

INDUSTRY OVERVIEW

Certain information and statistics presented in this section and elsewhere in this document relating to the industry in which we operate are derived from the CIC Report prepared by CIC, an independent industry consultant which was commissioned by us, and from various official government sources. The information extracted from the CIC Report should not be considered as a basis for investments in the [REDACTED] or as an opinion of CIC as to the value of any securities or the advisability of investing in our Company. Our Directors have confirmed, after making reasonable enquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the CIC Report or any of the other reports which may qualify, contradict or have an impact on the information in this section. Information and statistics from official government sources have not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] or any other parties involved in the [REDACTED] or their respective directors, officers, employees, advisers, or agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. Unless and except for otherwise specified, the market and industry information and data presented in this section is derived from the CIC Report.⁽¹⁾

THE CATERING MARKET IN CHINA

China has become the world’s second largest catering market with its annual catering revenue of RMB5.3 trillion in 2023. Total revenue of catering market in China has grown from RMB4,672.1 billion in 2019 to RMB5,289.0 billion in 2023, representing a CAGR of 3.1%. Although the catering market in China has been continuously affected by regional outbreaks of COVID-19 in 2022, which forced the temporary closures of many restaurants, China’s catering industry has generally recovered since 2023 as the Chinese government eased the “zero-COVID” policy in December 2022. The revenue of catering market is expected to grow at a CAGR of 7.0% from 2023 to 2028, reaching RMB7,423.2 billion in 2028, primarily attributable to the growing consumption power of Chinese residents and their increasing frequency of dining out.

(1) The contract sum to CIC is RMB1,390,000 for the preparation and use of the CIC Report, and we believe that such fees are consistent with the market rate. CIC is an investment consulting company originally established in Hong Kong. In compiling and preparing the CIC Report, CIC has adopted the following assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) related key industry drivers are likely to propel the continued growth in China’s casual Chinese cuisine restaurant market, such as increasing demand for dining out, greater growth potential for chain restaurants, rapid development of commercial activities, expansion into tier two, tier three and lower tier cities, use of social media, rise of national style, advancement of technologies; and (iii) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way. CIC has conducted detailed primary research which involved discussing the status of the industry with leading industry participants and industry experts.

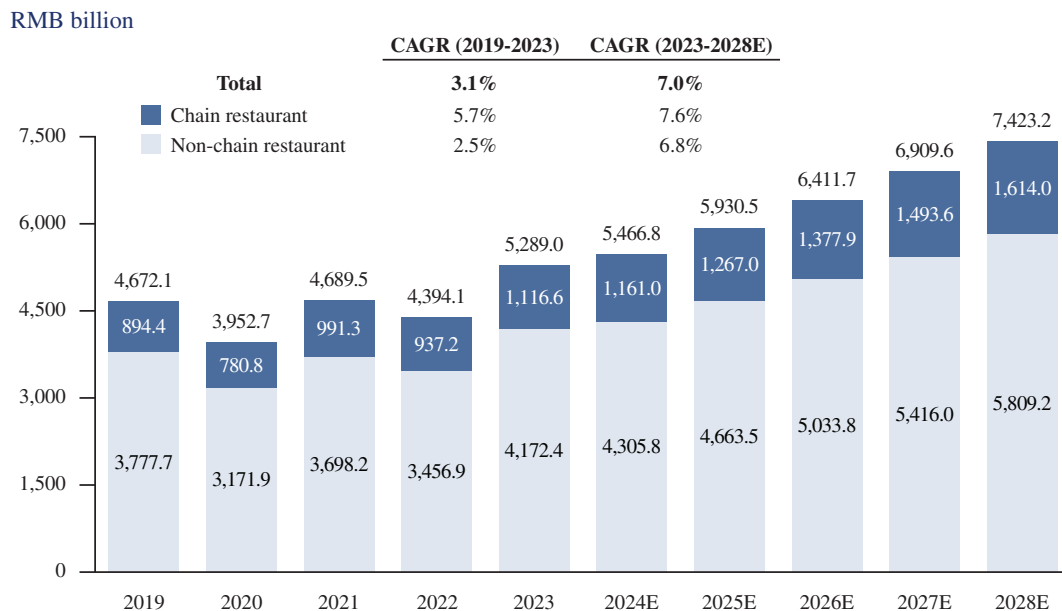
CIC has also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database. CIC has obtained the figures for the projected total market size from historical data analysis plotted against macroeconomic data as well as specific related industry drivers.

