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# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this Scheme Document, the Scheme, or as to the action to be taken, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Little Sheep Group Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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These materials are not an offer for sale of securities in the United States. Neither the United States Securities and Exchange Commission nor any United States state securities commission has reviewed, approved or disapproved this document, the Scheme or any of the proposals described in this Scheme Document. Any representation to the contrary is a criminal offence.

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**Yum! Brands, Inc.**

*(Incorporated in North Carolina with limited liability)*    *(Incorporated in Hong Kong with limited liability)*

**Wandle Investments Limited**



## **Little Sheep Group Limited** **小肥羊集團有限公司**

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

**(Stock Code: 968)**

### **PROPOSED PRIVATISATION OF LITTLE SHEEP GROUP LIMITED BY WANDLE INVESTMENTS LIMITED, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF YUM! BRANDS, INC. BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW) AND CONDITIONAL OFFER TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF LITTLE SHEEP GROUP LIMITED**

**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**

**Independent financial adviser to the Independent Board Committee of  
Little Sheep Group Limited**

**Quam**  **華富嘉洛  
CAPITAL 企業融資**

**Quam Capital Limited**

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Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Little Sheep Board is set out in Part IV of this Scheme Document. A letter from the Little Sheep Independent Board Committee, containing its advice to the Scheme Shareholders and Optionholders in relation to the Proposal, the Option Offer and Management Incentive Arrangements, respectively, is set out in Part V of this Scheme Document. A letter from Quam Capital Limited, being the Independent Financial Adviser to the Little Sheep Independent Board Committee, containing its advice to the Little Sheep Independent Board Committee in relation to the Proposal, the Management Incentive Arrangements, and the Option Offer is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Little Sheep Shareholders and the Optionholders are set out in the Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Friday, 6 January 2012 are set out in Appendix IV and Appendix V respectively to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of Little Sheep's share registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under Part II — Actions to be taken of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by Wandle Investments Limited, Yum! Brands, Inc. and Little Sheep Group Limited.

**The English language text of this Scheme Document shall prevail over the Chinese language text.**

13 December 2011

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## PART I — DEFINITIONS

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*In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:*

<b>“acting in concert”</b>	has the meaning ascribed to it in the Takeovers Code
<b>“Announcement”</b>	the announcement dated 13 May 2011, issued jointly by the Offeror, Yum! and Little Sheep in relation to the Proposal
<b>“Announcement Date”</b>	13 May 2011, being the date of the Announcement
<b>“associates”</b>	has the meaning ascribed to it in the Takeovers Code
<b>“BofA Merrill Lynch”</b>	Merrill Lynch (Asia Pacific) Limited, the financial adviser to the Company. BofA 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
<b>“Beneficial Owner”</b>	any beneficial owner of Little Sheep Shares
<b>“Business Day”</b>	a day (other than a Saturday) on which banks are generally open for business in Hong Kong
<b>“Cancellation Price”</b>	the cancellation price of HK\$6.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
<b>“CCASS”</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>“Company” or “Little Sheep”</b>	Little Sheep Group Limited, an exempted 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
<b>“Companies Law”</b>	the Companies Law (2011 Revision), of the Cayman Islands
<b>“Conditions”</b>	the conditions (or any of them) to the implementation of the Proposal and the Scheme as set out in the section headed “3. Conditions of the Proposal and the Scheme” under Part VII — Explanatory Memorandum of this Scheme Document
<b>“Conditions Long Stop Date”</b>	means 6 February 2012
<b>“connected persons”</b>	has the meaning ascribed to such term under the Listing Rules

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## PART I — DEFINITIONS

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<b>“Court Meeting”</b>	a meeting of the Scheme Shareholders convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 3:00 p.m. on Friday, 6 January 2012, notice of which is set out on in Appendix IV of this Scheme Document, or any adjournment thereof
<b>“Effective Date”</b>	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Wednesday, 1 February 2012 (Cayman Islands time)
<b>“EGM”</b>	the extraordinary general meeting of Little Sheep to be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 3:30 p.m. on Friday, 6 January 2012 (or so soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V of this Scheme Document, or any adjournment thereof
<b>“Executive”</b>	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
<b>“Explanatory Memorandum”</b>	the explanatory memorandum set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
<b>“Founders”</b>	the Participating Founders and the Non-Participating Founders
<b>“Founders’ Indirect Shares”</b>	the Participating Founders’ Indirect Shares and the Non-Participating Founders’ Indirect Shares
<b>“Goldman Sachs”</b>	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
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong
<b>“HKSCC”</b>	Hong Kong Securities Clearing Company Limited

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## PART I — DEFINITIONS

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<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Independent Financial Adviser”</b>	the independent financial adviser to the Little Sheep Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to the Proposal, the Option Offer and the Management Incentive Arrangements, being Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
<b>“Independent Little Sheep Shareholders”</b>	Little Sheep Shareholders other than the Offeror, Possible Way, the Founders and parties acting or presumed to be acting in concert with any of them
<b>“Investor Participant”</b>	a person admitted to participate in CCASS as an investor participant
<b>“Irrevocable Undertakings”</b>	the irrevocable undertakings given by Possible Way and each of the Founders, as described in the section headed “19. Irrevocable Undertakings” under Part VII — Explanatory Memorandum of this Scheme Document
<b>“Last Pre-Announcement Trading Day”</b>	21 April 2011, being the trading day prior to the date of suspension of trading of Little Sheep Shares on the Stock Exchange pending the issuance of the Announcement
<b>“Latest Option Exercise Date”</b>	4:30 p.m. (Hong Kong time) on Tuesday, 17 January 2012, the latest time and date upon which Outstanding Little Sheep Options may be exercised
<b>“Latest Practicable Date”</b>	9 December 2011, being the latest practicable date for ascertaining certain information contained in this Scheme Document
<b>“Little Sheep Board”</b>	the board of directors of the Company
<b>“Little Sheep Group”</b>	the Company and its subsidiaries
<b>“Little Sheep Independent Board Committee”</b>	the independent board committee of the Company established by the board of directors of the Company to make a recommendation to the Scheme Shareholders as to voting in respect of the Proposal, and the terms of the Management Incentive Arrangements and acceptance of the Option Offer, comprising of Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian
<b>“Little Sheep Meat”</b>	Inner Mongolia Little Sheep Meat Company Limited (內蒙古小肥羊肉業有限公司), a company established in the PRC with limited liability

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## PART I — DEFINITIONS

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<b>“Little Sheep Share Option Scheme”</b>	the share option scheme adopted by the Company on 20 December 2007
<b>“Little Sheep Share(s)”</b>	ordinary share(s) of HK\$0.10 each in the share capital of the Company
<b>“Little Sheep Shareholder(s)”</b>	registered holder(s) of Little Sheep Shares
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Management Incentive Arrangements”</b>	the management incentive arrangements among the Offeror, Yum! China, Possible Way and the Participating Founders, as set out in the Shareholders’ Agreement and described in the section headed “21. Management Incentive Arrangements” in Part VII — Explanatory Memorandum of this Scheme Document
<b>“Meeting Record Date”</b>	4:30 p.m. (Hong Kong time) on Friday, 30 December 2011, or such other time and date as shall have been announced to the Little Sheep Shareholders, being the record date for the purpose of determining the entitlement of Scheme Shareholders to attend and vote at the Court Meeting and the entitlement of Little Sheep Shareholders to attend and vote at the EGM
<b>“MOFCOM”</b>	the Ministry of Commerce of the People’s Republic of China
<b>“Non-Participating Founders”</b>	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
<b>“Non-Participating Founders’ Indirect Shares”</b>	173,080,673 Little Sheep Shares which are registered in the name of 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, and which comprise Scheme Shares
<b>“NYSE”</b>	New York Stock Exchange, Inc
<b>“Offeror”</b>	Wandle Investments Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Yum!
<b>“Offeror Concert Parties”</b>	Possible Way, the Participating Founders, the Non-Participating Founders and parties acting or presumed to be acting in concert with the Offeror

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## PART I — DEFINITIONS

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<b>“Optionholder(s)”</b>	holder(s) of Outstanding Little Sheep Share Option(s)
<b>“Option Form of Acceptance”</b>	the form of acceptance dispatched to Optionholders by Goldman Sachs in connection with the Option Offer
<b>“Option Offer”</b>	the conditional offer made by Goldman Sachs on behalf of the Offeror to the holders of the Outstanding Little Sheep Share Options, on the terms and subject to the conditions set out in the section headed “The Option Offer” in Part IV — Letter from the Little Sheep Board of this Scheme Document
<b>“Option Offer Letters”</b>	the letters dated on or about 13 December 2011, setting out the terms and conditions of the Option Offer sent separately to the relevant Optionholders by Goldman Sachs, and substantially in the form set out in Appendix VI — Sample Option Offer Letter to this Scheme Document
<b>“Option Offer Price”</b>	HK\$4.39 per Outstanding Little Sheep Share Option, the cancellation price payable in cash by the Offeror to the Optionholders on the terms and subject to the conditions of the Option Offer
<b>“Option Record Date”</b>	4:30 p.m. (Hong Kong time) on Wednesday, 1 February 2012, being the record date for determining entitlements under the Option Offer
<b>“Other CCASS Participant”</b>	a broker, custodian, nominee or other relevant person who is, or has deposited Little Sheep Shares with, a CCASS participant
<b>“Outstanding Little Sheep Share Option(s)”</b>	outstanding share option(s) granted under the Little Sheep Share Option Scheme from time to time
<b>“Participating Founders”</b>	Mr. Zhang Gang, the Executive Chairman of Little Sheep, and Mr. Chen Hongkai, a non-executive director of Little Sheep
<b>“Participating Founders’ Indirect Excluded Shares”</b>	70,000,000 Participating Founders’ Indirect Shares which are registered in the name of Possible Way and which do not comprise Scheme Shares
<b>“Participating Founders’ Indirect Scheme Shares”</b>	65,221,202 Participating Founders’ Indirect Shares deposited in CCASS and held on trust on behalf of Possible Way and registered in the name of Possible Way and which comprise Scheme Shares

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## PART I — DEFINITIONS

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<b>“Participating Founders’ Indirect Shares”</b>	135,221,202 Little Sheep Shares which are held by Possible Way, representing the proportion of the aggregate number of Little Sheep Shares held directly or indirectly 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, comprising the Participating Founders’ Indirect Excluded Shares and the Participating Founders’ Indirect Scheme Shares
<b>“Possible Way”</b>	Possible Way International Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by the Founders
<b>“PRC” or “China”</b>	the People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
<b>“Pre-Announcement Date”</b>	26 April 2011, being the day on which the Company issued an announcement regarding a possible privatisation of the Company
<b>“Pre-Condition”</b>	means the pre-condition to the making of the Proposal and implementation of the Scheme, which was satisfied on 7 November 2011 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 by MOFCOM under the Anti Monopoly Law of the PRC
<b>“Proposal”</b>	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 Scheme Document
<b>“Record Date”</b>	Friday, 20 January 2012, or such other time and date as shall have been announced to the Little Sheep Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price upon the Scheme becoming effective
<b>“Registered Owner”</b>	any owner of Little Sheep Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of Little Sheep
<b>“Relevant Authorities”</b>	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions



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## PART I — DEFINITIONS

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<b>“Resolutions”</b>	(i) the resolutions to approve the Scheme to be considered at the Court Meeting; and (ii) 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 the ordinary resolutions (a) to immediately restore the issued share capital of the Company to the amount prior to the 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 and (b) to approve the terms of the Management Incentive Arrangements, to be considered at the EGM
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SAFE”</b>	The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
<b>“Scheme”</b>	the scheme of arrangement under Section 86 of the Companies Law set out in Appendix III — Scheme of Arrangement to this Scheme Document (subject to any modifications or additions or conditions approved or imposed by the Grand Court and agreed to by the Offeror), involving the cancellation of all the Scheme Shares
<b>“Scheme Document”</b>	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
<b>“Scheme Share(s)”</b>	Little Sheep Share(s) other than those held by the Offeror and the Participating Founders’ Indirect Excluded Shares
<b>“Scheme Shareholder(s)”</b>	holders of Scheme Shares as at the Record Date
<b>“SFC”</b>	Securities and Futures Commission of Hong Kong
<b>“SFO”</b>	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
<b>“Share Buyback Agreements”</b>	the agreements as described in the section headed “20. Share Buyback Agreements” set out in Part VII — Explanatory Memorandum of this Scheme Document

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## PART I — DEFINITIONS

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<b>“Shareholders’ Agreement”</b>	the agreement dated on or around 9 December 2011 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 as described in the section headed “21. Management Incentive Arrangements” set out in Part VII — Explanatory Memorandum of this Scheme Document
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Takeovers Code”</b>	The Code on Takeovers and Mergers of Hong Kong
<b>“trading day”</b>	a day on which the Stock Exchange is open for the business of dealings in securities
<b>“United States”</b>	the United States of America
<b>“US\$”</b>	United States dollars, the lawful currency of the United States
<b>“Yum!”</b>	Yum! Brands, Inc., a company incorporated in North Carolina with limited liability, the shares of which are listed on the NYSE
<b>“Yum! China”</b>	Yum! Restaurants China Holdings Limited, a company incorporated in Hong Kong with limited liability
<b>“Yum! Group”</b>	Yum! and its subsidiaries

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

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## PART II — ACTIONS TO BE TAKEN

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### ACTIONS TO BE TAKEN BY LITTLE SHEEP SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Little Sheep Shares. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Little Sheep Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Little Sheep's share registrar, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on 4 January 2012 or be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the white form of proxy for use at the EGM should be lodged not later than 3:30 p.m. (Hong Kong time) on 4 January 2012.** The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM. You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Little Sheep Shareholders to attend and vote at the EGM, the register of members of Little Sheep will be closed from Friday, 30 December 2011 to Friday, 6 January 2012 (both days inclusive) and during such period, no transfer of Little Sheep Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong share registrar of Little Sheep at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on 29 December 2011.

An announcement will be made by Little Sheep in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the hearing of the petition to sanction the Scheme by the Grand Court and, if the Scheme is sanctioned, the Record Date, the Effective Date and the date of withdrawal of the listing of the Little Sheep Shares on the Stock Exchange.

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## PART II — ACTIONS TO BE TAKEN

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### ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

Little Sheep will not recognise any person as holding any Little Sheep Shares upon any trust. If you are a Beneficial Owner whose Little Sheep Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Little Sheep Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Little Sheep Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Little Sheep Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Little Sheep Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

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## PART II — ACTIONS TO BE TAKEN

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### ACTION TO BE TAKEN BY OPTIONHOLDERS

Option Offer Letters are being sent to Optionholders separately, together with this Scheme Document. If you are an Optionholder and you wish to accept the Option Offer, you must complete and return the duly completed and executed Option Form of Acceptance together with the relevant certificate(s) or other documents (if any) evidencing the grant of the Outstanding Little Sheep Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Outstanding Little Sheep Share Options which you hold, so as to reach the Offeror at c/o Little Sheep Group Limited, Unit 1104, 11/F, Jubilee Centre, 42–46 Gloucester Road, Wanchai, Hong Kong, for the attention of the board of directors of the Offeror and marked “Little Sheep — Option Offer” by no later than 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 (or such later date and time as may be notified to you by Goldman Sachs or the Offeror). No acknowledgement of receipt of any Option Form of Acceptance or other document evidencing the grant of the Outstanding Little Sheep Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. The Offeror will offer to cancel the Outstanding Little Sheep Share Options under the Option Offer at HK\$4.39 per Outstanding Little Sheep Share Option. Optionholders should be aware that after the Scheme becomes effective, the Outstanding Little Sheep Share Options will no longer be exercisable and, will no longer entitle you to subscribe for Little Sheep Shares. **If you, as an Optionholder, do not lodge the duly completed and executed Option Form of Acceptance together with the relevant certificate(s) or other documents as mentioned above at or before 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 (or such later date and time as may be notified to you by Goldman Sachs or the Offeror), you will not receive the Option Offer Price.**

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VI to this Scheme Document.

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## PART II — ACTIONS TO BE TAKEN

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### EXERCISE YOUR RIGHT TO VOTE

**IF YOU ARE A LITTLE SHEEP SHAREHOLDER OR A BENEFICIAL OWNER, LITTLE SHEEP AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY LITTLE SHEEP SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING LITTLE SHEEP SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.**

**IF YOU ARE A BENEFICIAL OWNER WHOSE LITTLE SHEEP SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE LITTLE SHEEP SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN — ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).**

**IF YOU ARE A REGISTERED OWNER HOLDING LITTLE SHEEP SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.**

**IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.**

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**PART III — EXPECTED TIMETABLE**

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**Hong Kong Time**

Date of despatch of this Scheme Document . . . . . Tuesday, 13 December 2011

Estimated date of despatch of Option Offer Letter . . . . . Tuesday, 13 December 2011

Latest time for Optionholders to exercise their Outstanding  
Little Sheep Share Options in order to become entitled  
to vote at the Court Meeting and the EGM . . . . . 4:30 p.m.  
on Thursday, 29 December 2011

Latest time for lodging transfers of Little Sheep Shares  
in order to qualify for attending and voting  
at the Court Meeting and the EGM. . . . . 4:30 p.m.  
on Thursday, 29 December 2011

Register of members of Little Sheep closed for  
determination of entitlements of Scheme Shareholders  
to attend and vote at the Court Meeting and  
of Little Sheep Shareholders to attend and  
vote at the EGM (*Note 1*) . . . . . from Friday, 30 December 2011 to  
Friday, 6 January 2012  
(both days inclusive)

Latest time for lodging forms of proxy in respect of (*Note 2*)

- Court Meeting . . . . . 3:00 p.m. on Wednesday, 4 January 2012  
(or be handed directly  
to the Chairman  
at the Court Meeting)
- EGM . . . . . 3:30 p.m. on Wednesday, 4 January 2012

Suspension of dealings in the Little Sheep Shares  
on the Stock Exchange. . . . . 9:00 a.m. on Friday, 6 January 2012

Court Meeting (*Note 3*) . . . . . 3:00 p.m. on Friday, 6 January 2012

EGM (*Note 3*) . . . . . 3:30 p.m. on Friday, 6 January 2012  
(or immediately after the  
conclusion or adjournment of  
the Court Meeting)

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**PART III — EXPECTED TIMETABLE**

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Announcement of the results of the Court Meeting and the EGM . . . . .	not later than 7:00 p.m. on Friday, 6 January 2012
Resumption of dealings in the Little Sheep Shares on the Stock Exchange. . . . .	9:00 a.m. on Monday, 9 January 2012
Expected last day for dealing in the Little Sheep Shares on the Stock Exchange. . . . .	4:00 p.m. on Thursday, 12 January 2012
Latest Option Exercise Date ( <i>Note 5</i> ). . . . .	4:30 p.m. on Tuesday, 17 January 2012
Latest time for lodging transfers of Little Sheep Shares in order to qualify for entitlements under the Scheme . . . . .	4:30 p.m. on Tuesday, 17 January 2012
Register of members of Little Sheep closed for determining entitlements to qualify under the Scheme ( <i>Note 4 and Note 5</i> ) . . . . .	from Wednesday, 18 January 2012 to Wednesday, 1 February 2012 (both days inclusive)
Record Date . . . . .	Friday, 20 January 2012
Court hearing of the petition to sanction the Scheme and to confirm the capital reduction . . . . .	Friday, 20 January 2012 <b>(Cayman Islands Time)</b>
Announcement of the result of the court hearing to sanction the Scheme and to confirm the capital reduction . . . . .	Thursday, 26 January 2012
Option Record Date . . . . .	4:30 p.m. on Wednesday, 1 February 2012
Effective Date ( <i>Note 6</i> ). . . . .	Wednesday, 1 February 2012 <b>(Cayman Islands Time)</b>
Lapse of unexercised Outstanding Little Sheep Share Options . . . . .	Wednesday, 1 February 2012 <b>(Cayman Islands Time)</b>
Announcement of the Effective Date and the withdrawal of the listing of the Little Sheep Shares on the Stock Exchange . . . . .	Wednesday, 1 February 2012



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### PART III — EXPECTED TIMETABLE

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Expected withdrawal of the listing of  
Little Sheep Shares on the Stock Exchange  
becomes effective (*Note 7*) . . . . . 4:00 p.m. on Thursday, 2 February 2012

Cheques for cash payment under the Proposal and (*Note 8*)  
the Option Offer to be despatched. . . . . on or before Friday, 3 February 2012

Latest time to accept  
Option Offer (*Note 9*) . . . . . 4:00 p.m. on Wednesday, 15 February 2012

Last day for despatch of cheques for cash  
payment under the Option Offer (*Note 10*) . . . . . Friday, 24 February 2012

**Little Sheep Shareholders and the Optionholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.**

*Notes:*

- (1) The register of members of Little Sheep will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Little Sheep Shareholders to attend and vote at the EGM. This book close period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of Little Sheep’s share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than the times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Little Sheep Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and the EGM will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix IV of this Scheme Document and the notice of EGM set out in Appendix V of this Scheme Document for details.
- (4) The register of members of Little Sheep will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (5) If Optionholders wish to qualify for entitlements under the Scheme, they must exercise their Outstanding Little Sheep Share Options in accordance with the Little Sheep Share Option Scheme and become registered holders of Little Sheep Shares by the time of closing of the register of members of Little Sheep for determining entitlements to qualify under the Scheme.
- (6) The Scheme shall become effective upon all the Conditions set out in the paragraph headed “3. Conditions of the Proposal and the Scheme” in Part VII — Explanatory Memorandum of this Scheme Document having been fulfilled or (to the extent permitted) waived (as the case may be).

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### PART III — EXPECTED TIMETABLE

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- (7) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Little Sheep Shares on the Stock Exchange will be withdrawn after 4:00 p.m. on Thursday, 2 February 2012.
- (8) Payment (by cheque or bank transfer) will be despatched on or before Friday, 3 February 2012 in respect of Optionholders who have returned a validly completed Option Forms of Acceptance on or before the Option Record Date.
- (9) Option Forms of Acceptance, duly completed in accordance with the instructions on them, must be lodged with the Offeror at c/o Little Sheep Group Limited, Unit 1104, 11/F, Jubilee Centre, 42–46 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 15 February 2012 (or such later date as may be notified by Goldman Sachs or the Offeror), failing which the Optionholders will not receive the Option Offer Price.
- (10) Payment (by cheque or bank transfer) in respect of validly completed Option Forms of Acceptance received after the Option Record Date but before 4:00 p.m. on Wednesday, 15 February 2012 will be despatched within 10 days of receipt of such validly completed Option Forms of Acceptance.



**Little Sheep Group Limited**  
**小肥羊集團有限公司**

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

**(Stock Code: 968)**

*Executive directors:*

Mr. ZHANG Gang (*Executive 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

*Registered office:*

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111

*Principal place of business  
in Hong Kong:*

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

13 December 2011

*To: The Little Sheep Shareholders and Optionholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF LITTLE SHEEP GROUP LIMITED BY  
WANDLE INVESTMENTS LIMITED,  
AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF YUM! BRANDS, INC.  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)  
AND  
CONDITIONAL OFFER TO CANCEL  
ALL OUTSTANDING SHARE OPTIONS OF  
LITTLE SHEEP GROUP LIMITED**

## **INTRODUCTION**

On 13 May 2011, the Offeror, Yum! and Little Sheep jointly announced that on 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, had requested the Little Sheep Board to put forward a Proposal to the Scheme Shareholders regarding a privatisation of Little Sheep by way of the Scheme, subject to satisfaction of the Pre-Condition. The Offeror, Yum! and Little Sheep jointly announced on 8 November 2011 that the Pre-Condition had been satisfied on 7 November 2011.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal, the Option Offer, the Management Incentive Arrangements and the expected timetable and to give you notices of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the Little Sheep Independent Board Committee set out in Part V of this Scheme Document, the letter from Quam Capital Limited, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

## **TERMS OF THE PROPOSAL**

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme, which will involve the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share capital of the Company will thereupon be restored to the amount immediately before the cancellation of the Scheme Shares. Upon the Scheme becoming effective, Yum! will indirectly hold, through the Offeror, approximately 93.25% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.75% of the issued share capital of the Company.

### **The Scheme**

Under the Scheme, the issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares, and immediately following such reduction, the issued share capital of the Company will be restored 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 Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied to the paying up in full at par the new Little Sheep Shares so issued to the Offeror.

Subject to the Scheme becoming effective, each Scheme Shareholder whose name appears in the register of members of the Company at the Record Date will be entitled to receive HK\$6.50 in cash for each Scheme Share. The total consideration of approximately HK\$4,467 million payable for the Scheme Shares will be payable by the Offeror.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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Assuming that the Scheme becomes effective on Wednesday, 1 February 2012, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders (other than the Possible Way and Billion Year PRC Shareholders (as defined below)) by ordinary mail at their own risk on or before Friday, 3 February 2012.

Pursuant to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Companies (《國家外匯管理局關於境內居民通過境外特殊項目的公司融資及返程投資外匯管理有關問題的通知》) promulgated on 21 October, 2005 by the SAFE and implemented since 1 November 2005 and other related implemented rules (“**Circular No.75**”), PRC individual residents engaged in stock rights financing and roundtrip investment via overseas special purpose vehicles shall register with local branches of SAFE in connection with their direct or indirect offshore investment activities. According to the shareholders register of the Company as at the Latest Practicable Date, certain Little Sheep Shareholders are PRC individual residents. Among these PRC individual residents, a number of them obtained their Little Sheep Shares through the distributions in specie by Possible Way and Billion Year International Limited respectively as announced in the announcement of the Company dated 25 March 2009 (the “**Possible Way and Billion Year PRC Shareholders**”). The Possible Way and Billion Year PRC Shareholders will provide authorization to the Offeror to authorize Possible Way to receive the payment of their respective cash entitlements under the Scheme on their behalf, and Possible Way will remit the cash entitlements to the respective PRC individual residents after registration with the relevant local branches of SAFE.

The Offeror will not be entitled to receive the Cancellation Price as their Little Sheep Shares do not form part of the Scheme Shares.

Possible Way will be entitled to receive the Cancellation Price in respect of the Participating Founder’s Indirect Scheme Shares and the Non-Participating Founder’s Indirect Shares as they form part of the Scheme Shares.

Possible Way will not be entitled to receive the Cancellation Price in respect of the Participating Founders’ Indirect Excluded Shares as they will not form part of the Scheme Shares.

Upon the Scheme becoming effective, Yum! will indirectly hold, through the Offeror, approximately 93.25% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.75% of the issued share capital of the Company.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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### Comparison of value and financial effects

#### *Cancellation Price*

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 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.

#### *Dividends*

Little Sheep's ability to pay dividends is limited by Cayman Islands law, which allows companies to declare and pay dividends only out of either profit or, subject to being able to pay its debt as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Little Sheep Shareholders, the share premium account (where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares must be transferred to an account called the share premium account). Little Sheep Shareholders whose names appear on the register of members of Little Sheep as at the record date for entitlement to dividend, if any, declared by Little Sheep on or before the Effective Date will be entitled to receive such dividend (if any). Little Sheep does not expect to declare any dividend on or before the Effective Date.

### **Management Incentive Arrangements**

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.

Mr. Zhang Gang, Mr. Chen Hongkai and Possible Way are entering into the Shareholders’ Agreement with the Offeror governing their relationship as Little Sheep Shareholders, which is conditional upon the Scheme becoming effective. 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.

Your attention is drawn to the section headed “21. Management Incentive Arrangements” in Part VII — Explanatory Memorandum of this Scheme Document.

### **The Option Offer**

Your attention is drawn to Appendix VI — Sample Option Offer Letter to this Scheme Document.

The Company adopted the Little Sheep Share Option Scheme on 20 December 2007 pursuant to which certain of the directors of Little Sheep, directors of the subsidiaries of the Company, senior management personnel and employees of Little Sheep Group are eligible for the grant of Little Sheep Share options. As at the Latest Practicable Date, there were 13,686,030 Outstanding Little Sheep Share Options, which, when exercised, will entitle their holders to subscribe for 13,686,030 Little Sheep Shares at an exercise price of HK\$2.11 per Little Sheep Share.

Under the terms of the Little Sheep Share Option Scheme, following receipt of the Option Offer Letter an Optionholder may exercise his/her Outstanding Little Sheep Share Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, conditional on the passing of the Resolutions to be proposed at the Court Meeting and EGM to approve the Scheme. The Company will notify Optionholders in due course of the results of the Court Meeting and EGM. Optionholders will be given the opportunity to exercise their Outstanding Little Sheep Share Options conditionally on the passing of the Resolutions in full or in part at any time up to the Latest Option Exercise Date. Little Sheep Shares issued upon exercise of the Outstanding Little Sheep Share Option(s) on or before the Latest Option Exercise Date will form part of the Scheme Shares.

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## **PART IV — LETTER FROM THE LITTLE SHEEP BOARD**

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As an alternative to exercising the Outstanding Little Sheep Share Options, the Offeror will offer to cancel the Outstanding Little Sheep Share Options under the Option Offer, conditional upon the Proposal becoming effective and binding. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders and is substantially in the form set out in Appendix VI of this Scheme Document.

Each Optionholder as at the Option Record Date who has accepted the Option Offer and has lodged a completed Option Form of Acceptance by 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 will be entitled to receive the Option Offer Price of HK\$4.39 for each Outstanding Little Sheep Share Option if the Option Offer becomes unconditional.

The Option Offer Price represents the “see-through” price of each Outstanding Little Sheep Share Option, being the amount by which the Cancellation Price exceeds the exercise price of that Outstanding Little Sheep Share Option (being HK\$2.11).

All payments in respect of the Option Offer Price will be made by cheque in Hong Kong dollars save that the Offeror and Little Sheep will take steps to procure that Optionholders resident in the PRC will receive payments in respect of the Option Offer Price by bank transfer in RMB at the prevailing exchange rate at the time of conversion of the Option Offer Price from HK\$ to RMB. Payments made under the Option Offer to Optionholders in the PRC will be made after deduction of all applicable taxes that the Offeror and/or Little Sheep are obliged to withhold. Settlement of the Option Offer Price to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

All Outstanding Little Sheep Options will lapse on the Effective Date. Optionholders who do not (i) exercise their Outstanding Little Sheep Options on or before the Latest Option Exercise Date; or (ii) accept the Option Offer in respect of their Outstanding Little Sheep Options on or before 4:00 p.m. on Wednesday, 15 February 2012 will receive neither the Cancellation Price nor the Option Offer Price.

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

The highly fragmented domestic full-service restaurant industry in China has seen intensifying competition over the past few 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.



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## **PART IV — LETTER FROM THE LITTLE SHEEP BOARD**

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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.

### **LITTLE SHEEP 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 Scheme Shareholders as to whether each of the Proposal, the Option Offer and the terms of the Management Incentive Arrangements are, or are not, fair and reasonable and as to voting.

The full text of the letter from the Little Sheep Independent Board Committee is set out in Part V of this Scheme Document.

### **INDEPENDENT FINANCIAL ADVISER**

Quam Capital Limited has been appointed as the independent financial adviser (with the approval of the Little Sheep Independent Board Committee) to advise the Little Sheep Independent Board Committee in connection with the Proposal, the Management Incentive Arrangements and the Option Offer.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

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## **PART IV — LETTER FROM THE LITTLE SHEEP BOARD**

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### **IRREVOCABLE UNDERTAKINGS**

Possible Way, the Participating Founders and the Non-Participating Founders have each given an irrevocable undertaking to the Offeror, amongst other things, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise the voting rights in respect of an aggregate of 370,853,901 Little Sheep Shares, representing approximately 35.73% of the issued share capital of the Company as at the Latest Practicable 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, the Participating Founders or the Non-Participating Founders will be voted on the Scheme at the Court Meeting or on the terms of the Management Incentive Arrangements at the EGM. Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

Your attention is drawn to the section headed "19. Irrevocable Undertakings" in Part VII — Explanatory Memorandum of this Scheme Document.

### **INFORMATION ON LITTLE SHEEP**

The Company is an exempted 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 YUM! AND 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.

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 three concepts of KFC, Pizza Hut and Taco Bell, Yum! develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items.

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## **PART IV — LETTER FROM THE LITTLE SHEEP BOARD**

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Based in Shanghai, the China division of Yum! 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.

### **INTENTIONS OF THE OFFEROR**

Your attention is drawn to the section headed “15. Intentions of the Offeror with regard to Little Sheep” in Part VII — Explanatory Memorandum of this Scheme Document.

### **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 Chain Co. Ltd., 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. 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.

### **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 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.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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**Little Sheep Shareholders and potential investors should be aware that Yum! holds 27.04% 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.**

### **COURT MEETING AND EGM**

#### **Court Meeting**

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of Little Sheep as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their Scheme Shares in favour of the Scheme or against it. Alternatively, Scheme Shareholders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their respective Scheme Shares against it (and vice versa). However for the purpose of calculating the ‘majority in number’ requirement at the Court Meeting, Scheme Shareholders may only vote once.

Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting 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.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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The “75% in value” requirement will be met if the total value of Scheme Shares being voted by the Scheme Shareholders in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders at the Court Meeting. The “majority in number” requirement will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted. For example, if Scheme Shareholder votes all of his/her/its Scheme Shares in favour of the Scheme, he/she/it will be counted as one Scheme Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement, however, for the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Little Sheep Shareholder being so voted will count towards the “75% in value” requirement.

