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**Yum! Brands, Inc.**

*(Incorporated in North Carolina with limited liability)*

**Wandle Investments Limited**

*(Incorporated in Hong Kong with limited liability)*



**Little Sheep Group Limited**

**小肥羊集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 968)**

**JOINT ANNOUNCEMENT**

**(1) PRE-CONDITIONAL PROPOSAL FOR THE PRIVATISATION OF  
LITTLE SHEEP GROUP LIMITED  
BY THE OFFEROR  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)**

**(2) RESUMPTION OF TRADING IN LITTLE SHEEP SHARES**

**(3) UPDATE OF NUMBER OF LITTLE SHEEP RELEVANT SECURITIES**

Financial Adviser to the Offeror

**Goldman  
Sachs**

Goldman Sachs (Asia) L.L.C.

Financial Adviser to the Company

**BofA Merrill Lynch**

Merrill Lynch (Asia Pacific) Limited

## SCHEME OF ARRANGEMENT

The respective directors of the Offeror and the Company jointly announce that on 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law, subject to satisfaction of the Pre-Condition.

The Proposal will be sought to be implemented by way of the Scheme. The Scheme will provide that the Scheme Shares will be cancelled in exchange for HK\$6.50 in cash for each Scheme Share.

The making of the Proposal is, and the implementation of the Scheme will be, subject to the satisfaction of the Pre-Condition, namely that a filing has been submitted to and accepted by MOFCOM, under the Anti Monopoly Law of the PRC and the Proposal has been cleared or, through the expiration of the relevant statutory time periods for review by MOFCOM has been deemed to have been cleared by MOFCOM under the Anti Monopoly Law of the PRC, on terms reasonably acceptable to the Offeror and if required by law, any consent or approval of any other PRC governmental or regulatory body in relation to the Scheme or the completion thereof has been obtained in terms satisfactory to the Offeror. All references to the Scheme in this announcement are references to the possible Scheme which will be implemented if and only if the Pre-Condition is satisfied.

The Offeror will issue a Further Announcement as soon as practicable after the Pre-Condition has been satisfied or if the Pre-Condition has not been satisfied and the Proposal will not be made.

Under the Scheme, the total consideration payable for cancellation of the Scheme Shares will be payable by the Offeror.

The Cancellation Price represents a premium of approximately 30% over the closing price of HK\$5.00 per Little Sheep Share as quoted on the Stock Exchange on 21 April 2011 (being the trading day prior to the date of suspension of trading in the Little Sheep Shares on the Stock Exchange pending the issuance of this announcement), a premium of approximately 30% over the average closing price of approximately HK\$5.02 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the thirty trading days up to and including 21 April 2011 and a premium of approximately 33% over the average closing price of approximately HK\$4.89 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the sixty trading days up to and including 21 April 2011.

Pursuant to arrangements agreed between the Offeror, Possible Way, and each of the Founders, the Non-Participating Founders and Possible Way have agreed to enter into Share Buyback Agreements under which the Non-Participating Founders will sell their shares in Possible Way to Possible Way and the Participating Founders will sell certain of their shares in Possible Way to Possible Way, in both cases, conditional on the Scheme becoming effective. Possible Way will fund the purchase of the Founders' shares in Possible Way with the cash received from the Offeror upon the Scheme becoming effective in respect of the cancellation of certain of the Founders' Indirect Shares.

Upon the Scheme becoming effective, Yum! will indirectly hold, through the Offeror, approximately 93.22% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.78% of the issued share capital of the Company. Mr. Zhang Gang, the chairman of the Board, and Mr. Chen Hongkai, a non-executive director of the Company, will continue to participate in the Company alongside the Offeror following the implementation of the Scheme. In particular, Mr. Zhang Gang will remain a director of the Company with the title “Founding Chairman” in order to contribute to the stewardship of Little Sheep while Mr. Chen Hongkai will continue his role in the Company, with the title “Founder”. Together the Participating Founders will continue to provide strategic advice on the business and concept development of the Company in the PRC and overseas and work with Yum! to further build the Little Sheep brand.

The listing of the Little Sheep Shares on the Stock Exchange will be withdrawn following the effective date of the Scheme. The implementation of the Proposal and the Scheme will be conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the section headed “Conditions of the Proposal and the Scheme” below. All of the Conditions must be fulfilled or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse.

As at the Announcement Date, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 Little Sheep Shares, and the issued share capital of the Company was HK\$103,265,972 divided into 1,032,659,720 Little Sheep Shares. As at the Announcement Date, the Scheme Shares represented approximately 66.05% of the issued share capital of the Company.

As at the Announcement Date, there were 18,919,480 Outstanding Little Sheep Share Options granted under the Little Sheep Share Option Scheme. The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code. Such Option Offer will be conditional upon the Scheme becoming effective. On the assumption that no Outstanding Little Sheep Share Options are exercised before the Record Date, the amount of cash required for the Proposal (before taking into account the Option Offer to be made) is approximately HK\$4,434 million. On the assumption that all Outstanding Little Sheep Share Options are exercised before the Record Date, the amount of cash required for the Proposal is approximately HK\$4,557 million. The amount of cash required for the Option Offer is approximately HK\$83 million.

The Offeror intends to finance the cash required for the Proposal and the Option Offer from available financial resources of the Yum! Group. Goldman Sachs, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposal and the Option Offer.

Under the Scheme, the share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issuance to the Offeror at par of the same number of Little Sheep Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Little Sheep Shares so issued, credited as fully paid, to the Offeror.

#### **UPDATE OF NUMBER OF LITTLE SHEEP RELEVANT SECURITIES**

In accordance with Rule 3.8 of the Takeovers Code and further to the announcement of Little Sheep on 26 April 2011, the Board hereby announces that the number of Outstanding Little Sheep Shares Options granted under the Little Sheep Shares Option Scheme has been reduced from 18,958,180 as at 26 April 2011 to 18,919,480 as at the Announcement Date due to cancellation of options upon termination of employment of certain Optionholders.

#### **INDEPENDENT BOARD COMMITTEE**

A Little Sheep Independent Board Committee, which comprises Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian, all the independent non-executive directors of the Company, has been established by the Board to make a recommendation to the Independent Little Sheep Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting and to the Optionholders as to its views on the Option Offer.

As each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily are representatives of Yum! appointed to the Board, and Mr. Chen Hongkai is one of the Participating Founders, all the non-executive directors of the Company are regarded as being interested in the Proposal and therefore do not form part of the Little Sheep Independent Board Committee.

#### **INDEPENDENT FINANCIAL ADVISER TO THE LITTLE SHEEP INDEPENDENT BOARD COMMITTEE**

The executive directors of the Company believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Little Sheep Shareholders as a whole.

A Little Sheep Independent Board Committee has been established by the Board to make a recommendation to the Independent Little Sheep Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting, and to the Optionholders as to its views on the Option Offer.

