	38,083	1,514	39,597
Other comprehensive income for the period	—	—	—	(1,949)	—	—	(1,949)	—	(1,949)
Total comprehensive income	—	—	—	(1,949)	—	38,083	36,134	1,514	37,648
Equity-settled share option arrangement (note 5)	—	—	—	—	556	—	556	—	556
Exercise of employee share options	270	6,445	—	—	(1,026)	—	5,689	—	5,689
Dividend paid	—	(61,991)	—	—	—	—	(61,991)	—	(61,991)
Acquisition of subsidiaries	—	—	—	—	—	—	—	590	590
Disposal of subsidiaries	—	—	—	—	—	—	—	320	320
At 30 June 2010	91,096	531,333*	36,985*	(8,898)*	5,585*	355,065*	1,011,166	9,468	1,020,634

* These reserve accounts comprise the consolidated reserves of RMB1,040,426,000 (31 December 2010: RMB1,064,671,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2011

	Note	For the six months ended 30 June 2011 (Unaudited) RMB'000	30 June 2010 (Unaudited) RMB'000
Net cash inflow from operating activities		**134,040**	86,866
Net cash outflow from investing activities		**(82,078)**	(123,608)
Net cash outflow from financing activities		**(87,717)**	(36,906)
Net decrease in cash and cash equivalents		**(35,755)**	(73,648)
Cash and cash equivalents at beginning of period		**261,428**	325,207
Effect of foreign exchange rate changes, net		**1,379**	(311)
Cash and cash equivalents at end of period	16	**227,052**	251,248

Notes to the Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2011

1. CORPORATE INFORMATION

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in 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 PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

IFRS 1 (Amendment)	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adoptors*
IAS 24 (Amendment)	Amendment to IAS 24 *Related Party Transactions*
IAS 32 (Amendment)	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 (Amendments)	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*

Except for the adoption of IAS 24 (Amendment) resulted in amended disclosures, the adoption of these new interpretations and amendments has had no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these interim condensed consolidated financial statements.

2.1 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICES *(continued)*

New standards, interpretations and amendments thereof, adopted by the Group *(continued)*

- **IAS 24 *Related Party Transactions* (Amendment)**

  The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- ***Improvements to IFRSs (issued May 2010)***

  In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

  - IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  - IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of change in equity or in the notes to the financial statements.

2.1 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICES *(continued)*

New standards, interpretations and amendments thereof, adopted by the Group *(continued)*

- ***Improvements to IFRSs (issued May 2010)*** *(continued)*

  Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

  - IFRS 3 *Business Combinations* — Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)

  - IFRS 3 *Business Combinations* — Unreplaced and voluntarily replaced share-base payment awards and its accounting treatment within a business combination

  - IFRS 7 *Financial Instruments* — Disclosure: The measurement was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context

  - IAS 27 *Consolidated and Separate Financial Statements* — applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards

  - IAS 34 *Interim Financial Statements*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements

  - IFRIC 13 *Customer Loyalty Programmes* — in determining the fair value of award credits, any entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. 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:

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

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

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

(d) 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.

3. OPERATING SEGMENT INFORMATION *(continued)*

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2011 and 2010, respectively.

Six months ended 30 June 2011 (unaudited)	**Restaurant operations and provision of catering services RMB'000**	**Sale of food products RMB'000**	**Franchise income RMB'000**	**Others RMB'000**	**Adjustments and eliminations RMB'000**	**Total RMB'000**
Segment revenue:						
Sales to external customers	**729,093**	**63,961**	**11,020**	**409**	**—**	**804,483**
Inter-segment sales	**—**	**119,290**	**—**	**13,480**	**(132,770)[1]**	**—**
Total revenue	**729,093**	**183,251**	**11,020**	**13,889**	**(132,770)**	**804,483**
Segment results						
Segment profit/(loss) before tax	**66,156**	**1,060**	**2,761**	**(4,874)**	**(17,075)[2]**	**48,028**

Six months ended 30 June 2010 (unaudited)	Restaurant operations and provision of catering services RMB'000	Sale of food products RMB'000	Franchise income RMB'000	Others RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	625,199	62,335	13,532	404	—	701,470
Inter-segment sales	—	104,958	—	11,763	(116,721)[1]	—
Total revenue	625,199	167,293	13,532	12,167	(116,721)	701,470
Segment results						
Segment profit/(loss) before tax	64,608	7,613	3,651	(6,564)	(12,080)[2]	57,228

1. Inter-segment revenue are eliminated on consolidation.

2. The profit for each operating segment does not include other income (2011: RMB18,517,000; 2010: RMB15,815,000), unallocated expenses (2011: RMB35,240,000; 2010: RMB28,610,000), nor finance cost (2011: RMB193,000; 2010: Nil).