INDUSTRY OVERVIEW

The catering market in China can be divided into two categories based on operating model, chain restaurants and non-chain restaurants. Chain restaurants refer to a number of restaurants that operate under shared corporate ownership or franchise arrangement, leverage economies of scale and share brand awareness. Non-chain restaurants refer to standalone businesses that operate independently, serving customers in a specific location. The catering market in China is highly fragmented and dominated by non-chain restaurants. Chain restaurants in China accounted for only 21.1% of all restaurants in terms of revenue in 2023, demonstrating a huge growth potential as compared to 58.6% in the United States and 53.5% in Japan. In terms of concentration, the top 100 restaurant companies in China accounted for approximately 10% of total revenue of catering market in China in 2023, while in the United States, the top 100 restaurant companies accounted for approximately 30.0% of the total revenue of the catering market. These differences show that chain restaurants in China have great potential in expanding in terms of market share. With higher operating efficiency, more standardized food and services, better cost management and higher brand awareness, the total revenue of chain restaurants in China is expected to continue to grow at a CAGR of 7.6% from 2023 to 2028, faster than that of non-chain restaurants at a CAGR of 6.8%.

The following chart sets forth a breakdown of the catering market in China by operating model.

Breakdown of catering market in China by operating model in terms of revenue, 2019-2028E