An independent financial adviser will be appointed (with the approval of the Little Sheep Independent Board Committee) to advise the Little Sheep Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer.

As each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung, and Ms. Hsieh Hui-yun Lily are representatives of Yum! appointed to the Board, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest. In addition, as Mr. Zhang Gang, the chairman of the Board, will remain a director of the Company with the title “Founding Chairman” and Mr. Chen Hongkai, a non-executive director of the Company, will continue with his role in the Company with the title “Founder” following the implementation of the Scheme, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest.

#### **DESPATCH OF SCHEME DOCUMENT**

Subject to and after satisfaction of the Pre-Condition, the Scheme Document containing, inter alia, further details of the Proposal and the Scheme, the expected timetable, an explanatory memorandum as required under the Companies Law and the Rules of the Grand Court, information regarding the Company, recommendations from the Little Sheep Independent Board Committee with respect to the Proposal, the Scheme and the Option Offer and the letter of advice from the independent financial adviser to the Little Sheep Independent Board Committee, a notice of the Court Meeting and a notice of an extraordinary general meeting of the Company, together with forms of proxy in relation thereto, will be despatched to the Little Sheep Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code, the Companies Law, the Grand Court and other applicable regulations.

The Offeror has applied to the Executive for its consent pursuant to Note 2 to Rule 8.2 of the Takeovers Code to the despatch of the Scheme Document within seven days after the Pre-Condition is satisfied (or such later date to which the Executive, at the request of the Offeror, may consent).

#### **WITHDRAWAL OF LISTING OF LITTLE SHEEP SHARES**

Upon the Scheme becoming effective, it is anticipated that listing of the Little Sheep Shares on the Stock Exchange will be withdrawn and terminated.

#### **IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES**

The listing of the Little Sheep Shares on the Stock Exchange will not be withdrawn if the Pre-Condition is not satisfied, the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Scheme is not approved or the Proposal otherwise lapses, the Yum! Group would not be restricted under the Takeovers Code from disposing of all or part of its interests in the Company.

**Little Sheep Shareholders and potential investors should be aware that Yum! holds 27.17% of the current issued share capital of the Company and should the Scheme not become effective Yum! would consider its options in relation to its shareholding interests in the Company and would not be restricted under the Takeovers Code from disposing of its interests in the Company. Little Sheep Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Little Sheep Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

## **SUSPENSION AND RESUMPTION OF TRADING IN LITTLE SHEEP SHARES**

At the request of the Company, trading in the Little Sheep Shares on the Stock Exchange was suspended from 9:00 a.m. on 26 April 2011 (Hong Kong time), pending the issuance of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Little Sheep Shares on the Stock Exchange with effect from 9:00 a.m. on 13 May 2011 (Hong Kong time).

**Little Sheep Shareholders and potential investors should be aware that the making of the Proposal and the implementation of the Scheme is subject to satisfaction of, respectively, the Pre-Condition and the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be made and the Scheme may or may not become effective. Little Sheep Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Little Sheep Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

## **INTRODUCTION**

On 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law, subject to satisfaction of the Pre-Condition.

## **TERMS OF THE PROPOSAL**

### **The Scheme**

The Scheme will provide that the Scheme Shares be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$6.50 in cash for each Scheme Share.

Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror.

The Cancellation Price of HK\$6.50 per Scheme Share represents:

- a premium of approximately 30% over the closing price of HK\$5.00 per Little Sheep Share as quoted on the Stock Exchange on 21 April 2011 (being the trading day prior to the date of suspension of trading in the Little Sheep Shares on the Stock Exchange pending the issuance of the possible offer announcement);



- a premium of approximately 29% over the average closing price of approximately HK\$5.06 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including 21 April 2011;
- a premium of approximately 27% over the average closing price of approximately HK\$5.11 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 21 April 2011;
- a premium of approximately 30% over the average closing price of approximately HK\$5.02 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including 21 April 2011;
- a premium of approximately 33% over the average closing price of approximately HK\$4.89 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including 21 April 2011;
- a premium of approximately 31% over the average closing price of approximately HK\$4.97 per Little Sheep Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including 21 April 2011; and
- a premium of approximately 18% over the highest historical closing price of approximately HK\$5.50 per Little Sheep Share up to and including 21 April 2011.

The Cancellation Price per Scheme Share does not include the final dividend of HK\$ 0.069 per Little Sheep Share for the year ended 31 December 2010 proposed to be paid by the Company on or about 31 May 2011 to Little Sheep Shareholders on the Little Sheep shareholder register of members as at the close of business on 18 May 2011.

### **The Option Offer**

The Offeror will make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all Outstanding Little Sheep Share Options in exchange for cash, being an amount equal to HK\$4.39 for each Outstanding Little Sheep Share Option with an exercise price of HK\$2.11. Such Option Offer will be conditional upon the Scheme becoming effective. Further information on the Option Offer will be set out in a letter to the Optionholders which will be despatched as far as practicable contemporaneously with the despatch of the Scheme Document.

### **Total consideration**

On the basis of the Cancellation Price of HK\$6.50 per Scheme Share and 682,088,690 Scheme Shares in issue as at the Announcement Date, the Scheme Shares are in aggregate valued at approximately HK\$4,434 million. Save for the Outstanding Little Sheep Share Options, there are no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which are convertible into Little Sheep Shares.

The total amount of cash required to effect the Proposal (before taking into account the Option Offer) is approximately HK\$4,434 million if none of the Outstanding Little Sheep Share Options are exercised prior to the Record Date. This amount would increase to an aggregate of approximately HK\$4,557 million if all Outstanding Little Sheep Share Options are exercised prior to the Record Date. The total amount of cash required to effect the Option Offer is approximately HK\$83 million.

The Offeror intends to finance the cash required for the Proposal and the Option Offer from available financial resources of the Yum! Group. Goldman Sachs, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the implementation of the Proposal and the Option Offer.

Under the Scheme, the share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror credited as fully paid of the same number of Little Sheep Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Little Sheep Shares so issued, credited as fully paid, to the Offeror.

## **PRE-CONDITION TO THE PROPOSAL AND SCHEME**

The making of the Proposal is, and the implementation of the Scheme will be, subject to the satisfaction of the Pre-Condition, namely that a filing has been submitted to and accepted by MOFCOM under the Anti Monopoly Law of the PRC and the Proposal has been cleared or, through the expiration of the relevant statutory time periods for review by MOFCOM, has been deemed to have been cleared by MOFCOM under the Anti Monopoly Law of the PRC, on terms reasonably acceptable to the Offeror and if required by law, any consent or approval of any other PRC governmental or regulatory body in relation to the Scheme or the completion thereof has been obtained in terms satisfactory to the Offeror. If the Pre-Condition is satisfied on or before the Pre-Condition Long Stop Date, the Offeror will issue the Further Announcement as soon as practicable thereafter. The Pre-Condition is not waivable. All references to the Scheme in this announcement are references to the possible Scheme which will be implemented if and only if the Pre-Condition is satisfied.