### EGM

The EGM will be held immediately following the Court Meeting.

All Little Sheep Shareholders whose names appear in the register of members of Little Sheep as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution to approve the capital reduction resulting from cancellation of the Scheme Shares; and (ii) the ordinary resolution to immediately restore Little Sheep’s issued share capital to its former amount and apply the credit arising in Little Sheep’s books of accounts as a result of the capital reduction in paying up in full at par and issuing to the Offeror a number of new Little Sheep Shares equal to the number of Scheme Share cancelled. All Independent Little Sheep Shareholders whose names appear in the register of members of Little Sheep as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM, with respect to (iii) the ordinary resolution to approve the terms of the Management Incentive Arrangements.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Little Sheep Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Little Sheep Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Little Sheep Shareholders, present and voting, either in person or by proxy, at the EGM.

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## **PART IV — LETTER FROM THE LITTLE SHEEP BOARD**

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At the EGM, a poll will be taken and each Little Sheep Shareholder or Independent Little Sheep Shareholder (as the case may be) present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Little Sheep Shares in favour (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Little Sheep Shareholder or Independent Little Sheep Shareholder (as the case may be) may vote some of their Little Sheep Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Little Sheep Shares against the special resolution and/or the ordinary resolutions (and vice versa).

The Offeror has indicated, and each of Possible Way, the Participating Founders and the Non-Participating Founders has undertaken to the Offeror, 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 EGM of the Company (other than in relation to the Management Incentive Arrangements).

Possible Way and the Founders are Scheme Shareholders but have each further undertaken to the Company not to vote at the Court Meeting.

Notice of the Court Meeting is set out in Appendix IV of this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Friday, 6 January 2012 at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Notice of the EGM is set out in Appendix V of this Scheme Document. The EGM will be held at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Friday, 6 January 2012 at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Wednesday, 1 February 2012. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of Little Sheep Shares on the Stock Exchange.

### **OVERSEAS LITTLE SHEEP SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

Your attention is drawn to the section headed “25. Overseas Little Sheep Shareholders and Overseas Optionholders” in Part VII — Explanatory Memorandum of this Scheme Document.

### **ACTIONS TO BE TAKEN**

Your attention is drawn to Part II — Actions to be taken and the section headed “30. Summary of actions to be taken” in Part VII — Explanatory Memorandum of this Scheme Document.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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### RECOMMENDATION

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

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal, the Management Incentive Arrangements and the Option Offer to be fair and reasonable and advises the Little Sheep Independent Board Committee to recommend:

- (a) at the Court Meeting:
  - (i) the Scheme Shareholders vote in favour of the Scheme;
- (b) at the EGM:
  - (i) the Little Sheep Shareholders vote in favour of:
    - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
    - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Scheme Shares by paying 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;
  - (ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and
- (c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

The Little Sheep Independent Board Committee, having considered the terms of the Proposal, the Management Incentive Arrangements and the Option Offer and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Management Incentive Arrangements and the Option Offer are fair and reasonable.

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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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Accordingly, the Little Sheep Independent Board Committee recommends:

(a) at the Court Meeting:

(i) the Scheme Shareholders vote in favour of the Scheme;

(b) at the EGM:

(i) the Little Sheep Shareholders vote in favour of:

(1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and

(2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Scheme Shares by paying 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;

(ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and

(c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

The full text of the letter from the Little Sheep Independent Board Committee is set out in Part V of this Scheme Document.

### SHARE CERTIFICATE, DEALINGS AND LISTINGS

Your attention is drawn to the section headed “23. Share Certificates, Dealings and Listings in Part VII — Explanatory Memorandum of this Scheme Document.

### REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “24. Registration and Payment” in Part VII — Explanatory Memorandum of this Scheme Document.

### TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “26. Taxation and Independent Advice” in Part VII — Explanatory Memorandum of this Scheme Document.



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## PART IV — LETTER FROM THE LITTLE SHEEP BOARD

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It is emphasized that none of the Offeror, Yum!, Little Sheep, BofA Merrill Lynch, Goldman Sachs nor any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme.

### FURTHER INFORMATION

You are urged to read carefully the letters from the Little Sheep Independent Board Committee and from Quam Capital Limited, the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix III to this Scheme Document, the notice of Court Meeting as set out in Appendix IV to this Scheme Document and the notice of EGM as set out in Appendix V to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Little Sheep Shares.

Yours faithfully  
For and on behalf of the Board of  
**Little Sheep Group Limited**  
**Zhang Gang**  
*Chairman*



**Little Sheep Group Limited**  
**小肥羊集團有限公司**

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

**(Stock Code: 968)**

*Members of the Little Sheep  
Independent Board Committee:*

Dr. XIANG Bing  
Mr. YEUNG Ka Keung  
Mr. SHIN Yick, Fabian

*Registered office of Little Sheep:*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

13 December 2011

*To: The Scheme Shareholders and Optionholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF LITTLE SHEEP GROUP LIMITED BY  
WANDLE INVESTMENTS LIMITED,  
AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF YUM! BRANDS, INC.  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)  
AND  
CONDITIONAL OFFER TO CANCEL  
ALL OUTSTANDING SHARE OPTIONS OF  
LITTLE SHEEP GROUP LIMITED**

We have been appointed by the Little Sheep Board as the Little Sheep Independent Board Committee to give a recommendation to the Scheme Shareholders and the Optionholders in respect of the Proposal, the Management Incentive Arrangements and the Option Offer, respectively, details of which are set out in “Part IV — Letter from the Little Sheep Board” and “Part VII — Explanatory Memorandum” of this Scheme Document. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Since 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

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## PART V — LETTER FROM THE LITTLE SHEEP INDEPENDENT BOARD COMMITTEE

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“Founder” following the implementation of the Scheme, they have been precluded from participating in the formulation of advice to Scheme Shareholders. In addition, as each of Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung, and Ms. Hsieh Huiyun Lily are representatives of Yum! appointed to the Little Sheep Board, they have also been precluded from participating in the formulation of advice to Scheme Shareholders. Further, as Mr. Lu Wenbing, Mr. Zhang Zhanhai, Ms. Li Baofang have entered into Irrevocable Undertakings with Yum! in connection with the Proposal, they have also been precluded from participating in the formulation of advice to Scheme Shareholders.

Quam Capital Limited, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Management Incentive Arrangements and the Option Offer.

The Little Sheep Independent Board Committee, having considered the terms of the Proposal, the Management Incentive Arrangements and the Option Offer and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Management Incentive Arrangements and the Option Offer are fair and reasonable.

Accordingly, the Little Sheep Independent Board Committee recommends:

- (a) at the Court Meeting:
  - (i) the Scheme Shareholders vote in favour of the Scheme;
- (b) at the EGM:
  - (i) the Little Sheep Shareholders vote in favour of:
    - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
    - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Scheme Shares by paying 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;
  - (ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and
- (c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

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**PART V — LETTER FROM THE LITTLE SHEEP INDEPENDENT BOARD COMMITTEE**

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The Little Sheep Independent Board Committee draws the attention of the Scheme Shareholders and the Optionholders to (i) the letter from the Little Sheep Board set out in Part IV of the Scheme Document; (ii) the letter from Quam Capital Limited, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Little Sheep Independent Board Committee, set out in Part VI of the Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of the Scheme Document.

Yours faithfully

**XIANG Bing**  
*Independent non-executive  
director of Little Sheep*

**YEUNG Ka Keung**  
*Independent non-executive  
director of Little Sheep*

**SHIN Yick, Fabian**  
*Independent non-executive  
director of Little Sheep*

*Little Sheep Independent Board Committee*

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## PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from Quam Capital Limited, the independent financial adviser to the Little Sheep Independent Board Committee, which has been prepared for the purpose of incorporation into this Scheme Document, setting out its advice to the Little Sheep Independent Board Committee in respect of the Proposal, Option Offer and the Management Incentive Arrangements.*



華富嘉洛  
企業融資

**Quam Capital Limited**

A Member of The Quam Group

13 December 2011

To the Little Sheep Independent Board Committee

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF LITTLE SHEEP GROUP LIMITED BY  
WANDLE INVESTMENTS LIMITED,  
AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF YUM! BRANDS, INC.  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW)  
AND  
CONDITIONAL OFFER TO CANCEL  
ALL OUTSTANDING SHARE OPTIONS OF  
LITTLE SHEEP GROUP LIMITED**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Little Sheep Independent Board Committee in respect of the Proposal by way of a scheme of arrangement under section 86 of the Companies Law and the subsequent withdrawal of listing of the Little Sheep Shares on the Stock Exchange. Details of the Proposal, the Option Offer and the Management Incentive Arrangements are contained in Part IV — Letter from the Little Sheep Board and Part VII — Explanatory Memorandum contained in the scheme document jointly issued by the Offeror, Yum! and the Company to all Little Sheep Shareholders and the Optionholders dated 13 December 2011 (the “**Scheme Document**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Scheme Document unless the context otherwise requires.

On 13 May 2011, the Offeror, Yum! and the Company jointly announced that on 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, had requested the Little Sheep Board to put forward a Proposal to the Scheme Shareholders regarding a privatisation of the Company by way of the Scheme, subject to satisfaction of the Pre-Condition. In addition, the Offeror has offered the Optionholders to cancel all Outstanding Little Sheep Share Options under the Option Offer, which is conditional upon the Proposal becoming effective and binding. The Scheme involves the cancellation of all the Scheme Shares in exchange for HK\$6.50 in cash for each Scheme Share, and the subsequent issue of new Little Sheep Shares to the Offeror, as a result of which it is intended that approximately

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## PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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93.25% of the issued share capital of Little Sheep will be held by the Offeror and approximately 6.75% of the issued share capital of Little Sheep will be held by Possible Way (on the assumption that the Outstanding Little Sheep Share Options are not exercised and that there is no other change in the shareholdings of Little Sheep prior to completion of the Proposal).

In addition, the Offeror, Yum! China, Possible Way and the Participating Founders entered into the Management Incentive Arrangements which intended to incentivise the Participating Founders. On or around 9 December 2011, the Offeror, Yum! China, Possible Way and the Participating Founders are entering into a Shareholders' Agreement governing their relationship as Little Sheep Shareholders which is conditional upon the Scheme becoming effective. Pursuant to the terms of the Shareholders' Agreement, the Offeror has granted 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 determined based on a pre-agreed formula, unless otherwise agreed by the parties. 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 are guaranteed by Yum! China. In addition, the Participating Founders agreed 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.

As at the Latest Practicable 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\$103,779,012 divided into 1,037,790,120 Little Sheep Shares. The Offeror, a wholly-owned subsidiary of Yum!, held 280,571,030 Little Sheep Shares representing approximately 27.04% 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. Possible Way held 308,301,875 Little Sheep Shares representing approximately 29.71% of the issued share capital of the Company. Of such Little Sheep Shares, 70,000,000, being the Participating Founders' Indirect Excluded Shares will not form part of the Scheme Shares. Therefore, the Little Sheep Shares held by the Offeror and the Participating Founders' Indirect Shares, which are not subject to the Share Buyback Agreements, will not be cancelled upon the Scheme becoming effective. As at the Latest Practicable Date, the Scheme Shares represented approximately 66.22% of the issued share capital of the Company.

As at the Latest Practicable Date, there were 13,686,030 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\$4,467 million. On the assumption that all Outstanding Little Sheep Share Options are

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## **PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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exercised before the Record Date, the amount of cash required for the Proposal is approximately HK\$4,556 million. The amount of cash required for the Option Offer is approximately HK\$60 million.

The Little Sheep Independent Board Committee, which comprises Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian, the independent non-executive directors of the Company, has been established by the Little Sheep Board to make recommendation to the Independent Little Sheep Shareholders on the terms of the Proposal, Option Offer and the Management Incentive Arrangements. The Little Sheep Independent Board Committee has approved our appointment as the independent financial adviser to the Little Sheep Independent Board Committee in connection with the Proposal, Option Offer and the Management Incentive Arrangements. As the independent financial adviser, our role is to give an independent opinion to the Little Sheep Independent Board Committee in such regard.

Quam Capital Limited is not associated or connected with any members of the Little Sheep Group, or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, we are considered eligible to give independent advice to the Little Sheep Independent Board Committee on the Proposal, Option Offer and the Management Incentive Arrangements. Apart from normal professional fees payable to us in connection with this arrangement, no arrangement exists whereby we will receive any fees or benefits from any members of the Little Sheep Group, or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Scheme Document; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the directors of the Company and management of the Little Sheep Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Scheme Document were true, accurate and complete in all respects at the date thereof and may be relied upon. The Company is obliged to inform the Little Sheep Shareholders if there is any material change to the information disclosed in the Scheme Document prior to the date of the Court Meeting and the EGM, in which case we will consider whether it is necessary to revise our opinion and inform the Little Sheep Independent Board Committee and the Little Sheep Shareholders accordingly. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the management of the Little Sheep Group, the directors and the advisers of the Company. We have also sought and received confirmation from the directors of the Company that no material facts have been withheld or omitted from the information provided and referred to in the Scheme Document and that all information or representations regarding the Company and the Proposal provided to us by the Company and/or the directors of the Company and the

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## **PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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management of the Little Sheep Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Court Meeting and the EGM.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Scheme Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its subsidiaries and associates.

We have not considered the tax implications on the Little Sheep Shareholders regarding the Proposal since these are particular to their individual circumstances. In particular, Little Sheep Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### **PRINCIPAL TERMS OF THE PROPOSAL**

As disclosed in the Part IV — Letter from the Little Sheep Board of the Scheme Document, subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Part VII — Explanatory Memorandum of the Scheme Document, the Proposal will be implemented by way of the Scheme, which will involve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares. Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and the share capital of the Company will be restored to the amount immediately before the cancellation of the Scheme Shares. Yum! will indirectly hold, through the Offeror, approximately 93.25% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.75% of the issued share capital of the Company.

#### **The Scheme**

The Scheme will provide that the share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares, and immediately following such reduction, the share capital of the Company will be restored 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 Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied to the paying up in full at par the new Little Sheep Shares so issued to the Offeror.

Subject to the Scheme becoming effective, each Scheme Shareholder whose name appears in the register of members of the Company at the Record Date will be entitled to receive HK\$6.50 in cash for each Scheme Share.



### **The Option Offer**

The Offeror will offer to cancel the Outstanding Little Sheep Share Options under the Option Offer, which is conditional upon the Proposal becoming effective and binding. The Option Offer is made on the following basis:

For each Outstanding Little Sheep Share Option cancelled . . . . . HK\$4.39 in cash

### **Management Incentive Arrangements**

Upon the Scheme becoming effective, Yum! will indirectly hold, through the Offeror, approximately 93.25% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.75% of the issued share capital of the Company.

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.

Mr. Zhang Gang, Mr. Chen Hongkai, Yum! China and Possible Way are entering into the Shareholders’ Agreement with the Offeror governing their relationship as Little Sheep Shareholders, which will be conditional upon the Scheme becoming effective. 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.

The Scheme will become effective and binding upon the fulfillment of the conditions set out in the section headed “Conditions of the Proposal and the Scheme” in Part VII — Explanatory Memorandum of the Scheme Document, otherwise the Scheme will lapse.

### *Irrevocable Undertaking from Possible Way, the Participating Founders and the Non-Participating Founders*

Possible Way, the Participating Founders and the Non-Participating Founders have each given an irrevocable undertaking to the Offeror, amongst other things, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise the voting rights in respect of an aggregate of 370,853,901 Little Sheep Shares, representing approximately 35.73% of the issued share capital of the Company as at the Latest Practicable Date, on resolutions in relation to the Scheme in accordance with the Offeror’s

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## PART VI — LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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, the Participating Founders nor the Non-Participating Founders will be voted on the Scheme at the Court Meeting or on the terms of the Management Incentive Arrangements at the EGM. Details of the irrevocable undertakings are set out in the section headed “Irrevocable Undertakings” in Part VII — Explanatory Memorandum of the Scheme Document.

### *Share Buyback Arrangements*

In accordance with the terms of the Irrevocable Undertakings, Possible Way has entered into Share Buyback Agreements with each of the Non-Participating Founders, Mr. Zhang Gang, 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, following the completion of the buyback of shares in Possible Way, Possible Way will hold 70,000,000 Little Sheep Shares, 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.

As at the Latest Practicable Date, there were 1,037,790,120 Little Sheep Shares in issue and the Offeror together with the Offeror Concert Parties were interested in 652,398,931 Little Sheep Shares in aggregate, representing approximately 62.86% of the issued Little Sheep Shares as at the Latest Practicable Date. The Scheme Shareholders were interested in 687,219,090 Little Sheep Shares in aggregate, representing approximately 66.22% of the issued Little Sheep Shares as at the Latest Practicable Date. The Little Sheep Shares owned by the Offeror will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting.

Scheme Shareholders are recommended to read carefully the Part VII — Explanatory Memorandum in the Scheme Document, which contains further details of the terms of the Proposal.

If approved, the Scheme will be binding on all Scheme Shareholders, irrespective of whether or not attended or voted in the Court Meeting.

We note that 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. The total amount of cash required to effect the Proposal are approximately HK\$4,467 million (on the assumption that no Outstanding Little Sheep Share Options are exercised before the Record Date) and approximately HK\$4,556 million

respectively (on the assumption that all Outstanding Little Sheep Share Options are exercised before the Record Date). The total amount of cash required to effect the Option Offer is approximately HK\$60 million.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation regarding the terms of the Proposal, Option Offer and the Management Incentive Arrangements, we have considered the following principal factors and reasons:

### **1. Reasons for and benefits of the Proposal to the Scheme Shareholders**

As stated in Part VII — Explanatory Memorandum in the Scheme Document, the reasons for and the benefits of the Proposal are set out below:

- (a) the highly fragmented domestic full-service restaurant industry in China has seen intensifying competition over the past few 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;
- (b) 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;
- (c) 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;
- (d) 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; and
- (e) 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.

In view of the above, the Offeror has requested the Board to put forward the Proposal to the Scheme Shareholders for consideration. The Directors believe that the Proposal provides an opportunity for all the Scheme Shareholders to realise their investments in the Company at a premium over the prevailing average market prices of the Little Sleep Shares.

## **2. Information on the Little Sheep Group**

The Company is an exempted 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. According to the interim report of the Company for the six months ended 30 June 2011 (the “**2011 Interim Report**”), the Little Sheep Group had a total of 192 company-owned restaurants and 277 franchise restaurants as at 30 June 2011. Revenue of the Little Sheep Group was principally generated in the PRC market. For details of interim results of the Little Sheep Group for the six months ended 30 June 2011, please refer to Appendix I — Financial Information on Little Sheep in the Scheme Document.

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**3. Financial performance of the Little Sheep Group**

*(i) Historical financial performance of the Little Sheep Group*

The following table summarises the audited financial results of the Little Sheep Group for each of the six years ended 31 December 2010 as extracted from the respective annual reports of the Company (the “**Annual Reports**”) and prospectus issued by the Company on 2 June 2008 (the “**Prospectus**”),

	For the year ended 31 December					
	2010	2009	2008	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	1,925,500	1,569,700	1,271,523	949,174	702,713	513,122
Other income and gain	39,537	29,482	29,964	9,551	7,336	11,875
Cost of inventories sold	(850,500)	(650,545)	(524,390)	(377,073)	(277,426)	(205,355)
Staff costs	(353,128)	(308,795)	(257,342)	(165,886)	(119,662)	(84,281)
Depreciation and amortization	(74,612)	(54,561)	(40,591)	(32,096)	(29,612)	(23,299)
Rental expenses	(155,823)	(142,911)	(119,534)	(96,904)	(77,169)	(55,226)
Fuel and utility expenses	(78,307)	(66,381)	(55,752)	(41,892)	(34,098)	(23,393)
Other operating expenses	(200,912)	(165,114)	(131,947)	(94,895)	(59,515)	(47,401)
Finance costs	(2,343)	(408)	(6,603)	(20,610)	(10,259)	(3,233)
<b>Profit before taxation</b>	249,412	210,467	165,328	129,369	102,308	82,809
Income tax expenses	(49,044)	(44,807)	(30,793)	(34,318)	(21,962)	(20,061)
<b>Profit for the year</b>	<u>200,368</u>	<u>165,660</u>	<u>134,535</u>	<u>95,051</u>	<u>80,346</u>	<u>62,748</u>
Attributable to						
— Owners of the Company	187,798	155,364	128,698	91,163	79,555	60,078
— Non-controlling interests	<u>12,570</u>	<u>10,296</u>	<u>5,837</u>	<u>3,888</u>	<u>791</u>	<u>2,670</u>
	<u>200,368</u>	<u>165,660</u>	<u>134,535</u>	<u>95,051</u>	<u>80,346</u>	<u>62,748</u>
Dividend	60,587	62,146	68,852 <i>(Note 1)</i>	— <i>(Note 1)</i>	— <i>(Note 1)</i>	—
<b>Earnings per share attributable to ordinary shareholders of the Company</b>						
— basic ( <i>RMB</i> )	18.24 cents	15.12 cents	13.55 cents	10.69 cents	9.33 cents	7.04 cents
— diluted ( <i>RMB</i> )	18.05 cents	14.98 cents	13.53 cents	10.68 cents	N/A	N/A
<i>Gross profit margin (Note 2)</i>	55.8%	58.6%	58.8%	60.3%	60.5%	60.0%
<i>Net profit margin (Note 3)</i>	9.8%	9.9%	10.1%	9.6%	11.3%	11.7%
<i>Revenue growth rate</i>	22.7%	23.5%	34.0%	35.1%	36.9%	N/A
<i>Net profit growth rate</i>	20.9%	20.7%	41.2%	14.6%	32.4%	N/A
<i>Dividend payout ratio</i>	32.3%	40.0%	53.5%	—	—	—

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*Notes:*

- 1. Dividends paid by a subsidiary of the Company to the then shareholders of the Company prior to listing of approximately RMB78.5 million, RMB 31.9 million and RMB63.7 million for the three years ended 31 December 2008 were not included.*
- 2. Gross profit margin is calculated by revenue less the costs of inventories sold divided by the revenue of the Company of the respective financial years.*
- 3. Net profit margin is calculated by profit attributable to the owners of the Company divided by the revenue of the Company of the respective financial years.*

As illustrated in the above table, the revenue of the Little Sheep Group has steadily increased from approximately RMB513.1 million for the year ended 31 December 2005 to approximately RMB1,925.5 million for the year ended 31 December 2010, representing cumulative annual growth rate (“CAGR”) of approximately 30.3% for the six years ended 31 December 2010. According to the Annual Reports, the constant revenue growth is mainly driven by the restaurant operations and provision of catering services of the Little Sheep Group, which contributed over 75% of the revenue of the Little Sheep Group for each of the six years ended 31 December 2010. According to the Annual Reports, the key initiatives to achieve revenue growth was attributable to, among others, the opening of new company-owned restaurants from 39 in 2005 to 184 in 2010, growth in same-store sales, the launch of new products, and the continuous enhancement of services and dining environments.

The net profit attributable to the owners of the Company has increased from approximately RMB60.1 million for the year ended 31 December 2005 to approximately RMB187.8 million for the year ended 31 December 2010, representing CAGR of approximately 25.6% for the six years ended 31 December 2010. As illustrated in the table above, the revenue growth rate and the net profit growth rate has decreased from approximately 36.9% and 32.4% in 2006 to approximately 22.7% and 20.9% in 2010 respectively.

According to the 2011 Interim Report, the revenue of the Little Sheep Group for the six months ended 30 June 2011 has increased by approximately 14.7% as compared with the six months ended 30 June 2010, whereas the net profit attributable to the owners of the Company has decreased from approximately RMB38.1 million for the six months ended 30 June 2010 to approximately RMB30.6 million for the six months ended 30 June 2011, representing a decrease of approximately 19.7%. As discussed in the section headed “Material Changes” in Appendix I to the Scheme Document, the interim results reflected the impact by recent cost pressure relating to inflation, increases in salaries and employee benefits and a greater share of profit attributable to non-controlling interests of the Company, on the financial condition and outlook of Little Sheep.

During the three years ended 31 December 2010, the Company paid dividends to the Little Sheep Shareholders of approximately RMB68.9 million (HK7.6 cents per Little Sheep Share), approximately RMB62.1 million (HK6.9

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cents per Little Sheep Share) and approximately RMB60.6 million (HK6.9 cents per Little Sheep Share) respectively. The dividend payout ratio of the Little Sheep Group has decreased from approximately 53.5% in 2008 to approximately 32.3% in 2010.

According to the Annual Reports and the Prospectus, the Little Sheep Group mainly derived its revenue from four main sources for the six years ended 31 December 2010: (i) restaurant operations and provision of catering services; (ii) sale of food products; (iii) franchise income; and (iv) management service fee income. The following table set out the breakdown of the revenue of the Little Sheep Group for each of the six years ended 31 December 2010 as extracted from the Annual Reports and the Prospectus,

	<b>For the year ended 31 December</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Restaurant operations and provision of catering services	1,476,204	1,223,382	1,010,690	750,867	562,259	403,299
<i>growth rate</i>	<i>20.7%</i>	<i>21.0%</i>	<i>34.6%</i>	<i>33.5%</i>	<i>39.4%</i>	<i>N/A</i>
Sale of food products	417,728	313,773	239,858	170,479	127,897	98,642
<i>growth rate</i>	<i>33.1%</i>	<i>30.8%</i>	<i>40.7%</i>	<i>33.3%</i>	<i>29.7%</i>	<i>N/A</i>
Franchise income	30,848	30,887	18,886	26,375	11,310	10,126
<i>growth rate</i>	<i>-0.1%</i>	<i>63.5%</i>	<i>-28.4%</i>	<i>133.2%</i>	<i>11.7%</i>	<i>N/A</i>
Management service fee income	720	1,658	2,089	1,453	1,247	1,055
<i>growth rate</i>	<i>-56.6%</i>	<i>-20.6%</i>	<i>43.8%</i>	<i>16.5%</i>	<i>18.2%</i>	<i>N/A</i>
	<u>1,925,500</u>	<u>1,569,700</u>	<u>1,271,523</u>	<u>949,174</u>	<u>702,713</u>	<u>513,122</u>
<i>Number of restaurants</i>						
Company-owned restaurant	184	161	127	90	62	39
<i>growth rate</i>	<i>14.3%</i>	<i>26.8%</i>	<i>41.1%</i>	<i>45.2%</i>	<i>59.0%</i>	<i>N/A</i>

*Restaurant operations and provision of catering services*

According to the Annual Reports and Prospectus, revenue from restaurant operations represents revenue from in-restaurant sales of food and beverages by the company-owned restaurants of the Little Sheep Group. Revenue from restaurant operations and provision of catering services is recognised when the related services have been rendered to customers.

As illustrated in the table above, the revenue from the restaurant operations and provision of catering services increased from approximately RMB403.3 million for the year ended 31 December 2005 to approximately RMB1,476.2 million for the year ended 31 December 2010, representing CAGR of approximately 29.6% for the six years ended 31 December 2010. The segment accounted for a substantial majority of the revenue of the Little Sheep Group which ranged from approximately 76.7% to 80.0% for the six years ended 31 December 2010. According to the Annual Reports, the key initiatives to achieve revenue growth was attributable to, among others, the opening of new company-owned restaurants from 39 as at 31 December 2005 to 184 as at 31 December 2010, growth in same-store sales, the launch of new products, and the continuous enhancement of services and dining environments.

*Sale of food products*

According to the Annual Reports and Prospectus, the revenue from the sale of food products includes revenue derived from sales of lamb, soup base, seasoning and other products to the Company's franchisees, as well as sales of lamb and lamb by-products and other foods to wholesale distributors for retail distribution.

As illustrated in the table above, the revenue from the sale of food products increased from approximately RMB98.6 million for the year ended 31 December 2005 to approximately RMB417.7 million for the year ended 31 December 2010, representing CAGR of approximately 33.5% for the six years ended 31 December 2010. The segment of sale of food products accounted for approximately 19.2% in 2005, 18.2% in 2006, 18.0% in 2007, 18.9% in 2008, 20.0% in 2009 and 21.7% in 2010 of the revenue of the Little Sheep Group. According to the Annual Reports, the Little Sheep Group has launched innovative products such as a range of "organic lamb" according to the needs of its customers, improved its product mix, and actively expanded the wholesale and retail channels for its products. The Company has also established its third lamb production base in 2010 and completed the first phase of construction for its new seasoning factory, which has commenced production in September 2011 and support the future development of the Little Sheep Group's seasoning products business.

*Franchise income*

According to the Annual Reports and Prospectus, the franchise income of the Little Sheep Group includes a franchise fee and a brand use fee, both of which are typically paid upfront upon the execution of the franchise agreement with the fee determined primarily based on the location and size of the franchise restaurant.



As illustrated in the table above, the revenue from the franchise income increased from approximately RMB10.1 million for the year ended 31 December 2005 to approximately RMB30.8 million for the year ended 31 December 2010, representing CAGR of approximately 25.0% for the six years ended 31 December 2010. The contribution of revenue of the Little Sheep Group from the franchise income segment ranged from approximately 1.5% to 2.8% over the past six years. According to the Annual Reports, the Little Sheep Group has supported the franchisees through measures, among others, offering franchise restaurants advice on operation and product launch, provision of comprehensive training program to the existing and new franchisees and holding franchisee conferences for the franchisees to share their experiences and exchange market intelligence.

*Management service fee income*

The contribution from management service fee income to revenue of the Little Sheep Group represented a minimal portion over the past six years.

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*(ii) Historical financial position of the Little Sheep Group*

The following table summarises the audited financial position of the Little Sheep Group for each of the six years ended 31 December 2010 as extracted from the Annual Reports and the Prospectus,

	<b>2010</b>	<b>2009</b>	<b>As at 31 December</b>		<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>						
Property, plant and equipment	468,685	358,544	277,684	181,975	160,573	129,220
Deposits for purchase of items of plant and equipment	3,340	15,903	5,567	8,517	3,979	—
Intangible assets	279,158	236,774	171,131	143,193	85,492	4,056
Land lease prepayments	49,808	50,055	11,717	11,858	4,170	4,133
Long-term rental deposits	20,140	15,984	13,281	17,814	11,474	6,495
Long-term rental receivables	2,000	—	—	—	—	—
Deferred tax assets	<u>6,367</u>	<u>5,455</u>	<u>2,928</u>	<u>2,756</u>	<u>3,204</u>	<u>4,390</u>
	829,498	682,715	482,308	366,113	268,892	148,294
<b>Current assets</b>						
Inventories	370,941	182,126	179,400	144,143	61,434	68,216
Trade receivables	33,681	19,297	12,175	5,373	5,226	5,471
Short-term investment	—	—	—	—	—	4,079
Prepayment, deposits and other receivables	84,287	61,584	65,902	55,208	43,961	29,128
Due from equity holders/ shareholders of the holding company	—	—	—	—	9,472	7,615
Due from the holding company and a shareholder	—	—	—	78	78	78
Due from a related party	—	—	—	—	—	300
Cash and cash equivalent	<u>261,428</u>	<u>325,207</u>	<u>424,038</u>	<u>204,126</u>	<u>168,720</u>	<u>96,251</u>
	750,337	588,214	681,515	408,928	288,891	211,138
Assets of a disposal group classified as held for sale	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,000</u>
	750,337	588,214	681,515	408,928	288,891	214,138

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	<b>2010</b>	<b>2009</b>	<b>As at 31 December</b>		<b>2006</b>	<b>2005</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>						
Bank loans	86,000	375	535	97,992	—	60,545
Trade payables	69,340	51,098	40,803	37,448	26,467	25,455
Deposits, other payables and accruals	136,311	134,207	137,807	92,715	70,903	53,750
Due to non-controlling equity holders of subsidiaries	38,489	14,900	12,528	28,685	19,180	5,091
Dividend payable	—	—	—	—	9,555	—
Tax payables	<u>30,229</u>	<u>23,764</u>	<u>14,994</u>	<u>16,947</u>	<u>11,845</u>	<u>10,523</u>
	360,369	224,344	206,667	273,787	137,950	155,364
<b>Net current assets</b>	389,968	363,870	474,848	135,141	150,941	58,774
<b>Total assets less current liabilities</b>	1,219,466	1,046,585	957,156	501,254	419,833	207,068
<b>Non-current liabilities</b>						
Convertible bonds	—	—	—	190,966	193,177	—
Bank loans	50,000	—	375	910	—	3,997
Long-term liabilities	10,486	8,763	6,885	4,771	6,464	5,844
Deferred income tax liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>292</u>	<u>372</u>	<u>751</u>
<b>Total non-current liabilities</b>	<u>60,486</u>	<u>8,763</u>	<u>7,260</u>	<u>196,939</u>	<u>200,013</u>	<u>10,592</u>
<b>Net assets</b>	1,158,980	1,037,822	949,896	304,315	219,820	196,476
<b>Equity attributable to owners of the Company</b>						
Issued capital	91,198	90,826	90,823	—	—	—
Reserves	<u>1,064,671</u>	<u>939,952</u>	<u>850,776</u>	<u>287,952</u>	<u>211,577</u>	<u>191,281</u>
	1,155,869	1,030,778	941,599	287,952	211,577	191,281
Non-controlling interest	<u>3,111</u>	<u>7,044</u>	<u>8,297</u>	<u>16,363</u>	<u>8,243</u>	<u>5,195</u>
<b>Total equity</b>	1,158,980	1,037,822	949,896	304,315	219,820	196,476
<i>Current ratio</i>	2.08	2.62	3.30	1.49	2.09	1.38
<i>Inventories' turnover days (Note 1)</i>	118.68	101.42	112.60	99.50	85.29	N/A
<i>Creditors' turnover days (Note 2)</i>	25.84	25.78	27.23	30.93	34.16	N/A

*Notes:*

- Inventories' turnover days is calculated by the average inventories divided by the cost of inventories sold of the Little Sheep Group for the respective financial years and multiplied by 365 days.*
- Creditors' turnover days is calculated by the average trade payables divided by the cost of inventories sold of the Little Sheep Group of the respective financial years.*

*Non-current assets**Property, plant and equipment*

As set out in the Annual Reports, the property, plant and equipment of the Little Sheep Group mainly represents (i) leasehold improvement of the restaurants of the Little Sheep Group; (ii) buildings owned by the Little Sheep Group; (iii) equipment and fixtures; and (iv) construction in progress. The building mainly represents restaurants, production workshop, central kitchen and offices located in Inner Mongolia, Shanghai and Shenzhen City. The increase of the net carrying value of property, plant and equipment from approximately RMB129.2 million as at 31 December 2005 to approximately RMB468.7 million as at 31 December 2010 was mainly contributed by increase in the net carrying value of leasehold improvement and buildings of the Little Sheep Group as a results of the opening of company-owned restaurant from 39 as at 31 December 2005 to 184 as at 31 December 2010, the establishment of central kitchen in Shenzhen and Shanghai and construction of other food processing factory during the six years ended 31 December 2010.