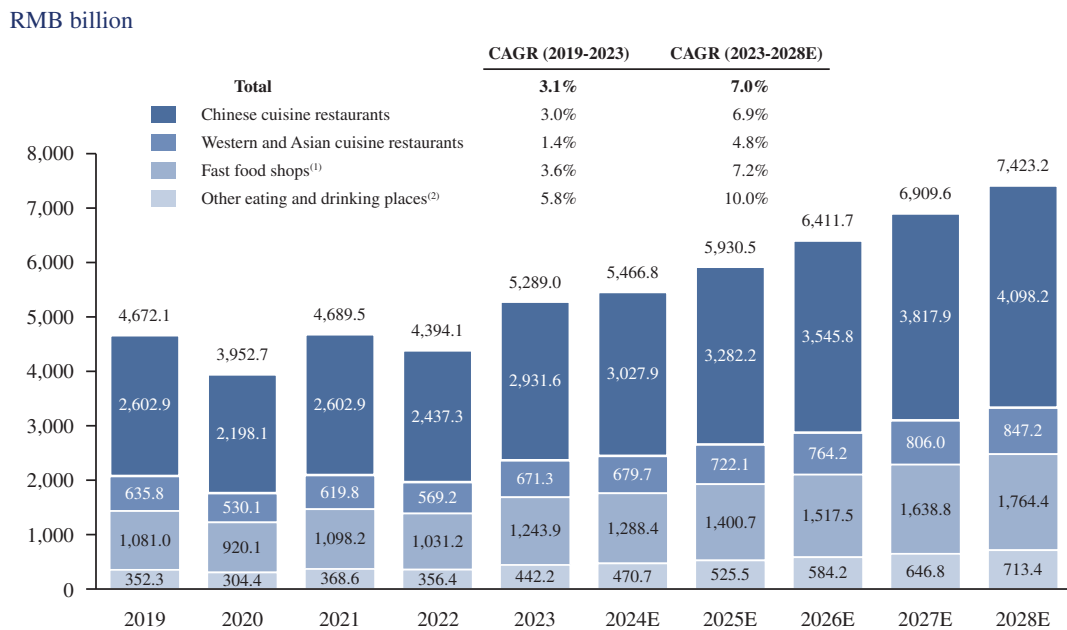


Source: CIC Report

INDUSTRY OVERVIEW

The catering market in China can also be divided into four segments based on cuisine and service type, including Chinese cuisine restaurants, Western and Asian (excluding China) cuisine restaurants, fast food shops and other eating and drinking places. Chinese cuisine restaurants constitute the largest segment in the catering market in China in terms of revenue, with a market share of approximately 55.4% in 2023. The total revenue of Chinese cuisine restaurant market increased from RMB2,602.9 billion in 2019 to RMB2,931.6 billion in 2023 representing a CAGR of 3.0%. In addition, Chinese cuisine restaurant market is expected to maintain a steady growth at a CAGR of 6.9% from 2023 to 2028, reaching RMB4,098.2 billion in 2028, maintaining its dominant position as the most popular type of cuisine in China. The following chart sets forth a breakdown of the catering market in China by cuisine and service type.

Market size of catering market in China by cuisine and service type in terms of revenue, 2019-2028E



Source: CIC Report

(1) Including, among others, Chinese quick-service restaurants.

(2) Including, among others, cafeterias.

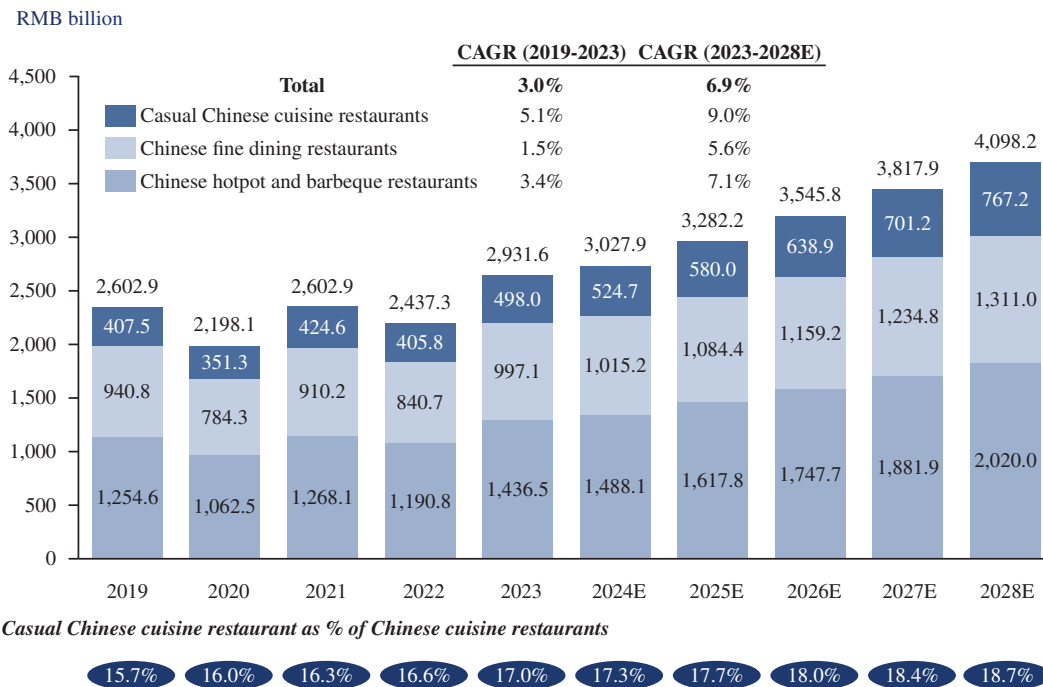
CASUAL CHINESE CUISINE RESTAURANT MARKET

The Chinese cuisine restaurants market can be further divided into three segments based on cuisine and service type, including casual Chinese cuisine restaurants, Chinese fine dining restaurants, Chinese hotpot and barbeque restaurants. Casual Chinese cuisine restaurant refers to the catering segment where restaurants offer ready-to-eat Chinese cuisine at an affordable price with an average spending per guest in the range of RMB50 to RMB100. The other two sub-segments within the Chinese cuisine restaurants market are (i) Chinese fine dining restaurants, which offer ready-to-eat Chinese cuisine with an average spending per guest above RMB100 and (ii) Chinese hot pot and barbeque restaurants.