**If the Pre-Condition is not satisfied by the Pre-Condition Long Stop Date, the Proposal will not be made, the Scheme will not be implemented (unless the Offeror extends the Pre-Condition Long Stop Date with the consent of the Company) and Little Sheep Shareholders will be notified by a Further Announcement as soon as practicable thereafter.**

## **CONDITIONS OF THE PROPOSAL AND THE SCHEME**

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Little Sheep Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting, provided that:
  - (i) the Scheme is approved (by way of poll) by Independent Little Sheep Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Little Sheep Shareholders that are voted either in person or by proxy at the Court Meeting; and



- (ii) the number of votes cast (by way of poll) by Independent Little Sheep Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Little Sheep Shareholders;
- (b) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Little Sheep Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Little Sheep Shareholders at an extraordinary general meeting of the Company to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Little Sheep Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;
- (c) (i) the receipt of an opinion from the independent financial adviser to the Little Sheep Independent Board Committee confirming that the terms of the Management Incentive Arrangements are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Little Sheep Shareholders at an extraordinary general meeting of the Company to approve the terms of the Management Incentive Arrangements;
- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong, the United States and any other relevant jurisdictions;
- (g) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (h) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Little Sheep Group;

- (i) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order) that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme; and
- (j) since the Announcement Date there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Little Sheep Group (to an extent which is material in the context of the Little Sheep Group taken as a whole or in the context of the Proposal).

The Offeror reserves the right to waive conditions (f), (g), (h), (i), and (j) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which gives rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Conditions Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the conditions.

The implementation of the Option Offer will be conditional upon the Scheme becoming effective.

#### **Warnings:**

**Little Sheep Shareholders and potential investors should be aware that the making of the Proposal and the implementation of the Scheme is subject to the satisfaction, respectively, of the Pre-Condition and the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be made and the Scheme may or may not become effective. Little Sheep Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Little Sheep Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

#### **SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Announcement Date, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 Little Sheep Shares, and the issued share capital of the Company was HK\$103,265,972 divided into 1,032,659,720 Little Sheep Shares. As at the Announcement Date, the Scheme Shares represent approximately 66.05% of the issued share capital of the Company.

On the assumption that no Outstanding Little Sheep Share Options are exercised before the Record Date and the assumption that there is no other change in shareholdings, the table below sets out the shareholding structure of the Company as at the Announcement Date and immediately upon completion of the Proposal:

Little Sheep Shareholders	As at the Announcement Date		Upon completion of the Proposal	
	Number of Little Sheep Shares	%	Number of Little Sheep Shares	%
Offeror	280,571,030	27.17	962,659,720	93.22
Possible Way <sup>1</sup>	308,301,875	29.86	70,000,000	6.78
<b>Participating Founders</b>				
Mr. Zhang Gang	24,901,626	2.41	—	—
Mr. Chen Hongkai <sup>2</sup>	8,753,225	0.85	—	—
<b>Non-Participating Founders</b>				
Mr. Li Xudong	2,479,392	0.24	—	—
Mr. Liu Quanxi	1,043,092	0.10	—	—
Ms. Kou Zhifang	745,000	0.07	—	—
Ms. Li Baofang	5,317,321	0.51	—	—
Mr. Zhang Zhanhai	2,033,343	0.20	—	—
Mr. Sun Xianhong	8,129,001	0.79	—	—
Mr. Lu Wenbing	4,044,264	0.39	—	—
Mr. Lan Jianhua	3,743,916	0.36	—	—
Mr. Wang Daizong	1,359,992	0.13	—	—
Mr. Nishpank Rameshbabu Kankiwala	—	—	—	—
Mr. Yeung Yiu Keung	1,854	0.0002	—	—
Relevant members of the Goldman Sachs group	734,000	0.07	—	—
Aggregate number of Little Sheep Shares of the Offeror and the Offeror Concert Parties	652,158,931	63.15	1,032,659,720	100.00
FIL Limited <sup>3</sup>	82,574,000	8.00	—	—
Other public Little Sheep Shareholders	297,926,789	28.85	—	—
Total number of Independent Little Sheep Shareholders	380,500,789	36.85	—	—
Total	<u>1,032,659,720</u>	<u>100.00</u>	<u>1,032,659,720</u>	<u>100.00</u>
Total number of Scheme Shares	682,088,690	66.05		

*Notes:*

1. As at the Announcement Date, Possible Way is owned as to 25.50% by Mr. Zhang Gang (a Participating Founder) and 18.36% by Supergrand Holdings Investments Limited (the trustee of the family trust of Mr. Chen Hongkai, a Participating Founder), 5.57% by Mr. Lu Wenbing, 4.50% by Mr. Zhang Zhanhai and 6.13% by Ms. Li Baofang (each an executive director of the Company and a Non-Participating Founder). The remaining 39.94% is held by eight individuals (including Mr. Lan Jianhua (the chairman of the supervisory committee of the principal operating subsidiary of the Little Sheep Group in the PRC, who is responsible for the administration department of the headquarters of the Company in Baotou, Inner Mongolia), Ms. Kou Zhifang (a senior vice president of the Company and responsible for the management of the Group's Eastern PRC restaurant operations), Mr. Nishpank Rameshbabu Kankiwala, Mr. Wang Daizong and Mr. Yeung Yiu Keung (all former directors of the Company) and Mr. Li Xudong, Mr. Liu Quanxi and Mr. Sun Xianhong (all private individuals))
2. As at the Announcement Date, Mr. Chen Hongkai is the beneficial owner of 8,519,122 Little Sheep Shares. In addition, Mr. Chen Hongkai is the sole settlor of a family trust constituted by a trust deed signed between him as the settlor and HSBC International Trustee Limited as the trustee dated 25 May 2009. Palace Glory Investments Limited, a wholly-owned subsidiary of HSBC International Trustee Limited, is, as at the Announcement Date, the registered holder of 234,103 Little Sheep Shares which form part of the assets of the family trust of Mr. Chen Hongkai. Therefore, Mr. Chen Hongkai is deemed to be interested in an aggregate of 8,753,225 Little Sheep Shares.
3. Based on the disclosure of interest form filed with the Stock Exchange, FIL Limited was interested as an investment manager in 82,574,000 Little Sheep Shares.

Following the effective date of the Scheme and the withdrawal of listing of the Little Sheep Shares on the Stock Exchange, Yum! will indirectly hold, through the Offeror, approximately 93.22% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.78% of the issued share capital of the Company.