*Intangible assets*

As set out in the Annual Reports, the intangible assets of the Little Sheep Group mainly represent goodwill as a result of acquisition of restaurants. The increase of the net carrying value of the intangible assets from approximately RMB4.1 million to approximately RMB279.2 million represents goodwill results from the acquisition of restaurants from various independent third parties during the six years ended 31 December 2010.

*Current assets*

As illustrated from the table above, the current assets of the Little Sheep Group has increased from RMB214.1 million as at 31 December 2005 to approximately RMB750.3 million as at 31 December 2010. The current assets of the Little Sheep Group as at 31 December 2010 mainly comprised inventories of approximately RMB370.9 million and cash and cash equivalent of approximately RMB261.4 million. The balance comprised trade receivable, prepayment, deposits and other receivables. The current ratio of the Little Sheep Group has decreased after its listing on 12 June 2008 from approximately 3.30 as at 31 December 2008 to approximately 2.08 as at 31 December 2010.

*Inventories*

As set out in the Annual Reports, inventories of the Little Sheep Group represent ingredients, consumables and food and beverages. The carrying value of the inventories of the Little Sheep Group increased from approximately RMB68.2 million as at 31 December 2005 to approximately

RMB370.9 million as at 31 December 2010, representing CAGR of approximately 40.3% whereas the inventories' turnover days of the Little Sheep Group increased from approximately 85.3 days for the year ended 31 December 2006 to approximately 118.7 days for the year ended 31 December 2010.

*Liabilities*

As illustrated from the table above, the total liabilities of the Little Sheep Group has increased from RMB166.0 million as at 31 December 2005 to approximately RMB420.9 million as at 31 December 2010. The liabilities of the Little Sheep Group as at 31 December 2010 mainly comprised deposits, other payables and accruals of approximately RMB136.3 million, bank loans of approximately RMB136.0 million and trade payables of approximately RMB69.3 million. The balance comprised amounts due to non-controlling equity holders of subsidiaries, tax payables and other long term payables.

*Net assets attributable to owners of the Company*

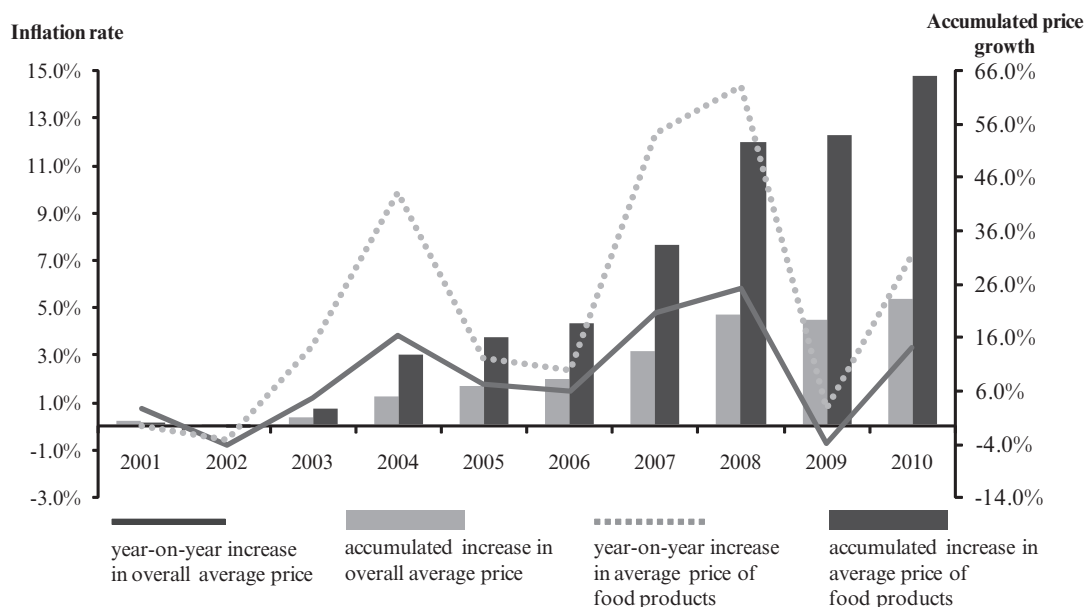
The net assets value attributable to the owners of the Company has increased from approximately RMB941.6 million as at 31 December 2008 to approximately RMB1,155.9 million as at 31 December 2010, mainly attributed to the profit attributable to the owners of the Company accrued in the relevant year.

***(iii) Prospects of the Little Sheep Group***

According to the 2011 Interim Report, inflation, especially for food products, remained a key challenge for the Little Sheep Group. The financial condition and outlook of the Little Sheep Group for the six months ended 30 June 2011 was impacted by recent government austerity measures to calm inflation, increases in salaries and employee benefits and a greater share of profit attributable to non-controlling interests of the Company.

According to the China Statistical Yearbook 2010 and the statistical announcement dated 28 February 2011 released by the National Bureau of Statistics in China, the inflation of food products (which reflects the food costs for the food and beverage industry) in the PRC generally outpaced the overall inflation rate during the year from 2001 to 2010. According to the inflation rate in the PRC from 2001 to 2010 as illustrated in the following chart, the accumulated increase in the average prices of food products in the PRC reached approximately 65.1% as compared to the accumulated increase in the overall average prices of approximately 23.5% during the same period.

The overall inflation rate and inflation rate of food products  
in the PRC from 2001 to 2010

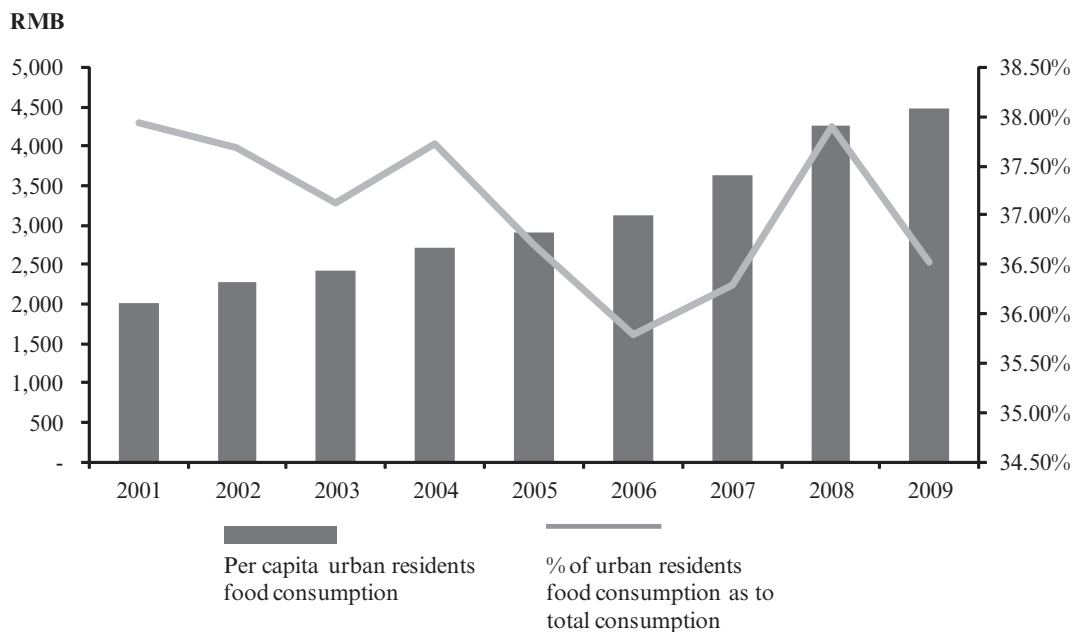


Source: China Statistical Yearbook 2010 and the statistical announcement dated 28 February 2011 released by National Bureau of Statistics in China

Note: Statistics for year 2010 represents data extracted from statistical announcement dated 28 February 2011 released by National Bureau of Statistics in China.

Among the per capita total consumption of the urban residents in the PRC, food consumption remained the largest category for consumption during year 2001 to 2009 which contributed approximately 35.8% to 37.9% to the total consumption of the urban residents in the PRC from 2001 to 2009. The per capita food consumption of the urban residents increased from approximately RMB2,000 in 2001 to approximately RMB4,500 in 2009, representing a CAGR of approximately 10.5% over the same period. The following chart set forth the per capita urban residents food consumption and its contribution to the total consumption of the urban residents in the PRC from 2001 to 2009.

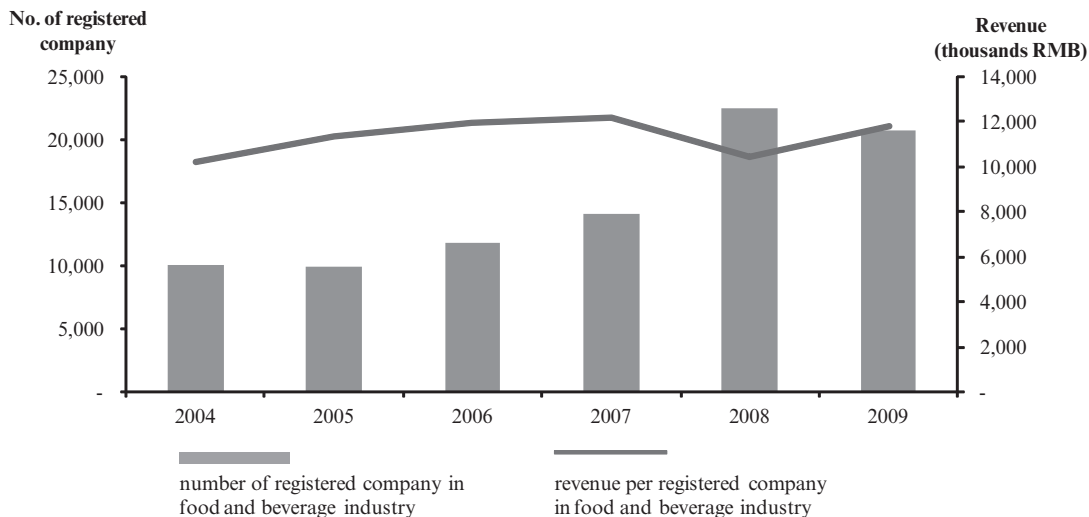
**The per capita urban resident consumption and its contribution to the total consumption of the urban residents in the PRC from 2001 to 2009**



*Source: China Statistical Yearbook 2002 to 2010 released by the National Bureau of Statistics in China*

The food and beverage industry face increasing competition in recent years. According to the National Bureau of Statistics in China, the total number of company registered under the food and beverage industry increased from approximately 10,000 in 2004 to 21,000 in 2009, representing a CAGR of approximately 15.5% over the same period. The revenue per registered company in food and beverage industry increased by CAGR of approximately 2.9% which fall short of the inflation rate on food costs over the same period. The following chart set forth the total number of registered company in food and beverage industry and the revenue per registered company in food and beverage industry in the PRC from 2004 to 2009.

**Total number of registered company in food and beverage industry  
and the revenue per registered company in  
food and beverage industry in the PRC from 2004 to 2009**



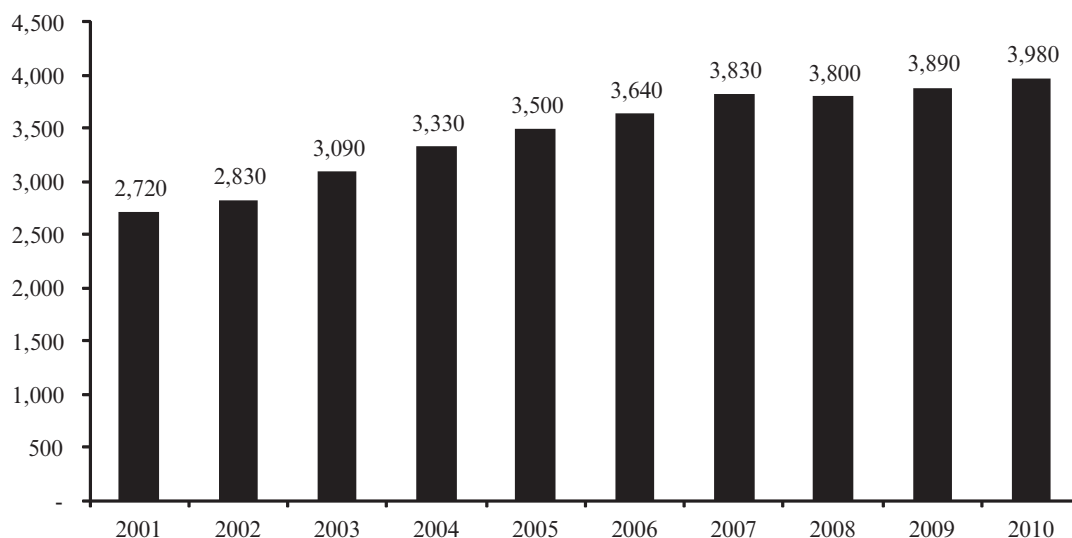
*Source: China Statistical Yearbook 2008 to 2010 released by the National Bureau of Statistics in China*

The major product of the Little Sheep Group represents mutton which is restricted by the total production output in the PRC. According to the National Bureau of Statistics in China, the total mutton production output in the PRC increased from approximately 2.7 million tons in 2001 to approximately 4.0 million tons in 2010, representing a CAGR of approximately 4.3%. The following chart set forth the total mutton production output in the PRC from 2001 to 2010.



### Mutton Production Output

(thousand tons)



*Source: China Statistical Yearbook 2010 and the statistical announcement dated 28 February 2011 released by National Bureau of Statistics in China*

*Note: Statistics for year 2010 represents data extracted from statistical announcement dated 28 February 2011 released by National Bureau of Statistics in China.*

As illustrated in the charts above, the food and beverage industry in the PRC has experienced steady growth from year 2001 to 2009 which is evidenced by the increase in the per capita urban resident food consumption. The increase is generally in line with the increase in the total consumption of the urban residents. However, it is also noted that the operating environment in the food and beverage industry remains challenging with the increase in competition and the high inflation which exert pressure on the cost of inventories consumed for the industry. In light of the above, it is uncertain as to whether the food and beverage industry can maintain its growth in the near future as the food and beverage industry in the PRC, as a consumer product, depends on a number of factors including, among others, the macroeconomic conditions.

#### **4. Information on the Offeror and its intention regarding the future of the Little Sheep Group**

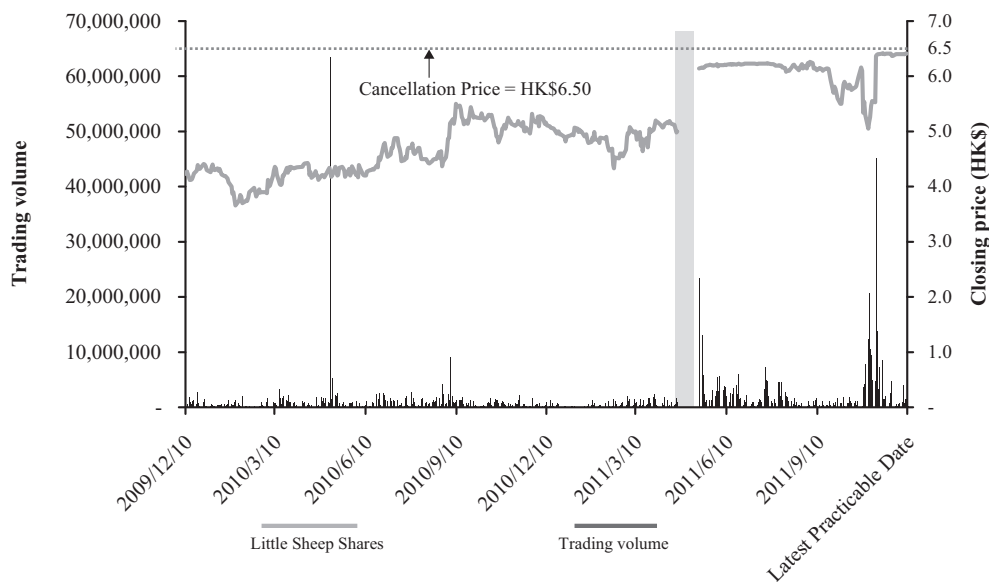
As set out in Part VII — Explanatory Memorandum in the Scheme Document, upon the Effective Date, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. Little Sheep will apply to the Stock Exchange for the withdrawal of the listing of the Little Sheep Shares on the Stock Exchange immediately following the Effective Date of the Scheme.

In connection with the Scheme, the Offeror and Yum! expect to review Little Sheep and its assets, corporate structure, capitalisation, operations, properties, policies, management and personnel to consider and determine what changes, if any, would be appropriate or desirable, long term and short term, following the Scheme in order to best organise and optimise the activities of Little Sheep. The Offeror currently has no significant plans to make any major changes to the business or to the employment of the current employees of the Little Sheep Group nor does it have any plans to redeploy any of the fixed assets of the Little Sheep Group. The Offeror and Yum! expressly reserve the right to make any changes that they deem necessary, appropriate or convenient in light of their review of Little Sheep, in light of future developments or in order to better integrate, generate maximum synergy or exploit full economies of scale with other operations of the Yum! Group. Such changes could include, among other things, changes in Little Sheep’s business or operations, corporate structure, articles of association, capitalisation, management, Little Sheep Board or dividend policy.

**5. Share price and trading volume**

*(a) Share price performance of the Little Sheep Shares*

Set out below is the chart showing the closing price and trading volume of the Little Sheep Shares as quoted on the Stock Exchange from 10 December 2009, being the date two years preceding the Latest Practicable Date, up to and including the Latest Practicable Date (the “**Review Period**”):



*Source: Bloomberg*

As shown in the chart above, the closing prices of the Little Sheep Shares were below the Cancellation Price at all times during the Review Period. From 10 December 2009 to the Last Pre-Announcement Trading Day (both dates

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inclusive) (the “**Pre-Announcement Period**”), the highest and lowest closing prices of the Little Sheep Shares were HK\$5.50 on 9 September 2010 and HK\$3.66 on 29 January 2010 respectively.

It should be noted that the Cancellation Price represents a considerable premium of approximately 40.69% over the average closing price of HK\$4.62 per Little Sheep Share during the Pre-Announcement Period, and also exceeds the highest closing price per Little Sheep Share during the same period.

On 26 April 2011, trading in Little Sheep Shares was suspended pending the release of the Announcement. On 13 May 2011, being the first trading day of Little Sheep Shares after publication of the Announcement, the closing price of the Little Sheep Shares surged to HK\$6.14. From 13 May 2011 to the Latest Practicable Date (both dates inclusive) (the “**Post-Announcement Period**”), the close prices of the Little Sheep Shares remained lower than the Cancellation Price. The highest and lowest closing prices of the Little Sheep Shares during the Post-Announcement Period were HK\$6.42 on 15 November 2011 and HK\$5.05 on 31 October 2011 respectively.

As at the Latest Practicable Date, the closing price of the Shares closed at HK\$6.41.

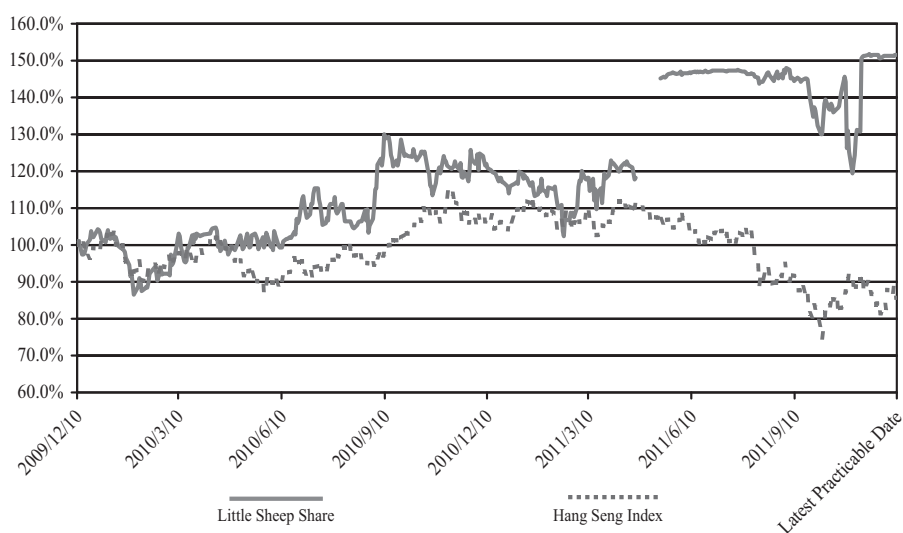
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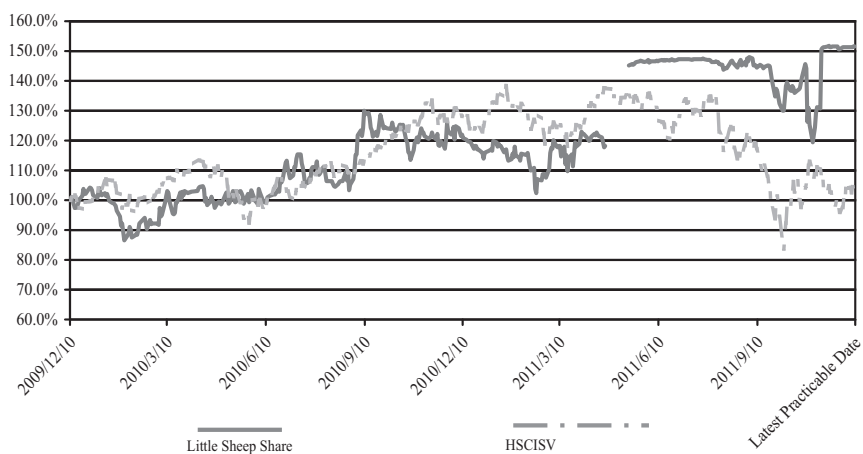
The closing price performance of the Little Sheep Shares was further analysed by the comparison with the stock market trend during the Review Period. The Company is one of the constituents of the Hang Seng Composite Industry Index for service industry (the “HSCISV”) which is sub-divided by the Hang Seng Composite Index to reflect the performance of different sectors of the Hong Kong stock market. The following charts show the closing price performances of the Little Sheep Shares against the Hang Seng Index and the HSCISV during the Review Period:

### Performance of the Little Sheep Shares against Hang Seng Index during the Review Period



Source: Bloomberg and website of Hang Seng Indexes Company Limited

### Performance of the Little Sheep Shares against HSCISV during the Review Period



Source: Bloomberg and website of Hang Seng Indexes Company Limited

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As illustrated in the charts above, the performance of the Little Sheep Shares has shown an increasing trend and generally in line with the performance of Hang Seng Index and HSCISV during the Pre-Announcement Period.

The Hang Seng Index and the HSCISV ascended steadily with occasional mild decline and surged by approximately 11.2% and 37.5% respectively as compared to the increase in the closing share price of the Little Sheep Shares of approximately 18.2% during the Pre-Announcement Period. Amid the volatile equity market, the Hang Seng Index and the HSCISV declined from the highest 23,276 and 4,485 closing points as at 13 May 2011, being the first trading day of Little Sheep Shares after publication of the Announcement, to a low of 16,250 and 2,780 during the Post-Announcement Period.

We believe that such surge in the closing price of Little Sheep Share during the Post-Announcement Period was mainly as a result of market reaction after the release of the Announcement relating to the Proposal. We note that Shares have been trading within the range of HK\$5.05 to HK\$6.42 from the Announcement Date to the Latest Practicable Date. The prevailing closing price of Little Sheep Shares may not be sustainable if the Scheme fails and the market price of Little Sheep Shares may revert to its historical trading range, which may be substantially below the prevailing market price or the Cancellation Price.

Having considered the above analysis, we are of the opinion that the Scheme provides an opportunity to the Independent Little Sheep Shareholders to realise the Scheme Shares at a price which is significantly higher than the historical price of the Little Sheep Shares.

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*(b) Trading volume*

The following table sets out the trading volume of the Little Sheep Shares during the Review Period:

<b>Month/period</b>	<b>Total trading volume for the month/period (Shares)</b>	<b>Average daily trading volume for the month/period (Shares) (Note 1)</b>	<b>Percentage of average daily trading volume to total issued Little Sheep Shares (Note 2)</b>	<b>Percentage of average daily trading volume to total number of Little Sheep Shares held by public Little Sheep Shareholders as at the Latest Practicable Date (Note 3)</b>
<b>2009</b>				
December (from 10 December 2009)	14,150,000	943,333	0.092%	0.245%
<b>2010</b>				
January	9,882,800	494,140	0.048%	0.128%
February	6,079,300	337,739	0.033%	0.088%
March	24,227,100	1,053,352	0.102%	0.273%
April	14,570,362	766,861	0.075%	0.199%
May	86,634,178	4,331,709	0.421%	1.124%
June	18,006,634	857,459	0.083%	0.222%
July	20,041,600	954,362	0.093%	0.248%
August	23,623,013	1,073,773	0.104%	0.279%
September	30,040,965	1,430,522	0.139%	0.371%
October	14,851,511	742,576	0.072%	0.193%
November	12,836,912	583,496	0.057%	0.151%
December	7,805,650	354,802	0.034%	0.092%

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Month/period	Total trading volume for the month/period (Shares)	Average daily trading volume for the month/ period (Shares) <i>(Note 1)</i>	Percentage of average daily trading volume to total issued Little Sheep Shares <i>(Note 2)</i>	Percentage of average daily trading volume to total number of Little Sheep Shares held by public Little Sheep Shareholders as at the Latest Practicable Date <i>(Note 3)</i>
<b>2011</b>				
January	5,315,513	253,120	0.025%	0.066%
February	10,031,950	557,331	0.054%	0.145%
March	24,448,111	1,062,961	0.103%	0.276%
April	9,585,150	532,508	0.052%	0.138%
May	59,712,750	2,985,638	0.289%	0.775%
June	56,336,945	2,682,712	0.259%	0.696%
July	34,068,070	1,703,404	0.165%	0.442%
August	30,715,629	1,335,462	0.129%	0.347%
September	13,951,878	697,594	0.067%	0.181%
October	39,731,521	1,986,576	0.192%	0.515%
November	144,996,729	6,590,760	0.635%	1.710%
December ( <i>up to the Latest Practicable Date</i> )	9,861,500	1,408,786	0.136	0.366

*Source: Bloomberg and website of the Stock Exchange*

*Notes:*

1. *Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day;*
2. *Based on the total issued Little Sheep Shares at the end of the respective month; and*
3. *Based on 385,391,189 Little Sheep Shares held by public Little Sheep Shareholders as at the Latest Practicable Date.*

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As illustrated in the above table, the average daily trading volume during the Review Period ranged from approximately 253,000 Little Sheep Shares to approximately 6,591,000 Shares, representing approximately 0.025% to 0.635% of the total number of Little Sheep Shares in issue for the respective month, and approximately 0.066% to 1.710% of the total number of Little Sheep Shares held by public Little Sheep Shareholders as at the Latest Practicable Date.

The high trading volumes in May 2010 were due to placing of approximately 44,605,000 Little Sheep Shares by the then shareholders of the Company to other public Little Sheep Shareholders.

It is noted that the trading volume on 13 May 2011, being the first trading day of Shares immediately after the release of the Announcement, was particularly large which amounted to 23,405,000 Little Sheep Shares. During the period from 13 May 2011 to 31 May 2011, the total trading volume surged to 59,712,750 Little Sheep Shares with an average daily trading volume of approximately 2,986,000 Little Sheep Shares, representing approximately 0.289% of the total number of Little Sheep Shares in issue as at 31 May 2011. The total trading volume in June 2011 dropped to 56,336,945 Little Sheep Shares and was considered high as compared to the total trading volume recorded in those months prior to the publication of the Announcement.

On 8 November 2011, the Offeror, Yum! and Little Sheep jointly announced that the Pre-Condition had been satisfied on 7 November 2011. The trading volume on 8 November 2011 increased to 45,109,000 with the total trading volume in November 2011 further increased to 144,996,729 Little Sheep Shares.

We consider that the relatively high level of trading volume during the Post-Announcement Period was stimulated by the publication of the Announcement in relation to the Scheme.

In view of the above, we consider that, save for May 2010 and November 2011, the overall liquidity of the Little Sheep Shares was relatively low in normal circumstances during the Review Period. As such, Scheme Shareholders may find it difficult to dispose of a large number of Little Sheep Shares in the open market without exerting a downward pressure on the price of the Little Sheep Shares. We consider that the Scheme represents a good opportunity for Independent Little Sheep Shareholders to realise their investment in the Little Sheep Shares at the Cancellation Price which carries a premium to trading prices of the Little Sheep Shares since its listing in 2008.

### 6. Comparisons

#### *(a) Peer comparison*

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. In assessing the fairness and reasonableness of the Proposal, we have



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attempted to compare the pricing ratios represented by the Cancellation Price against the market valuation of other listed companies which are engaged in business similar to that of the Little Sheep Group. Price to earnings ratio (the “**P/E ratio(s)**”) and the price-to-book ratios (“**P/B ratio(s)**”) have been used in the analysis. In general, in assessing whether a business segment is principal to a company, we consider it is a justifiable basis to make reference to the revenue generated from a business segment which contributes more than half of the total revenue of a company. We have, based on the information available from the website of the Stock Exchange and Bloomberg, identified the following 6 comparables (the “**Comparables**”), being companies listed on the Stock Exchange (both the Growth Enterprise Market (the “**GEM**”) and Main Board), which (i) are principally engaged in the restaurant operation, provision of catering services and sale of related food products; (ii) have revenue derived from restaurant operation, provision of catering services and sale of related food products represent not less than 80% of the total revenue for their respective latest financial year; and (iii) have market capitalisation of approximately HK\$1,000 million. We consider that the Comparables are fair and representative sample for comparison as the principal business of the Comparables is similar to the businesses of the Little Sheep Group. In forming our opinion, we have also considered the results of the comparison together with the other factors stated in this letter as a whole. The list of the Comparables is exhaustive and their respective P/E ratios and P/B ratios are set out below.