INDUSTRY OVERVIEW

With faster pace of life and increasing spending power among consumers in China, casual Chinese cuisine restaurants are welcomed by consumers with their comfortable dining environment, affordable price and convenient and efficient dining experience, as compared to other Chinese cuisine restaurants, such as Chinese fine dining restaurants and hot pot restaurants. As a result, casual Chinese dining that has better value for money has the highest growth among all segments of Chinese restaurant market as consumers become more value conscious, and the casual Chinese cuisine restaurants market grew from a total revenue of RMB407.5 billion in 2019 to RMB498.0 billion in 2023, representing a CAGR of 5.1%. Going forward, the total revenue of casual Chinese cuisine restaurants is expected to maintain a steady growth at a CAGR of 9.0% from 2023 to 2028, reaching RMB767.2 billion in 2028. With the declined popularity of fine dining catering in the market, casual Chinese cuisine restaurants have gradually become mainstream, and their total revenue grew as a percentage of Chinese cuisine restaurants from 15.7% in 2019 to 17.0% in 2023 and is expected to further increase to 18.7% in 2028.

Market size of casual Chinese cuisine restaurant market in terms of total revenue, 2019-2028E



Source: CIC Report

Note: Numbers in circles refer to market size of casual Chinese cuisine restaurants as a percentage of Chinese cuisine restaurants.

INDUSTRY OVERVIEW

Casual Chinese Fusion Restaurants

Due to geographical and socioeconomic factors, consumers in China have diverse tastes and dining habits. As a result, diversified cuisine styles are developed to meet consumers’ demand. A single regional cuisine style primarily targets consumers within that specific region, restricting its ability to serve people in other regions and resulting in limited growth potential. In order to satisfy diverse consumer preferences and tastes in different regions and age groups, casual Chinese fusion restaurants innovate their menu designs and introduce creative fusion dishes to create dining environments that meet the demand of different dining scenarios. Guests looking for a quick and light lunch during weekdays, or a proper dinner for friends and family gatherings, or business meal can all find a pleasant experience. These casual Chinese fusion restaurants have achieved strong customer followings and developed a competitive edge in the following areas as compared with other casual Chinese cuisine restaurants that feature traditional regional cuisines:

- *Wider variety of tastes.* Casual Chinese fusion restaurants provide dishes that combine various elements from cuisines of different regions and adjust the taste to satisfy the preferences of a diverse consumer base.
- *Refreshing dining experience.* Casual Chinese cuisine restaurants typically feature beautiful decoration, creative dishes and high-quality and efficient service.
- *Wider range of consumer groups.* Casual Chinese fusion restaurants are positioned to target the mass market due to their flexibilities in serving a diverse consumer group.

COMPETITIVE LANDSCAPE OF CHINESE CUISINE MARKET AND CASUAL CHINESE CUISINE MARKET IN CHINA

The total revenue of Chinese cuisine restaurant market in China reached RMB2,931.6 billion in 2023, accounted for approximately 55.4% of the catering market in China. The Chinese cuisine restaurant market in China is extremely fragmented, with the three largest players holding approximately 1.8% of the total market share in 2023.

The total revenue of casual Chinese cuisine restaurant market reached RMB498.0 billion in 2023, accounted for approximately 17.0% of the Chinese cuisine restaurant market and 9.4% of the catering market in China. Casual Chinese cuisine restaurant market is also highly fragmented, with a large number of restaurant brands participating in the market. In 2023, the five largest brands accounted for approximately 4.0% of the total revenue of casual Chinese cuisine restaurant market.