As at the Announcement Date, the Offeror held 280,571,030 Little Sheep Shares representing approximately 27.17% of the issued share capital of the Company, Possible Way held 308,301,875 Little Sheep Shares representing approximately 29.86% of the issued share capital of the Company, the Participating Founders are interested in 33,654,851 Little Sheep Shares representing approximately 3.26% of the issued share capital of the Company and the Non-Participating Founders are interested in 28,897,175 Little Sheep Shares representing approximately 2.80% of the issued share capital of the Company. As at the Announcement Date, the Offeror and the Offeror Concert Parties held in aggregate 652,158,931 Little Sheep Shares, representing approximately 63.15% of the issued share capital of the Company.

As at the Announcement Date, there were 18,919,480 Outstanding Little Sheep Share Options granted under the Little Sheep Share Option Scheme, of which 300,000 Outstanding Little Sheep Share Options were held by Participating Founders, 3,217,680 Outstanding Little Sheep Share Options were held by Non-Participating Founders, 750,000 Outstanding Little Sheep Share Options were held by Mr. Wang Jianhai, a director of the Company and the remaining 14,651,800 Outstanding Little Sheep Share Options were held by employees of the Little Sheep Group. The exercise price of each of those Outstanding Little Sheep Share Options is HK\$2.11. The Offeror will, as far as practicable contemporaneously with the despatch of the Scheme Document, make (or procure to be made on its behalf) an appropriate offer to the Optionholders in accordance with Rule 13 of the Takeovers Code, such Option Offer to be conditional upon the Scheme becoming effective. In the event that any of the Outstanding Little Sheep Share Options are exercised on or prior to the record date for the Scheme in accordance with the relevant provisions of the Little Sheep Share Option Scheme, any Little Sheep Shares issued as a result of the exercise of such outstanding share options will be subject to and eligible to participate in the Scheme.

As at the Announcement Date, there were no options, warrants or convertible securities in respect of the Little Sheep Shares held, controlled or directed by the Offeror or the Offeror Concert Parties (other than 3,517,680 Outstanding Little Sheep Share Options held by the Participating Founders and Non-Participating Founders) or outstanding derivatives in respect of the Little Sheep Shares entered into by the Offeror or the Offeror Concert Parties and save for the Outstanding Little Sheep Share Options, the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into Little Sheep Shares as at the Announcement Date.

As each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily are representatives of Yum! appointed to the Board, and Mr. Chen Hongkai is one of the Participating Founders, all the non-executive directors of the Company are regarded as being interested in the Proposal and therefore do not form part of the Little Sheep Independent Board Committee.

### **INDEPENDENT BOARD COMMITTEE**

A Little Sheep Independent Board Committee, which comprises Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian, all the independent non-executive directors of the Company, has been established by the Board to make a recommendation to the Independent Little Sheep Shareholders as to whether the Proposal is, or is not, fair and reasonable and as to voting and to the Optionholders as to its views on the Option Offer.

### **INDEPENDENT FINANCIAL ADVISER TO THE LITTLE SHEEP INDEPENDENT BOARD COMMITTEE**

The executive directors of the Company believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Little Sheep Shareholders as a whole. However, an independent financial adviser will be appointed (with the approval of the Little Sheep Independent Board Committee) to advise the Little Sheep Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer.

As each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung, and Ms. Hsieh Hui-yun Lily are representatives of Yum! appointed to the Board, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest. In addition, as Mr. Zhang Gang, the chairman of the Board, will remain a director of the Company with the title “Founding Chairman” and Mr. Chen Hongkai, a non-executive director of the Company, will continue with his role in the Company with the title “Founder” following the implementation of the Scheme, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest.

### **IRREVOCABLE UNDERTAKINGS**

Possible Way, the Participating Founders and the Non-Participating Founders have each given an irrevocable undertaking to the Offeror.

#### **Possible Way**

Under the irrevocable undertaking given by Possible Way, Possible Way has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise the voting rights in respect of the 308,301,875 Little Sheep Shares which are the subject of its undertaking, representing approximately 29.86% of the issued share capital of



the Company as at the Announcement Date, on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that it shall be bound by, and do all acts and things necessary to implement, the Scheme.

However, as an Offeror Concert Party, none of the Little Sheep Shares held by Possible Way will be voted on the Scheme at the Court Meeting.

Under the irrevocable undertaking, Possible Way has also undertaken to enter into the Share Buyback Agreements as soon as reasonably practicable. The irrevocable undertaking also provides that before the Scheme becomes effective, lapses or is withdrawn, Possible Way shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Little Sheep Shares which are the subject of its undertaking, nor will it accept any other offer in respect of all or any of such Little Sheep Shares.

### **Participating Founders**

Under the irrevocable undertakings given by the Participating Founders, each of the Participating Founders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of Little Sheep Shares owned by him directly in the Company which are the subject of his undertakings, on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that he shall be bound by, and do all acts and things necessary to implement, the Scheme and that they shall accept the Option Offer (to the extent applicable).

However, as an Offeror Concert Parties, none of the Little Sheep Shares held by the Participating Founders will be voted on the Scheme at the Court Meeting.

Under the irrevocable undertakings, each of the Participating Founders has also undertaken to use his reasonable endeavours to procure the signing of (and in respect of the Share Buyback Agreement relating to the buyback of certain of his shares in Possible Way, to enter into) the Share Buyback Agreement as soon as reasonably practicable. The irrevocable undertakings given by the Participating Founders also provide that the Participating Founders shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Little Sheep Shares or shares which they hold in Possible Way which are the subject of the undertaking, nor will they accept any other offer in respect of all or any of such Little Sheep Shares. Under the irrevocable undertaking given by Mr. Chen Hongkai, Mr. Chen Hongkai has further undertaken to accept the Option Offer in respect of the Outstanding Little Sheep Share Options held by him.

### **Non-Participating Founders**

Under the irrevocable undertakings given by the Non-Participating Founders, each of the Non-Participating Founders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or as the case may be, to procure the exercise of the voting rights in respect of Little Sheep Shares owned by him or her directly in the Company which are the subject of his or her undertakings, on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions,

to vote in favour of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company and that he or she shall be bound by, and do all acts and things necessary to implement, the Scheme and that he or she shall accept the Option Offer (to the extent applicable).

However, as Offeror Concert Parties, none of the Little Sheep Shares held by the Non-Participating Founders will be voted on the Scheme at the Court Meeting.

Under the irrevocable undertakings, each of the Non-Participating Founders has undertaken to enter into a Share Buyback Agreement with Possible Way as soon as reasonably practicable. The irrevocable undertakings given by the Non-Participating Founders also provide that before the Scheme becomes effective, lapses or is withdrawn, the Non-Participating Founders shall not sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Little Sheep Shares or shares which they hold in Possible Way which are the subject of the undertakings, nor will they accept any other offer in respect of all or any of such Little Sheep Shares.