Company (stock code)	Principal activities	Share price as at the Latest Practicable Date	Market capitalisation HK\$' million	Market value		Operating performance	
				P/B ratio (Note 1)	P/E ratio (Note 2)	Gross profit margin (Note 3)	Return on total assets (Note 4)
Fairwood Holdings Limited (0052)	Operation of fast food restaurants and property investments	10.32	1,294	2.8	10.5	71.8%	15.9%
Café de Coral Holdings Limited (0341)	Operation of quick service restaurants, fast casual dining, institutional catering and specialty restaurant chains, and the food processing and distribution business	18.12	10,215	3.3	19.9	67.8%	13.6%
Ajisen (China) Holdings Limited (0538)	Operation of restaurants and the manufacture and sales of noodle and related products	9.70	10,389	3.7	23.2	69.2%	12.9%

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Company (stock code)	Principal activities	Share price as at the Latest Practicable Date	Market capitalisation HK\$' million	Market value		Operating performance	
				P/B ratio (Note 1)	P/E ratio (Note 2)	Gross profit margin (Note 3)	Return on total assets (Note 4)
Tao Heung Holdings Limited (0573)	Operation of restaurant and provision of food catering services; operation of bakery; production, sale and distribution of food products related to restaurant operations	3.00	3,048	2.5	13.9	67.5%	13.5%
Tack Hsin Holdings Limited (0611)	Restaurant operations, property investment and hotel operations	1.70	964	N/A (Note 5)	N/A (Note 5)	68.3%	N.A
Gayety Holdings Limited (“Gayety”) (8179)	Operation of full-service restaurants and delivering Chinese cuisine and Chinese wedding banquet and dining services	3.30	1,056	13.1 (Note 6)	106.0 (Note 6)	64.1%	15.4%
<b>Maximum</b>				<b>3.7</b>	<b>23.2</b>	<b>71.8%</b>	<b>15.9%</b>
<b>Minimum</b>				<b>2.5</b>	<b>10.5</b>	<b>64.1%</b>	<b>12.9%</b>
<b>Average</b>				<b>3.1</b>	<b>16.9</b>	<b>68.1%</b>	<b>14.3%</b>
<b>The Company</b>	<b>Operation of full-service restaurants chain, provision of catering services and sale of related food products</b>			<b>4.8</b> (Note 7)	<b>29.8</b> (Note 8)	<b>55.8%</b>	<b>11.9%</b>

*Source: Bloomberg and website of the Stock Exchange*

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*Notes:*

1. *P/B ratio of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net assets value attributable to the shareholders of the Comparables as extracted from their respective latest published balance sheets divided by the total number of issued shares as at the Latest Practicable Date. The net assets value attributable to the shareholders of Gayety has included net proceeds from the placing of shares on the GEM of the Stock Exchange on 8 July 2011.*
2. *P/E ratio of the Comparables are calculated based on their respective closing prices as at the Latest Practicable Date and the net profit attributable to the shareholders of the Comparables as extracted from their respective latest annual reports divided by the total number of issued shares as at the Latest Practicable Date.*
3. *Gross profit margin of the Comparables and the Company are calculated by revenue less the costs of inventories sold divided by the revenue of the Comparables and the Company, as the case maybe, of the respective latest financial years.*
4. *Return on total assets of the Comparables and the Company are calculated by the profit attributable to the owners of the Comparables and the Company divided by the total assets of the Comparables and the Company, as the case maybe, of the respective latest financial years.*
5. *Tack Hsin Holdings Limited was loss-making and have net liabilities in its latest financial year and P/B ratio and P/E ratio are thus not available.*
6. *Pursuant to the high concentration of shareholding announcement issued by the SFC dated 14 September 2011, the SFC has completed an enquiry into the shareholding of Gayety. The finding suggested that 9 shareholders together with the controlling shareholder of Gayety held approximately 96.39% of the issued shares of Gayety as at 31 August 2011. The share price of Gayety closed at HK\$3.55 at the Latest Practicable Date, representing an increase of approximately 255.0% from its placing price at HK\$1.00 per share upon its listing on GEM on 8 July 2011. During the same period, the HSCISV dropped 28.0% and the GEM Index dropped 32.3%. Given the high concentration in the shareholding of Gayety and the substantial fluctuation of its share price, we are of the view that its share price may not be reflective of its actual value or performance. Accordingly, we have excluded the P/B ratio and P/E ratio of Gayety from our analysis as we consider that it is an outlier given the substantial premiums of the share price over the net assets value and net profit attributable to the shareholders of Gayety based on its latest published financial information, which are largely attributable to the above mentioned factors. We consider that the inclusion of the ratios of Gayety would unreasonably distort our analysis of the P/B ratio and P/E ratio of the Comparables as a whole.*
7. *Calculated based on the Cancellation Price and the net profit attributable to the shareholder of the Company as extracted from the latest annual report divided by the total number of issued shares as at the Latest Practicable Date.*
8. *Calculated based on the Cancellation Price and the net profit attributable to the shareholder of the Company as extracted from the latest annual report divided by the total number of issued shares as at the Latest Practicable Date.*

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As shown in the above table, the P/E ratios of the Comparables ranged from approximately 10.5 to 23.2 times, with an average of approximately 16.9 times. The P/B ratios of the Comparables ranged from approximately 2.5 to 3.7 times, with an average of approximately 3.1 times. The P/E ratio and P/B ratio of the Company as implied by the Cancellation Price of approximately 29.8 times and 4.8 times were the highest among the respective P/E ratio and P/B ratio of the Comparables, which suggest that, insofar as the P/E ratio and P/B ratio are concerned, the Cancellation Price appears attractive as compared to the share price of the Comparable relative to their respective earnings and net assets value.

In addition, as illustrated in the table set out above, the gross profit margin and the return on total assets of the Comparables are ranged from approximately 64.1% to 71.8% and 12.9% to 15.9% respectively and the average gross profit margin and average return on total assets of the Comparables are approximately 68.1% and 14.3%. The average gross profit margin and average return on total assets of the Little Sheep Group are approximately 55.8% and 11.9% which were the lowest among the Comparables. It suggests that the Little Sheep Group is less efficient in generating profit as compared to the Comparables.

Having considered that (i) the P/E ratio and P/B ratio of the Company as implied by the Cancellation Price were the highest among the respective P/E ratios and P/B ratios of the Comparables; and (ii) the average gross profit margin and average return on total assets of the Little Sheep Group were the lowest among the Comparables, which suggests that the Little Sheep Group is less efficient in generating profit as compared to the Comparables, we consider the Cancellation Price to be fair and reasonable to the Independent Little Sheep Shareholders.

### *(b) Privatisation precedents*

As identified from the information publicly available on the Stock Exchange website, the table below set out all the privatisation proposals that (i) involve companies listed on the Stock Exchange; (ii) were announced since 1 January 2008 and up to the Latest Practicable Date; and (iii) have been successfully completed (the “**Privatisation Precedents**”). The table illustrates the range of premiums/discounts to the then prevailing market prices prior to the announcement of the privatisation over the periods indicated.

Date of initial announcement	Company (stock code)	Principal business	P/NAV (as defined below)	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation			
				Last trading day	30 trading days	90 trading days	180 trading days
28 Feb 2008	Mirabell International Holdings Limited (1179)	Retail, wholesale and manufacturing of footwear	1.2	15.2%	17.7%	14.7%	36.8%
2 Jun 2008	Wing Lung Bank Limited (96)	Banking and financial services	2.9	6.2%	9.7%	35.8%	58.0%

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Date of initial announcement	Company (stock code)	Principal business	P/NAV (as defined below)	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation			
				Last trading day	30 trading days	90 trading days	180 trading days
2 Jun 2008	China Netcom Group Cooperation (Hong Kong) Limited (906)	Telecommunication	2.0	3.0%	17.3%	18.3%	22.2%
10 Jun 2008	CITIC International Financial Holdings Limited (183)	Banking and financial services	1.7	33.3%	46.1%	71.3%	51.1%
3 Dec 2008	GST Holdings Limited (416)	Development, manufacturing, sale and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential, commercial and industrial uses	2.4	77.9%	93.5%	52.5%	43.9%
22 Dec 2008	Shaw Brothers (Hong Kong) Limited (80)	Investment holding and making investments in media and entertainment industries	2.6	64.2%	69.9%	19.6%	(13.4)%
12 Mar 2009	Delta Networks. Inc. (722)	Design and manufacturing of a wide range of networking products, such as switches, broad bands access products, wireless adaptors and routers	1.2	43.8%	80.7%	95.7%	32.7%
19 May 2009	Nam Tai Electronic & Electrical Products Limited (2633)	Consumer electric and communication products, telecommunication component assembly and LCD products	3.5	2.0%	6.3%	68.2%	60.4%
22 May 2009	The Ming An (Holdings) Company Limited (1389)	Property and casualty insurance companies in Hong Kong and the PRC	1.1	44.4%	55.1%	60.8%	64.1%

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Date of initial announcement	Company (stock code)	Principal business	P/NAV (as defined below)	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation			
				Last trading day	30 trading days	90 trading days	180 trading days
25 May 2009	Stone Group Holdings Limited (409)	Distribution of a range of healthcare products and the manufacture, distribution and selling of electronic and electrical products, office equipment and the operation of an internet cafe chain in the PRC	0.3	39.1%	48.1%	69.5%	68.8%
8 Jan 2010	Hutchison Telecommunications International Limited (2332)	Telecommunication	0.6	36.6%	38.5%	37.2%	32.4%
27 Apr 2010	Wheelock Properties Limited (49)	Real estate development	1.0	143.9%	162.3%	162.2%	155.2%
19 May 2010	Denway Motors Limited (203)	Manufacturing, assembly and trading of motor vehicles and the manufacturing and trading of automotive equipment and parts of the PRC	2.5	16.7%	25.0%	19.3%	26.1%
10 Aug 2010	ICBC Asia (349)	Banking and financial services	2.1	27.8%	41.2%	48.8%	59.1%
13 Aug 2010	Integrated Distribution Services Group Limited (2387)	Provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing	5.3	36.2%	45.1%	51.1%	60.7%
10 Jan 2011	Fubon Bank (Hong Kong) Limited (636)	Banking and financial services	1.5	37.6%	43.2%	39.3%	45.9%
20 Jan 2011	Shanghai Forte Land Co. Ltd (2337)	Property investment and property development	1.3	25.4%	34.3%	43.0%	52.4%

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Date of initial announcement	Company (stock code)	Principal business	P/NAV (as defined below)	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation			
				Last trading day	30 trading days	90 trading days	180 trading days
30 Jun 2011	China Resources Microelectronics Limited (597)	Manufacturing in the development and operation of semiconductor in Mainland China	1.2	43.3%	29.7%	21.9%	27.5%
8 Aug 2011	HannStar Board International Holdings Limited (667)	Manufacturing and sales of printed circuit board	0.6	47.1%	51.8%	48.0%	23.8%
<b>Maximum</b>	<i>(Note 1)</i>		<b>5.3</b>	<b>77.9%</b>	<b>93.5%</b>	<b>95.7%</b>	<b>68.8%</b>
<b>Minimum</b>	<i>(Note 1)</i>		<b>0.3</b>	<b>2.0%</b>	<b>6.3%</b>	<b>14.7%</b>	<b>(13.4)%</b>
<b>Average</b>	<i>(Note 1)</i>		<b>1.9</b>	<b>33.3%</b>	<b>41.8%</b>	<b>45.3%</b>	<b>41.8%</b>
<b>Adjusted average</b>	<i>(Note 2)</i>		<b>1.8</b>	<b>39.1%</b>	<b>48.2%</b>	<b>51.4%</b>	<b>47.8%</b>
13 May 2011	The Company		4.8	30.0%	29.5%	N/A	30.8%

*Source:* Website of the Stock Exchange

*Notes*

1. *Implied premium of the privatisation of Wheelock Properties Limited is regarded as an outlier to the Privatisation Precedents and excluded from the calculation of the maximum, minimum and average of the Privatisation Precedents which is further elaborated below.*
2. *Wheelock Properties Limited is included in the calculation of the adjusted average for reference purpose only.*

We have excluded the privatisation of Wheelock Properties Limited from our analysis as we consider that it is an outlier given the substantial premiums of the offer/cancellation price over (i) the closing price of the company on the last trading day before the announcement of the privatisation; and (ii) the average closing prices of the company based on the various reference periods indicated in the table, which deviate markedly from other Privatisation Precedents.

As illustrated in the table above, the premiums represented by the offer/cancellation price over the average closing price for the Privatisation Precedents for (i) the trading day prior to announcement of privatisation ranged from approximately 2.0% to 77.9% with an average of approximately 33.3%; (ii) 30 trading days prior to announcement of privatisation ranged from approximately 6.3% to 93.5% with an average of approximately 41.8%; and (iii) 180 trading days prior to announcement of privatisation ranged from approximately (13.4)% to

68.8 % with an average of approximately 41.8%. The premium represented by the Cancellation Price over the average closing price of the Little Sheep Shares of approximately 30.0%, 29.5% and 30.8% over the closing price of the last trading day before the privatisation announcement, and over the average closing prices for the periods of 30 and 180 trading days up to and including the last trading days before the privatisation announcement. The premiums represented by the Cancellation Price over the closing price of the last trading day before the privatisation announcement is below the Privatisation Precedents by approximately 3.3%, and lower than the premiums for the periods of 30 days and 180 days up to and including the last trading day before the privatisation announcement by approximately 12.3% and 11.0% respectively. In the case that the outlier of the Privatisation Precedents as explained above is included, the premiums represented by the offer/cancellation price over the average closing price of the Privatisation Precedents for the last trading day prior to announcement of privatisation ranged from approximately 2.0% to 143.9% with an average of approximately 39.1%. The premium represented by the Cancellation Price over the average closing price of the Little Sheep Shares is below the adjusted average of the Privatisation Precedents but within the range of the premiums over the closing price of the last trading day before the relevant announcement and over the average closing prices for the periods of 30 and 180 trading days up to and including the last trading days before the privatisation announcement for each of the Privatisation Precedents.

We have also compared the price to net asset value (“NAV”) ratio represented by the Cancellation Price under the Scheme to the corresponding ratios underlying each of the Privatisation Precedents. We note that, the price to NAV ratio of approximately 4.8 times represented by the Cancellation Price is within the range and higher than, and thus compares favorably to, the average price to NAV ratio, being approximately 1.9 times for the Privatisation Precedents.

Having considered that all the Privatisation Precedents were offers made to the shareholders for cash or shares of other listed companies to exit their respective investments, we consider the Privatisation Precedents provide an appropriate reference to the Independent Little Sheep Shareholders as to the range of premium/discount of other proposed privatisation precedents over/to their respective NAV and average share price prior to the privatisation announcement as represented by their respective offer/cancellation price during the selected period. It should be noted that the Privatisation Precedents were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors. Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Scheme. As such, we consider that the above comparison table can only provide a general reference of the offer prices of the general offers involving general offers and privatisation proposals announced previously but should not be used in isolation in determining the fairness and reasonableness of the Cancellation Price.



As illustrated in the table above, the premium of the respective cancellation price of the Privatisation Precedents over their respective share price on the last trading day prior to the announcement of the privatisation proposal ranged from 2.0% to 77.9%, with an average of approximately 33.3%. We consider the premium offered by the Cancellation Price of approximately 30.0% over the Little Sheep Share price on the Last Pre-Announcement Trading Day and the average Little Sheep Share price in the last one and six months were comparable to other privatisation proposals.

**7. Other considerations**

*(a) Lack of use of equity capital market*

Although the Company has been listed on the Stock Exchange since June 2008, it has not utilized its listing status to raise any funds from the equity capital market for the past three years, whilst on the other hand, the Company has continued to be burdened with the costs and the incurring of other resources in association with maintaining its listing status. As such, we are of the view that the Proposal will relieve the Company from such costs burden of keeping its listing status.

*(b) Prospect of an alternative offer*

We have confirmed with the Company that save for the Proposal, it has not received any competing offers subsequent to the Announcement Date and up to the Latest Practicable Date, nor are they aware of any potential competing offers that may be made in the future. Given the Offeror's significant strategic and substantial interest in the Little Sheep Group and representation on Little Sheep Board, the prospect of a competing offer that could ultimately be successful, in a takeover for control of the Little Sheep Group, would seem low.

*(c) Consequence of the Scheme failing*

The Board intends that the listing of Shares on the Stock Exchange shall be maintained in the event that the Scheme is not approved or does not become effective. 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.

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We note that Little Sheep Shares have been trading within the range of HK\$5.05 to HK\$6.42 from the Announcement Date to the Latest Practicable Date. The prevailing share price and trading volume of Little Sheep Shares may not be sustainable if the Scheme fails and the market price of Little Sheep Shares may revert to its historical trading range, which may be materially below the Cancellation Price.

*(d) Uncertainty in the future performance of the Little Sheep Group*

The following table sets out the respective profitability and liquidity ratio and growth rates of the Little Sheep Group as discussed in the paragraph headed “financial performance of the Little Sheep Group” above:

	<b>For the year ended 31 December</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Profitability</b>						
Gross profit margin	55.8%	58.6%	58.8%	60.3%	60.5%	60.0%
Net profit margin	9.8%	9.9%	10.1%	9.6%	11.3%	11.7%
Dividend payout ratio	32.3%	40.0%	53.5%	—	—	—
<b>Liquidity</b>						
Current ratio	2.08	2.62	3.30	1.49	2.09	1.38
Inventories' turnover days	118.68	101.42	112.60	99.50	85.29	N/A
Creditors' turnover days	25.84	25.78	27.23	30.93	34.16	N/A
<b>Growth rate</b>						
Revenue growth rate	22.7%	23.5%	34.0%	35.1%	36.9%	N/A
Net profit growth rate	20.9%	20.7%	41.2%	14.6%	32.4%	N/A
Number of company-owned restaurant growth rate	14.3%	26.8%	41.1%	45.2%	59.0%	N/A

As illustrated in the table above, it is noted that the Little Sheep Group is less profitable in recent years which is demonstrated by the reduction in gross profit margin and net profit margin from approximately 60.0% and 11.7% for the year ended 31 December 2005 to approximately 55.8% and 9.8% respectively. The Little Sheep Group also reduced the dividend payout ratio from approximately 53.5% for the year ended 31 December 2008 to approximately 32.3% for the year ended 31 December 2010. The liquidity of the Little Sheep Group as at 31 December 2010 worsens as compared to the previous years. The current ratio of the Little Sheep Group has reduced from approximately 3.30 times as at 31 December 2008, which is the first financial year ended after listing, to approximately 2.08 times as at 31 December 2010. On the other hand, the inventories' turnover days increased from approximately 85.3 days as at 31 December 2005 to approximately 118.7 days as at 31 December 2010.

In addition, the high growth of the Little Sheep Group in the previous years has slowed down. It is noted that that the revenue growth rate and net profit growth rate of the Little Sheep Group decreased from approximately 36.9% and 32.4% for the year ended 31 December 2006 to approximately 22.7% and 20.9% for the year ended 31 December 2010 respectively. Furthermore, the growth rate of the number of company-owned restaurant of the Little Sheep Group, which is the major driver for the growth in the revenue of the Little Sheep Group, has decreased from approximately 59.0% for the year ended 31 December 2006 to approximately 14.3% for the year ended 31 December 2010. As illustrated in the table above, despite the continuous growth in the revenue and net profit of the Little Sheep Group in recent years, we are uncertain whether the financial performance of the Little Sheep Group can maintain its growth as evidenced by the deteriorating profitability and diminishing growth rate.

## **8. Management Incentive Arrangements**

### *Shareholders' Agreement*

*Date:* On or around 9 December 2011

*Parties:*

1. the Offeror;
2. Possible Way;
3. Yum! China; and
4. The Participating Founders.

#### *(a) Reasons for and benefits of the Shareholders' Agreement*

The entering into of the Shareholders' Agreement is 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.

#### *(b) Principal terms of the Shareholders' Agreement*

Pursuant to the terms of the Shareholders' Agreement, the Offeror grants Possible Way an option (the "**Put Option**") to require the Offeror to buy some or all of the Little Sheep Shares held by Possible Way at an equity value per share determined based on a pre-agreed formula, unless otherwise agreed by the parties. The Put Option shall be exercisable at any time after the third anniversary of the Scheme becoming effective and on one or more occasions. The Offeror's obligations under the Shareholders' Agreement will be guaranteed by Yum! China. In addition, Possible Way will not and the Participating Founders will

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procure that Possible Way will not transfer, charge, pledge or otherwise dispose of its Little Sheep Shares without the Offeror's consent or unless such transfer is to a permitted transferee, made in accordance with certain drag-along and tag-along provisions or pursuant to the exit provisions in the Shareholders' Agreement.

The pre-agreed formula for the Put Option grant to Possible Way to require the Offeror to buy some or all of the Little Sheep Shares held by Possible Way shall be equal to,

A/B

where

'A' means the equity value; and

'B' means the aggregate number of issued Little Sheep Shares at the relevant time

The equity value is determined based on the following

- (i) the valuation of the entire issued share capital of Little Sheep agreed between the Offeror and Possible Way at the relevant time;

or if the Offeror and Possible Way cannot agree the valuation within a specific time as stipulated under the Shareholders' Agreement, an independent accountant will be appointed to determine the equity value in accordance with the following;

- (ii) an applicable multiple (the "**Multiple**") x earnings before interests, taxes, depreciation and amortization (the "**EBITDA**") of Little Sheep for the four preceding financial quarters immediately preceding the relevant time, minus the aggregate amount of borrowings of the Little Sheep Group as at the end of the financial quarter immediately preceding the relevant time, plus the amount of cash or cash equivalents at the end of the complete financial quarter immediately preceding the relevant time, in each case as determined by the independent accountants.

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The Multiple is determined based on the year during which the calculation is being made, as follows,

<b>Number of years after the date the Scheme becomes effective</b>	<b>Multiple</b>
3	17.1
4	16.0
5	15.0
6	14.0
7	13.0
8	12.0
9	11.0
10–20	10.0

We noted from the prospectus of the Company dated 2 June 2008 that Mr. Zhang Gang and Chen Hongkai, the Participating Founders, played a vital role in the founding of the Little Sheep Group since 1999 and have extensive experience in the catering industry. Given their past contribution to the Little Sheep Group's development and expansion, unique experience and expertise in the hot pot restaurant business, 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, we consider it is justifiable to incentivise the Participating Founders to remain involved in the business and to allow them to continue to contribute to the development of Little Sheep's business if the Offeror is to continue the existing businesses of the Little Sheep Group.

The approval by the Independent Little Sheep Shareholders on the terms of the Management Incentive Arrangements is one of the conditions precedents of the Proposal and the Scheme, therefore it is part and parcel to the Proposal and the Scheme if the Independent Little Sheep Shareholders are to vote in favour of the Scheme. The purpose of the Management Incentive Arrangement is to incentivise the Participating Founders to remain involved in the business and to allow them to continue to contribute to the development of Little Sheep's business if the Offeror is to continue the existing businesses of the Little Sheep Group. The contribution from the Participating Founders, among others, the extensive experience and expertise of the Participating Founders in the catering industry and the Little Sheep Group as discussed in the paragraph above is one of the successful ingredients for Little Sheep Group and the development of the existing businesses of the Little Sheep Group would be benefited with their contribution. As such, the Management Incentive Arrangement has been taken into account in the current terms of the Proposal and the Independent Little Sheep Shareholders would be able to enjoy the benefits under the Scheme which may otherwise be unavailable without the Management Incentive Arrangements through which the Offeror would be able to secure the continuous contributions from the Participating Founders following the privatisation of Little Sheep.

As set out in the paragraph above, we noted from the exit clause that the Multiple of 17.1 to be applied when determining the equity value of Little Sheep three years after the date the Scheme becomes effective is equal to the P/EBITDA ratio of the Company as implied by the Cancellation Price of approximately 17.1. We further noted that the applicable Multiple decreases with the number of years after the Effective Date and the Participating Founders will not enjoy a higher Multiple than that being offered to the Scheme Shareholders under the Proposal. The retained interests of the Participating Founders will be tied closely with the performance of the Company post privatisation. The arrangement does not provide short-term exit for the Participating Founders in that the Put Option is not exercisable before the third anniversary of the Effective Date and may be operable for a longer term of twenty years. In addition, there is no maximum or minimum exercise price under the Put Option. Thus, the Participating Founders will be subject to the risks as well as potential rewards associated with the financial performance of the Company going forward.

We have reviewed the other terms of the Shareholders' Agreement which cover areas on, among others, (i) board and shareholder governance; (ii) reserved matters for shareholders; (iii) restrictions on transfers and issues of securities and exit; (iv) guarantee; (v) non-competition; and (vi) termination, and we are of the view that the terms contained therein are not uncommon and would not prejudice the interests of the Independent Little Sheep Shareholders. Further details of the Shareholders' Agreement can be referred to in the section headed "Management Incentive Arrangements" in Part VII — Explanatory Memorandum of the Scheme Document.

Having considered the above, including (i) the reasons for and the basis of the terms of the Put Option are fair and reasonable; (ii) the other terms of the Shareholders' Agreement are primarily for governing the duties and responsibilities of the relevant parties following completion which would not prejudice the interests of the Independent Little Sheep Shareholders; and (iii) the Independent Little Sheep Shareholders would be able to enjoy the benefits under the Scheme which may otherwise be unavailable without the Management Incentive Arrangements through which the Offeror would be able to secure the continuous contributions from the Participating Founders following the privatisation of Little Sheep, we are of the view that the Management Incentive Arrangements are fair and reasonable.

## **9. The Option Offer**

As all the Outstanding Little Sheep Share Options are in-the-money (i.e. with exercise price below the Cancellation Price), the intrinsic value for an in-the-money option is calculated as the absolute value of the difference between the share price of the underlying and the exercise price of the option. We therefore consider that the Option Offer Price of HK\$4.39 for every Outstanding Little Sheep Share Option which

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represents the difference between the Cancellation Price of HK\$6.50 and the prevailing exercise price of the Outstanding Little Sheep Share Options of HK\$2.11 each is calculated on a “see-through” basis and is fair and reasonable.

In line with our view that the terms of the Scheme are fair and reasonable as discussed above, we consider the terms of the Option Offer to be fair and reasonable so far as the Optionholders are concerned. Accordingly, we advise the Little Sheep Independent Board Committee to recommend the Optionholders to accept the Option Offer.

### CONCLUSION AND RECOMMENDATION

In arriving at our recommendation in respect of the Proposal, Option Offer and the Management Incentive Arrangements, we have considered the principal factors and reasons as discussed above and as summarized below:

- the Cancellation Price is significantly above the historical price of the Little Sheep Shares since listing in 2008 and represent a premium over the net asset attributable to the Little Sheep Shareholders as at 31 December 2010;
- Scheme Shareholders may find it difficult to dispose of a large number of Little Sheep Shares in the open market without exerting a downward pressure on the price of the Little Sheep Shares;
- the prevailing share price and trading volume of Little Sheep Shares may not be sustainable if the Scheme fails and the market price of Little Sheep Shares may revert to its historical trading range, which may be materially below the Cancellation Price;
- the P/E ratio and P/B ratio of the Company as implied by the Cancellation Price were the highest among the respective P/E ratios and P/B ratios of the Comparables;
- the average gross profit margin and average return on total assets of the Little Sheep Group were the lowest among the Comparables;
- save for the Proposal, the Company has not received any competing offers concerning the Company subsequent to the Announcement Date and up to the Latest Practicable Date, nor are they aware of any potential competing offers that may be made in the future;
- despite the continuous growth in the revenue and net profit of the Little Sheep Group in recent years, we are uncertain whether the financial performance of the Little Sheep Group can maintain its growth as evidenced by the deteriorating profitability and diminishing growth rate; and

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- all the Outstanding Little Sheep Share Options are in-the-money (i.e. with exercise price below the Cancellation Price), the intrinsic value for an in-the-money option is calculated as the absolute value of the difference between the share price of the underlying and the exercise price of the option

Based on the above, in conclusion, we consider that the terms of the Proposal and the Option Offer are fair and reasonable so far as the Scheme Shareholders and Optionholders are concerned respectively and the Scheme provides the Scheme Shareholders with an opportunity to realise their investment in the Little Sheep Shares in cash. Taking into account (i) Scheme Shareholders will not be able to enjoy the benefits under the Proposal unless the Management Incentive Arrangements are approved at the EGM, and (ii) the Management Incentive Arrangements are fair and reasonable as discussed in the paragraph headed “Management Incentive Arrangements” above, we advise the Little Sheep Independent Board Committee to recommend:

(a) at the Court Meeting:

- (i) the Scheme Shareholders vote in favour of the Scheme;

(b) at the EGM:

- (i) the Little Sheep Shareholders vote in favour of:

- (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and

- (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Scheme Shares by paying 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;

- (ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and

(c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

Nevertheless, Scheme Shareholders should note that the price of the Little Sheep Shares has substantially increased following the publication of the Announcement. As analysed in detail under the paragraph headed “Share price and trading volume” above, we believe that such surge in the closing price of Little Sheep Share during the Post-Announcement Period was mainly as a result of market reaction after the release of the Announcement relating to the Proposal. The prevailing closing price of Little Sheep Shares



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may not be sustainable if the Scheme fails and the market price of Little Sheep Shares may revert to its historical trading range, which may be substantially below the Cancellation Price.

Therefore, Scheme Shareholders and/or the Optionholders who would like to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Little Sheep Shares before the Effective Date and, instead of accepting the Proposal and/or the Option Offer, consider selling their Little Sheep Shares and/or exercise the Outstanding Little Sheep Share Options in the open market if the net proceeds of such sale after deducting all transaction costs exceed the net amount to be received under the Proposal and/or the Option Offer. For those Scheme Shareholders who may not be able to realise a higher return from selling their Little Sheep Shares in the open market, the Scheme Shareholders and/or the Optionholders are recommended to accept the Proposal and/or the Option Offer which provides a reasonable alternative exit to realise their investment in the Little Sheep Shares.

Scheme Shareholders should read carefully the procedures for accepting the Proposals and/or the Option Offer detailed in Part II — Actions to be taken to the Scheme Document.

Yours faithfully  
For and on behalf of  
**Quam Capital Limited**  
**Gary Mui**  
*Executive Director*

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## PART VII — EXPLANATORY MEMORANDUM

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*This Explanatory Memorandum constitutes the memorandum required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).*

### **SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE FOR EACH SCHEME SHARE**

#### **1 INTRODUCTION**

On 13 May 2011, the Offeror, Yum! and Little Sheep jointly announced that on 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, had requested the Little Sheep Board to put forward a proposal to the Scheme Shareholders regarding a privatisation of Little Sheep by way of the Scheme.

The Scheme involves the cancellation of all the Scheme Shares in exchange for HK\$6.50 in cash for each Scheme Share, and the subsequent issue of new Little Sheep Shares to the Offeror, as a result of which it is intended that approximately 93.25% of the issued share capital of Little Sheep will be held by the Offeror and approximately 6.75% of the issued share capital of Little Sheep will be held by Possible Way (on the assumption that the Outstanding Little Sheep Share Options are not exercised and that there is no other change in the shareholdings of Little Sheep prior to completion of the Proposal).

The Offeror is making the Option Offer to the Optionholders to cancel all Outstanding Little Sheep Share Options. The Option Offer is conditional on the Scheme becoming effective.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal and the Option Offer, which are to be implemented by the Scheme and the Option Offer Letters, respectively, and to provide the Scheme Shareholders and Optionholders with other relevant information in relation to the Scheme and the Option Offer, in particular, to provide the intentions of Yum! with regard to Little Sheep and the shareholding structure of Little Sheep before and after the Scheme.

The particular attention of the Scheme Shareholders and Optionholders is drawn to the following sections of this Scheme Document: (a) a letter from the Little Sheep Board set out in Part IV of this Scheme Document; (b) a letter from the Little Sheep Independent Board Committee set out in Part V of this Scheme Document; (c) a letter from Quam Capital Limited, the Independent Financial Adviser, set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix III to this Scheme Document.

#### **2 TERMS OF THE PROPOSAL**

The Proposal is to be implemented by way of a scheme of arrangement under Section 86 of the Companies Law.

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## PART VII — EXPLANATORY MEMORANDUM

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Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears in the register of members of Little Sheep as at the Record Date will be entitled to receive HK\$6.50 in cash for each Scheme Share.

As at the Latest Practicable Date, the authorised share capital of Little Sheep was HK\$1,000,000,000 divided into 10,000,000,000 Little Sheep Shares, and the issued share capital of Little Sheep was HK\$103,779,012 divided into 1,037,790,120 Little Sheep Shares. All of the Little Sheep Shares rank *pari passu* in all respects as regards to rights to capital, dividends and voting. As at that date, the Scheme Shareholders were interested in 687,219,090 Little Sheep Shares, representing approximately 66.22% of the issued share capital of Little Sheep. On the basis of the Cancellation Price of HK\$6.50 per Scheme Share and 687,219,090 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$4,467 million.

As at the Latest Practicable Date, there were 13,686,030 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 Mr. Chen Hongkai, a Participating Founder, 2,487,680 Outstanding Little Sheep Share Options were held by Mr. Lu Wenbing, a Non-Participating Founder, 730,000 Outstanding Little Sheep Share Options were held by Ms. Li Baofang, also a Non-Participating Founder, 750,000 Outstanding Little Sheep Share Options were held by Mr. Wang Jianhai, a director of Little Sheep and the remaining 9,418,350 Outstanding Little Sheep Share Options were held by employees of the Little Sheep Group (including a retired employee). The exercise price of these Outstanding Little Sheep Share Options is HK\$2.11 per Little Sheep Share. For the vesting period of the Outstanding Little Sheep Share Options, please refer to Note (2) of the section headed “5(a) interests and dealings in Little Sheep Shares” in Appendix II — General Information on Little Sheep and the Offeror to this Scheme Document.

Details of the Option Offer are set out in the Option Offer Letters. 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.

After the Scheme becomes effective, the listing of the Little Sheep Shares on the Stock Exchange will be withdrawn and approximately 93.25% of the issued share capital of Little Sheep will be held by the Offeror and approximately 6.75% of the issued share capital of Little Sheep will be held by Possible Way, on the assumption that the Outstanding Little Sheep Share Options are not exercised. The Proposal is conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the section headed “3. Conditions of the Proposal and the Scheme” below. All the Conditions will have to be fulfilled or waived, as applicable, on or before 6 February 2012 (or such later date as the Offeror and Little Sheep may agree or, to the extent applicable, as the Grand Court may direct), otherwise the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme will be made as and when necessary.