INDUSTRY OVERVIEW

In 2023, restaurants under our *Green Tea* brand achieved a total revenue of RMB3.6 billion and ranked fourth with a market share of 0.7% in the casual Chinese cuisine restaurant market in China. With a total of 360 restaurants at the end of 2023, we ranked third in terms of number of restaurants among casual Chinese cuisine restaurant brands in China. In addition, we are the largest player that focuses on offering fusion cuisine among the top five casual Chinese restaurant operators. The table below sets forth the five largest casual Chinese cuisine restaurant brands and their restaurant count, total revenue and market shares in 2023:

Brand	Description of the brand	Restaurant Count	Total Revenue <i>(in RMB billion)</i>	Market Share ⁽¹⁾
Brand A	A non-listed restaurant brand established in 1988, headquartered in Beijing, and focusing on northwestern Chinese cuisine	355	5.5	1.1%
Brand B	A non-listed restaurant brand established in 2013, headquartered in Tongling, Anhui Province, and focusing on Anhui cuisine	542	4.5	0.9%
Tai Er	A listed restaurant brand established in 2015, headquartered in Guangzhou, Guangdong Province, and focusing on pickled Chinese sauerkraut fish	578	4.5	0.9%
Green Tea	See “Business” for more details	360	3.6	0.7%
Brand C	A non-listed restaurant brand established in 1998, headquartered in Hangzhou City, Zhejiang Province, and focusing on Zhejiang cuisine	103	2.0	0.4%

Source: CIC Report

Note:

- (1) Market share is calculated based on the brands’ estimated revenue in 2023 divided by the total revenue of Chinese cuisine restaurant market in 2023

INDUSTRY OVERVIEW

MARKET DRIVERS AND TRENDS

Key drivers and trends of the casual Chinese cuisine market and casual Chinese fusion restaurant market in China are set forth below:

- *Increasing demand for dining out.* Along with the rapid growth of urbanization, according to the National Bureau of Statistics, the per capita annual disposable income of urban households in China increased from RMB42,359.0 in 2019 to RMB51,821.0 in 2023 at a CAGR of 5.2%. Although dining out was once restricted because of the COVID-19 pandemic and the relevant restrictive measures imposed by the government, demand for dining out has rebounded since the government phased out the “zero-COVID” policy in December 2022. The per capita dining-out expenditure also increased from RMB3,337.0 in 2019 to RMB3,751.9 in 2023 at a CAGR of 3.0%. Consumers in China are expected to continue to incorporate dining-out consumption into their lifestyle, which will increase their dining out frequencies and promote dining-out culture. By 2028, per capita annual disposable income of urban household and per capita dining-out expenditure in China is expected to reach RMB66,053.0 and RMB5,304.6, respectively, at a CAGR of 5.0% and 7.2% from 2023 to 2028, respectively.
- *Greater growth potential for chain restaurants.* Generally, chain restaurants have better control of food quality and safety as compared to non-chain restaurants. Chain restaurants also typically have stronger capital support, control over supply chain and brand awareness. As consumers in China are placing increasing importance on food safety, quality, health and taste, chain casual Chinese cuisine restaurants are likely to have greater growth potential in the future.
- *Rapid development of commercial activities.* The rapid development of commercial activities generates new potential locations for casual Chinese fusion restaurants, including shopping malls, transportation hubs, tourist sites, office buildings and residential districts. These public places are expected to draw customer traffic and bring strong demand for catering services.
- *Expansion into tier two, tier three and lower tier cities.* Casual Chinese fusion restaurants are likely to continue to expand into tier two, tier three and lower tier cities. Nowadays, Chinese consumers value cost-effective dining experiences, quality of dishes, dining environment as well as dining services. As a result, casual Chinese fusion restaurants have become the ideal dine-out option for consumers by meeting the evolving demands of consumers for quality dishes with reasonable price and diversified tastes, especially in tier two, tier three and lower tier cities. Moreover, these cities typically have a large population base and growing economy. With the continuous development of tier two, tier three and lower tier cities, demand for casual Chinese fusion restaurants is expected to increase as consumers in these cities increase the frequency of dining out. Meanwhile, the growth of economy in these cities also entails increase in consumer purchasing power, which is likely to lead to higher spending at restaurants.