Under the terms of the irrevocable undertakings given by Possible Way, the Participating Founders and the Non-Participating Founders, the undertakings will lapse (a) if this announcement has not been released by 31 May 2011 (or such later date as the Offeror and Possible Way, the Participating Founders and the Non-Participating Founders (as the case may be) may agree), (b) if the Pre-Condition is not satisfied by 31 December 2011 (or such later date as the Offeror and Possible Way, the Participating Founders and the Non-Participating Founders (as the case may be) may agree), or (c) if the Scheme lapses or is withdrawn in accordance with its terms.

## **SHARE BUYBACK AGREEMENTS**

As at the Announcement Date, Possible Way has issued in aggregate 10,000 ordinary shares with no par value.

In accordance with the terms of the Irrevocable Undertakings, Possible Way will enter into Share Buyback Agreements with:

- (i) each of the Non-Participating Founders pursuant to which, conditional upon the Scheme becoming effective, Possible Way shall buy back from each Non-Participating Founder all of their shares in Possible Way in consideration for an amount in cash equal to the Scheme Proceeds Entitlement of each such Non-Participating Founder net of any applicable taxes or fees. For the purposes of this paragraph, the Scheme Proceeds Entitlement of a Non-Participating Founder shall be an amount equal to  $A$  multiplied by  $B$ , where:

$A$  is the proportion of the Little Sheep Shares owned by Possible Way (expressed as a number of Little Sheep Shares) that is pro rata to the proportion of the aggregate issued share capital of Possible Way which is owned by such Non-Participating Founder; and

$B$  is the Cancellation Price;

- (ii) with Mr. Zhang Gang, pursuant to which, conditional upon the Scheme becoming effective, Possible Way shall buy back from Mr. Zhang Gang 604 shares in Possible Way in consideration for an amount in cash equal to 18,616,978 (being the attributable number

of Little Sheep Shares in which Mr. Zhang Gang is interested through Possible Way and which are being cancelled under the Scheme) multiplied by the Cancellation Price, net of any applicable taxes or fees; and

- (iii) with Supergrand Holdings Investments Limited (which is a wholly owned subsidiary of HSBC International Trustee Limited, which is the trustee of the family trust of which Mr. Chen Hongkai is the sole settlor) pursuant to which, conditional upon the Scheme becoming effective, Possible Way shall buy back from Supergrand Holdings Investments Limited 1,512 shares in Possible Way in consideration for an amount in cash equal to 46,604,224 (being the attributable number of Little Sheep Shares in which Supergrand Holdings Investments Limited is interested through Possible Way and which are being cancelled under the Scheme) multiplied by the Cancellation Price, net of any applicable taxes or fees.

Following the completion of the buyback of shares in Possible Way, Possible Way will hold 70,000,000 Little Sheep Shares and Mr. Zhang Gang and Supergrand Holdings Investments Limited will be the only shareholders of Possible Way, holding approximately 85.71% and 14.29%, respectively, of the issued share capital of Possible Way.

## **REASONS FOR AND BENEFITS OF THE PROPOSAL**

The highly fragmented domestic full-service restaurant industry in China has seen intensifying competition over the past years. In such a highly competitive market, Yum! believes that the privatisation of Little Sheep will enable Little Sheep to achieve a more economically viable business model in the market and to better tap its potential opportunities.

Yum! is the largest global restaurant operator in terms of system units, and the PRC has become Yum!'s number one market in terms of restaurant development. Yum! believes that a stronger partnership with Little Sheep will accelerate the development of the Little Sheep brand, its business model as well as its market position in the long-term.

Yum! believes that the Company will benefit from the available flexibilities a non-listed company has, including access to additional growth capital from Yum! at short notice and without exposure to market volatility, being able to make decisions pertaining to investments focused on the long-term benefits they bring to Little Sheep's business and not being distracted or pressurised to deliver short and medium term performance for the benefit of its public shareholders due to the requirement of regular reporting and disclosure of its financial results and the ability to keep confidential certain commercially sensitive data including margins and corporate strategies.

In addition, the listing of the Little Sheep Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for Little Sheep's business operations.

If the Scheme is implemented, Yum! expects to use its experience in China restaurant operations to help support the development of the existing hot pot restaurant business of Little Sheep built by Mr. Zhang Gang and Mr. Chen Hongkai, so that Little Sheep may continue to provide consumers with fine restaurant service and dining experience. Little Sheep is a recognised brand in the PRC and is highly complementary to Yum!'s business portfolio.

Mr. Su Jing Shyh Samuel, vice-chairman of the board of directors of Yum! and chief executive officer of the China division of Yum!, said, “Yum! first entered into China in 1987. We have been operating based on the principle of “Rooted in China, Part of China” (“立足中國、融入生活”) The restaurant industry in China is highly competitive, but we are optimistic about the outlook and the opportunities. With strong commitment to the China market and to the Little Sheep business, together with the support from Chairman Zhang, Mr. Chen and the existing management, we are confident we can further strengthen Little Sheep’s brand, business model and market position in the industry. We have seen from Little Sheep’s previous explorations that there is a demand for the hot pot concept in overseas markets and that there is the potential for further development internationally. In the long term, with its global business network and successful brand building experience, Yum! will work with Little Sheep to explore effective ways of introducing the hot pot concept and the Little Sheep brand to a wider global audience.”

Mr. Zhang Gang, the chairman of the Board and a Participating Founder, said, “Since the inception of Little Sheep, we have been operating the business with an open-mind and a vision beyond the domestic market. Following the introduction of foreign investors in 2006, our Hong Kong-listing in 2008 and Yum! becoming a strategic investor in 2009, this opportunity is a way to continue exploring best opportunities for Little Sheep. I believe that the strong capability and expertise Yum! possesses in managing world class brands and growing restaurant networks will significantly further Little Sheep’s development in China and overseas, and should leave us well positioned to develop into an internationally-recognised restaurant chain. I am looking forward to my continued participation in the Company after the successful completion of the transaction. I am optimistic about Little Sheep’s long-term prospects and am committed to working with our business partners and employees to provide high quality, healthy Chinese food to a growing customer base in the future.”

## **INFORMATION ON THE COMPANY**

The Company is a company incorporated in the Cayman Islands with limited liability, whose shares have been listed on the Main Board of the Stock Exchange since 12 June 2008. The Little Sheep Group is principally engaged in the operation of a full service restaurant chain, provision of catering services and sale of related food products.

## **INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of Yum!. The principal activity of the Offeror is investment holding.

## **INFORMATION ON YUM!**

Yum! is a company incorporated in North Carolina with limited liability, whose shares are listed on the NYSE. Yum! is the world’s largest restaurant company based on number of system units, with nearly 38,000 units in more than 110 countries and territories. Through the five concepts of KFC, Pizza Hut, Taco Bell, Long John Silver’s and A&W, Yum! develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items.