3. OPERATING SEGMENT INFORMATION *(continued)*

The following table presents segment assets of the Group's operating segments as at 30 June 2011 and 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	Adjustments and eliminations RMB'000	Total RMB'000
Segment assets						
At 30 June 2011 (unaudited)	**615,951**	**540,296**	**1,024,293**	**493,203**	**(1,267,767)[1]**	**1,405,976**
At 31 December 2010 (audited)	637,524	736,175	1,094,861	485,248	(1,373,973)[1]	1,579,835

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

4. 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:

	For the six months ended	
	30 June 2011 (Unaudited) RMB'000	30 June 2010 (Unaudited) RMB'000
Restaurant operations and provision of catering services	**729,093**	625,199
Sale of food products	**63,961**	62,335
Franchise income	**11,020**	13,532
Management service fee income	**409**	404
	804,483	701,470

4. REVENUE, OTHER INCOME AND GAINS *(continued)*

Other Income

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Government grants*	**7,342**	1,005
Promotion income	**2,175**	2,365
Sales of low value consumables	**2,625**	1,722
Rental income	**1,136**	2,010
Interest income on bank balances	**940**	773
Others	**4,697**	3,353
	18,915	11,228

* 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

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Gain on disposal of subsidiaries	**—**	4,338
Gain on disposal of fixed assets	**157**	250
	157	4,588
	19,072	15,816

5. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**306,915**	269,912
Staff costs including directors' remuneration:		
Wages, salaries and bonuses	**182,572**	147,549
Expense of share-based payments	**421**	556
Pension scheme costs	**7,648**	7,377
Social welfare and other costs	**17,879**	13,911
	208,520	169,393
Depreciation and amortisation	**43,380**	32,076
Minimum lease payments under operating leases in respect of buildings	**85,915**	76,466

6. FINANCE COSTS

Finance costs represent the interest on bank borrowings.

7. 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 six months ended 30 June 2011, after obtaining approval from the relevant PRC tax authorities, 18 (30 June 2010: 19) entity of the Group was subject to a preferential corporate income tax rate of 24% (30 June 2010: 22%), 1 (30 June 2010: 3) entity of the Group was exempt from the corporate income tax and 55 (30 June 2010: 46) 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 profits for the six months ended 30 June 2011 (30 June 2010: 16.5%).

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

7. INCOME TAX EXPENSE *(continued)*

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

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Group		
Current income tax	**10,290**	15,117
Deferred income tax	**(1,362)**	(95)
	8,928	15,022

8. DIVIDENDS

At the annual general meeting held on 18 May 2011, the Company's shareholders approved the payment of the final dividend for the year ended 31 December 2010 of HK cents 6.9 per share (equivalent to approximately RMB cents 5.8 per share) which amounted to RMB59,883,000. The dividend declared has been paid as at 30 June 2011.

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2011.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the period is based on the profit attributable to ordinary equity holders of the parent for the period of RMB30,606,000 (30 June 2010: RMB38,083,000) and the weighted average number of 1,032,261,245 ordinary shares (30 June 2010: 1,028,270,170 ordinary shares) of the Company.

The calculation of diluted earnings per share for the six months period ended 30 June 2011 is based on the profit attributable to ordinary equity holders of the parent for the period of RMB30,606,000 (30 June 2010: RMB38,083,000) and on 1,032,261,245 ordinary shares (30 June 2010: 1,028,270,170 ordinary shares), as used in the calculation of basic earnings per share and the weighted average of 10,493,556 ordinary shares (30 June 2010: 9,995,378 ordinary shares) assumed to have been issued at no consideration on the deemed exercise of the Pre-IPO Option Scheme adopted by the Company on 20 December 2007.