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## PART VII — EXPLANATORY MEMORANDUM

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If the Proposal does not become unconditional, Little Sheep has no intention to seek the immediate withdrawal of the listing of the Little Sheep Shares on the Stock Exchange. Little Sheep retains full flexibility to voluntarily terminate at a later date the listing of the Little Sheep Shares on the Stock Exchange, subject to compliance with applicable law, listing requirements, and the requirements of the Takeovers Code (if applicable). Little Sheep may also terminate the registration of the Little Sheep Shares if the applicable requirements for the termination of registration are satisfied.

Assuming that the Proposal becomes effective on Wednesday, 1 February 2012, payments under the Proposal and the Option Offer (to the extent that validly completed Option Form of Acceptance have been received by the Option Record Date) are expected to be despatched to the Scheme Shareholders (other than the Possible Way and Billion Year PRC Shareholders) by ordinary mail at their own risk on or before Friday, 3 February 2012. Payments (by cheque or bank transfer) in respect of validly completed Option Form of Acceptance received after the Option Record Date but before 4:00 p.m. on Wednesday, 15 February 2012 will be despatched within 10 days of receipt of such validly completed Option Form of Acceptance.

The Possible Way and Billion Year PRC Shareholders will provide authorization to the Offeror to authorize Possible Way to receive the payment of their respective cash entitlements under the Scheme on their behalf, and Possible Way will remit the cash entitlements to the respective PRC individual residents after registration with the relevant local branches of SAFE. Please refer to the section headed “Terms of the Proposal — The Scheme” in Part IV — Letter from the Little Sheep Board of this Scheme Document for details.

Settlement of the Cancellation Price and the Option Offer Price to which the Scheme Shareholders whose names appear in the register of members of Little Sheep as at the Record Date and the Optionholders who are entitled under the Proposal and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholder.

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

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 the EGM to approve and give effect to the reduction of the issued 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 the EGM to immediately restore 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 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 EGM 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 issued 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;

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## PART VII — EXPLANATORY MEMORANDUM

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- (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 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 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 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; 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

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or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Scheme will lapse. The Company has no right to waive any of the Conditions.

None of the Conditions set out above has been satisfied as of the Latest Practicable Date, save that the conditions referred to in paragraphs (i) and (j) above are continuing conditions.

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

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Wednesday, 1 February 2012. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme and confirmation of reduction of capital as a result of the cancellation of the Scheme Shares by the Grand Court, the Record Date, the Effective Date and the date of withdrawal of the listing of the Little Sheep Shares on the Stock Exchange.

If the Scheme is not approved or the Proposal otherwise lapses, an announcement will be made by the Offeror, Yum! and Little Sheep, and trading of the Little Sheep Shares on the Stock Exchange will resume.

#### **4 SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES LAW AND THE COURT MEETING**

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be held in such manner as the Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company.

**5 ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE**

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the disinterested Little Sheep Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Little Sheep Shares (such holders being the Independent Little Sheep Shareholders); and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested Little Sheep Shares (namely, the Little Sheep Shares held by all Independent Little Sheep Shareholders).

For the purpose of this vote, Independent Little Sheep Shareholders comprise all Little Sheep Shareholders as at the Meeting Record Date other than the Offeror and any other party acting in concert with the Offeror. Scheme Shareholders that are not Independent Little Sheep Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

As at the Latest Practicable Date, the Independent Little Sheep Shareholders held in aggregate 385,391,189 Scheme Shares. On that basis, and assuming no Outstanding Little Sheep Share Options are exercised, 10% of the votes attached to all disinterested Little Sheep Shares referred to at (b) above therefore represent approximately 38,539,119 Little Sheep Shares as at the Latest Practicable Date.

**6 BINDING EFFECT OF THE SCHEME**

Upon the Scheme becoming effective it will be binding on Little Sheep and all Little Sheep Shareholders, regardless of how they voted at the Court Meeting and EGM.



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**7 SHAREHOLDING STRUCTURE OF LITTLE SHEEP**

The table below sets out the shareholding structure of Little Sheep as at the Latest Practicable Date and immediately upon completion of the Proposal, assuming that no Outstanding Little Sheep Share Options are exercised before the Record Date and that there is no other change in shareholding:

Little Sheep Shareholders	As at the Latest Practicable Date		Immediately following completion of the Proposal	
	<i>Number of Little Sheep Shares</i>	<i>(%)</i>	<i>Number of Little Sheep Shares</i>	<i>(%)</i>
Offeror	280,571,030	27.04	967,790,120	93.25
Possible Way <sup>(1)</sup>	<u>308,301,875</u>	<u>29.71</u>	<u>70,000,000</u>	<u>6.75</u>
<b>Participating Founders</b>				
Mr. Zhang Gang	24,901,626	2.40	—	—
Mr. Chen Hongkai <sup>(2)</sup>	8,753,225	0.84	—	—
<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	0.78	—	—
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	—	—
Mr. Koo Benjamin Henry Ho Chung <sup>(3)</sup>	240,000	0.02	—	—
Relevant members of the Goldman Sachs group which hold Little Sheep Shares	<u>734,000</u>	<u>0.07</u>	<u>—</u>	<u>—</u>
Aggregate number of Little Sheep Shares of the Offeror and the Offeror Concert Parties				
	652,398,931	62.86	—	—
FIL Limited <sup>(4)</sup>	87,347,000	8.42	—	—
Other public Little Sheep Shareholders	<u>298,044,189</u>	<u>28.72</u>	<u>—</u>	<u>—</u>
Total number of Little Sheep Shares held by Independent Little Sheep Shareholders				
	<u>385,391,189</u>	<u>37.14</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u>1,037,790,120</u>	<u>100.00</u>	<u>1,037,790,120</u>	<u>100.00</u>
Total number of Scheme Shares	<u>687,219,090</u>	<u>66.22</u>		

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*Notes:*

- (1) As at the Latest Practicable 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 Latest Practicable 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 Latest Practicable 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) As at the Latest Practicable Date, Ms. Tsu Nan Ping Dora, the spouse of Mr. Koo Benjamin Henry Ho Chung, is the beneficial owner of 240,000 Little Sheep Shares. Therefore, Mr. Koo Benjamin Henry Ho Chung is deemed to be interested in an aggregate of 240,000 Little Sheep Shares.
- (4) Based on the disclosure of dealings form provided to the Company and filed with the SFC by FIL Limited pursuant to Rule 22 of the Takeovers Code, FIL Limited was interested as an investment manager in 87,347,000 Little Sheep Shares.

Following the Effective Date and the withdrawal of listing of the Little Sheep Shares on the Stock Exchange, Yum! will indirectly hold, through the Offeror, approximately 93.25% of the issued share capital of the Company and the Participating Founders will hold, through Possible Way, approximately 6.75% of the issued share capital of the Company.

### **8 TOTAL CONSIDERATION**

On the basis of the Cancellation Price of HK\$6.50 per Scheme Share and 687,219,090 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$4,467 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\$4,467 million if none of the Outstanding Little Sheep Share Options are exercised on or before the Record Date. This amount would

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increase to an aggregate of approximately HK\$4,556 million if all Outstanding Little Sheep Share Options are exercised on or before the Latest Option Exercise Date. The total amount of cash required to effect the Option Offer is approximately HK\$60 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 issued share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares, and forthwith upon such reduction, the issued share capital of the Company will be restored 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 to the Offeror.

### 9 COMPARISON OF VALUE AND FINANCIAL EFFECTS

#### Cancellation Price

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 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;

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- 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.

### **Dividends**

Little Sheep's ability to pay dividends is limited by Cayman Islands law, which allows companies to declare and pay dividends only out of either profit or, subject to being able to pay its debt as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Little Sheep Shareholders, the share premium account (where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares must be transferred to an account called the share premium account). Little Sheep Shareholders whose names appear on the register of members of Little Sheep as at the record date for entitlement to dividend, if any, declared by Little Sheep on or before the Effective Date will be entitled to receive such dividend (if any). Little Sheep does not expect to declare any dividend on or before the Effective Date.

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

The highly fragmented domestic full-service restaurant industry in China has seen intensifying competition over the past few 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.

The ongoing transformation of China's economy will support greater consumer activity, which in turn will strongly support ongoing growth in the catering sector. However, the financial condition and outlook of Little Sheep has been impacted by recent government austerity measures to calm inflation, increases in salaries and employee benefits and a greater share of profit attributable to non-controlling interests of the Company, as reflected in the information shown in Little Sheep's unaudited interim results for the six months ended 30 June 2011 in paragraph 2 of Appendix I to this Scheme Document. Such an impact on Little Sheep's financial condition and outlook is expected to continue in the near future.

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

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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.

### 11 OPTION OFFER

The Company adopted the Little Sheep Share Option Scheme on 20 December 2007 pursuant to which certain of the directors of Little Sheep, directors of the subsidiaries of the Company, senior management personnel and employees of Little Sheep Group are eligible for the grant of Little Sheep Share options. As at the Latest Practicable Date, there were 13,686,030 Outstanding Little Sheep Share Options, which, when exercised, will entitle their holders to subscribe for 13,686,030 Little Sheep Shares at an exercise price of HK\$2.11 per Little Sheep Share.

Under the terms of the Little Sheep Share Option Scheme, following receipt of the Option Offer Letters an Optionholder may exercise his/her Outstanding Little Sheep Share Option(s) (to the extent not already exercised), even if they are not otherwise exercisable, conditional on the passing of the Resolutions to be proposed at the Court Meeting and EGM to approve the Scheme. The Company will notify Optionholders in due course of the results of the Court Meeting and EGM. Optionholders will be given the opportunity to exercise their Outstanding Little Sheep Share Options conditionally on the passing of the Resolutions in full or in part at any time on or before the Latest Option Exercise Date. Little Sheep Shares issued upon exercise of the Outstanding Little Sheep Share Option(s) on or before the Latest Option Exercise Date will form part of the Scheme Shares.

As an alternative to exercising the Outstanding Little Sheep Share Options, the Offeror will offer to cancel the Outstanding Little Sheep Share Options under the Option Offer, conditional upon the Proposal becoming effective and binding. The Option Offer Letter to Optionholders setting out the terms and conditions of the Option Offer is being despatched separately to Optionholders and is substantially in the form set out in Appendix VI of this Scheme Document.

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Each Optionholder as at the Option Record Date who has accepted the Option Offer and has lodged a completed Option Form of Acceptance by 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 will be entitled to receive an Option Offer Price of HK\$4.39 for each Outstanding Little Sheep Share Option if the Option Offer becomes unconditional.

The Option Offer Price represents the “see-through” price of each Outstanding Little Sheep Share Option, being the amount by which the Cancellation Price exceeds the exercise price of that Outstanding Little Sheep Share Option (being HK\$2.11).

All payments in respect of the Option Offer Price will be made by cheque in Hong Kong dollars save that the Offeror and Little Sheep will take steps to procure that Optionholders resident in the PRC will receive payments in respect of the Option Offer Price by bank transfer in RMB at the prevailing exchange rate at the time of conversion of the Option Offer Price from HK\$ to RMB. Payments made under the Option Offer to Optionholders in the PRC will be made after deduction of all applicable taxes that the Offeror and/or Little Sheep are obliged to withhold. Settlement of the Option Offer Price to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

All Outstanding Little Sheep Options will lapse on the Effective Date. Optionholders who do not (i) exercise their Outstanding Little Sheep Options on or before the Latest Option Exercise Date; or (ii) accept the Option Offer in respect of their Outstanding Little Sheep Options on or before 4:00 p.m. on Wednesday, 15 February 2012 will receive neither the Cancellation Price nor the Option Offer Price.

### **12 INFORMATION ON THE COMPANY**

The Company is an exempted 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.

### **13 INFORMATION ON THE OFFEROR**

The name of the Offeror is Wandle Investments Limited. 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.

### **14 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 three concepts of KFC, Pizza Hut and Taco Bell, Yum! develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items.

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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.

### 15 INTENTIONS OF THE OFFEROR

Upon the Effective Date, 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. Little Sheep 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 announcement of, amongst other things, 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. An indicative, or expected, timetable of the Scheme is included in Part III of this Scheme Document.

In connection with the Scheme, the Offeror and Yum! expect to review Little Sheep and its assets, corporate structure, capitalisation, operations, properties, policies, management and personnel to consider and determine what changes, if any, would be appropriate or desirable, long term and short term, following the Scheme in order to best organise and optimise the activities of Little Sheep. The Offeror currently has no significant plans to make any major changes to the business or to the employment of the current employees of the Little Sheep Group nor does it have any plans to redeploy any of the fixed assets of the Little Sheep Group. The Offeror and Yum! expressly reserve the right to make any changes that they deem necessary, appropriate or convenient in light of their review of Little Sheep, in light of future developments or in order to better integrate, generate maximum synergy or exploit full economies of scale with other operations of the Yum! Group. Such changes could include, among other things, changes in Little Sheep's business or operations, corporate structure, articles of association, capitalisation, management, Little Sheep Board or dividend policy.

### 16 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 Chain Co. Ltd., in Baotou, Inner Mongolia, the PRC for a period of at least three years following the Scheme becoming effective.

### 17 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.

## **18 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 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 27.04% 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.**

## **19 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 29.71% of the issued share capital of the Company as at the Latest Practicable 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 Possible Way is an Offeror Concert Party, none of the Little Sheep Shares held by Possible Way will be voted on the Scheme at the Court Meeting.



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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 the Participating Founders are Offeror Concert Parties, none of the Little Sheep Shares held by the Participating Founders will be voted on the Scheme at the Court Meeting. Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote 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

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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 the Non-Participating Founders are 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 if the Scheme lapses or is withdrawn in accordance with its terms.

### 20 SHARE BUYBACK AGREEMENTS

As at the Latest Practicable 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 has entered into Share Buyback Agreements with:

- (i) each of the Non-Participating Founders pursuant to which, conditional upon the Scheme becoming effective, Possible Way will 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) Mr. Zhang Gang, pursuant to which, conditional upon the Scheme becoming effective, Possible Way will buy back from Mr. Zhang Gang 604 shares in Possible Way in consideration for an amount in cash equal to 18,617,016 (being the

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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) 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 will buy back from Supergrand Holdings Investments Limited 1,512 shares in Possible Way in consideration for an amount in cash equal to 46,604,185 (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, Mr. Zhang Gang, and Supergrand Holdings Investments Limited will be the only shareholders of Possible Way, holding approximately 85.73% and 14.27%, respectively, of the issued share capital of Possible Way.

### 21 MANAGEMENT INCENTIVE ARRANGEMENTS

#### **Shareholders' Agreement**

##### *Date*

On or around 9 December 2011

##### *Parties*

1. the Offeror;
2. Possible Way;
3. Yum! China; and
4. the Participating Founders.

##### *Principal terms of the Shareholders' Agreement*

##### *Condition*

The provisions of the Shareholders' Agreement become effective immediately on the Scheme becoming effective in accordance with its terms, prior to which the provisions of the Shareholders' Agreement have no force or effect. If the Scheme does not become effective on or before 6 February 2012, the Shareholders' Agreement will automatically terminate.

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### *Board and Shareholder Governance*

Under the Shareholders' Agreement, subject to the shareholder reserved matters (as further described below), the business and affairs of Little Sheep will be managed by the board of Little Sheep. The board of Little Sheep will consist of three directors, of which the Offeror will be entitled to nominate two directors and Possible Way will be entitled to nominate one director for so long as it holds at least 5% or more of the Little Sheep Shares.

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.

The quorum for transaction of business at board meetings shall be two directors (or their alternates), at least one of whom shall be nominated by Possible Way. All resolutions at a board meeting, except for the shareholder reserved matters, shall be passed by a simple majority in attendance. In the event of a deadlock, the chairman of the board of Little Sheep (who will be appointed by the Offeror) (or, in the absence of the chairman, another director of Little Sheep appointed by the Offeror and in attendance) will have the casting vote. The directors shall be given not less than seven days notice of any board meeting (or such shorter period as may be agreed by all of the directors).

The quorum for any general meeting of the shareholders of Little Sheep shall be two shareholders (present in person or by proxy), at least one of whom shall be Possible Way. The minimum notice period for a general meeting of the shareholders shall be seven days, or such longer period as may be required as a matter of applicable law, unless all shareholders agree to a shorter period.

### *Reserved Matters for Shareholders*

Under the Shareholders' Agreement, for so long as Possible Way holds 5% or more of the Little Sheep Shares, no action or decision may be taken to proceed with any of the following matters unless it is approved by both the Offeror and Possible Way:

- (a) fundamental change in the nature of the business of Little Sheep;
- (b) winding up, spin-off, dissolution, liquidation or appointment of a receiver;
- (c) the redemption or repurchase of Little Sheep Shares held by Possible Way or any other redemption or repurchase of Little Sheep Shares other than on a pro-rata basis among the Offeror and Possible Way;

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- (d) provision of any funding to a member of the Little Sheep Group by the Offeror and Possible Way on terms which are less favourable to the borrower than the market terms available from the People's Bank of China for an equivalent loan;
- (e) the incurrence of any material indebtedness or liability by a member of the Little Sheep Group in an amount exceeding HK\$10,000,000 which requires any form of guarantee or security to be granted by Possible Way;
- (f) amendments to any provisions of the memorandum and articles of association of Little Sheep which have been inserted to reflect the terms set out in the Shareholders' Agreement;
- (g) any change to the financial year or accounting policies of Little Sheep; and
- (h) such other matters as may be agreed between the Offeror and Possible Way.

### *Restrictions on Transfers and Issues of Securities*

Under the Shareholders' Agreement, Possible Way will not, and the Participating Founders will procure that Possible Way will not, transfer, charge, pledge or otherwise dispose of its Little Sheep Shares without the Offeror's consent or unless such transfer is to a permitted transferee, made in accordance with certain drag-along and tag-along provisions or pursuant to the exit provisions.

In addition, on any proposed issue of any securities in Little Sheep for cash, the Offeror and Possible Way shall be entitled to subscribe at the proposed price for the proportion of those securities being issued which is pro rata to their existing holding of Little Sheep Shares.

### *Exit*

Under the Shareholders' Agreement, the Offeror grants Possible Way an option (the "**Put Option**"), exercisable at any time after the third anniversary of the Scheme becoming effective and on one or more occasions, to require the Offeror to buy some or all of the Little Sheep Shares held by Possible Way.

Under the Put Option, the exercise price per Little Sheep Share is equal to the Equity Value of Little Sheep divided by the aggregate number of issued Little Sheep Shares at the time of exit. The "**Equity Value**" is defined as the valuation of the business at the time of exit as agreed between the Offeror and Possible Way or, if not so agreed, as a number multiplied by EBITDA for the four financial quarters immediately preceding the relevant time, less the aggregate amount of borrowings of the Little Sheep Group at the end of the financial quarter immediately preceding the relevant time plus the amount of cash or cash equivalents at the end of the complete financial quarter immediately preceding the relevant time. If the Equity Value is not agreed between the Offeror and Possible Way, an independent accountant is to be appointed to determine it.

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The EBITDA multiplier used is dependent on the year during which the calculation is being made, with the multiplier decreasing on a sliding scale from the third year to the tenth year after the Scheme becomes effective, after which the number is constant from the tenth year to the twentieth year. The EBITDA multiplier in the third year is also equivalent to the multiplier which may be imputed in the Company's 2010 EBITDA and the cancellation price under the Scheme. Using such EBITDA multiplier, the Participating Founders will not enjoy a higher EBITDA multiplier than that being offered to the shareholders of Little Sheep under the Proposal.

### *Guarantee*

The Offeror's obligations under the Shareholders' Agreement is guaranteed by Yum! China.

### *Non-Competition*

Possible Way and each of the Participating Founders have agreed that, except with the prior written consent of the Offeror, for as long as it/he holds Little Sheep Shares and for a period of 24 months following the date on which it/he ceases to hold Little Sheep Shares, it/he shall not engage in, set up, carry on, or be employed or interested in, any competing business in the PRC or Hong Kong.

### *Termination*

The Shareholders' Agreement will be terminated automatically in respect of a party when such party (together with its permitted transferees) ceases to hold, directly or indirectly, any interests in Little Sheep Shares.

### **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 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 the EGM 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,

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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 is subject to (i) the receipt of an opinion from the Independent Financial Adviser 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 the EGM to approve the terms of the Management Incentive Arrangements.

### **22 COSTS OF THE SCHEME**

If 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.

### **23 SHARE CERTIFICATES, DEALINGS AND LISTINGS**

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. Little Sheep 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. The Scheme Shareholders will be notified by way of an announcement of the exact dates of the Record Date, the Effective Date and the date of the withdrawal of the listing of the Little Sheep Shares on the Stock Exchange.

The Proposal will lapse if it does not become effective on or before 6 February 2012 (or such later date as the Offeror and Little Sheep may agree and the Grand Court may allow), and the Scheme Shareholders will be notified by way of announcement accordingly. If the Scheme is not approved or the Proposal otherwise lapse, trading of the Little Sheep Shares on the Stock Exchange will resume. In such circumstances, Little Sheep has no intention to seek the immediate withdrawal of the listing of the Little Sheep Shares on the Stock Exchange in connection with the Proposal. Little Sheep retains full flexibility to voluntarily terminate at a later date the listing of Little Sheep Shares on the Stock Exchange, subject to compliance with applicable law, listing requirements and the requirements of the Takeovers Code (if applicable).

### **24 REGISTRATION AND PAYMENT**

Assuming that the Record Date falls on Friday, 20 January 2012, it is proposed that the register of members of Little Sheep will be closed from Wednesday, 18 January 2012 to Friday, 20 January 2012 (both days inclusive) (or such other date as Little Sheep Shareholders may be notified by announcement) in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Scheme Shareholders should ensure that their Little Sheep Shares are lodged with the Hong Kong share registrar of Little Sheep for registration in their names or in the names of their nominees by 4:30 p.m. on Tuesday, 17 January 2012. The Hong Kong share registrar of Little Sheep is Tricor Investor Services Limited, which is located at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

### **Payment of Scheme Shareholders**

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of Little Sheep as at the Record Date. On the basis that the Scheme becomes effective on or about Wednesday, 1 February 2012, cheques for payment of the Cancellation Price payable under the Scheme are expected to be despatched to the Scheme Shareholders (other than the Possible Way and Billion Year PRC Shareholders) by ordinary mail at their own risk on or before Friday, 3 February 2012.

The Possible Way and Billion Year PRC Shareholders will provide authorization to the Offeror to authorize Possible Way to receive the payment of their respective cash entitlements under the Scheme on their behalf, and Possible Way will remit the cash entitlements to the respective PRC individual residents after registration with the relevant local branches of SAFE. Please refer to the section headed “Terms of the Proposal — The Scheme” in Part IV — Letter from the Little Sheep Board of this Scheme Document for details.

In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, the Hong Kong share registrar of Little Sheep, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, cheques will be sent by posting the same in pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of Little Sheep in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, Yum!, Little Sheep, Goldman Sachs or any of them will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in Little Sheep’s name with a licensed bank in Hong Kong selected by Little Sheep.

Little Sheep shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments thereof of the sums, together with interest thereon, to persons who satisfy Little Sheep that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and Little Sheep shall thereafter transfer to the Offeror the balance (if any) of the sums then standing to the credit of the deposit account in Little Sheep’s name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Wednesday, 1 February 2012.



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Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Proposal will be implemented in full in accordance with the terms of the Proposal, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

### **Payment of Optionholders**

If the Option Offer becomes effective, monies due to the Optionholders who accept the Option Offer in accordance with the terms of the Option Offer will be despatched to such accepting Optionholders within ten days of the later of the date of closing of the Option Offer or the date when the Option Offer becomes effective. All payments in respect of Option Offer Price will be made by cheque in Hong Kong dollars save that the Offeror and Little Sheep will take steps to procure that Optionholders resident in the PRC will receive payments in respect of the Option Offer Price by bank transfer in RMB at the prevailing exchange rate at the time of conversion of the Option Offer Price from HK\$ to RMB. Payments made under the Option Offer to Optionholders in the PRC will be made after deduction of all applicable taxes that the Offeror and/or Little Sheep are obliged to withhold.

Settlement of the consideration to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Optionholder.

### **25 OVERSEAS LITTLE SHEEP SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS**

The making and implementation of the Proposal to Scheme Shareholders and the Option Offer to Optionholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders and such Optionholders respectively are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and overseas Optionholders 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.

## **26 TAXATION AND INDEPENDENT ADVICE**

### **Hong Kong Stamp Duty and Tax Consequences**

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the Option Offer Price for the cancellation of the Outstanding Little Sheep Share Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance the Option Offer or the payment of the Option Offer Price.

The Scheme Shareholders and the Optionholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal or the Option Offer and, in particular, whether the receipt of the Cancellation Price or the Option Offer Price would make such Scheme Shareholder or Optionholder liable to taxation in Hong Kong or in other jurisdictions.

## **27 SCHEME SHARES**

As at the Latest Practicable Date, the Offeror held 280,571,030 Little Sheep Shares representing approximately 27.04% 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 Latest Practicable Date, Possible Way held 308,301,875 Little Sheep Shares representing approximately 29.71% of the issued share capital of the Company. Of such Little Sheep Shares, 70,000,000, being the Participating Founders' Indirect Excluded Shares, will not form part of the Scheme Shares, approximately 65,221,202, being the Participating Founders' Indirect Scheme Shares, 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 and on the terms of the Management Incentive Arrangements at the EGM.

As at the Latest Practicable Date, the Participating Founders directly held 33,654,851 Little Sheep Shares representing approximately 3.24% 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 Latest Practicable Date, the Non-Participating Founders directly held 28,897,175 Little Sheep Shares representing approximately 2.78% 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.

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As at the Latest Practicable 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 Excluded Shares 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.

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 EGM of the Company (other than in relation to the Management Incentive Arrangements).

### **28 COURT MEETING AND EGM**

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of Little Sheep as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Scheme Shareholders at the Court Meeting (without counting the votes of those Scheme Shareholders not being Independent Little Sheep Shareholders) in the manner referred to in the section headed "3. Conditions of the Proposal and the Scheme" in Part VII — Explanatory Memorandum of this Scheme Document.

The EGM will be held immediately following the Court Meeting for the purpose of (i) the Little Sheep Shareholders to consider and if thought fit, (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (2) the ordinary resolution to immediately restore the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares by paying 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; and (ii) the Independent Little Sheep Shareholders to consider and if thought fit, the ordinary resolution to approve the terms of the Management Incentive Arrangements.

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Beneficial Owners are urged to have their names entered in the register of members of Little Sheep as soon as possible for, inter alia, the following reasons:

- (a) to enable Scheme Shareholders to attend the Court Meeting and to be included for the purposes of calculating the majority in number of Scheme Shareholders as required under Section 86 of the Companies Law in the capacity as members of Little Sheep and to be represented by proxies to be appointed by them;
- (b) to enable Little Sheep to properly classify members of Little Sheep for the purposes of Section 86 of the Companies Law; and
- (c) to enable Little Sheep and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective. All deliveries of cheques required for making payment in respect of the Scheme Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of Little Sheep as at the Record Date.

No person shall be recognised by Little Sheep as holding any Little Sheep Shares upon any trust. In the case of any Beneficial Owner whose Little Sheep Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Little Sheep Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of the Registered Owner.

Any Beneficial Owner whose Little Sheep Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Little Sheep Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Little Sheep Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the

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Scheme by the Investor Participants and the Other CCASS Participants with respect to Little Sheep Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures”.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

### **Court Meeting**

Scheme Shareholders whose names appear in the register of members of Little Sheep as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their respective Scheme Shares in favour of the Scheme or against it. Alternatively, Scheme Shareholders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their Scheme Shares against it (and vice versa). However for the purpose of calculating the ‘majority in number’ requirement at the Court Meeting, Scheme Shareholders may only vote once.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting 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 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 Shareholders.

Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

The “75% in value” requirement will be met if the total value of Scheme Shares being held by the Scheme Shareholders voted in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders at the Court Meeting. The “majority in number” requirement will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted. For example, if a Scheme Shareholder votes all of his/her/its Scheme Shares in favour of the Scheme, he/she/it will be counted

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## PART VII — EXPLANATORY MEMORANDUM

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as one Scheme Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement, however, for the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Little Sheep Shareholder being so voted will count towards the “75% in value” requirement.

### EGM

All Little Sheep Shareholders whose names appear in the register of members of Little Sheep as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution to approve the capital reduction resulting from cancellation of the Scheme Shares; and (ii) the ordinary resolution to immediately restore Little Sheep’s issued share capital to its former amount and apply the credit arising in Little Sheep’s books of accounts as a result of the capital reduction in paying up in full at par and issuing to the Offeror a number of new Little Sheep Shares equal to the number of Scheme Share cancelled. All Independent Little Sheep Shareholders whose names appear in the register of members of Little as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM, with respect to (iii) the ordinary resolution to approve the terms of the Management Incentive Arrangements.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Little Sheep Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Little Sheep Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Little Sheep Shareholders, present and voting, either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Little Sheep Shareholder/Independent Little Sheep Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Little Sheep Shares in favour (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Little Sheep Shareholder/Independent Little Sheep Shareholder may vote some of their Little Sheep Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Little Sheep Shares against the special resolution and/or the ordinary resolutions (and vice versa).

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 EGM of the Company (other than in relation to the Management Incentive Arrangements).

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Notice of the Court Meeting is set out in Appendix IV of this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Friday, 6 January 2012 at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Notice of the EGM is set out in Appendix V of this Scheme Document. The EGM will be held at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Friday, 6 January 2012 at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

Assuming that the conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Wednesday, 1 February 2012. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the Resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date, and the date of withdrawal of the listing of Little Sheep Shares on the Stock Exchange.

### 29 DEMAND FOR POLL AT EGM

At the EGM, the Chairman of the EGM will exercise his power under article 66 of the Company's articles of association to put resolutions to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

### 30 SUMMARY OF ACTIONS TO BE TAKEN

#### Little Sheep Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Little Sheep Shares.

Whether or not you are able to attend the Court Meeting and/or the EGM, the Scheme Shareholders are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and Little Sheep Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong share registrar of Little Sheep, at Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Wednesday, 4 January 2012 or be handed to the Chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 3:30 p.m. (Hong Kong time) on Wednesday, 4 January 2012. The completion and return of a form of proxy for the Court Meeting or

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the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

In the case of any Beneficial Owner whose Little Sheep Shares are held by a Registered Owner (including a nominee, trustee, depositary or authorised custodian or third party), such Beneficial Owner should contact the Registered Owner and provide instructions as to the manner in which Little Sheep Shares of the Beneficial Owner should be voted at the Court Meeting and/or EGM. Such instructions, subject to the express requirements of the Registered Owner, should be given in advance of the latest time for the lodgment of proxies in respect of the Court Meeting and EGM.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or EGM, you will still be bound by the outcome of such Court Meeting and/or EGM. You are therefore strongly urged to attend and vote at the Court Meeting and/or the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Little Sheep Shareholders to attend and vote at the EGM, the register of members of Little Sheep will be closed from Friday, 30 December 2011 to Friday, 6 January 2012 (both days inclusive) and during such period, no transfer of Little Sheep Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong share registrar of Little Sheep at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. (Hong Kong time) on Thursday, 29 December 2011.

An announcement will be made by Little Sheep in relation to the results of the Court Meeting and the EGM and, if all the Resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Record Date, the Effective Date and the date of withdrawal of the listing of Little Sheep Shares on the Stock Exchange.

### **Petition Hearing in the Grand Court**

**LITTLE SHEEP SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH LITTLE SHEEP SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY ARE ENTITLED TO APPEAR IN PERSON OR BY COUNSEL AT THE GRAND COURT HEARING EXPECTED TO BE ON FRIDAY, 20 JANUARY 2012 AT WHICH LITTLE SHEEP WILL SEEK THE SANCTION OF THE GRAND COURT TO THE SCHEME.**



**Optionholders**

Option Offer Letters are being sent to Optionholders separately. Optionholders should refer to those letters, a sample of which is set out in Appendix VI of this Scheme Document. Any Optionholder who wishes to accept the Option Offer must complete and return the duly completed and executed Option Form of Acceptance together with the relevant certificate(s) or other documents evidencing the grant of the Outstanding Little Sheep Share Options to him or her, and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) for the aggregate principal amount of Outstanding Little Sheep Share Options which the Optionholder holds by 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 (or such later date and time as may be notified to the Optionholders by Goldman Sachs or the Offeror), delivered to the Offeror at c/o Little Sheep Group Limited, Unit 1104, 11/F, Jubilee Centre, 42-46 Gloucester Road, Wanchai, Hong Kong. No acknowledgement of receipt of any Option Form of Acceptance or other document evidencing the grant of the Outstanding Little Sheep Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. The Option Offer Price payable for the Option Offer is determined based on the Cancellation Price and the exercise price of the Outstanding Little Sheep Share Options. Under the terms of the Little Sheep Share Option Scheme, an Optionholder may exercise his/her Outstanding Little Sheep Share Option(s) to acquire Little Sheep Shares at HK\$2.11 per Little Sheep Share, conditional on the passing of the Resolutions to be proposed at the Court Meeting and EGM to approve the Scheme. The Company will notify Optionholders in due course of the results of the Court Meeting and EGM. Optionholders will be given the opportunity to exercise their Outstanding Little Sheep Share Options conditionally on the passing of the Resolutions in full or in part at any time on or before the Latest Option Exercise Date. The Optionholders should be aware that after the Scheme becomes effective, the Outstanding Little Sheep Share Options will no longer be exercisable, will no longer entitle such holders to subscribe for Little Sheep Shares, and will lapse. If the Optionholders do not lodge the duly completed and executed Option Form of Acceptance together with the relevant certificate(s) or other documents as mentioned above at or before 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 (or such later date and time as may be notified to the Optionholders by Goldman Sachs or the Offeror), they will not receive the Option Offer Price.