Based in Shanghai, the China division of Yum! Brands, Inc. is recognised for its size, unique strength and importance. In 2010, the China division of Yum! opened more than 500 new restaurants in mainland China. KFC also continues to be the number one quick-service

restaurant brand in mainland China today, with over 3,200 restaurants in more than 700 cities. Pizza Hut is also the number one casual dining brand in mainland China with 520 Pizza Hut casual dining restaurants in over 130 cities.

## **HEAD OFFICE OF THE COMPANY**

The Offeror has committed to maintain the registered place of business of the Company's principal operating subsidiary, Inner Mongolia Little Sheep Catering China Company Limited, in Baotou, Inner Mongolia, the PRC for a period of at least three years following the Scheme becoming effective.

## **WITHDRAWAL OF LISTING OF LITTLE SHEEP SHARES**

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Little Sheep Shares on the Stock Exchange immediately following the effective date of the Scheme. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Little Sheep Shares and on which the Scheme and the withdrawal of the listing of the Little Sheep Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme will be included in the Scheme Document, which will also contain, inter alia, further details of the Scheme.

## **IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES**

The listing of the Little Sheep Shares on the Stock Exchange will not be withdrawn if the Pre-Condition is not satisfied, the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Proposal lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Scheme is not approved or the Proposal otherwise lapses, the Yum! group would not be restricted under the Takeovers Code from disposing of all or part of its interests in the Company.

**Little Sheep Shareholders and potential investors should be aware that Yum! holds 27.17% of the current issued share capital of the Company and should the Scheme not become effective Yum! would consider its options in relation to its shareholding interests in the Company and would not be restricted under the Takeovers Code from disposing of its interests in the Company. Little Sheep Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Little Sheep Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**



## **OVERSEAS SHAREHOLDERS**

The making and implementation of the Proposal to Scheme Shareholders and the Option Offer to holders of Outstanding Little Sheep Share Options who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and such holders of Outstanding Little Sheep Share Options respectively are located. Such Scheme Shareholders and holders of Outstanding Little Sheep Share Options should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and overseas holders of Outstanding Little Sheep Share Options wishing to take any action in relation to the Proposal and the Option Offer respectively to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

## **SCHEME SHARES, MEETING OF SCHEME SHAREHOLDERS AND EXTRAORDINARY GENERAL MEETING OF THE COMPANY**

As at the Announcement Date, the Offeror held 280,571,030 Little Sheep Shares representing approximately 27.17% of the issued share capital of the Company. Such Little Sheep Shares will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting.

As at the Announcement Date, Possible Way held 308,301,875 Little Sheep Shares representing approximately 29.86% of the issued share capital of the Company. Of such Little Sheep Shares, 70,000,000, being the Participating Founders' Indirect Shares not subject to the Share Buyback Agreements, will not form part of the Scheme Shares, approximately 65,221,202, being the Participating Founders' Indirect Shares subject to the Share Buyback Agreements, will form part of the Scheme Shares and approximately 173,080,673, being the Non-Participating Founders' Indirect Shares, will form part of the Scheme Shares. None of the Little Sheep Shares held by Possible Way will be voted on the Scheme at the Court Meeting.

As at the Announcement Date, the Participating Founders directly held 33,654,851 Little Sheep Shares representing approximately 3.26% of the issued share capital of the Company. Such Little Sheep Shares will form part of the Scheme Shares but will not be voted on the Scheme at the Court Meeting. As at the Announcement Date, the Non-Participating Founders directly held 28,897,175 Little Sheep Shares representing approximately 2.80% of the issued share capital of the Company. Such Little Sheep Shares will form part of the Scheme Shares but will not be voted on the Scheme at the Court Meeting.

As at the Announcement Date, members of the Goldman Sachs group (except those which are exempt principal traders and exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code) which are presumed to be acting in concert with the Offeror in relation to the Proposal under the Takeovers Code held 734,000 Little Sheep Shares representing approximately 0.07% of the issued share capital of the Company. Such Little Sheep Shares will form part of the Scheme Shares but will not be voted on the Scheme at the Court Meeting. In addition, pursuant to Rule 35.4 of the Takeovers Code, any Little Sheep Shares held by a connected exempt principal trader will not be voted on the Scheme at the Court Meeting.

The Little Sheep Shares held by the Offeror, a wholly-owned subsidiary of Yum!, will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective. In addition, the Participating Founders' Indirect Shares not subject to the Share Buyback Agreements will not form part of the Scheme Shares and will not be cancelled upon the Scheme becoming effective.

Each of the Offeror, Possible Way and the Founders have agreed to undertake to the Grand Court that each of them will be bound by the Scheme, so as to ensure that they will be subject to the terms and conditions of the Scheme.

All Little Sheep Shareholders will be entitled to attend the extraordinary general meeting of the Company and vote on (i) the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Little Sheep Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror. Each of the Offeror, Possible Way, the Participating Founders and the Non-Participating Founders has indicated that if the Scheme is approved at the Court Meeting, those Little Sheep Shares held by each of them will be voted in favour of the resolutions to be proposed at the extraordinary general meeting of the Company.

## **MANAGEMENT INCENTIVE ARRANGEMENTS WITH PARTICIPATING FOUNDERS**

### **Shareholders' Agreement**

The Offeror, Possible Way and the Participating Founders have agreed on the principal terms governing their relationship as Little Sheep Shareholders and it is expected that they will enter into a shareholders' agreement which will be conditional upon the Scheme becoming effective.

Pursuant to the proposed terms of the Shareholders' Agreement, the Offeror will grant Possible Way an option to require the Offeror to buy some or all of the Little Sheep Shares held by Possible Way at an equity value to be agreed between the parties and failing which, to be determined based on a pre-agreed formula. Such option shall not be exercisable at any time before the third anniversary of the Scheme becoming effective. The Offeror's obligations under the Shareholders' Agreement will be guaranteed by Yum! China. In addition, the Participating Founders will agree that the Little Sheep Shares held by Possible Way cannot be transferred, charged, pledged or otherwise disposed of without the Offeror's consent or unless such transfer is pursuant to certain drag-along and tag-along rights in the Shareholders' Agreement.

The Shareholders' Agreement has yet to be entered into and further details of its full terms will be set out in the Scheme Document.

Upon the Scheme becoming effective Mr. Zhang Gang will remain a director of the Company with the title "Founding Chairman" in order to contribute to the stewardship of Little Sheep while Mr. Chen Hongkai will continue his role in the Company, with the title "Founder". Together the Participating Founders will continue to provide strategic advice on the business and concept development of the Company in the PRC and overseas and work with Yum! to further build the Little Sheep brand.