10. DISCONTINUED OPERATION

On 12 April 2011, Inner Mongolia Little Sheep Catering Chain Co. Ltd. ("Little Sheep PRC") and Inner Mongolia Little Sheep Meat Company Limited ("Little Sheep Meat"), wholly-owned subsidiaries of the Company, entered into the Capital Increase Agreement ("the Agreement") with certain investors ("the Investors"), pursuant to which the Investors agreed to make capital contributions in a total amount of RMB49,000,000 in cash to the registered capital of Little Sheep Meat. Upon completion of the capital increase according to the Agreement on 27 April 2011, the equity interest held by the Group in Little Sheep Meat was diluted from 100% to 30% of the enlarged registered capital of Little Sheep Meat. Such dilution of 70% interest in Little Sheep Meat constituted a deemed disposal of Little Sheep Meat under IFRS. As such, Little Sheep Meat ceased to be a subsidiary of the Company on 27 April 2011.

The results of Little Sheep Meat are as follows:

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	**41,927**	53,359
Other income	**1,299**	1,197
Cost of Inventories sold	**(38,506)**	(49,349)
Staff costs	**(2,680)**	(1,828)
Depreciation and amortization	**(1,361)**	(1,679)
Rental expenses	**(41)**	(36)
Fuel and utility expenses	**(220)**	(211)
Other operating expenses	**(4,611)**	(4,048)
Finance costs	**(1,233)**	(14)
(Loss) before tax from discontinued operation: Tax income/(expense)	**(5,426)**	(2,609)
Tax expenses	**—**	—
(Loss) for the period from discontinued operation	**(5,426)**	(2,609)
Gain on disposal of the discontinued operation	**2,883**	—
Attributable tax expense	**(721)**	—
(Loss) after tax for the period from a discontinued operation	**(3,264)**	(2,609)
Cash outflow on sale:		
Consideration received	**—**	
Net cash disposed of with the discontinued operation	**(4,879)**	
Net Cash outflow	**(4,879)**	

10. DISCONTINUED OPERATION *(continued)*

The net cash flows incurred by Little Sheep Meat are as follows:

	For the six months ended	
	30 June 2011	30 June 2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Operating	**(5,657)**	7,312
Investing	**114**	(6,085)
Financing	**(1,234)**	(15)
Net cash inflow/(outflow)	**(6,777)**	1,212
Loss per share:		
Basic, from discontinued operations	**(0.32) cents**	(0.26) cents
Diluted, from discontinued operations	**(0.31) cents**	(0.25) cents

As Little Sheep Meat ceased to be a subsidiary of the Company prior to 30 June 2011, its assets and liabilities as at 30 June 2011 are no longer included in the statement of financial position of the Group.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment at a total cost of RMB58,697,000 (31 December 2010: RMB191,380,000), not including property, plant and equipment acquired through business combination.

Property, plant and equipment with a net book value of RMB4,272,000 (30 June 2010: RMB4,503,000) were disposed of by the Group during the six months ended 30 June 2011, resulting in a net loss on disposal of RMB1,774,000 (30 June 2010: a net loss of RMB478,000), not including property, plant and equipment disposed through the disposal of subsidiaries.

12. 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.

As at 30 June 2011, 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 30 June 2011.

13. INVENTORIES

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Raw materials	6,314	8,332
Consumables	17,534	19,487
Food and beverages	195,599	343,122
	219,447	370,941

14. TRADE RECEIVABLES

Trade receivables are non-interest-bearing. An aged analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 3 months	7,102	30,861
3 to 6 months	3,711	1,798
6 to 12 months	1,580	794
1 to 2 years	49	228
	12,442	33,681

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Rental deposits and prepayments	28,449	25,036
Advances to suppliers	66,352	8,944
Prepayments and other receivables	33,336	50,307
	128,137	84,287

Included in the prepayments, deposits and other receivables are advances to suppliers of RMB54,769,000 (31 December 2010: Nil) for purchases of lamb meat from an associate.

16. CASH AND CASH EQUIVALENTS

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

As at 30 June 2011, cash and bank balances of the Group aggregating RMB202,069,000 (31 December 2010: RMB235,225,000) were denominated in Renminbi, which is not freely convertible into other currencies. The remittance of funds out of Mainland China is subject to the exchange restrictions imposed by the PRC government.