The Optionholders should also note the instructions and other terms and conditions of the Option Offer printed on the Option Offer Letters and the Option Form of Acceptance.

### **31 RECOMMENDATION**

In the letter from the Independent Financial Adviser set out in Part VI of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal, the Management Incentive Arrangements and the Option Offer to be fair and reasonable and advises the Little Sheep Independent Board Committee to recommend:

- (a) at the Court Meeting:
  - (i) the Scheme Shareholders vote in favour of the Scheme;
- (b) at the EGM:
  - (i) the Little Sheep Shareholders vote in favour of:
    - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and
    - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount as immediately prior to the cancellation of the Scheme Shares by paying 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;
  - (ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and
- (c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of this Scheme Document.

The Little Sheep Independent Board Committee, having considered the terms of the Proposal, the Management Incentive Arrangements and the Option Offer and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Management Incentive Arrangements and the Option Offer are fair and reasonable.

**Accordingly, the Little Sheep Independent Board Committee recommends:**

- (a) at the Court Meeting:**
  - (i) the Scheme Shareholders vote in favour of the Scheme;**

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- (b) at the EGM:**
  - (i) the Little Sheep Shareholders vote in favour of:**
    - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; and**
    - (2) the ordinary resolution to immediately restore the issued share capital of the Company to the same amount immediately prior to the cancellation of the Scheme Shares by paying 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;**
  - (ii) the Independent Little Sheep Shareholders vote in favour of the ordinary resolution to approve the terms of the Management Incentive Arrangements; and**
- (c) the Optionholders accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.**

The full text of the letter from the Little Sheep Independent Board Committee is set out in Part V of this Scheme Document.

### **32 FURTHER INFORMATION**

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum. Little Sheep Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of Little Sheep, Yum!, the Offeror, Goldman Sachs or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

## 1 FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 31 December 2008, 2009 and 2010 is extracted from the audited consolidated financial statements of the Little Sheep Group as set forth in the annual reports of Little Sheep for the three years ended 31 December 2008, 2009 and 2010. The unaudited summary financial information for the six months ended 30 June 2011 and 2010 is extracted from the unaudited consolidated interim financial statements of the Little Sheep Group as set forth in the interim report of Little Sheep for the six months ended 30 June 2011. The auditor's reports issued by Ernst & Young in respect of the Little Sheep Group's audited consolidated financial statements for each of the three years ended 31 December 2008, 2009 and 2010 did not contain any qualifications.

**Consolidated Income Statement**

	<b>For the six months ended 30 June 2011</b>	<b>Year ended 31 December</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)			
<b>REVENUE</b>	804,483	1,925,500	1,569,700	1,271,523
Other income and gains	19,072	39,537	29,482	29,964
Cost of inventories sold	(306,915)	(850,500)	(650,545)	(524,390)
Staff costs	(208,520)	(353,128)	(308,795)	(257,342)
Depreciation and amortisation	(43,380)	(74,612)	(54,561)	(40,591)
Rental expenses	(85,915)	(155,823)	(142,911)	(119,534)
Fuel and utility expenses	(38,226)	(78,307)	(66,381)	(55,752)
Other operating expenses	(92,378)	(200,912)	(165,114)	(131,947)
Finance costs	(193)	(2,343)	(408)	(6,603)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>	48,028	249,412	210,467	165,328
Income tax expense	(8,928)	(49,044)	(44,807)	(30,793)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>DISCONTINUED OPERATIONS</b>				
Loss after tax for the period from discontinued operations	(3,264)	—	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>PROFIT FOR THE PERIOD</b>	<u>35,836</u>	<u>200,368</u>	<u>165,660</u>	<u>134,535</u>
Attributable to:				
Owners of the Company	30,606	187,798	155,364	128,698
Non-controlling interests	5,230	12,570	10,296	5,837
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>35,836</u>	<u>200,368</u>	<u>165,660</u>	<u>134,535</u>
Dividends	<u>          </u>	<u>60,587</u>	<u>62,146</u>	<u>68,852</u>
Dividends per share ( <i>HK cents</i> )	—	6.9 cents	6.9 cents	7.6 cents

	For the six months ended	Year ended 31 December		
	30 June 2011 <i>RMB'000</i> (Unaudited)	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY</b>				
— Basic ( <i>RMB</i> )	2.96 cents	18.24 cents	15.12 cents	13.55 cents
— Diluted ( <i>RMB</i> )	2.94 cents	18.05 cents	14.98 cents	13.53 cents
<b>PROFIT FOR THE PERIOD</b>	<u>35,836</u>	<u>200,368</u>	<u>165,660</u>	<u>134,535</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>				
Exchange differences on translation of foreign operations	<u>1,190</u>	<u>(286)</u>	<u>(231)</u>	<u>3,164</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>37,026</u>	<u>200,082</u>	<u>165,429</u>	<u>137,699</u>
Attributable to:				
Owners of the Company	<u>31,796</u>	<u>187,512</u>	<u>155,133</u>	<u>131,862</u>
Minority interests	<u>5,230</u>	<u>12,570</u>	<u>10,296</u>	<u>5,837</u>
	<u>37,026</u>	<u>200,082</u>	<u>165,429</u>	<u>137,699</u>

No exceptional item other than the loss after tax from discontinued operations for the six months ended 30 June 2011 was recorded in the financial statements of the Group for the three financial years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

## 2 UNAUDITED CONSOLIDATED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The following financial information has been derived from the unaudited consolidated accounts of Little Sheep Group for the six months ended 30 June 2011 as set forth in the interim report of Little Sheep for the six months ended 30 June 2011.

### INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

*Six months ended 30 June 2011*

		<b>For the six months ended</b>	
		<b>30 June 2011</b>	<b>30 June 2010</b>
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>CONTINUING OPERATIONS</b>			
<b>REVENUE</b>	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)	—
		<u>48,028</u>	<u>57,228</u>
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS BEFORE TAX</b>			
Income tax expense	7	(8,928)	(15,022)
		<u>39,100</u>	<u>42,206</u>
<b>DISCONTINUED OPERATIONS</b>			
Loss after tax for the period from discontinued operations	10	(3,264)	(2,609)
		35,836	39,597
<b>PROFIT FOR THE PERIOD</b>			
Attributable to:			
Owners of the parent		30,606	38,083
Non-controlling interests		5,230	1,514
		<u>35,836</u>	<u>39,597</u>

		For the six months ended	
		30 June 2011	30 June 2010
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:</b>			
— Basic ( <i>RMB</i> )	9	<u>2.96 cents</u>	<u>3.70 cents</u>
— Diluted ( <i>RMB</i> )	9	<u>2.94 cents</u>	<u>3.67 cents</u>
<b>EARNINGS PER SHARE FOR CONTINUING OPERATIONS:</b>			
— Basic ( <i>RMB</i> )		<u>3.28 cents</u>	<u>3.96 cents</u>
— Diluted ( <i>RMB</i> )		<u>3.25 cents</u>	<u>3.92 cents</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***Six months ended 30 June 2011*

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



## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		<b>30 June</b>	<b>31 December</b>
		<b>2011</b>	<b>2010</b>
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
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		<u>7,729</u>	<u>6,367</u>
		<u>818,898</u>	<u>829,498</u>
<b>CURRENT ASSETS</b>			
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	<u>227,052</u>	<u>261,428</u>
		<u>587,078</u>	<u>750,337</u>
<b>TOTAL ASSETS</b>		<u>1,405,976</u>	<u>1,579,835</u>
<b>CURRENT LIABILITIES</b>			
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		<u>1,270</u>	<u>30,229</u>
		<u>216,301</u>	<u>360,369</u>
<b>NET CURRENT ASSETS</b>		<u>370,777</u>	<u>389,968</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,189,675</u>	<u>1,219,466</u>

		<b>30 June</b>	<b>31 December</b>
		<b>2011</b>	<b>2010</b>
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Bank loans	17	40,000	50,000
Long-term payables		<u>10,248</u>	<u>10,486</u>
		<u>50,248</u>	<u>60,486</u>
<b>NET ASSETS</b>			
		<u>1,139,427</u>	<u>1,158,980</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	21	91,369	91,198
Reserves		<u>1,040,426</u>	<u>1,064,671</u>
		1,131,795	1,155,869
<b>Non-controlling interests</b>		<u>7,632</u>	<u>3,111</u>
<b>TOTAL EQUITY</b>		<u>1,139,427</u>	<u>1,158,980</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
*Six months ended 30 June 2011*

	Attributable to owners of the Company								Non-controlling Interests (Unaudited) RMB'000	Total Equity (Unaudited) RMB'000
	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			
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	<u>91,369</u>	<u>469,705*</u>	<u>39,149*</u>	<u>(6,045)*</u>	<u>4,395*</u>	<u>533,222*</u>	<u>1,131,795</u>	<u>7,632</u>	<u>1,139,427</u>	
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	<u>91,096</u>	<u>531,333*</u>	<u>36,985*</u>	<u>(8,898)*</u>	<u>5,585*</u>	<u>355,065*</u>	<u>1,011,166</u>	<u>9,468</u>	<u>1,020,634</u>	

\* 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*

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited)	(Unaudited)
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>(87,717)</u>	<u>(36,906)</u>
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	<u>1,379</u>	<u>(311)</u>
Cash and cash equivalents at end of period	16 <u><u>227,052</u></u>	<u><u>251,248</u></u>

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

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.

- *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.

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.

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 <i>RMB'000</i>	Sale of food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Adjustments and eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>						
Sales to external customers	729,093	63,961	11,020	409	—	804,483
Inter-segment sales	—	119,290	—	13,480	(132,770) <sup>1</sup>	—
<b>Total revenue</b>	<b>729,093</b>	<b>183,251</b>	<b>11,020</b>	<b>13,889</b>	<b>(132,770)</b>	<b>804,483</b>
<b>Segment results</b>						
Segment profit/(loss) before tax	66,156	1,060	2,761	(4,874)	(17,075) <sup>2</sup>	48,028

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

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 <i>RMB'000</i>	Sale of food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Adjustments and eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment assets</b>						
At 30 June 2011 (unaudited)	615,951	540,296	1,024,293	493,203	(1,267,767) <sup>1</sup>	1,405,976
At 31 December 2010 (audited)	637,524	736,175	1,094,861	485,248	(1,373,973) <sup>1</sup>	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:

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>804,483</u>	<u>701,470</u>

**Other Income**

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>18,915</u>	<u>11,228</u>

\* 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**

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

**5. PROFIT BEFORE TAX**

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

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>17,879</u>	<u>13,911</u>
	<u>208,520</u>	<u>169,393</u>
Depreciation and amortisation	43,380	32,076
Minimum lease payments under operating leases in respect of buildings	<u>85,915</u>	<u>76,466</u>

**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.

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

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

## 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:

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited) RMB'000	(Unaudited) 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)	—
<b>(Loss) after tax for the period from a discontinued operation</b>	<b>(3,264)</b>	<b>(2,609)</b>
<b>Cash outflow on sale:</b>		
Consideration received	—	
Net cash disposed of with the discontinued operation	(4,879)	
<b>Net Cash outflow</b>	<b>(4,879)</b>	

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

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	(Unaudited) RMB'000	(Unaudited) RMB'000
Operating	(5,657)	7,312
Investing	114	(6,085)
Financing	(1,234)	(15)
<b>Net cash inflow/(outflow)</b>	<b>(6,777)</b>	<b>1,212</b>
<i>Loss per share:</i>		
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**

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

**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:

	<b>30 June 2011</b>	<b>31 December 2010</b>
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>12,442</u>	<u>33,681</u>

## 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

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

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:

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

**19. DEPOSITS, OTHER PAYABLES AND ACCRUALS**

	<b>30 June 2011</b>	<b>31 December 2010</b>
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>33,670</u>	<u>41,460</u>
	<u><u>131,263</u></u>	<u><u>136,311</u></u>

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**

	<b>Number of ordinary shares issued</b>	<b>Issued share capital</b>	<b>Capital reserves</b>
		<i>RMB'000</i>	<i>RMB'000</i>
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	<u>—</u>	<u>—</u>	<u>(59,883)</u>
At 30 June 2011	<u><u>1,033,984,620</u></u>	<u><u>91,369</u></u>	<u><u>469,705</u></u>

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:

<b>Maximum percentage exercisable</b>	<b>Period for vesting of the relevant percentage of the option</b>
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\$)	<u>1.691</u>



**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:

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

**(ii) Capital commitments**

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

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

**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:

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

*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.

### 3 AUDITED CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following financial information has been derived from the audited consolidated accounts of the Little Sheep Group for the year ended 31 December 2010 as set forth in the annual report of Little Sheep for the year ended 31 December 2010.

#### CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2010*

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

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

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

## CONSOLIDATED BALANCE SHEET

31 December 2010

	<i>Notes</i>	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	468,685	358,544
Deposits for purchases of items of plant and equipment		3,340	15,903
Intangible assets	14	279,158	236,774
Land lease prepayments	15	49,808	50,055
Long-term rental deposits	17	20,140	15,984
Long-term rental receivables		2,000	—
Deferred tax assets	18	<u>6,367</u>	<u>5,455</u>
<b>Total non-current assets</b>		<u>829,498</u>	<u>682,715</u>
<b>CURRENT ASSETS</b>			
Inventories	20	370,941	182,126
Trade receivables	21	33,681	19,297
Prepayments, deposits and other receivables	22	84,287	61,584
Cash and cash equivalents	23	<u>261,428</u>	<u>325,207</u>
<b>Total current assets</b>		<u>750,337</u>	<u>588,214</u>
<b>CURRENT LIABILITIES</b>			
Bank loans	24	86,000	375
Trade payables	25	69,340	51,098
Deposits, other payables and accruals	26	136,311	134,207
Due to non-controlling equity holders of subsidiaries	27	38,489	14,900
Tax payable		<u>30,229</u>	<u>23,764</u>
<b>Total current liabilities</b>		<u>360,369</u>	<u>224,344</u>
<b>NET CURRENT ASSETS</b>		<u>389,968</u>	<u>363,870</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,219,466</u>	<u>1,046,585</u>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

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

	Attributable to owners of the Company								Total equity RMB'000
	Issued capital RMB'000	Capital reserves RMB'000	PRC reserve funds RMB'000	Foreign currency translation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2009	90,823	655,382	36,152	(6,718)	3,509	162,451	941,599	8,297	949,896
Profit for the year	—	—	—	—	—	155,364	155,364	10,296	165,660
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	—	—	—	(231)	—	—	(231)	—	(231)
Total comprehensive income for the year	—	—	—	(231)	—	155,364	155,133	10,296	165,429
Equity-settled share option arrangement ( <i>note 36</i> )	—	—	—	—	2,556	—	2,556	—	2,556
Exercise of employee share options	3	73	—	—	(10)	—	66	—	66
Dividend paid	—	(68,846)	—	—	—	—	(68,846)	—	(68,846)
Dividend paid by subsidiaries to non-controlling interests	—	—	—	—	—	—	—	(11,857)	(11,857)
Transfer to the PRC reserve funds	—	—	1,536	—	—	(1,536)	—	—	—
Acquisition of non-controlling interests of subsidiaries	—	—	—	—	—	—	—	(10)	(10)
Waiver of non-controlling interests of subsidiaries from the then equity holders	—	270	—	—	—	—	270	(270)	—
Acquisition of subsidiaries	—	—	—	—	—	—	—	1,832	1,832
Transfer upon disposal of subsidiaries	—	—	(703)	—	—	703	—	(1,244)	(1,244)
At 31 December 2009	<u>90,826</u>	<u>586,879*</u>	<u>36,985*</u>	<u>(6,949)*</u>	<u>6,055*</u>	<u>316,982*</u>	<u>1,030,778</u>	<u>7,044</u>	<u>1,037,822</u>

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



## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

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

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

## STATEMENT OF FINANCIAL POSITION

31 December 2010

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

**NOTES TO THE ACCOUNTS***At 31 December 2010***1. CORPORATE INFORMATION**

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are the operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in Mainland China, Hong Kong and Macau. The Group has established a principal place of business in Hong Kong at Unit 1104, 11/F, Jubilee Center, 42–46 Gloucester Road, Wanchai, Hong Kong.

**2.1 BASIS OF PRESENTATION**

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

**Basis of consolidation***Basis of consolidation from 1 January 2010*

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred as the “Group”) for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

*Basis of consolidation prior to 1 January 2010*

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

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

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

IFRS 1 (Revised)	<i>First-time Adoption of IFRSs</i>
IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs — Additional Exemptions for First-time Adopters</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39 Amendment	Amendment to IAS 39 <i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
IFRS 5 Amendments included in <i>Improvements to IFRSs issued in October 2008</i>	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary</i>
<i>Improvements to IFRSs 2009</i>	<i>Amendments to a number of IFRSs issued in May 2009</i>

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

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

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

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

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

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Consequential amendments were made to various standards, including, but not limited to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

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

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

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

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

- <sup>1</sup> Effective for annual periods beginning on or after 1 February 2010
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>4</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

### Business combination and goodwill

#### *Business combinations from 1 January 2010*

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

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities

assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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

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

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

#### **Impairment of non-financial assets other than goodwill**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value



in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the period in which it arises.

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

### Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

### Property, plant and equipment and depreciation

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

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

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

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

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

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

#### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

#### **Leases**

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

#### **Lease prepayments**

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

#### **Financial assets**

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

*Loans and receivables*

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

**Impairment of financial assets**

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

*Assets carried at amortised cost*

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

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

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

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

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

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

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

**Derecognition of financial assets and liabilities***Financial assets*

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

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

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

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

*Financial liabilities*

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

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

**Offsetting of financial instruments**

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

**Inventories**

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

**Cash and cash equivalents**

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

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

**Provisions**

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

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

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

**Income tax**

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

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

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

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

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

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

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

- where the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market

rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### **Revenue recognition**

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

#### *Restaurant operations and provision of catering services*

Revenue is recognised when the related services have been rendered to customers.

#### *Sale of food products*

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

#### *Franchise income*

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

#### *Interest income*

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

#### *Management service fee income*

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

### **Borrowing costs**

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

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

### **Employee benefits**

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

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

*Pension schemes and other retirement benefits*

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

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

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

*Share-based payment transactions*

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

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

*Equity-settled transactions*

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

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

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



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

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

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

#### **Foreign currencies**

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

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

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

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

#### **Estimation uncertainty**

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

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 14 to the financial statements.

##### *Impairment of non-financial assets (other than goodwill)*

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

##### *Deferred tax assets*

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

##### *Valuation of inventories*

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

*Depreciation*

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

**4. OPERATING SEGMENT INFORMATION**

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

- (i) the restaurant operations and provision of catering services segment engages in operating Chinese hot pot restaurants;
- (ii) the sale of food products segment engages in the production of soup-based seasoning and sale of lamb meat;
- (iii) the franchise income segment represents the charges to the franchisees for the rights of using the Little Sheep's trademark; and
- (iv) the "others" segment represents the provision of services of sales promotion, purchase, training, and other administrative services rendered to franchised restaurants.

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

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

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

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

Year ended 31 December 2010	Restaurant operations and provision of catering services <i>RMB'000</i>	Sale of food products <i>RMB'000</i>	Franchise income <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b>					
Sales to external customers	1,223,382	313,773	30,887	1,658	1,569,700
Intersegment sales	—	376,307	—	24,783	401,090
	1,223,382	690,080	30,887	26,441	1,970,790
<i>Reconciliation:</i>					
Elimination of intersegment sales					(401,090)
Revenue from operations					<u>1,569,700</u>
<b>Segment results</b>	200,312	36,374	14,424	(22,384)	228,726
<i>Reconciliation:</i>					
Elimination of intersegment results					14
Other income					29,482
Unallocated expenses					(47,347)
Finance costs					(408)
Profit before tax					<u>210,467</u>
<b>Segment assets</b>	584,092	429,449	941,721	476,069	2,431,331
Elimination of intersegment receivables					(1,160,402)
Total assets					<u>1,270,929</u>
<b>Segment liabilities</b>	500,963	262,893	111,319	518,334	1,393,509
Elimination of intersegment payables					(1,160,402)
Total liabilities					<u>233,107</u>
<b>Other segment information:</b>					
Depreciation and amortisation	45,057	5,391	2,879	1,234	54,561
Capital expenditure	94,185	59,077	10,358	1,511	165,131

#### Geographical information

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

*(a) Revenue from external customers*

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,799,342	1,432,808
Overseas	<u>126,158</u>	<u>136,892</u>
	<u><u>1,925,500</u></u>	<u><u>1,569,700</u></u>

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

*(b) Non-current assets*

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	813,554	673,024
Overseas	<u>15,944</u>	<u>9,691</u>
	<u><u>829,498</u></u>	<u><u>682,715</u></u>

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

**5. REVENUE, OTHER INCOME AND GAINS****Revenue**

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

An analysis of revenue, other income and gains from continuing operations is as follows:

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

**Other income**

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

\* 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**

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

**6. PROFIT BEFORE TAX**

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

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

## 7. FINANCE COSTS

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense on bank loans and other borrowings	<u>2,343</u>	<u>408</u>

## 8. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

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

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

## (a) Independent non-executive directors

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

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Xiang Bing	205	211
Mr. Yeung Ka Keung	205	211
Mr. Shin Yick, Fabian	<u>205</u>	<u>211</u>
	<u>615</u>	<u>633</u>



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

	Fees <i>RMB'000</i>	Salaries, allowances, bonuses and other benefits <i>RMB'000</i>	Equity- settled share option expenses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2010</b>					
Executive directors:					
Mr. Zhang Gang	—	2,000	—	—	2,000
Mr. Lu Wenbing	—	2,000	174	8	2,182
Mr. Wang Daizong <sup>1</sup>	—	495	10	8	513
Mr. Zhang Zhanhai	—	1,300	—	22	1,322
Ms. Li Baofang	—	1,100	51	5	1,156
Mr. Wang Jianhai <sup>2</sup>	—	505	70	8	583
	—	7,400	305	51	7,756
Non-executive directors:					
Mr. Chen Hongkai	—	—	21	—	21
Mr. Nishpank Rameshbabu Kankiwala <sup>6</sup>	—	103	—	—	103
Mr. Su Jing Shyh Samuel <sup>3</sup>	—	—	—	—	—
Mr. Koo Benjamin Henry Ho Chung <sup>3</sup>	—	—	—	—	—
Ms. Hsieh Hui-yun Lily <sup>3</sup>	—	—	—	—	—
	—	7,503	326	51	7,880

	Fees <i>RMB'000</i>	Salaries, allowances, bonuses and other benefits <i>RMB'000</i>	Equity- settled share option expenses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
2009					
Executive directors:					
Mr. Zhang Gang	—	1,500	—	—	1,500
Mr. Lu Wenbing	—	1,412	241	8	1,661
Mr. Yeung Yiu Keung <sup>4</sup>	—	1,525	136	13	1,674
Mr. Wang Daizong <sup>1</sup>	—	824	14	13	851
Mr. Zhang Zhanhai	—	854	—	11	865
Ms. Kou Zhifang <sup>5</sup>	—	155	—	—	155
Ms. Li Baofang	—	841	71	4	916
	—	7,111	462	49	7,622
Non-executive directors:					
Mr. Chen Hongkai	—	—	29	—	29
Mr. Nishpank Rameshbabu Kankiwala <sup>6</sup>	—	317	—	—	317
Mr. Su Jing Shyh Samuel <sup>3</sup>	—	—	—	—	—
Mr. Koo Benjamin Henry Ho Chung <sup>3</sup>	—	—	—	—	—
Ms. Hsieh Hui-yun Lily <sup>3</sup>	—	—	—	—	—
	—	7,428	491	49	7,968

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

- <sup>1</sup> Mr. Wang Daizong resigned as a director of the Company in September 2010.
- <sup>2</sup> Mr. Wang Jianhai was appointed as a director of the Company in October 2010.
- <sup>3</sup> Mr. Su Jing Shyh Samuel, Mr. Koo Benjamin Henry Ho Chung and Ms. Hsieh Hui-yun Lily were appointed as non-executive directors in June 2009, June 2009 and November 2009, respectively.
- <sup>4</sup> Mr. Yeung Yiu Keung resigned as a director of the Company in December 2009.
- <sup>5</sup> Ms. Kou Zhifang resigned as a director of the Company in April 2009.
- <sup>6</sup> Mr. Nishpank Rameshbabu Kankiwala retired as a non-executive director of the Company in May 2010.

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

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

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

## 9. INCOME TAX EXPENSE

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

Under the relevant PRC income tax law, except for the preferential treatment available to certain subsidiaries operating in Mainland China, the companies of the Group which operate in Mainland China are subject to corporate income tax at a rate of 25% on their respective taxable income or deemed profit assessed based on the verification collection method. During the year ended 31 December 2010, after obtaining approval from the relevant PRC tax authorities, 20 (2009: 18) entities of the Group were subject to a preferential corporate income tax rate of 22%, 5 (2009: 5) entities of the Group were exempt from the corporate income tax and 53 (2009: 41) entities of the Group were assessed based on the verification collection method. All the tax concessions enjoyed by the Group were granted by various competent tax bureaus.

The provision for Hong Kong profits tax is calculated at 16.5% of the profit for the year ended 31 December 2010 (2009: 16.5%).

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

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

		<b>2010</b>	<b>2009</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group			
Current		49,956	47,334
Deferred	18	<u>(912)</u>	<u>(2,527)</u>
		<u>49,044</u>	<u>44,807</u>

**APPENDIX I**
**FINANCIAL INFORMATION ON LITTLE SHEEP**

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

	<b>Hong Kong</b>		<b>Mainland China</b>		<b>Others</b>		<b>Total</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Group — 2010</b>								
Profit/(loss) before tax	<u>8,052</u>		<u>246,357</u>		<u>(4,997)</u>		<u>249,412</u>	
Tax at the statutory tax rates	1,329	16.5	61,589	25.0	45	(0.9)	62,963	25.2
Tax effect of preferential income tax rates	—	—	(3,612)	(1.5)	—	—	(3,612)	(1.4)
Effect of the verification collection method	—	—	(6,314)	(2.5)	—	—	(6,314)	(2.5)
Income not subject to tax	—	—	(5,342)	(2.1)	(9)	0.2	(5,351)	(2.1)
Expenses not deductible for tax	203	2.5	820	0.3	—	—	1,023	0.4
Tax losses not recognised	—	—	2,245	0.9	—	—	2,245	0.9
Others	<u>250</u>	<u>3.1</u>	<u>(2,160)</u>	<u>(0.9)</u>	<u>—</u>	<u>—</u>	<u>(1,910)</u>	<u>(0.8)</u>
Tax charge at the Group's effective rate	<u>1,782</u>	<u>22.1</u>	<u>47,226</u>	<u>19.2</u>	<u>36</u>	<u>(0.7)</u>	<u>49,044</u>	<u>19.7</u>
	<b>Hong Kong</b>		<b>Mainland China</b>		<b>Others</b>		<b>Total</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Group — 2009</b>								
Profit/(loss) before tax	<u>10,654</u>		<u>211,192</u>		<u>(11,379)</u>		<u>210,467</u>	
Tax at the statutory tax rates	1,758	16.5	52,722	25.0	1,244	(10.9)	55,724	26.5
Tax effect of preferential income tax rates	—	—	(6,539)	(3.1)	—	—	(6,539)	(3.1)
Effect of the verification collection method	—	—	(4,465)	(2.1)	—	—	(4,465)	(2.1)
Income not subject to tax	—	—	(1,780)	(0.8)	(176)	1.5	(1,956)	(0.9)
Expenses not deductible for tax	609	5.7	1,839	0.8	—	—	2,448	1.1
Tax losses not recognised	—	—	2,532	1.2	—	—	2,532	1.2
Others	<u>(399)</u>	<u>(3.7)</u>	<u>(2,626)</u>	<u>(1.2)</u>	<u>88</u>	<u>(0.8)</u>	<u>(2,937)</u>	<u>(1.4)</u>
Tax charge at the Group's effective rate	<u>1,968</u>	<u>18.5</u>	<u>41,683</u>	<u>19.8</u>	<u>1,156</u>	<u>(10.2)</u>	<u>44,807</u>	<u>21.3</u>

**10. DIVIDENDS**

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final — HK6.9 cents per share (equivalent to approximately RMB5.9 cents per share) (2009: HK6.9 cents per share (equivalent to approximately RMB6 cents per share))	<u>60,587</u>	<u>62,146</u>

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

**11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a loss of RMB7,321,000 which has been dealt with in the financial statements of the Company (note 36(b)).

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

The calculation of basic earnings per share for the year is based on the profit attributable to ordinary shareholders of the Company for the year of RMB187,798,000 (2009: RMB155,364,000) and the weighted average number of 1,029,835,487 ordinary shares (2009: 1,027,678,370 ordinary shares) of the Company.

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

## 13. PROPERTY, PLANT AND EQUIPMENT

## Group

	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Equipment and fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>31 December 2010</b>						
At 1 January 2010:						
Cost	138,255	247,757	8,029	121,162	18,068	533,271
Accumulated depreciation	(10,647)	(114,798)	(3,130)	(46,152)	—	(174,727)
Net carrying amount	<u>127,608</u>	<u>132,959</u>	<u>4,899</u>	<u>75,010</u>	<u>18,068</u>	<u>358,544</u>
At 1 January 2010, net of accumulated depreciation	127,608	132,959	4,899	75,010	18,068	358,544
Additions	2,313	100,215	2,849	34,874	51,129	191,380
Transfers from construction in progress	9,659	—	—	7,419	(17,078)	—
Acquisition of subsidiaries and branches ( <i>note 19</i> )	1,166	5,499	41	1,993	26	8,725
Disposal of a subsidiary ( <i>note 30</i> )	—	(2,546)	—	(660)	—	(3,206)
Disposals	(136)	(6,231)	(675)	(4,901)	(309)	(12,252)
Exchange differences	—	(164)	—	(83)	—	(247)
Depreciation charge for the year	(3,957)	(49,307)	(1,493)	(19,502)	—	(74,259)
At 31 December 2010, net of accumulated depreciation	<u>136,653</u>	<u>180,425</u>	<u>5,621</u>	<u>94,150</u>	<u>51,836</u>	<u>468,685</u>
At 31 December 2010:						
Cost	151,257	302,912	9,354	148,880	51,836	664,239
Accumulated depreciation	(14,604)	(122,487)	(3,733)	(54,730)	—	(195,554)
Net carrying amount	<u>136,653</u>	<u>180,425</u>	<u>5,621</u>	<u>94,150</u>	<u>51,836</u>	<u>468,685</u>

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

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

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

## Company

Equipment and  
fixtures  
RMB'000**31 December 2010**

At 1 January 2010:

Cost	22
Accumulated depreciation	<u>(6)</u>

Net carrying amount	<u><u>16</u></u>
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At 1 January 2010, net of accumulated depreciation	16
Depreciation charge for the year	<u>(5)</u>

At 31 December 2010, net of accumulated depreciation	<u><u>11</u></u>
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At 31 December 2010:

Cost	22
Accumulated depreciation	<u>(11)</u>

Net carrying amount	<u><u>11</u></u>
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**31 December 2009**

At 1 January 2009:

Cost	22
Accumulated depreciation	<u>(2)</u>

Net carrying amount	<u><u>20</u></u>
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At 1 January 2009, net of accumulated depreciation	20
Depreciation charge for the year	<u>(4)</u>

At 31 December 2009, net of accumulated depreciation	<u><u>16</u></u>
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At 31 December 2009:

Cost	22
Accumulated depreciation	<u>(6)</u>

Net carrying amount	<u><u>16</u></u>
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## 14. INTANGIBLE ASSETS

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

**Group**

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

	<i>Note</i>	<b>Goodwill</b> <i>RMB'000</i>	<b>Trademark</b> <i>RMB'000</i>	<b>Patent</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>31 December 2009</b>					
At 1 January 2009:					
Cost		170,471	972	—	171,443
Accumulated amortisation		<u>—</u>	<u>(312)</u>	<u>—</u>	<u>(312)</u>
Net carrying amount		<u>170,471</u>	<u>660</u>	<u>—</u>	<u>171,131</u>
At 1 January 2009, net of accumulated amortisation					
Additions		—	6	2	8
Arising from acquisition of subsidiaries and branches		65,733	—	—	65,733
Amortisation provided for the year		<u>—</u>	<u>(98)</u>	<u>—</u>	<u>(98)</u>
At 31 December 2009, net of accumulated amortisation		<u>236,204</u>	<u>568</u>	<u>2</u>	<u>236,774</u>
At 31 December 2009:					
Cost		236,204	978	2	237,184
Accumulated amortisation		<u>—</u>	<u>(410)</u>	<u>—</u>	<u>(410)</u>
Net carrying amount		<u>236,204</u>	<u>568</u>	<u>2</u>	<u>236,774</u>

#### Impairment testing of goodwill

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

	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
Mainland China	<u>278,694</u>	<u>236,204</u>

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

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

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

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

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

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

## 15. LAND LEASE PREPAYMENTS

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

### Group

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

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

## 16. INVESTMENT IN A SUBSIDIARY

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	<u>92</u>	<u>92</u>

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China XiaoFeiYang Catering Chain Co., Ltd. (中國小肥羊餐飲連鎖有限公司)	British Virgin Islands	US\$445,938.85	100	—	Investment holding
Inner Mongolia Little Sheep Catering Chain Company Limited * (內蒙古小肥羊餐飲連鎖有限公司)	Mainland China	RMB540,955,584	—	100	Restaurant and catering services
Inner Mongolia Little Sheep Meat Company Limited ** (內蒙古小肥羊肉業有限公司)	Mainland China	RMB117,918,753	—	#100	Slaughtering and meat processing
Inner Mongolia Little Sheep Seasoning Company Limited ** (內蒙古小肥羊調味品有限公司)	Mainland China	RMB3,030,000	—	100	Manufacture and trading of food products
Bayannur Little Sheep Meat Company Limited ** (巴彥淖爾市小肥羊肉業有限責任公司)	Mainland China	RMB9,450,000	—	100	Slaughtering and meat processing
Shenzhen Little Sheep Catering Chain Company Limited ** (深圳市小肥羊餐飲連鎖有限公司)	Mainland China	RMB1,000,000	—	100	Restaurant and catering services
Little Sheep Hong Kong Holdings Company Limited (小肥羊香港控股有限公司)	Hong Kong	HK\$18,000,000	—	100	Investment holding
Baotou Little Sheep Shenhua Catering Company Limited ** (包頭市小肥羊神華餐飲有限公司)	Mainland China	RMB3,000,000	—	51	Restaurant and catering services

\* registered as a wholly-foreign-owned enterprise under the PRC law

\*\* registered as a limited liability company under the PRC law

# During the year, the Group obtained an additional 12.556% equity interest in Inner Mongolia Little Sheep Meat Company from the then sole non-controlling equity holder. As at 31 December 2010, the Group's interest in Inner Mongolia Little Sheep Meat Company was 100%.