INDUSTRY OVERVIEW

- *Use of social media.* Online social media platforms, where consumers share comments about dining experiences, have significant influence over consumers’ dining decisions. As such, social media platforms are expected to continue to be the main venue for restaurants to conduct their marketing activities and strengthen their brand awareness. In the meantime, restaurants with unique design and menu are usually more popular on social media platforms. Such restaurants may gain more customer traffic as a result of the increasing influence of social media platforms.
- *Rise of national style.* In recent years, the younger generations in China have demonstrated particular interest in domestic brands and products that display traditional Chinese culture elements, which is also known as the rise of “national style” (國潮). In order to attract these young customers and build brand image and loyalty, some restaurant chains have collaborated with other domestic brands to launch joint marketing events using elements of traditional Chinese culture. Overall, the rise of national style is expected to benefit domestic brands and bring more opportunities to Chinese cuisine restaurants.
- *Advancement of technologies.* Restaurants have increased their utilization of digital technology in their businesses to improve customers’ dining experience and their own operational efficiency. Advanced technologies have proven to be effective in streamlining operation procedures, reducing consumers’ waiting time and improving dining experience, and it is expected that restaurants will continue to utilize such technologies to optimize their operations.

ENTRY BARRIERS AND CHALLENGES

Although there may not be significant entry barriers to operating and managing a single restaurant, there are significant entry barriers and challenges in becoming a successful large-scale restaurant chain brand, including the following:

- *Ability to provide affordable high quality dining services.* Consumers in China are becoming more selective in choosing restaurants as their income and living standards improve. They prefer restaurants that provide both delicious cuisine and enjoyable dining environment with affordable prices. As such, the ability to meet the demand for high-quality service with affordable pricing will be essential to restaurants.
- *Ability to continuously innovate.* Innovation and creativity are at the core of the Chinese fusion concept. As a result of the fierce competition in the industry, restaurants that continue to incorporate innovation into the development of menu items will gain competitive advantages by meeting the demand of diversified dining scenarios and broaden their customer base.

INDUSTRY OVERVIEW

- *Brand recognition and reputation.* Brand awareness has become increasingly important to catering business as it has great influence on consumers’ dining decisions. Therefore, restaurants with strong brand awareness will have larger customer base to achieve market leading position. In addition, as existing market participants have already taken up favorable locations in busy areas, such as shopping malls and popular sites with a high consumer traffic, new entrants may find it difficult to occupy such locations with promising revenue and to gain marketing exposure. Considering that existing market participants have already established their brand recognition and reputation and taken up favorable locations, new entrants with newly established brands may find it hard to gain brand recognition from customers in the short term.
- *Control over food safety and quality.* Large restaurant chains typically have more comprehensive food safety and supply chain management systems to ensure consistent quality of food. With increasing public concern over food quality and safety, consumers prefer to consume in restaurants that provide reliable and high-quality food and services. In the meantime, the policies published by the government also promote food quality and safety in the catering industry. Casual Chinese restaurants that have a strong reputation for food safety and are able to offer healthy food options are expected to experience stronger growth. Meanwhile, new market players may not have enough resources to establish a comprehensive food safety and quality control system.
- *Supply chain management.* Supply chain management is crucial to restaurants operations to ensure food quality and safety, control purchase costs of supplies and timely delivery of necessary ingredients to restaurants. Extensive experience in supply chain management for large-scale operations and maintaining cost efficiencies are key entry barriers for new market players.

CATERING SUPPLY CHAIN OF CASUAL CHINESE CUISINE RESTAURANT MARKET

The catering supply chain of the casual Chinese cuisine restaurant market mainly involves food procurement, food processing and food distribution. The food processing segment can be further divided into three types of food processing arrangements, namely processing at central kitchen, processing by designated food processing companies and processing by local restaurant kitchen.

- *Processing at central kitchen.* This type of arrangement allows restaurant operators to prepare products at a centralized facility and then distribute the products to their restaurants. It is beneficial to the restaurant operators as it simplifies the storage of supplies and centralizes food processing procedures. Once the food products are ready, the restaurant operators can deliver these food products to several locations over a large geographic area.