17. BANK LOANS

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Bank loans:		
Secured	**—**	12,000
Unsecured	**40,000**	124,000
	40,000	136,000
Bank loans repayable:		
Within one year or on demand	**—**	86,000
In the second year	**40,000**	—
In the third year	**—**	50,000
Total bank loans	**40,000**	136,000
Less: Portion classified as current liabilities	**—**	(86,000)
Non-current portion	**40,000**	50,000

The annual interest rates of the bank loans during the period was 5.90% (31 December 2010: 4.78% to 5.56%). The Group's interest-bearing bank loans were denominated in RMB.

18. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 3 months	**37,796**	66,501
Over 3 months	**2,181**	2,839
	39,977	69,340

19. DEPOSITS, OTHER PAYABLES AND ACCRUALS

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Deposits and advances from customers	**48,693**	43,425
Construction fee payables	**20,212**	19,966
Accrued wages and salaries	**28,688**	31,460
Other payables and accruals	**33,670**	41,460
	131,263	136,311

Included in the deposits, other payables and accruals are rental payables of RMB1,355,000 (31 December 2010: RMB470,000) to directors.

20. DUE TO NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES

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

21. SHARE CAPITAL AND CAPITAL RESERVES

	Number of ordinary shares issued	**Issued share capital** RMB'000	**Capital reserves** RMB'000
At 31 December 2010 and 1 January 2011	1,031,938,020	91,198	524,162
Share options exercised	2,046,600	171	5,426
Dividend paid	—	—	(59,883)
At 30 June 2011	1,033,984,620	91,369	469,705

During the six months ended 30 June 2011, 2,046,600 share options were exercised at HK$2.11 per share. This gives rise to net proceeds from issue of shares amounting to approximately HK$4,318,000 (equivalent to approximately RMB3,629,000).

22. EMPLOYEE SHARE-BASED PAYMENT

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

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

Maximum percentage exercisable		**Period for vesting of the relevant percentage of the option**
Lot 1:	2,637,968 shares (10% of the total number of the options to any grantee)	From the grant date of the options to expiry of the 12-month period after the grant date of the options or of the 6-month period after the date of the initial public offering of the Company (i.e., 12 June 2008), whichever is later
Lot 2:	3,956,952 shares (15% of the total number of the options to any grantee)	From the grant date of the options to expiry of 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

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

23. COMMITMENTS

(i) Operating lease commitments — as lessee

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

As at 30 June 2011, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within one year	**160,139**	154,276
In the second to fifth years, inclusive	**463,315**	468,480
After five years	**208,413**	223,463
	831,867	846,219

(ii) Capital commitments

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Authorised, but not contracted for:		
Construction of a new factory	**14,041**	16,239

24. 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 period:

	Notes	**30 June 2011 (Unaudited) RMB'000**	30 June 2010 (Unaudited) RMB'000
Associate:			
Purchases of lamb meat	(i)	**10,691**	—
Key management personnel of the Group:			
Rental expenses	(ii)	**1,988**	2,298

Notes:

(i) The purchases of lamb meat from the associate Little Sheep Meat were made according to the prevailing market prices and conditions offered by the associate to its major customers. The Group's advances to its associate as at 30 June 2011 are disclosed in note 15 to the financial statements.

(ii) The amount represented rental expenses payable to Mr. Zhang Gang and Mr. Chen Hongkai for leasing four (20 June 2010: 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. The Group's rental payables balances to the directors as at 30 June 2011 are disclosed in note 19 to the financial statements.

25. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period (note 10).

26. EVENT AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Group did not have any significant events taken place subsequent to 30 June 2011.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 22 August 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2011, the Company had complied with all applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct of dealings in securities of the Company by the directors of the Company ("Directors"). Based on specific enquiry with the Directors, all Directors have confirmed that they complied with the required standards set out in the Model Code during the six months ended 30 June 2011, except that Mr. Koo Benjamin Herny Hoo Chung has reported that his wife, without his knowledge, acquired beneficial interest in 240,000 shares in the Company during the period between 2 March 2011 and 18 March 2011. The Company announced its 2010 annual results on 22 March 2011. According to the Model Code, the Directors must not deal in any securities of the Company on that day and during the period of 60 days immediately preceding the publication date of the annual results. Such restrictions on dealings by a Director contained in the Model Code will be regarded as equally applicable to any dealings by a Director's spouse. In addition, a Director must not deal in any securities of the Company without first notifying in writing the Chairman of the Company and receiving a dated written acknowledgement. According to the Company's records, neither a notification was served to the Chairman of the Company nor a dated written acknowledgement was returned before the foregoing dealings were made by the wife of Mr. Koo.