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

## 17. LONG-TERM RENTAL DEPOSITS

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

## 18. DEFERRED TAX ASSETS

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

	<b>Balance at 1 January 2010</b>	<b>Recognised in the consolidated income statement</b>	<b>Balance at 31 December 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2010			
Deferred tax assets:			
Tax losses	—	1,014	1,014
Pre-operating expenses and depreciation	3,864	(2,095)	1,769
Accrued rental expenses	<u>1,591</u>	<u>1,993</u>	<u>3,584</u>
	<u>5,455</u>	<u>912</u>	<u>6,367</u>
31 December 2009			
Deferred tax assets:			
Pre-operating expenses and depreciation	2,311	1,553	3,864
Accrued rental expenses	<u>617</u>	<u>974</u>	<u>1,591</u>
	<u>2,928</u>	<u>2,527</u>	<u>5,455</u>

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

## 19. BUSINESS COMBINATIONS

## (i) Acquisition of restaurants

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

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

	<b>Recognised on acquisition</b>	<b>Carrying value</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	7,448	7,506
Trade receivables	23	23
Inventories	1,859	1,859
Prepayments, deposits and other receivables	2,615	2,615
Cash and cash equivalents	1,355	1,355
Trade payables	(2,090)	(2,090)
Deposits, other payables and accruals	<u>(1,700)</u>	<u>(1,700)</u>
Fair value of net assets acquired by the Group	9,510	<u><u>9,568</u></u>
Goodwill on acquisition	<u>42,490</u>	
Cash consideration	<u><u>52,000</u></u>	

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

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

**(ii) Acquisition of a herding subsidiary**

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

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

	<b>Recognised on acquisition</b>	<b>Carrying value</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	1,277	1,029
Trade receivables	36	36
Livestock	90	90
Cash and cash equivalents	160	160
Customers' deposits, other payables and accruals	<u>(806)</u>	<u>(806)</u>
Fair value of net assets acquired by the Group	757	<u>509</u>
Excess over the cost of a business combination recognised in the consolidated income statement ( <i>note 5</i> )	<u>(257)</u>	
Consideration	<u>500</u>	

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

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

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

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

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

**20. INVENTORIES**

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

**21. TRADE RECEIVABLES**

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

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

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

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

	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	—	250
Impairment losses recognised	—	—
Amount written off as uncollectible	<u>—</u>	<u>(250)</u>
At 31 December	<u><u>—</u></u>	<u><u>—</u></u>

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

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



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

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

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

## 23. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and bank balances	<u>261,428</u>	<u>325,207</u>	<u>5,401</u>	<u>249</u>

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

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

## 24. BANK LOANS

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

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

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

## 25. TRADE PAYABLES

An aged analysis of the trade payables is as follows:

	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
Within 3 months	66,501	49,565
Over 3 months	<u>2,839</u>	<u>1,533</u>
	<u>69,340</u>	<u>51,098</u>

## 26. DEPOSITS, OTHER PAYABLES AND ACCRUALS

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

## 27. DUE TO NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES

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

## 28. LONG-TERM PAYABLES

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

## 29. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2010 (2009: Nil).

**30. DISPOSAL OF SUBSIDIARIES**

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

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

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

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

**31. COMMITMENTS****(i) Operating lease commitments — as lessee**

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

As at 31 December 2010, the Group had the future minimum rentals payable under non-cancellable operating leases falling due as follows:

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

**(ii) Capital commitments**

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

	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
Authorised, but not contracted for:		
Construction of a new factory	<u>16,239</u>	<u>26,711</u>

**32. RELATED PARTY TRANSACTIONS**

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

	<i>Note</i>	<b>2010</b> <i>RMB'000</i>	<b>2009</b> <i>RMB'000</i>
Rental expenses	(i)	<u>2,540</u>	<u>3,451</u>

*Note:*

- (i) The amount represented rental expenses payable to Mr. Zhang Gang, Mr. Chen Hongkai and Ms. Kou Zhifang for leasing three (2009: five) office buildings and restaurants which are classified as ongoing connected transactions in accordance with the Listing Rules. The amounts of the rental expenses were agreed by the parties by reference to market rentals.

**33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

It is, and has been throughout 2010 and 2009, the Group's policy that no trading in derivatives shall be undertaken.

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

**Interest rate risk**

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expense from interest-bearing financial assets and liabilities. The Company's interest-bearing financial assets and liabilities are predominately denominated in RMB. The Group's financial assets comprised primarily of receivables, cash deposits and loans with fixed interest rates as at 31 December 2010. Therefore, the Group considers that the exposure to interest rate risks is insignificant.

**Foreign currency risk**

The Group's businesses are principally conducted in RMB. As at 31 December 2010, a substantial amount of the Group's assets and liabilities was denominated in RMB. Therefore, the Group considers that the exposure to foreign currency risks is insignificant.

**Credit risk**

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

**Liquidity risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. As at 31 December 2010, the Group had bank loans of RMB136,000,000 (2009: RMB375,000) which will mature within 30 months. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

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

*Year ended 31 December 2010*

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 to 12 months</b> <i>RMB'000</i>	<b>1 to 5 years</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Bank loans	—	—	86,000	50,000	136,000
Trade payables	66,501	2,839	—	—	69,340
Due to non-controlling equity holders of subsidiaries	38,489	—	—	—	38,489
Other payables	—	116,345	19,966	—	136,311
	<u>104,990</u>	<u>119,184</u>	<u>105,966</u>	<u>50,000</u>	<u>380,140</u>

*Year ended 31 December 2009*

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

**Capital management**

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

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

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

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

### 34. FINANCIAL INSTRUMENTS

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

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

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

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

### 35. SHARE CAPITAL

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

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

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

	<b>Number of shares in issue</b>	<b>Issued capital</b> <i>RMB'000</i>
At 31 December 2009 and 1 January 2010	1,027,678,370	90,826
Share options exercised	<u>4,259,650</u>	<u>372</u>
At 31 December 2010	<u>1,031,938,020</u>	<u>91,198</u>



**36. RESERVES****(a) Group**

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

*(i) Capital reserves*

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

*(ii) PRC reserve funds*

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

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

## (b) Company

	Capital reserves <i>RMB'000</i>	Foreign currency translation reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Retained profits/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	331,768	(807)	3,509	(11,466)	323,004
Change in the foreign currency translation reserve	—	(746)	—	—	(746)
Profit for the year	—	—	—	13,082	13,082
Equity-settled share option arrangement	—	—	2,556	—	2,556
Exercise of employee share options	73	—	(10)	—	63
Dividend paid	(68,846)	—	—	—	(68,846)
At 31 December 2009	<u>262,995</u>	<u>(1,553)</u>	<u>6,055</u>	<u>1,616</u>	<u>269,113</u>
Change in the foreign currency translation reserve	—	(9,881)	—	—	(9,881)
Loss for the year	—	—	—	(7,321)	(7,321)
Equity-settled share option arrangement	—	—	1,313	—	1,313
Exercise of employee share options	8,121	—	(1,389)	—	6,732
Dividend paid	(61,991)	—	—	—	(61,991)
At 31 December 2010	<u>209,125</u>	<u>(11,434)</u>	<u>5,979</u>	<u>(5,705)</u>	<u>197,965</u>

## 37. EMPLOYEE SHARE-BASED PAYMENT

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

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

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

Maximum percentage exercisable	Period for vesting of the relevant percentage of the option
Lot 1: 2,637,968 shares (10% of the total number of the options to any grantee)	From the grant date of the relevant percentage of the 12-month period after the grant date of the options or of the 6-month period after the date of the initial public offering of the Company (i.e., 12 June 2008), whichever is later
Lot 2: 3,956,952 shares (15% of the total number of the options to any grantee)	From the grant date of the options to expiry of the 24-month period after the grant date of the options
Lot 3: 7,913,904 shares (30% of the total number of the options to any grantee)	From the grant date of the options to expiry of the 36-month period after the grant date of the options
Lot 4: 11,870,856 shares (45% of the total number of the options to any grantee)	From the grant date of the options to expiry of the 48-month period after the grant date of the options

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\$)	<u>1.691</u>

At 31 December 2010, the Company had 19,748,730 share options outstanding under the Pre-IPO Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 19,748,730 additional ordinary shares of the Company and additional share capital of HK\$1,975,000 (equivalent to approximately RMB1,681,000) and share premium of HK\$39,695,000 (equivalent to approximately RMB33,776,000) (before issue expenses).

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

### 38. COMPARATIVE AMOUNTS

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

### 39. APPROVAL OF THE FINANCIAL STATEMENTS

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

## FINANCIAL SUMMARY

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

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

#### 4 INDEBTEDNESS STATEMENT

As at 30 September 2011, the Group had total outstanding indebtedness of RMB220 million, including unsecured short-term bank loans of RMB180 million and unsecured long-term bank loans of RMB40 million.

Save as disclosed above, the Group had no other material contingent liabilities or outstanding mortgages, charges, loan capital issued and outstanding or agreed to be issued, bank loans and overdrafts or other similar indebtedness as at the close of business on 30 June 2011.

#### 5 MATERIAL CHANGES

The financial condition and outlook of Little Sheep has been impacted by recent cost pressure relating to inflation, increases in salaries and employee benefits and a greater share of profit attributable to non-controlling interests of the Company, as reflected in the information shown in Little Sheep's unaudited interim results for the six months ended 30 June 2011 in paragraph 2 of Appendix I to this Scheme Document.

The directors of Little Sheep confirm that, save for the deemed disposal by the Company of a 70% interest in Little Sheep Meat announced on 12 April 2011 referred to in note 10 of paragraph 2 of this Appendix I, which resulted in Little Sheep Meat ceasing to be a subsidiary of Little Sheep and that its financial results, assets and liabilities would no longer be consolidated in the Group's financial statements and those statements set out in the paragraph above, there was no material change in the financial or trading position or outlook of the Company between 31 December 2010, the date to which the latest audited consolidated financial statements of the Company were made up, and the Latest Practicable Date.

**1 RESPONSIBILITY STATEMENTS**

The information contained in this Scheme Document relating to the Little Sheep Group has been supplied by Little Sheep. The issue of this Scheme Document has been approved by the directors of Little Sheep, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (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 Scheme Document (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 Scheme Document, the omission of which would make any statement in this Scheme Document (other than that relating to the Yum! Group) misleading.

The information contained in this Scheme Document relating to the Offeror has been supplied by the Offeror. The issue of this Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (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 Scheme Document (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 Scheme Document, the omission of which would make any statement in this Scheme Document (other than that relating to the Little Sheep Group) misleading.

The information contained in this Scheme Document relating to the Yum! Group has been supplied by Yum!. The issue of this Scheme Document has been approved by the directors of Yum!, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (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 Scheme Document (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 Scheme Document, the omission of which would make any statement in this Scheme Document (other than that relating to the Little Sheep Group) misleading.

**2 SHARE CAPITAL**

As at the Latest Practicable Date:

- (a) the authorised share capital of Little Sheep was HK\$1,000,000,000 divided into 10,000,000,000 Little Sheep Shares;
- (b) the issued share capital of Little Sheep was HK\$103,779,012 divided into 1,037,790,120 Little Sheep Shares;

- (c) Little Sheep has issued 5,852,100 new Little Sheep Shares pursuant to the exercise of Outstanding Little Sheep Share Options since 31 December 2010, being the end of the last financial year of Little Sheep, up to the Latest Practicable Date;
- (d) all of the Little Sheep Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting;
- (e) as at the Latest Practicable Date, there were 13,686,030 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 Mr. Chen Hongkai, a Participating Founder, 2,487,680 Outstanding Little Sheep Share Options were held by Mr. Lu Wenbing, a Non-Participating Founder, 730,000 Outstanding Little Sheep Share Options were held by Ms. Li Baofang, also a Non-Participating Founder, 750,000 Outstanding Little Sheep Share Options were held by Mr. Wang Jianhai, a director of the Company and the remaining 9,418,350 Outstanding Little Sheep Share Options were held by employees of the Little Sheep Group. The exercise price of each of these Outstanding Little Sheep Share Options is HK\$2.11 per Little Sheep Share. For the vesting period of the Outstanding Little Sheep Share Options, please refer to Note (2) of the section headed “5(a) Interests and dealings in Little Sheep Shares” in this Appendix. In the event that any of the Outstanding Little Sheep Share Options are exercised on or before the Latest Option Exercise Date 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. If all of such Outstanding Little Sheep Share Options are exercised, a total of 13,686,030 new Little Sheep Shares will be issued; and
- (f) other than the Little Sheep Shares and the Outstanding Little Sheep Share Options as disclosed in paragraphs (b) and (e) above, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Little Sheep Shares which were issued by Little Sheep as at the Latest Practicable Date.

### 3 MARKET PRICE

The table below sets out the closing price of Little Sheep Shares on the Stock Exchange on (i) the last business day of each of the calendar months during the period commencing six months preceding the Pre-Announcement Date, (ii) the Last Pre-Announcement Trading Day, and (iii) the Latest Practicable Date:

	<b>Closing price for each Little Sheep Share (HK\$)</b>
29 October 2010	5.05
30 November 2010	5.17
31 December 2010	4.91
31 January 2011	4.84
28 February 2011	4.67
31 March 2011	5.17
21 April 2011 (Last Pre-Announcement Trading Day)	5.00
31 May 2011	6.22
30 June 2011	6.23
29 July 2011	6.19
31 August 2011	6.24
30 September 2011	5.60
31 October 2011	5.05
30 November 2011	6.40
9 December 2011 (Latest Practicable Date)	6.41

The lowest and highest closing prices of Little Sheep Shares as quoted on the Stock Exchange during the period commencing six months preceding the Pre-Announcement Date and ending on the Latest Practicable Date were HK\$4.33 per Little Sheep Share on 16 February 2011 and HK\$6.42 per Little Sheep Share on 15 November 2011, respectively.

**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 Last Pre-Announcement Trading Day).**

### 4 IRREVOCABLE UNDERTAKINGS

Your attention is drawn to the section headed “19. Irrevocable Undertakings” in Part VII — Explanatory Memorandum of this Scheme Document.



## 5 DISCLOSURE OF INTERESTS

For the purpose of this paragraph, (i) “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO; (ii) the “Offer Period” means the period from 26 April 2011 (being the date of which the Company first announced the possibility of an offer by the Offeror which might lead to a privatisation of the Company) to the Effective Date, both dates inclusive; and (iii) the “Disclosure Period” means the period beginning from the date which is six months prior to the commencement of the Offer Period (from 26 April 2011) and ending with the Latest Practicable Date, both dates inclusive.

## (a) Interests and dealings in Little Sheep Shares

- (i) As at the Latest Practicable Date, the Offeror and the following persons acting in concert with the Offeror had the following interests in Little Sheep Shares:

Little Sheep Shareholder	Number of Little Sheep Shares held	Approximate percentage of total issued share capital of the Company (%)
Offeror	280,571,030	27.04
Possible Way <sup>(1)</sup>	308,301,875	29.71
<b>Participating Founders</b>		
Mr. Zhang Gang	24,901,626	2.40
Mr. Chen Hongkai <sup>(2)</sup>	8,753,225	0.84
<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	0.78
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
Mr. Koo Benjamin Henry Ho Chung <sup>(3)</sup>	240,000	0.02
Relevant members of the Goldman Sachs group which hold Little Sheep Shares	734,000	0.07
Aggregate number of Little Sheep Shares of the Offeror, and the Offeror Concert Parties	652,398,931	62.86

*Notes:*

- (1) As at the Latest Practicable 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 Latest Practicable 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 Latest Practicable 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) As at the Latest Practicable Date, Ms. Tsu Nan Ping Dora, the spouse of Mr. Koo Benjamin Henry Ho Chung, is the beneficial owner of 240,000 Little Sheep Shares. Therefore, Mr. Koo Benjamin Henry Ho Chung is deemed to be interested in an aggregate of 240,000 Little Sheep Shares.

There are 13,686,030 Outstanding Little Sheep Share Options as at the Latest Practicable Date. Each Outstanding Little Sheep Share Option, on exercise, will entitle the Optionholder to be allotted with one Little Sheep Share. As at the Latest Practicable Date, parties acting in concert with the Offeror held in aggregate 3,517,680 Outstanding Little Sheep Share Options.

The table below sets out details of the Outstanding Little Sheep Share Options held by parties acting in concert with the Offeror as at the Latest Practicable Date:

<b>Optionholders</b>	<b>Number of Outstanding Little Sheep Share Options</b>
Mr. Chen Hongkai	300,000
Mr. Lu Wenbing	2,487,680
Ms. Li Baofang	<u>730,000</u>
Total	<u><u>3,517,680</u></u>

*Notes:*

- (1) All options under the Little Sheep Share Option Scheme were granted on 28 December 2007 at an exercise price of HK\$2.11 per Little Sheep Share.
- (2) All holders of Outstanding Little Sheep Share Options granted under the Little Sheep Share Option Scheme may exercise their options in the following manner:

<b>Maximum percentage of options exercisable</b>	<b>Period for vesting of the relevant percentage of the option</b>
10% of the total number of the options to any grantee	From the grant date of the relevant percentage of the 12-month period after the grant date of the options or of the 6-month period after the date of the initial public offering of the Company (i.e. 12 June 2008), whichever is later (i.e. 28 December 2008)
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 (i.e. 28 December 2009)
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 (i.e. 28 December 2010)
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 (i.e. 28 December 2011)

- (ii) The following are the dealings in ordinary shares during the Disclosure Period conducted by director(s) of the Company:

<b>Director</b>	<b>Dealing</b>	<b>Trade Date</b>	<b>Number of Little Sheep Shares</b>	<b>Average Dealing Price per Little Sheep Share (HK\$)</b>
Koo Benjamin Henry Ho Chung	Buy	18-Mar-11	15,000	4.699
Koo Benjamin Henry Ho Chung	Buy	10-Mar-11	64,500	4.970
Koo Benjamin Henry Ho Chung	Buy	9-Mar-11	15,000	5.012
Koo Benjamin Henry Ho Chung	Buy	8-Mar-11	25,000	4.950
Koo Benjamin Henry Ho Chung	Buy	3-Mar-11	500	4.950
Koo Benjamin Henry Ho Chung	Buy	2-Mar-11	120,000	4.995

- (iii) The following are the dealings in ordinary shares during the Disclosure Period conducted by the Goldman Sachs group (other than exempt principal traders and exempt fund managers activities), but excluding dealings on an agency or non-discretionary basis:

Party	Dealing	Trade Date	Number of Little Sheep Shares	Dealing Price per Little Sheep Share (HK\$)
Goldman Sachs International ("GSI")	Sell	27-Oct-10	3,000	5.11
GSI	Sell	27-Oct-10	3,000	5.11
GSI	Sell	27-Oct-10	1,000	5.11
GSI	Sell	27-Oct-10	1,000	5.11
GSI	Sell	28-Oct-10	3,000	5.11
GSI	Sell	28-Oct-10	12,000	5.11
GSI	Sell	28-Oct-10	20,000	5.11
GSI	Sell	28-Oct-10	7,000	5.12
GSI	Sell	1-Nov-10	4,000	5.25
GSI	Sell	3-Nov-10	8,000	5.22
GSI	Sell	3-Nov-10	1,000	5.22
GSI	Sell	3-Nov-10	1,000	5.22
GSI	Sell	3-Nov-10	1,000	5.22
GSI	Sell	3-Nov-10	4,000	5.23
GSI	Sell	3-Nov-10	1,000	5.23
GSI	Sell	3-Nov-10	1,000	5.23
GSI	Sell	3-Nov-10	1,000	5.23
GSI	Sell	3-Nov-10	1,000	5.23
GSI	Sell	3-Nov-10	1,000	5.23
GSI	Sell	3-Nov-10	6,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	25,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	3-Nov-10	1,000	5.24
GSI	Sell	9-Nov-10	7,000	5.17
GSI	Sell	9-Nov-10	15,000	5.17
GSI	Sell	3-Dec-10	10,000	5.27
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	2,000	5.27
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	6,000	5.27
GSI	Sell	3-Dec-10	2,000	5.27

Party	Dealing	Trade Date	Number of Little Sheep Shares	Dealing Price per Little Sheep Share (HK\$)
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	4,000	5.27
GSI	Sell	3-Dec-10	1,000	5.27
GSI	Sell	3-Dec-10	10,000	5.29
GSI	Sell	3-Dec-10	1,000	5.29
GSI	Sell	3-Dec-10	1,000	5.29
GSI	Sell	3-Dec-10	1,000	5.29
GSI	Sell	3-Dec-10	2,000	5.29
GSI	Sell	3-Dec-10	10,000	5.29
Goldman, Sachs & Co. (“GSCO”)	Buy	7-Mar-11	6,000	5.06
GSCO	Buy	7-Mar-11	2,000	5.06
GSCO	Buy	7-Mar-11	1,000	5.06
GSCO	Sell	7-Mar-11	9,000	5.06

- (iv) Save as disclosed in paragraph 5(a)(iii) of this section, none of the Offeror, its directors and the parties acting in concert with the Offeror had dealt for value in any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares during the Disclosure Period.
- (v) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of any Little Sheep Shares. During the period commencing on 26 April 2011 and up to the Latest Practicable Date, no such person had dealt for value in any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares, but excluding dealings on an agency or non-discretionary basis.
- (vi) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror (or with any person acting in concert with the Offeror) and no such person owned or controlled any Little Sheep Shares or dealt for value in any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares during the Disclosure Period.

- (vii) As at the Latest Practicable Date, no person had any indemnity or other arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the period commencing on 26 April 2011 and up to the Latest Practicable Date, no such person had dealt for value in any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares.
- (viii) As at the Latest Practicable Date, save as disclosed in paragraph 5(a)(i) of this section and the table below, none of the Directors had any interest in the Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares:

Director	Number of Little Sheep Shares held	Approximate percentage of total issued share capital of the Company (%)
Zhang Gang	24,901,626 <sup>(1)</sup>	2.40
Chen Hongkai	8,753,225 <sup>(2)</sup>	0.84
Lu Wenbing	4,044,264	0.39
Zhang Zhanhai	2,033,343	0.20
Li Baofang	5,317,321	0.51
Koo Benjamin Henry Ho Chung	240,000 <sup>(3)</sup>	0.02

*Notes:*

- (1) The interest comprised (a) interest in 3,091,000 shares in the Company held by Beefup Group Limited, a company controlled by Mr. Zhang Gang; and (b) interest in 21,810,626 Little Sheep Shares owned by Mr. Zhang.
- (2) The interest comprised (a) interest in 8,519,122 Little Sheep Shares owned by Mr. Chen Hongkai; and (b) interest in 234,103 Little Sheep Shares held by Palace Glory Investment Limited, a company owned by the trustee of a trust established by Mr. Chen Hongkai for the benefit of his family.
- (3) The interest comprised interest in 240,000 Little Sheep Shares beneficially owned by Ms. Tsu Nan Ping Dora, the spouse of Mr. Koo Benjamin Henry Ho Chung.
- (4) None of the Little Sheep Shares held by Mr. Zhang Gang, Mr. Chen Hongkai, Mr. Lu Wenbing, Mr. Zhang Zhanhai and Ms. Li Baofang will be voted on the Scheme at the Court Meeting.

- (ix) Save as disclosed in paragraph 5(a)(i) of this section, the Offeror did not own or control any Little Sheep Shares or convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares.
- (x) Save as disclosed in paragraph 5(a)(i) of this section, none of the directors of the Offeror nor any parties acting in concert with the Offeror owned or controlled any Little Sheep Shares or convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares.
- (xi) As at the Latest Practicable Date, none of the Offeror, the concert parties of the Offeror (other than those members of Goldman Sachs group that are conducting exempt principal traders and exempt fund managers activities), the Company or the directors of Little Sheep had borrowed or lent any Little Sheep Shares or convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares.
- (xii) During the period commencing on 26 April 2011 and up to the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with Little Sheep who managed funds on a discretionary basis had dealt for value in any Little Sheep Shares or any convertible securities, warrants, options or derivatives in respect of the Little Sheep Shares.
- (xiii) As at the Latest Practicable Date, none of the non-exempt discretionary fund managers and principal traders connected with the Offeror owned or controlled any Little Sheep Shares or dealt for value in any Little Sheep Shares or convertible securities, warranties, options or derivatives in respect of Little Sheep Shares during the Disclosure Period.

**(b) Interests and dealings in the Offeror's shares**

Neither the directors of Little Sheep nor the Company had any interest in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date and neither the directors of Little Sheep nor the Company dealt for value in any such shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares during the Disclosure Period.

**(c) Arrangements with the Offeror and its concert parties in respect of the Proposal**

As at the Latest Practicable Date:

- (i) there were no indemnities or other arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or any person acting with the Offeror and any other person;
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme of Arrangement;
- (iii) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Little Sheep Shares to be issued to the Offeror (or any of its wholly-owned subsidiaries) upon completion of the Scheme; and
- (iv) the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme of Arrangement to any other person, or has no agreement, arrangement or understanding with any third party to do so.

**(d) Other interests**

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any director of the Company as compensation for loss of office or otherwise in connection with the Scheme;
- (ii) save for the Proposal, the Scheme and the Management Incentive Arrangements, there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Offeror or parties acting in concert with them on the one hand and any of the directors of Little Sheep, recent directors of Little Sheep, shareholders or recent shareholders of Little Sheep on the other hand; or between any directors of Little Sheep and any other person which is conditional on or dependent upon the outcome of the Proposal and the Scheme or otherwise in connection with the Proposal and the Scheme;
- (iii) save for the Management Incentive Arrangements, no material contract has been entered into by the Offeror in which any director of the Company has a material personal interest; and
- (iv) save for the service contracts set out below, no other directors of Little Sheep has a service contract with any member of the Group in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Pre-Announcement Date; or (ii) is



continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period.

Name of director	Date of service contract	Expiry date of service contract	Remuneration
Zhang Gang	22 March 2011	Fixed term of three years from 15 May 2011 to 14 May 2014	Fixed remuneration of RMB1,444,000 per year with a discretionary bonus to be determined by the Remuneration Committee
Lu Wenbing	22 March 2011	Fixed term of three years from 15 May 2011 to 14 May 2014	Fixed remuneration of RMB1,440,000 per year with a discretionary bonus to be determined by the Remuneration Committee
Zhang Zhanhai	22 March 2011	Fixed term of three years from 15 May 2011 to 14 May 2014	Fixed remuneration of RMB936,000 per year with a discretionary bonus to be determined by the Remuneration Committee
Li Baofang	22 March 2011	Fixed term of three years from 15 May 2011 to 14 May 2014	Fixed remuneration of RMB792,000 per year with a discretionary bonus to be determined by the Remuneration Committee
Wang Jianhai	1 October 2010	Fixed term of three years from 1 October 2011 to 30 September 2013	Fixed remuneration of RMB480,000 per year with a discretionary bonus to be determined by the Remuneration Committee
Chen Hongkai	22 March 2011	Fixed term of three years from 15 May 2011	Nil
Su Jin Shyh Samuel	2 June 2009	Fixed term of three years from 2 June 2009	Nil
Koo Benjamin Henry Ho Chung	2 June 2009	Fixed term of three years from 2 June 2009	Nil
Hsieh Hui-yun Lily	19 November 2009	Fixed term of three years from 19 November 2009	Nil
Xiang Bing	22 March 2011	Fixed term of three years from 15 May 2011	Fixed remuneration of HK\$240,000 per year or such higher sum as the Company may decide from time to time

Name of director	Date of service contract	Expiry date of service contract	Remuneration
Yeung Ka Keung	22 March 2011	Fixed term of three years from 15 May 2011	Fixed remuneration of HK\$240,000 per year or such higher sum as the Company may decide from time to time
Shin Yick, Fabian	22 March 2011	Fixed term of three years from 15 May 2011	Fixed remuneration of HK\$240,000 per year or such higher sum as the Company may decide from time to time

## 6 MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the directors of Little Sheep to be pending or threatened against any member of the Little Sheep Group.

## 7 MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by Little Sheep or any of its subsidiaries after the date two years before the Pre-Announcement Date up to and including the Latest Practicable Date:

- (a) a capital increase agreement dated 12 April 2011 entered into between Beijing Wubo Information Services Investment Co. Ltd. (北京悟博信息諮詢有限公司), Chuanguhui (Beijing) Investment Co. Ltd. (川谷匯(北京)投資有限公司), Mr. Su Xiaofeng, Ms. Duan Guihua, Mr. Li Cheng Yun, Ms. Zhang Ling (together, the “**Investors**”), Inner Mongolia Little Sheep Catering Chain Co, Ltd. (“**Little Sheep PRC**”), an indirect wholly-owned subsidiary of Little Sheep, and Little Sheep Meat, pursuant to which the Investors agreed to make a capital contribution of RMB49,000,000 in cash to the authorised capital of Little Sheep Meat and Little Sheep Meat agreed to increase its authorised capital from RMB21,000,000 to RMB70,000,000 under the capital investment agreement, and Beijing Wubo Information Services Investment Co. Ltd. (北京悟博信息諮詢有限公司) agreed to acquire a 1.4% equity interest in Little Sheep Meat for a consideration of RMB1,000,000, Chuanguhui (Beijing) Investment Co. Ltd. (川谷匯(北京)投資有限公司) agreed to acquire a 2.9% equity interest in Little Sheep Meat for a consideration of RMB2,000,000, Mr. Su Xiaofeng agreed to acquire a 45% equity interest in Little Sheep Meat for a consideration of invest RMB31,500,000, Ms. Duan Guihua agreed to acquire a 11.0% equity interest in Little Sheep Meat for a consideration of RMB7,700,000, Ms. Zhang Ling agreed to acquire a 1.3% equity interest in Little Sheep Meat for a consideration of RMB900,000 and Mr. Li Cheng Yun agreed to acquire a 8.4% equity interest in Little Sheep Meat for a

consideration of RMB5,900,000. On completion of the capital increase, the equity interest in Little Sheep Meat held by Little Sheep PRC was reduced from 100% to 30%;

- (b) an equity transfer agreement dated 19 November 2010 entered into between Little Sheep PRC and Inner Mongolia Rixin Guarantee and Investment Group Company Limited, pursuant to which Little Sheep PRC agreed to acquire 12.556% equity interest in Little Sheep Meat for a consideration of RMB\$13,630,700.00 in accordance with the terms of the equity transfer agreement; and
- (c) an equity transfer agreement dated 8 December 2009 entered into between Little Sheep PRC and Ms. Wang Fang, pursuant to which Little Sheep PRC agreed to acquire a 69% equity interest in Inner Mongolia Little Lamb USA Corporation for a total consideration of US\$345,000.00 in accordance with the terms of the equity transfer agreement.