INDUSTRY OVERVIEW

- *Processing by designated food processing companies.* Under this type of arrangement, the designated food processing companies produce semi-processed food products according to the recipes and instructions given by the restaurant operators. Such arrangement can save restaurant operators from making significant upfront investment for building their own processing facilities or central kitchen. It also creates higher utilization of the processing facilities as compared to central kitchens.
- *Processing by local restaurant kitchen.* Under this type of arrangement, raw materials are directly delivered to the restaurant without any prior food processing, and the restaurant staff process the raw materials at the restaurant kitchen. Currently, only smaller restaurant operators use this type of arrangement.

As medium to large restaurants chains increase their utilization of third-party food processing arrangements, the percentage of expenditure on external supply chain services of the overall raw material expenditure of catering market has increased from 9.6% in 2019 to 14.3% in 2023, and is expected to further increase to 23.1% in 2028.

Leading catering supply chain service providers are moving towards specialization and diversification. With the development of the cold chain logistics industry, leading catering supply chain service providers have begun to offer trans-provincial operations. By partnering with these sizable catering supply chain service providers with trans-provincial operations, restaurant chains, such as our Company, are able to rapidly scale up and expand nationally with relatively low upfront investments, while maintaining the highest standard of food safety and quality.

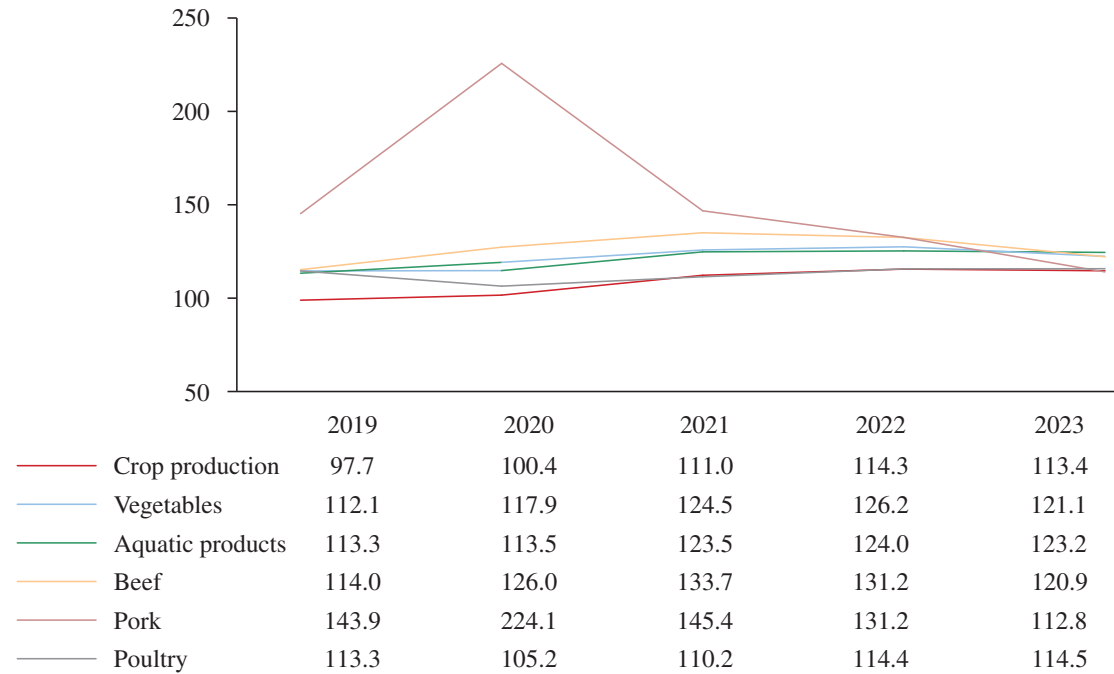
COST OF RAW MATERIALS, LABOR AND COMMERCIAL RENT

The major food ingredients used in our restaurants include crop products, vegetables, aquatic products, beef, pork, and poultry. The price volatilities of such food ingredients are subject to factors such as domestic supply and demand, seasonality, weather conditions and natural disasters. Generally, the 2014 based consumption price index (the “CPI”) (CPI, year of 2014 = 100) of food continued to increase from 2019 to 2022. However, due to the sufficient supply of food, the “CPI” of food slightly decreased in 2023. In addition, the food price index of pork fluctuated during 2019 to 2023, primarily due to the changing consumption structure of meat as well changes in supply and demand.