It is the Company's standard practice to send memorandum to all Directors to notify the commencement of blackout periods for every interim and annual results announcements. The Company will remind all the Directors the standards and requirements to be complied with in securities dealings to ensure that such non-compliance will not recur.

AUDIT COMMITTEE

The Audit Committee of the Board has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2011 are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. The interim results for the six months ended 30 June 2011 have been reviewed by the Audit Committee of the Board.

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2011, 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)		0.58%
Koo Benjamin Henry Ho Chung	Interest of spouse	240,000(6)		0.02%

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.

(6) Mr. Koo Benjamin Henry Ho Chung was deemed to be interested in the 240,000 Shares beneficially owned by his spouse, Ms. Tsu Nan Ping, Dora under the SFO.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2011, 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	29.82%
	Interest of a party to an agreement to acquire shares	280,571,030[(1)]	27.13%
Yum! Brands, Inc. ("Yum")	Interest of controlled corporation	280,571,030[(2)]	27.13%
	Interest of a party to an agreement to acquire shares	308,301,875[(3)]	29.82%
FIL Limited	Investment Manager	82,574,000[(4)]	7.99%

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 280,571,030 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 disclose of interest form filed with the Stock Exchange, FIL Limited was interested in an investment manager in 82,574,000 Shares.

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

Other Information (continued)

SHARE OPTION SCHEMES

(1) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted on 20 December 2007, the Company has granted certain options to eligible directors, senior management and employees of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated under the Pre-IPO Share Option Scheme. The Pre-IPO Share Option Scheme will remain in force for a period of 10 years from the adoption date. Since the adoption of the scheme, 26,379,680 options, representing approximately 2.55% of the total issued share capital of the Company as at the date of this interim report, has been granted under the Pre-IPO Share Option Scheme. During the period from 1 January 2011 to 30 June 2011, 2,046,600 and 115,650 share options had been exercised and cancelled respectively. The weight average closing price of the Shares immediately before the dates on which those share options were exercised was HK$5.82 per Share. Details of the share options outstanding as at 30 June 2011 which had been granted under the Pre-IPO Share Option Scheme are as follows:

Name of Grantees	Options outstanding at 1 January 2011	Options granted during the period	Options exercised during the period	Options lapse on expiry	Options cancelled upon termination of employment	Options outstanding at 30 June 2011
Directors of the Company						
Chen Hongkai	300,000	—	—	—	—	300,000
Lu Wenbing	2,487,680	—	—	—	—	2,487,680
Wang Jianhai	750,000	—	—	—	—	750,000
Li Baofang	730,000	—	—	—	—	730,000
Directors of subsidiaries						
Li Lichan	75,000	—	—	—	—	75,000
Hu Guili	50,000	—	27,000	—	—	23,000
Guo Lili	50,000	—	—	—	—	50,000
Wang Yuzhu	50,000	—	27,000	—	—	23,000
Xu Zhonggang	50,000	—	—	—	—	50,000
Li Jianbo	50,000	—	27,000	—	—	23,000
Li Chunmei	38,000	—	—	—	—	38,000
Xie Lixia	38,000	—	—	—	—	38,000
Zhang Xiuping	300,000	—	120,000	—	—	180,000
Other employees	14,780,050	—	1,845,600	—	115,650	12,818,800
	19,748,730	—	2,046,600	—	115,650	17,586,480

Notes:

(1) All options under the Pre-IPO Option Scheme were granted on 28 December 2007 with an exercise price of HK$2.11 per share.

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

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

(2) Share Option Scheme

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

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

Other Information (continued)

PUBLICATION OF INTERIM REPORT

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

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

Hong Kong, 22 August 2011

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

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