## **Approval of Management Incentive Arrangements**

As the Management Incentive Arrangements are only being entered into by the Participating Founders and are not being offered to all Little Sheep Shareholders, the Management Incentive Arrangements require the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Offeror has made an application for consent from the Executive in relation to the Management Incentive Arrangements conditional on the independent financial adviser to the Little Sheep Independent Board Committee confirming that the terms of the Management Incentive Arrangements are fair and reasonable, and the passing of an ordinary resolution by the Independent Little Sheep Shareholders at an extraordinary general meeting of the Company to approve the terms of the Management Incentive Arrangements.

The Management Incentive Arrangements are intended to incentivise the Participating Founders to remain financially involved in the business and to allow them to continue to contribute to the development of Little Sheep's business through their unique experience and expertise in the hot pot restaurant business, their knowledge of, and insights into, the local restaurant market, as well as through their long-established relationships with suppliers, regulators, local authorities, management and employees of the Little Sheep Group. Under the terms of the Management Incentive Arrangements, the Participating Founders will be financially incentivised to achieve long-term growth of the business of the Company.

Accordingly, as set out in Condition (c), the Proposal and the Scheme are subject to (i) the receipt of an opinion from the independent financial adviser to the Little Sheep Independent Board Committee confirming that the terms of Management Incentive Arrangements are fair and reasonable, and (ii) the passing of an ordinary resolution by the Independent Little Sheep Shareholders at an extraordinary general meeting of the Company to approve the terms of the Management Incentive Arrangements.

## **SUSPENSION AND RESUMPTION OF TRADING IN LITTLE SHEEP SHARES**

At the request of the Company, trading in the Little Sheep Shares on the Stock Exchange was suspended from 9:00 a.m. on 26 April 2011 (Hong Kong time), pending the issuance of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Little Sheep Shares on the Stock Exchange with effect from 9:00 a.m. on 13 May 2011 (Hong Kong time).

## **COSTS OF THE SCHEME**

If the the Little Sheep Independent Board Committee or the independent financial adviser to the Little Sheep Independent Board Committee do not recommend the Proposal, the Scheme or the Option Offer, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

## **GENERAL**

The Offeror has appointed Goldman Sachs as its financial adviser in connection with the Proposal.

The Company has appointed BofA Merrill Lynch as its financial adviser in connection with the Proposal.

The Board comprises 12 directors, five of whom (Mr. Zhang Gang, Mr. Lu Wenbing, Mr. Zhang Zhanhai, Ms. Li Baofang and Mr. Wang Jianhai) are executive directors, four of whom (Mr. Chen Hongkai, Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily) are non-executive directors and the remaining three of whom (Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian) are independent non-executive directors. The executive directors of the Company believe that the terms of the Proposal and the Scheme are fair and reasonable and in the interests of the Little Sheep Shareholders as a whole. However, a Little Sheep Independent Board Committee, which comprises all independent non-executive directors of the Company, has been established by the board of directors of the Company to make a recommendation to the Independent Little Sheep Shareholders and the Optionholders in connection with the Proposal, the Scheme and the Option Offer respectively. In addition, an independent financial adviser will be appointed (with the approval of the Little Sheep Independent Board Committee) to advise the Little Sheep Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer. An announcement will be made by the Company as soon as possible after the appointment of such independent financial adviser.

As each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung, and Ms. Hsieh Hui-yun Lily are representatives of Yum! appointed to the Board, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest. In addition, as Mr. Zhang Gang, the chairman of the Board, will remain a director of the Company with the title “Founding Chairman” and Mr. Chen Hongkai, a non-executive director of the Company, will continue with his role in the Company with the title “Founder” following the implementation of the Scheme, they have and will continue to abstain from voting at meetings of the Board on matters in relation to the Proposal so as to avoid a conflict of interest.

Save for the Proposal, the Scheme and the Option Offer and the Irrevocable Undertakings, there are no arrangements (whether by way of option, indemnity or otherwise) relating to relevant securities which may be an inducement to deal or refrain from dealing as described in Note 8 to Rule 22 of the Takeovers Code between the Offeror or any of the Offeror Concert Parties and any other person in relation to shares of the Offeror or the Little Sheep Shares which might be material to the Proposal.

There are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposal.

The Offeror and the Offeror Concert Parties have not borrowed or lent any Little Sheep Shares or any other securities of the Company as at the Announcement Date.

Save in respect of the Irrevocable Undertakings, no irrevocable commitment to vote for or against the Scheme has been received by the Offeror or, so far as the Offeror is aware, the Offeror Concert Parties, as at the Announcement Date.

## **DESPATCH OF SCHEME DOCUMENT**

Subject to and after satisfaction of the Pre-Condition, the Scheme Document containing, inter alia, further details of the Proposal and the Scheme, the expected timetable, an explanatory memorandum as required under the Companies Law and the Rules of the Grand Court, information regarding the Company, recommendations from the Little Sheep Independent Board Committee with respect to the Proposal, the Scheme and the Option Offer and the letter

of advice from the independent financial adviser to the Little Sheep Independent Board Committee, a notice of the Court Meeting and a notice of an extraordinary general meeting of the Company, together with forms of proxy in relation thereto, will be despatched to the Little Sheep Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code, the Companies Law, the Grand Court and other applicable regulations.

The Offeror has applied to the Executive for its consent pursuant to Note 2 to Rule 8.2 of the Takeovers Code to the despatch of the Scheme Document within seven days after the Pre-Condition is satisfied (or such later date to which the Executive, at the request of the Offeror, may consent).

## **UPDATE OF NUMBER OF LITTLE SHEEP RELEVANT SECURITIES**

In accordance with Rule 3.8 of the Takeovers Code and further to the announcement of Little Sheep on 26 April 2011, the Board hereby announces that the number of Outstanding Little Sheep Shares Options granted under the Little Sheep Shares Option Scheme has been reduced from 18,958,180 as at 26 April 2011 to 18,919,480 as at the Announcement Date due to cancellation of options upon termination of employment of certain Optionholders.

In accordance with Rule 3.8 of the Takeovers Code, associates of the Company and Yum! (including persons holding 5% or more of a class of relevant securities of the Company or Yum!) are reminded to disclose their dealings in the securities of the Company pursuant to the Takeovers Code.