INDUSTRY OVERVIEW

Food Price Index of Raw Food Material, China, 2019-2023

Food Price Index (2014=100)



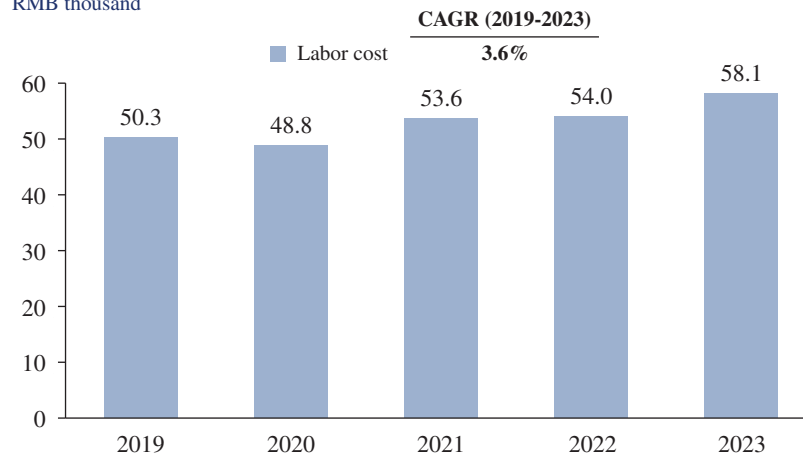
Source: National Bureau of Statistics

Note: The price indexes of crop products, vegetables, aquatic products, beef, pork and poultry refer to the price indexes of agricultural production.

In addition, the annual income of employees in the catering industry in urban areas in China has increased steadily from 2019 to 2023 at a CAGR of 3.6%. Labor cost is expected to keep growing in the coming five years due to the developing macro-economy, growing disposable income and CPI, as well as the inflation. The chart below sets forth the trend of labor cost of catering industry in urban areas in China for the periods indicated.

Labour cost of catering industry in urban area, 2019–2023

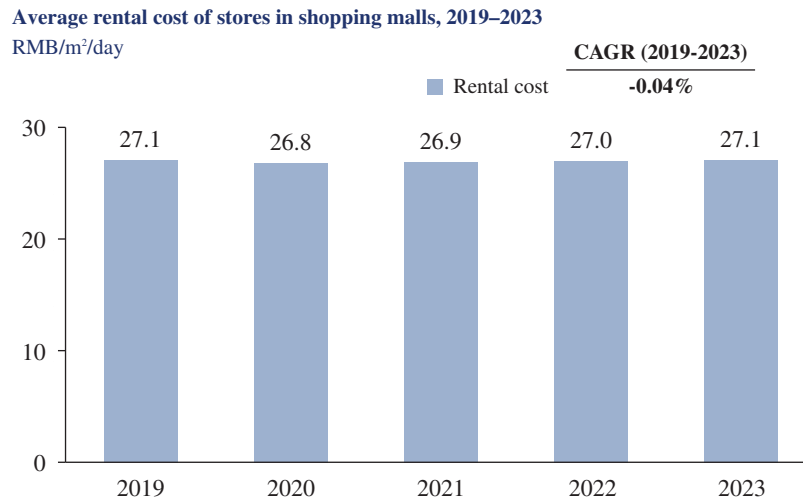
RMB thousand



Source: CIC Report

INDUSTRY OVERVIEW

The rental cost of a restaurant is also considered to be one of the major costs in China’s catering industry. The average rental cost for stores in shopping malls in China remained stable at around RMB27.0 m²/day from 2019 to 2023 with a negative CAGR of 0.04%. With the further recovery of the consumer market, the average commercial rent of stores in shopping malls in China is expected to moderately increase in the future.



Source: China Real Estate Index System, CIC Report

Note: It refers to the average rental cost of stores in 100 typical shopping malls in China.