## **8 EXPERT**

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

<b>Name</b>	<b>Qualifications</b>
Goldman Sachs	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
Quam Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

## **9 CONSENT**

Each of Goldman Sachs and Quam Capital Limited has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

**10 MISCELLANEOUS**

- (a) The directors of Little Sheep are:

*Executive directors*

Mr. Zhang Gang  
Mr. Lu Wenbing  
Mr. Zhang Zhanhai  
Ms. Li Baofang  
Mr. Wang Jianhai

*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

- (b) The Company Secretary of Little Sheep is Mr. Lee Kwok Wa.
- (c) The registered office of Little Sheep is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.
- (d) The principal place of business of Little Sheep in Hong Kong is at Unit 1104, 11/F, Jubilee Centre, 42–46 Gloucester Road, Wanchai, Hong Kong.
- (e) The head office of Little Sheep is situated at No. 8 Qingnian Road, Kundulun District, Baotou, Inner Mongolia, PRC.
- (f) The principal share registrar of Little Sheep is Butterfield Fulcrum Group (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 609, Grand Cayman KY1-1107, the Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of Little Sheep is Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(h) The directors of the Offeror are:

*Executive directors*

Ms. Donna Marie Heatherly

Mr. Alan Jay Kohn

(i) The registered office of the Offeror is Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong.

(j) The registered office of Yum! is 150 Fayetteville Street, Box 1011, Raleigh, NC 27601, USA.

(k) The addresses of the Participating Founders are:

i. Mr. Zhang Gang at A801 Taiyang Town, 21 Neighborhood, Shaoxian Road, Kundulun District, Baotou, Inner Mongolia, China, and

ii. Mr. Chen Hongkai at No. 1-24, No.27 Neighborhood, Youyi Street, Kundulun District, Baotou, Inner Mongolia, China.

(l) The addresses of the Non-Participating Founders are:

i. Mr. Lu Wenbing at No. 22, East Hailaer Road, Xincheng District, Huhhot, Inner Mongolia, China;

ii. Mr. Zhang Zhanhai at No. 22, Xin District, Trade City, Shenzhou, Hebei, China;

iii. Ms. Li Baofang at 13B, Building 9, City Oasis Garden, Tian Mian, Shen Nan Road, Futian District, Shenzhen, China;

iv. Mr. Li Xudong at No. 7, Block 299, No. 20 Jie Fang, Youyi Road, Kun Du Lun District, Baotou City, Inner Mongolia, China;

v. Mr. Liu Quanxi at No. 19, Block 1, No. 511 Area, No.5 Jie Fang, Xihe Road, Donghe District, Baotou City, Inner Mongolia, China;

vi. Ms. Kou Zhifang at Room 901, No. 87 East Tiyuhui Road, Konghou District, Shanghai, China;

vii. Mr. Sun Xianhong at No. 5, Unit 4, Coal Supply Company, Nanmashenmiao Road, Xincheng District South, Huhhot City, Inner Mongolia, China;

viii. Mr. Lan Jianhua at No. 28, Block 2, No. 36, Jie Fang, Steel Road, Kun Du Lun District, Baotou City, Inner Mongolia, China;

ix. Mr. Wang Daizong at 27/F, China World Tower, No. 1 Jianguomenwai Ave., Chaoyang District, Beijing, PRC;

- x. Mr. Nishpank Rameshbabu Kankiwala at One Tree Hill, Sparrow Row, Valley End Chobham, Surrey, GU24 8TA, United Kingdom; and
  - xi. Mr. Yeung Yiu Keung at Block M1, 3/F Hing Wah Mansion, #1 Babington Path, Mid-Levels, Hong Kong.
- (m) The registered office of Possible Way is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (n) The sole director of Possible Way is Mr. Zhang Gang and his address is A801 Taiyang Town, 21 Neighborhood, Shaoxian Road, Kundulun District, Baotou, Inner Mongolia, China.
- (o) The Offeror is a company incorporated in Hong Kong on 17 March 2008 with limited liability.
- (p) The ultimate holding company of the Offeror is Yum!. The directors of Yum! are Mr. David C. Novak, Mr. Su Jing Shyh Samuel, Mr. David W. Dorman, Mr. Massimo Ferragamo, Mr. J. David Grissom, Ms. Bonnie G. Hill, Mr. Robert Holland, Jr., Mr. Kenneth G. Langone, Mr. Jonathan S. Linen, Mr. Thomas C. Nelson, Mr. Thomas M. Ryan, and Mr. Robert D. Walter.
- (q) The principal place of business of Goldman Sachs is at 68th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

## **11 DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Little Sheep, Unit 1104, 11/F, Jubilee Centre, 42–46 Gloucester Road, Wanchai, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of Little Sheep at [www.littlesheep.com](http://www.littlesheep.com) and the website of SFC at [www.sfc.hk](http://www.sfc.hk) from Tuesday, 13 December 2011 until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of Little Sheep;
- (b) the memorandum and articles of association of the Offeror;
- (c) the restated articles of incorporation of Yum!;
- (d) the annual reports of Little Sheep for the years ended 31 December 2008, 2009 and 2010 and the interim report of Little Sheep for the six month period ended 30 June 2011;
- (e) the letter from the Little Sheep Board, the text of which is set out in Part IV of this Scheme Document;

- (f) the letter from the Little Sheep Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (g) the letter from the Independent Financial Adviser, the text of which is set out in Part VI of this Scheme Document;
- (h) written consents referred to in the section headed “9. Consent” in Appendix II — General Information on Little Sheep and the Offeror to this Scheme Document;
- (i) the material contracts referred to in the section headed “7. Material contracts” in Appendix II — General Information on Little Sheep and the Offeror to this Scheme Document;
- (j) the irrevocable undertakings from each of Possible Way, the Participating Founders and the Non-Participating Founders referred to in the section headed “19. Irrevocable Undertakings” of Part VII — Explanatory Memorandum of this Scheme Document;
- (k) the undertakings from each of Possible Way and the Founders to refrain from voting at the Court Meeting;
- (l) the Shareholders’ Agreement referred to in the section headed “21. Management Incentive Arrangements” of Part VII — Explanatory Memorandum of this Scheme Document;
- (m) the service contracts referred to in the section headed “5. Disclosure of Interests — (d) Other Interests” in Appendix II — General Information on Little Sheep and the Offeror to this Scheme Document; and
- (n) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION

Cause No. FSD 182 of 2011

IN THE MATTER of sections 15 and 86 of the Companies Law (2011 Revision)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of Little Sheep Group Limited

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**PRELIMINARY**

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(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite them:

<b>“acting in concert”</b>	has the meaning ascribed to it in the Takeovers Code
<b>“Cancellation Price”</b>	the cancellation price of HK\$6.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme of Arrangement
<b>“CCASS”</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>“Company” or “Little Sheep”</b>	Little Sheep Group Limited, an exempted 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
<b>“Companies Law”</b>	the Companies Law (2011 Revision)
<b>“Effective Date”</b>	the date on which the Scheme of Arrangement, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law
<b>“Founders”</b>	the Participating Founders and the Non-Participating Founders
<b>“Goldman Sachs”</b>	Goldman Sachs (Asia) L.L.C., the financial adviser to the Offeror
<b>“Grand Court”</b>	the Grand Court of the Cayman Islands
<b>“HK\$”</b>	Hong Kong dollar(s), the lawful currency of Hong Kong



<b>“HKSCC”</b>	Hong Kong Securities Clearing Company Limited
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the PRC
<b>“Independent Financial Adviser”</b>	the independent financial adviser to the Little Sheep Independent Board Committee appointed pursuant to Rule 2.1 of the Takeovers Code in relation to, amongst other things, the Proposal and the Option Offer, being Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
<b>“Latest Practicable Date”</b>	9 December 2011, being the latest practicable date prior to the printing of the composite scheme document containing the Scheme of Arrangement for ascertaining certain information contained herein
<b>“Little Sheep Independent Board Committee”</b>	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, amongst other things, the Proposal and the Option Offer, comprising of Dr. Xiang Bing, Mr. Yeung Ka Keung and Mr. Shin Yick, Fabian
<b>“Little Sheep Share(s)”</b>	ordinary share(s) of HK\$0.10 each in the share capital of the Company
<b>“Little Sheep Shareholder(s)”</b>	registered holder(s) of Little Sheep Shares
<b>“Non-Participating Founders”</b>	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
<b>“Non-Participating Founders’ Indirect Shares”</b>	173,080,673 Little Sheep Shares which are registered in the name of 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, and which comprise Scheme Shares
<b>“NYSE”</b>	New York Stock Exchange, Inc
<b>“Offeror”</b>	Wandle Investments Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Yum!

<b>“Participating Founders”</b>	Mr. Zhang Gang, the Executive Chairman of Little Sheep, and Mr. Chen Hongkai, a non-executive director
<b>“Participating Founders’ Indirect Excluded Shares”</b>	70,000,000 Participating Founders’ Indirect Shares which are registered in name of Possible Way and which do not comprise Scheme Shares
<b>“Participating Founders’ Indirect Scheme Shares”</b>	65,221,202 Participating Founders’ Indirect Shares deposited in CCASS and held on trust on behalf of Possible Way and registered in the name of Possible Way and which comprise Scheme Shares
<b>“Participating Founders’ Indirect Shares”</b>	135,221,202 Little Sheep Shares which are held by Possible Way, representing the proportion of the aggregate number of Little Sheep Shares held directly or indirectly 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, comprising the Participating Founders’ Indirect Excluded Shares and the Participating Founders’ Indirect Scheme Shares
<b>“Possible Way”</b>	Possible Way International Limited, a company incorporated in the British Virgin Islands with limited liability and which is wholly-owned by the Founders
<b>“Possible Way and Billion Year PRC Shareholders”</b>	Little Sheep Shareholders who are PRC individual residents and who obtained their Little Sheep Shares through the distributions in specie by Possible Way and Billion Year International Limited respectively as announced in the announcement of the Company dated 25 March 2009
<b>“PRC”</b>	the People’s Republic of China, but for the purpose of this Scheme of Arrangement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
<b>“Proposal”</b>	the privatisation of the Company by the Offeror by way of the Scheme of Arrangement 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 Scheme of Arrangement
<b>“Record Date”</b>	Friday, 20 January 2012, or such other time and date as shall have been announced to the Little Sheep Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price upon the Scheme of Arrangement becoming effective
<b>“Register”</b>	the register of members of the Company

<b>“SAFE”</b>	The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
<b>“Scheme of Arrangement”</b>	the scheme of arrangement between the Company and the Scheme Shareholders under Section 86 of the Companies Law (subject to any modifications or additions or conditions approved or imposed by the Grand Court and agreed to by the Offeror) involving the cancellation of all the Scheme Shares
<b>“Scheme Share(s)”</b>	Little Sheep Share(s) other than those held by the Offeror and the Participating Founders’ Indirect Excluded Shares
<b>“Scheme Shareholder(s)”</b>	holders of Scheme Shares as at the Record Date
<b>“Share Option(s)”</b>	option(s) to acquire Little Sheep Shares pursuant to a share option scheme adopted by the Company on 20 December 2007
<b>“Takeovers Code”</b>	The Code on Takeovers and Mergers of Hong Kong
<b>“Yum!”</b>	Yum! Brands, Inc., a company incorporated in North Carolina with limited liability, the shares of which are listed on the NYSE

- (B) The Company was incorporated as an exempted company on 18 December 2007 in the Cayman Islands under the Companies Law.
- (C) The authorised share capital of the Company as at the Latest Practicable Date was (i) HK\$1,000,000,000 divided into 10,000,000,000 Little Sheep Shares of par value HK\$0.10 each, and the issued share capital of the Company was HK\$103,779,012 divided into 1,037,790,120 Little Sheep Shares.
- (D) Yum!, through its indirect wholly-owned subsidiary, the Offeror, has proposed the privatisation of the Company by way of the Scheme of Arrangement.
- (E) The primary purpose of the Scheme of Arrangement is to privatise the Company by cancelling and extinguishing all of the Scheme Shares in consideration for the Cancellation Price so that thereafter, Yum! will indirectly own 93.25% of the Company and Possible Way will own 6.75% of the Company. Simultaneously with the cancellation of the Scheme Shares, the issued share capital of the Company will be restored to its former amount by the issue to the Offeror at par credited as fully paid such number of Little Sheep Shares as is equal to the number of Scheme Shares cancelled and extinguished at the Record Date.
- (F) On the Latest Practicable Date, assuming no Share Options are exercised before the Record Date, the Offeror, Possible Way, the Participating Founders, the Non-Participating Founders, relevant members of the Goldman Sachs group, Mr. Koo

Benjamin Henry Ho Chung, being persons presumed to be acting in concert with the Offeror for the purposes of the Takeovers Code (the “**Excluded Persons**”) are beneficially interested in Little Sheep Shares in aggregate and registered as follows:

<b>Little Sheep Shareholders</b>	<b>As at the Latest Practicable Date Number of Little Sheep Shares</b>
Offeror	280,571,030
Possible Way	308,301,875
<b>Participating Founders</b>	
Mr. Zhang Gang	24,901,626
Mr. Chen Hongkai	8,753,225
<b>Non-Participating Founders</b>	
Mr. Li Xudong	2,479,392
Mr. Liu Quanxi	1,043,092
Ms. Kou Zhifang	745,000
Ms. Li Baofang	5,317,321
Mr. Zhang Zhanhai	2,033,343
Mr. Sun Xianhong	8,129,001
Mr. Lu Wenbing	4,044,264
Mr. Lan Jianhua	3,743,916
Mr. Wang Daizong	1,359,992
Mr. Nishpank Rameshbabu Kankiwala	—
Mr. Yeung Yiu Keung	1,854
Mr. Koo Benjamin Henry Ho Chung	240,000
Relevant members of the Goldman Sachs group which hold Little Sheep Shares	<u>734,000</u>
Aggregate number of Little Sheep Shares of Excluded Persons	<u><u>652,398,931</u></u>

- (G) Each of the Offeror, Possible Way, the Participating Founders and the Non-Participating Founders has agreed to appear by Counsel at the hearing of the petition to sanction the Scheme of Arrangement and to undertake to the Grand Court (whether at the hearing or before-hand) to be bound by the Scheme of Arrangement and will execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable for the purpose of giving effect to and satisfying their respective obligations under the Scheme of Arrangement.
- (H) The Offeror and parties acting in concert with the Offeror held as at the Latest Practicable Date 652,398,931 Scheme Shares in aggregate. In accordance with the Takeovers Code, parties holding those Scheme Shares will not be entitled to be counted in the vote required for the purposes of the Takeovers Code at the meeting to be convened by order of the Grand Court for the purpose of considering and, if thought fit, approving (with or without modification) the Scheme of Arrangement. Possible Way and the Founders are Scheme Shareholders but have each undertaken to the Company not to vote at the Court Meeting.

**SCHEME OF ARRANGEMENT****PART I****Cancellation of the Scheme Shares and issue of new Little Sheep Shares  
credited as fully paid at par to the Offeror**

- 1 On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares; and
  - (b) the Company shall apply the credit arising in its books of account as a result of the cancellation of the Scheme Shares by paying up in full at par such number of Little Sheep Shares as is equal to the number of Scheme Shares cancelled at the Record Date, which shall be allotted and issued and credited as fully paid to the Offeror.

**PART II****Consideration for the cancellation and extinguishment of the Scheme Shares**

- 2 In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay (or procure that there shall be paid) to each person who is a holder of the Scheme Shares (as appears in the Register on the Record Date) HK\$6.50 in cash for each Scheme Share held.

**PART III****General**

- 3 (a) Not later than ten (10) days after the Effective Date, on request the Company shall issue a share certificate to the Offeror.
- (b) Not later than ten (10) days after Effective Date, the Offeror shall send or cause to be sent cheques representing the Cancellation Price to the Scheme Shareholders.
- (c) Unless otherwise indicated in writing to the Hong Kong share registrar of the Company, being Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, all cheques to be despatched to Scheme Shareholders (other than the Possible Way and Billion Year PRC Shareholder) shall be sent by post in pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the Register at the Record Date or, in the case of joint holders, at the address appearing in the Register at the Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding. The Possible Way and Billion Year PRC Shareholders will provide authorization to the Offeror to authorize Possible Way to receive the payment of their respective cash entitlements under

the Scheme on their behalf, and Possible Way will remit the cash entitlements to the respective PRC individual residents after registration with the relevant local branches of SAFE.

- (d) Cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company shall be responsible for any loss or delay in receipt.
  - (e) Cheques shall be in favour of the person to whom, in accordance with the provisions of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheques shall be a good discharge to the Offeror for the monies represented thereby.
  - (f) On or after the day being six calendar months after the posting of the cheques pursuant to this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies on trust for those entitled under the terms of the Scheme of Arrangement until the expiration of six years from the Effective Date and shall prior to such date pay out of such monies the sums payable pursuant to the Scheme of Arrangement to persons who satisfy the Company that they are entitled thereto. Any payments made by the Company shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to this Scheme of Arrangement. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
  - (g) On the expiration of six years from the Effective Date, the Offeror and the Company shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Company shall transfer to the Offeror the balance (if any), of the sums standing to the credit of the deposit account referred to in this Clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding tax or other tax or any other deductions required by law and subject to the deduction of any expenses.
  - (h) Paragraph (g) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
- 4 As from the Effective Date, any instruments of transfer relating to and all certificates representing, the Scheme Shares shall cease to have effect as documents of title and every Scheme Shareholder shall be bound on the request of the Company to deliver up to the Company the certificates relating to the Scheme Shares for cancellation.
- 5 All mandates or relevant instructions to or by the Company in force at the Record Date relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.

- 6 The Scheme of Arrangement shall become effective as soon as a copy of the Order of the Grand Court sanctioning the Scheme of Arrangement has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law.
- 7 Unless the Scheme of Arrangement shall have become effective on or before Wednesday, 1 February 2012 or such later date, if any, as the Offeror and the Company may agree or as the Grand Court on application of the Offeror or the Company may allow, the Scheme of Arrangement shall lapse.
- 8 The Company and the Offeror may jointly consent for and on behalf of all concerned to any modification of or addition to the Scheme of Arrangement or to any condition which the Grand Court may think fit to approve or impose.
- 9 All costs, charges and expenses of and incidental to the Scheme of Arrangement and the costs of carrying the Scheme of Arrangement into effect will be borne by the Offeror if the Little Sheep Independent Board Committee or the Independent Financial Adviser do not recommend the Scheme and the Scheme of Arrangement is not approved at the Court Meeting.

Date 13 December 2011

**IN THE GRAND COURT OF THE CAYMAN ISLANDS  
FINANCIAL SERVICES DIVISION****Cause No. FSD 182 of 2011**

IN THE MATTER of sections 15 and 86 of the Companies Law (2011 Revision)

AND IN THE MATTER of the Grand Court Rules 1995 Order 102

AND IN THE MATTER of Little Sheep Group Limited

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**NOTICE OF COURT MEETING**

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**NOTICE IS HEREBY GIVEN** that, by an order (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Little Sheep Group Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 6 January 2012 at 3:00 p.m. at which place and time all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint one or more proxies, whether a member of the Company or not, to attend and vote in their stead. A **pink** form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 13 December 2011 despatched to members of the Company on 13 December 2011.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be deposited at the Hong Kong share registrar of Little Sheep in Hong Kong at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 3:00 p.m. on Wednesday, 4 January 2012, but if forms



are not so lodged they may be handed to the chairman of the Court Meeting, who has absolute discretion as to whether or not to accept them, at the Court Meeting pursuant to the Order.

By the Order, the Court has appointed Mr. Zhang Gang, a director of the Company, or failing him, Mr. Lu Wenbing, also a director of the Company, or failing him, any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By order of the Court  
**Little Sheep Group Limited**

Dated 13 December 2011

*Registered Office*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*

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



## Little Sheep Group Limited

## 小肥羊集團有限公司

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

**(Stock Code: 968)**

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of Little Sheep Group Limited (the “**Company**”) will be held at Regus Business Centre, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Friday, 6 January 2012 at 3:30 p.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

#### SPECIAL RESOLUTION

**1 THAT:**

- (a) Pursuant to the scheme of arrangement dated 13 December 2011 (the “**Scheme of Arrangement**”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

## ORDINARY RESOLUTIONS

## 2 THAT:

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the issued share capital of the Company shall be restored to its former amount by allotting and issuing to Wandle Investments Limited, credited as fully paid at par, the same number of ordinary shares of HK\$0.10 each in the share capital of Little Sheep as the number of Scheme Shares cancelled and extinguished; and
- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied in paying up in full at par the shares allotted and issued to Wandle Investments Limited, pursuant to resolution 2(a) above.

3 THAT the shareholders' agreement dated on or around 9 December 2011 entered into among Wandle Investments Limited, Yum! Restaurant China Holdings Limited, Possible Way International Limited, Mr. Zhang Gang and Mr. Chen Hongkai, a copy of which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, and the transactions contemplated under it be and are hereby approved, ratified and confirmed.

By Order of the Board  
**Little Sheep Group Limited**  
**Lee Kwok Wa**  
*Company Secretary*

Dated 13 December 2011

*Registered office*

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*

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

*Notes:*

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 13 December 2011 despatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Hong Kong share registrar of Little Sheep in Hong Kong at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) At the extraordinary general meeting, the chairman of the extraordinary general meeting will exercise his power under article 66 of the articles of association of the Company to put all resolutions proposed at the extraordinary general meeting to a vote by way of a poll.
- (6) The register of members of the Company will be closed from Friday, 30 December 2011 to Friday, 6 January 2012 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 29 December 2011.

The following is a sample of the Option Offer Letter being sent to the relevant Optionholders in connection with the Option Offer.



**GOLDMAN SACHS (ASIA) L.L.C.**

Financial Adviser to Wandle Investments Limited

13 December 2011

*To the Optionholders*

Dear Sir or Madam,

**OPTION OFFER  
IN RELATION TO  
PROPOSED PRIVATISATION OF  
LITTLE SHEEP GROUP LIMITED  
BY WANDLE INVESTMENTS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 86 OF THE COMPANIES LAW OF  
THE CAYMAN ISLANDS)  
AT THE PRICE OF HK\$6.50 PER SCHEME SHARE**

A composite scheme document dated the same date as this letter issued jointly by the Offeror, Yum! and Little Sheep (the “**Scheme Document**”) is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

On 13 May 2011, the Offeror, Yum! and Little Sheep jointly announced that on 2 May 2011, the Offeror, an indirect wholly-owned subsidiary of Yum!, had requested the Little Sheep Board to put forward a Proposal to the Scheme Shareholders regarding a privatisation of Little Sheep by way of the Scheme. As stated in the Announcement, the Offeror will make an appropriate offer to the holders of the Outstanding Little Sheep Share Options in accordance with the Takeovers Code, subject to and conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your Outstanding Little Sheep Share Options. You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Little Sheep Share Option Scheme.

**TERMS OF THE OPTION OFFER**

On behalf of the Offeror, we are making an offer, which is conditional on the Proposal becoming effective, to you pursuant to the terms of the Little Sheep Share Option Scheme.

Any Outstanding Little Sheep Share Options, to the extent not exercised on or before the Latest Option Exercise Date, will lapse upon the Scheme becoming effective. You may accept the Option Offer by lodging a completed Option Form of Acceptance by 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 and, provided you are an Optionholder on the Option Record Date, you will be entitled to receive the Option Offer Price of HK\$4.39 for each Outstanding Little Sheep Share Option if the Option Offer becomes unconditional.

The Option Offer Price represents the “see-through” price of that Outstanding Little Sheep Share Option, being the amount by which the Cancellation Price exceeds the exercise price of each Outstanding Little Sheep Share Option.

The Option Offer is conditional upon the Proposal becoming effective. The Conditions of the Proposal are set out in the section headed “3. Conditions of the Proposal and the Scheme” in “Part VII — Explanatory Memorandum” of the Scheme Document. In addition, all payments in respect of the Option Offer Price will be made by cheque in Hong Kong dollars, save that the Offeror and Little Sheep will take steps to procure that Optionholders resident in the PRC will receive payments in respect of the Option Offer Price by bank transfer in RMB at the prevailing exchange rate at the time of conversion of the Option Offer Price from HK\$ to RMB. Payments made under the Option Offer to Optionholders in the PRC will be made after deduction of all applicable taxes that the Offeror and/or Little Sheep are obliged to withhold.

You may face delays or obstacles in changing Hong Kong dollars to other currency or cashing such cheques in certain locations or situations. You are further advised to refer to the sections headed “20. Registration and Payment — Payment of Optionholders” and “21. Overseas Little Sheep Shareholders and Optionholders” in “Part VII — Explanatory Memorandum” of the Scheme Document.

Your attention is drawn to the letter from the Little Sheep Independent Board Committee to the Independent Little Sheep Shareholders and the Optionholders set out in Part V of the Scheme Document and the letter from Quam Capital Limited, the Independent Financial Adviser, set out in Part VI of the Scheme Document which contain the recommendation of the Little Sheep Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Proposal and the Option Offer.

**COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS**

In summary, the choices available to you in respect of your Outstanding Little Sheep Share Options are:

- (a) to the extent any of your Outstanding Little Sheep Share Options are not exercised on or before the Latest Option Exercise Date, you may accept the Option Offer in accordance with its terms in respect of such Outstanding Little Sheep Share Options, as set out in this letter and in the Scheme Document, by allowing such unexercised Outstanding Little Sheep Share Options to lapse on the Effective Date and elect on the enclosed Option Form of Acceptance, by not later than 4:00 p.m. (Hong Kong time) on Wednesday, 15 February 2012 (or such later date as may be notified to you by Goldman Sachs or the Offeror), to receive the Option Offer Price if the Proposal becomes effective;
- (b) you may exercise, conditional on the passing of the Resolutions to be proposed at the Court Meeting and EGM to approve the Scheme, all or any of your Outstanding Little Sheep Share Options (to the extent not already exercised) to its full extent or to the extent specified in your notice of exercise of Outstanding Little Sheep Share Options to Little Sheep at any time after the date of despatch of the Scheme Document (being 13 December 2011) and up to 4:30 p.m. (Hong Kong time) on Tuesday, 17 January 2012;

or

- (c) do nothing, in which case, conditional on the passing of the Resolutions to be proposed at the Court Meeting and EGM to approve the Scheme, and the Scheme becoming effective, your Outstanding Little Sheep Share Options will lapse automatically on the Effective Date, and you will receive neither the Option Offer Price nor the Cancellation Price.

Each Outstanding Little Sheep Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document and the terms of the Little Sheep Share Option Scheme.

**OUTSTANDING LITTLE SHEEP SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE**

Information on the Outstanding Little Sheep Share Options held by you as at the Latest Practicable Date is available from the Company Secretary of Little Sheep. If there is any exercise of your Outstanding Little Sheep Share Options after the Latest Practicable Date, you may accept the Option Offer only in respect of such Outstanding Little Sheep Share Options which remain unexercised as at the Latest Option Exercise Date.

**LAPSED OPTIONS**

Please note that nothing in this letter or the Scheme Document serves to extend the life of an Option which lapses, will lapse, or has already lapsed, under the terms of the Little Sheep Share Option Scheme. You cannot (i) exercise an option for Little Sheep Shares which has lapsed; or (ii) accept the Option Offer in respect of an option for Little Sheep Shares which has lapsed or will have lapsed on or before the Option Record Date.

**INDEPENDENT FINANCIAL ADVICE**

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in any doubt as to any aspect of this letter, the Scheme Document or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**DECLARATION**

By returning the Option Form of Acceptance, you thereby:

- (a) warrant and confirm that each Outstanding Little Sheep Share Option in respect of which you make an election is valid and subsisting, not subject to any outstanding exercise notice, free from all liens, charges, mortgages and third party interests of any nature whatsoever;
- (b) acknowledge that any Outstanding Little Sheep Share Option certificate in respect of such Outstanding Little Sheep Share Option shall become void once that Outstanding Little Sheep Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to your decisions shown on the Option Form of Acceptance;
- (c) confirm that the decisions which you have made on the Option Form of Acceptance cannot be withdrawn or altered;



- (d) authorise Little Sheep and the Offeror, jointly and severally, or any director or officer of Little Sheep or the Offeror or any agent of such person to do all acts and things and to execute any document as may be necessary or desirable to give effect to, or in consequence, of the acceptance you have made on the Option Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
- (e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any attorney appointed by or pursuant to this letter and the Option Form of Acceptance;
- (f) confirm you have read, understood and agreed to the terms and conditions of the Option Offer (including without limitation those set out in this letter and the Option Form of Acceptance), and that you have received the Scheme Document and this letter; and
- (g) acknowledge and accept that, if you are a resident of the PRC, you will receive the Option Offer Price by bank transfer in RMB at the prevailing exchange rate at the time of the conversion of the Option Offer Price from Hong Kong dollars to RMB. You further acknowledge and accept that payments made to Optionholders resident in the PRC under the Option Offer will be made after the deduction of all applicable taxes that the Offeror and/or Little Sheep are obliged to withhold.

## **GENERAL**

All communications, notices, Option Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from Optionholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of Goldman Sachs, the Offeror or Little Sheep accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

The provisions set out in the Option Form of Acceptance form part of the terms of the Option Offer.

The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

Due execution of the Option Form of Acceptance in respect of the Option Offer will constitute an authority to Goldmans Sachs, the Offeror, any director of the Offeror, the Board of Directors of the Offeror or their respective agents to complete and execute on behalf of the accepting Optionholder, the Option Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the Outstanding Little Sheep Share Options which are the subject of such acceptance.

The delivery of the Option Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed and received notwithstanding that it is not completed or received strictly in accordance with the Option Form of Acceptance and this letter, including the date specified for receipt.

By completing the Option Form of Acceptance in respect of a particular Outstanding Little Sheep Share Option, you irrevocably and at your own risk elect to authorise the Offeror to send to you (or to any other payee you specify in the Option Form of Acceptance), or procure the sending to you (or to any such payee) of, the cash to which you are entitled.

#### **ACTIONS TO BE TAKEN**

You should return the duly completed Option Form of Acceptance together with the relevant certificate(s) or other documents evidencing the grant of the Outstanding Little Sheep Share Options to you and any documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Offeror at c/o Little Sheep Group Limited, Unit 1104, 11/F, Jubilee Centre, 42–46 Gloucester Road, Wanchai, Hong Kong, for the attention of the Board of Directors of the Offeror and marked “Little Sheep — Option Offer”, by no later than 4:00 p.m. on Wednesday, 15 February 2012 (or such other date and time as may be notified to you by Goldman Sachs or the Offeror). If you do not complete an Option Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Outstanding Little Sheep Share Options will lapse.

Before forwarding the Option Form of Acceptance to the Board of Directors of the Offeror, please ensure that you have signed the Option Form of Acceptance and that your signature has been witnessed.

As stated above, the Option Offer is conditional upon the Scheme becoming effective. Unless the Scheme becomes effective, and therefore the Option Offer becomes unconditional, on or before Wednesday, 1 February 2012 (or such later date as the Offeror and Little Sheep may agree or, to the extent applicable, as the Grand Court may direct), the Option Offer will lapse.

Assuming the Option Offer becomes unconditional on Wednesday, 1 February 2012, payments (by cheque or by bank transfer) for the Option Offer Price are expected to be despatched on or before Friday, 3 February 2012 (to the extent that validly completed Option Forms of Acceptance have been received by the Option Record Date). Payments in respect of validly completed Option Forms of Acceptance received after the Option Record Date but before 4:00 p.m. on Wednesday, 15 February 2012 will be despatched within 10 days of receipt of each validly completed Option Form of Acceptance.

No acknowledgment of receipt of any Option Form of Acceptance or other document evidencing the grant of the Outstanding Little Sheep Share Options or other documents of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

**RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER AND THE THE LITTLE SHEEP INDEPENDENT BOARD COMMITTEE**

In the letter from the Independent Financial Adviser set out in Part VI of the Scheme Document, the Independent Financial Adviser states that it considers the terms of the Option Offer to be fair and reasonable and advises the Little Sheep Independent Board Committee to recommend the Optionholders to accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.

The full text of the letter from the Independent Financial Adviser is set out in Part VI of the Scheme Document.

The Little Sheep Independent Board Committee, having considered the terms of the Option Offer and having taken into account the opinion of the Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter in Part VI of the Scheme Document, considers that the terms of the Option Offer are fair and reasonable.

**Accordingly, the Little Sheep Independent Board Committee recommends the Optionholders to accept the Option Offer if they have not exercised their Outstanding Little Sheep Share Options on or before the Latest Option Exercise Date.**

**RESPONSIBILITY STATEMENTS**

The information contained in this Option Offer Letter relating to the Little Sheep Group has been supplied by Little Sheep. The issue of this Option Offer Letter has been approved by the directors of Little Sheep, who jointly and severally accept full responsibility for the accuracy of the information contained in this Option Offer Letter, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Option Offer Letter have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter misleading.

The information contained in this Option Offer Letter relating to the Offeror has been supplied by the Offeror. The issue of this Option Offer Letter has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Option Offer Letter (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 Option Offer Letter (other than those expressed by Little Sheep) have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter (other than that relating to the Little Sheep Group) misleading.

The information contained in this Option Offer Letter relating to the Yum! Group has been supplied by Yum!. The issue of this Option Offer Letter has been approved by the directors of Yum!, who jointly and severally accept full responsibility for the accuracy of the information contained in this Option Offer Letter (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 Option Offer Letter (other than those expressed by Little Sheep) have been arrived at after due and careful consideration and there are no other facts not contained in this Option Offer Letter, the omission of which would make any statement in this Option Offer Letter (other than that relating to the Little Sheep Group) misleading.

Yours faithfully,  
For and on behalf of  
**Goldman Sachs (Asia) L.L.C**  
**Richard Campbell-Breeden**  
*Managing Director*