## **DEFINITIONS**

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Announcement Date”	13 May 2011, being the date of this announcement
“associates”	has the meaning ascribed to it in the Takeovers Code
“BofA Merrill Lynch”	Merrill Lynch (Asia Pacific) Limited, the financial adviser to the Company. Merrill Lynch is a registered institution under the SFO, registered to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
“Board”	the board of directors of the Company
“Cancellation Price”	the cancellation price of HK\$6.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Company” or “Little Sheep”	Little Sheep Group Limited, a company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands



“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” of this announcement
“Conditions Long Stop Date”	means the date which is 90 days after the date of the earlier of the Pre-Condition Long Stop Date or the Further Announcement
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Founders”	the Participating Founders and the Non-Participating Founders
“Founders’ Indirect Shares”	the Participating Founders’ Indirect Shares and the Non-Participating Founders’ Indirect Shares
“Further Announcement”	means the further announcement to be issued by the Offeror if the Pre-Condition is satisfied on or before the Pre-Condition Long Stop Date relating to the Proposal and implementation of the Scheme or if the Pre-Condition has not been satisfied and the Proposal will not be made
“Goldman Sachs”	Goldman Sachs (Asia) L.L.C., the financial adviser to the Offeror. Goldman Sachs is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
“Grand Court”	the Grand Court of the Cayman Islands
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Little Sheep Shareholders”	the Little Sheep Shareholders other than the Offeror, Possible Way, the Participating Founders, the Non-Participating Founders and parties acting in concert with them
“Irrevocable Undertakings”	the irrevocable undertakings given by Possible Way and each of the Participating Founders and each of the Non-Participating Founders, as described in the section of this announcement headed “Irrevocable Undertakings”
“Little Sheep Group”	the Company and its subsidiaries
“Little Sheep Independent Board Committee”	the independent board committee of the Company established by the board of directors of the Company to make a recommendation to the Independent Little Sheep Shareholders in respect of the Proposal, the Scheme and the Option Offer
“Little Sheep Share Option Scheme”	the share option scheme adopted by the Company on 20 December 2007

“Little Sheep Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Little Sheep Shareholder(s)”	registered holder(s) of Little Sheep Shares
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Incentive Arrangements”	the management incentive arrangements among the Offeror, Yum! China, Possible Way and the Participating Founders, to be set out in the Shareholders’ Agreement
“MOFCOM”	the Ministry of Commerce of the People’s Republic of China
“Non-Participating Founders”	means Mr. Lu Wenbing, Mr. Zhang Zhanhai, Ms. Li Baofang, Mr. Li Xudong, Mr. Liu Quanxi, Ms. Kou Zhifang, Mr. Sun Xianhong, Mr. Lan Jianhua, Mr. Wang Daizong, Mr. Nishpank Rameshbabu Kankiwala and Mr. Yeung Yiu Keung
“Non-Participating Founders’ Indirect Shares”	means 173,080,673 Little Sheep Shares which are held by Possible Way, representing the proportion of the aggregate number of Little Sheep Shares held by Possible Way as is pro rata to the proportion of the total issued share capital of Possible Way that is owned by the Non-Participating Founders
“NYSE”	New York Stock Exchange, Inc.
“Offeror”	Wandle Investments Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Yum!
“Offeror Concert Parties”	Possible Way, the Participating Founders, the Non-Participating Founders and parties acting or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code
“Optionholder(s)”	means holder(s) of Outstanding Little Sheep Share Option(s)
“Option Offer”	the offer to be made by or on behalf of the Offeror to the holders of the Outstanding Little Sheep Share Options
“Outstanding Little Sheep Share Option(s)”	the outstanding share option(s) granted under the Little Sheep Share Option Scheme from time to time. As at the Announcement Date, there were 18,919,480 Outstanding Little Sheep Share Options
“Participating Founders”	means Mr. Zhang Gang and Mr. Chen Hongkai
“Participating Founders’ Indirect Shares”	means 135,221,202 Little Sheep Shares which are held by Possible Way, representing the proportion of the aggregate number of Little Sheep Shares held by Possible Way as is pro rata to the proportion of the total issued share capital of Possible Way that is owned by the Participating Founders

“Possible Way”	Possible Way International Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by the Founders
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Pre-Condition”	means the pre-condition to the making of the Proposal and implementation of the Scheme as described under the paragraph headed “Pre-Condition to the Proposal and Scheme” of this announcement
“Pre-Condition Long Stop Date”	means the date which is 180 days after the date of this announcement (or any other date as may be agreed by the Offeror and the Company)
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this announcement
“Record Date”	the appropriate record date to be announced for determining entitlements under the Scheme
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares
“Scheme Document”	the scheme document of the Company and the Offeror to be issued to all Little Sheep Shareholders containing, inter alia, further details of the Proposal and the Scheme together with the additional information specified in the section of this announcement headed “Despatch of Scheme Document” above
“Scheme Share(s)”	Little Sheep Share(s) other than those held by the Offeror and the Participating Founders’ Indirect Shares not subject to the Share Buyback Agreements
“Scheme Shareholder(s)”	Holders of Scheme Shares as at the Record Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Buyback Agreements”	means the agreements as described in the section headed “Share Buyback Agreement” of this announcement

“Shareholders’ Agreement”	means the agreement to be entered into between the Offeror, Yum! China, Possible Way and the Participating Founders to govern their relationship as direct or indirect Little Sheep Shareholders conditional on the Scheme becoming effective
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“United States”	the United States of America
“Yum!”	Yum! Brands, Inc., a company incorporated in North Carolina with limited liability, the shares of which are listed on the NYSE
“Yum! China”	Yum! Restaurants China Holdings Limited, a company incorporated in Hong Kong with limited liability
“Yum! Group”	Yum! and its subsidiaries

By Order of the Board of  
**Wandle Investments Limited**  
**Alan Kohn**  
*Director*

By Order of the Board of  
**Yum! Brands, Inc.**  
**Su Jing Shyh Samuel**  
*Director*

By Order of the Board of  
**Little Sheep Group Limited**  
**Zhang Gang**  
*Chairman*

Hong Kong, 13 May 2011

*As at the Announcement Date, the directors of the Offeror are Ms. Donna Marie Heatherly and Mr. Alan Jay Kohn.*

*The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to the Little Sheep Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Little Sheep Group) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement (other than that relating to the Little Sheep Group) misleading.*

*As at the Announcement Date, the directors of Yum! are:*

*Executive Directors:  
David C. Novak  
Su Jing Shyh Samuel*

*Independent non-executive Directors:  
David W. Dorman  
Massimo Ferragamo  
J. David Grissom  
Bonnie G. Hill  
Robert Holland, Jr.  
Kenneth G. Langone  
Jonathan S. Linen  
Thomas C. Nelson  
Thomas M. Ryan  
Robert D. Walter*

*The directors of Yum! jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to the Little Sheep Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Little Sheep Group) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement (other than that relating to the Little Sheep Group) misleading.*



*As at the Announcement Date, the directors of the Company are:*

*Executive Directors:*

*Zhang Gang*

*Lu Wenbing*

*Zhang Zhanhai*

*Li Baofang*

*Wang Jianhai*

*Non-executive Directors:*

*Chen Hongkai*

*Su Jing Shyh Samuel*

*Koo Benjamin Henry Ho Chung*

*Hsieh Hui-yun Lily*

*Independent non-executive Directors:*

*Xiang Bing*

*Yeung Ka Keung*

*Shin Yick, Fabian*

*The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement (other than that relating to the Yum! Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement (other than those expressed by the Yum! Group) have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement (other than that relating to the Yum! Group) misleading.*