
INDUSTRY OVERVIEW

Potential investors should note that Ipsos has been engaged by the Company to prepare the Ipsos Report to provide an overview of the market landscape and competitive analysis of the full-service Chinese restaurant industry in Hong Kong and Shenzhen, which will be used in whole or in part in this document.

The information extracted from the Ipsos Report should not be viewed as a basis for investments provided by Ipsos and references to the Ipsos Report should not be considered as the opinion of Ipsos as to the value of any security or the advisability of investing in the Company. The information and statistics set out in this section have been extracted from the Ipsos Report compiled by Ipsos and other publicly available sources. The Group believes that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Group has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Group, the Joint Lead Managers, the Sponsor, the Underwriters or any other party involved in the [REDACTED] and no representation is given as to its accuracy. Accordingly, such information should not be unduly relied upon.

COMMISSIONED REPORT FROM IPSOS

The Company commissioned Ipsos, an independent market research company, to conduct an analysis of and produce the report on the full-service Chinese restaurant industry in Hong Kong and Shenzhen, for a total fee of HK\$478,000, which the Sponsor believes such reflects the market rate.

The Directors confirm that Ipsos, including all of its subsidiaries, divisions and units, is independent of and not connected with the Group in any way. Ipsos has given its consent to quote from the Ipsos Report and to use information contained therein in this document.

Founded in Paris, France, in 1975 and publicly-listed on the Paris Stock Exchange in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos became the third largest research company in the world which employs approximately 16,000 full-time personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

The information contained in the Ipsos Report is derived by means of data and intelligence gathering methodology which includes: (i) desk research and (ii) primary research by interviewing key stakeholders and industry experts in Hong Kong and Shenzhen including, but not limited to, government officials (e.g. Shenzhen Human Resources and Social Security Bureau), restaurant operators, industry experts and associations (e.g. Shenzhen Catering Service Association) etc.. Intelligence gathered has been analysed, assessed and validated using Ipsos' in-house analysis models and techniques.

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The following assumptions are used in the Ipsos Report:

- It is assumed that the supply of and demand for full-service Chinese restaurant industry in Hong Kong are stable over the forecast period; and
- It is assumed that there is no external shock such as financial crisis or natural disasters to affect the demand and supply of the full-service Chinese restaurant industry during the forecast period.

RELIABILITY OF INFORMATION AND FUTURE FORECAST IN THE IPSOS REPORT

The Group is of the view that sources of information used in this section, which are extracted from the Ipsos Report, are reliable and not misleading as Ipsos is an independent reputable professional research agency with extensive experience in their profession.

Some of the analytical conclusions extracted from the Ipsos Report cover future forecasts. The following parameters are considered in the marketing sizing and forecasting model of the Ipsos Report:

- GDP and GDP growth rates in Hong Kong and Shenzhen from 2010 to 2019;
- Average annual household disposable income in Hong Kong and average per capita disposable income in Shenzhen from 2010 to 2014;
- CPI for food and annual food expenditure for Hong Kong and CPI for food and per capita annual food expenditure for Shenzhen from 2010 to 2014;
- Number of tourists visiting Hong Kong and Shenzhen from 2010 to 2014;
- Total catering expenditure on dining by tourists visiting Hong Kong from 2010 to 2014;
- Historical average wage trends for workers in the catering industry in Hong Kong and Shenzhen from 2010 to 2014;
- Historical average retail rental rates in Hong Kong and Shenzhen from 2010 to 2014;
- Number of players operating Cantonese restaurants in Hong Kong and Shenzhen in 2014;
- Number of Cantonese restaurants in Hong Kong and Shenzhen in 2014;
- Revenue generated from the Cantonese restaurant industry in Hong Kong and Shenzhen from 2010 to 2019;

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- Composite CPI of key raw materials in Cantonese restaurants in Hong Kong from 2010 to 2014;
- Average spending per customer in the Cantonese restaurants industry in Hong Kong and Shenzhen from 2010 to 2014; and
- Revenue generated from the non-Cantonese Chinese restaurant industry in Hong Kong from 2010 to 2019.

The Sponsor and the Company consider such information to be reliable, accurate and not misleading after taking into account the following factors:

- (a) Ipsos is an independent reputable research agency with extensive experience in their profession; and
- (b) although the Ipsos Report includes forecast of the development of the full-service Chinese restaurant industry in Hong Kong and Shenzhen, they do not contain performance forecast of the Company.

The Directors confirm that, to the best of their knowledge, after taking reasonable care, there is no material adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

HONG KONG

Macroeconomic environment in Hong Kong

According to the Hong Kong Census and Statistics Department, the GDP in Hong Kong grew from about HK\$1,846.1 billion to about HK\$2,070.8 billion between 2010 and 2014, at a CAGR of about 2.9%. The GDP of Hong Kong is expected to increase from around HK\$2,137.0 billion in 2015 to around HK\$2,440.1 billion in 2019 and maintain at a growth rate of between about 3.2% and about 3.7% from 2015 to 2019. Given the improvement of the global economy as well as the favourable economic ties with Mainland China, it is expected that the economic future of Hong Kong will remain optimistic, which is beneficial to the catering industry.

According to the Hong Kong Census and Statistics Department, the average annual household disposable income in Hong Kong increased from around HK\$596.1 thousand to around HK\$750.9 thousand at a CAGR of about 5.9% from 2010 to 2014. The growth of the average annual household disposable income is primarily driven by the reduction of the unemployment rate. According to the Hong Kong Census and Statistics Department, the unemployment rate of Hong Kong declined from about 5.3% in 2010 to about 3.3% in 2014. Given the stable growth of the Hong Kong economy, it is expected that the average household disposable income of Hong Kong would grow at a steady pace in the coming years.

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According to the Hong Kong Census and Statistics Department, the CPI for food in Hong Kong increased from around 100.9 in 2010 to around 124.2 in 2014, at a CAGR of about 5.3%. Following a similar trend, the annual food expenditure also grew from around HK\$156.6 billion to around HK\$227.2 billion within the same time period, at a CAGR of about 9.8%. Driven by the growth in GDP, the annual household disposable income as well as the rising food price in Hong Kong, the population in Hong Kong had spent more on food, accounted for about 11.0% of total GDP in 2014. As the CPI for food remained on the upward trend, some households or individuals may consider dining out instead of cooking by their own which is expected to give a push to the growth of catering industry in terms of both the number of customers and revenue.

Catering industry in Hong Kong

The major types of restaurants in the catering industry in Hong Kong include both Hong Kong style cafes and Chinese restaurants which have the largest number of counts in Hong Kong, with over 2,500 and 2,300 establishments respectively. While for full-service Chinese restaurants, most of them serve Cantonese cuisine, followed by Beijing, Sichuan and Shanghai cuisines. For non-Chinese restaurants, Western and Japanese restaurants contribute the largest number, while Korean, Thai and Vietnamese restaurants also attribute to a significant number in Hong Kong.

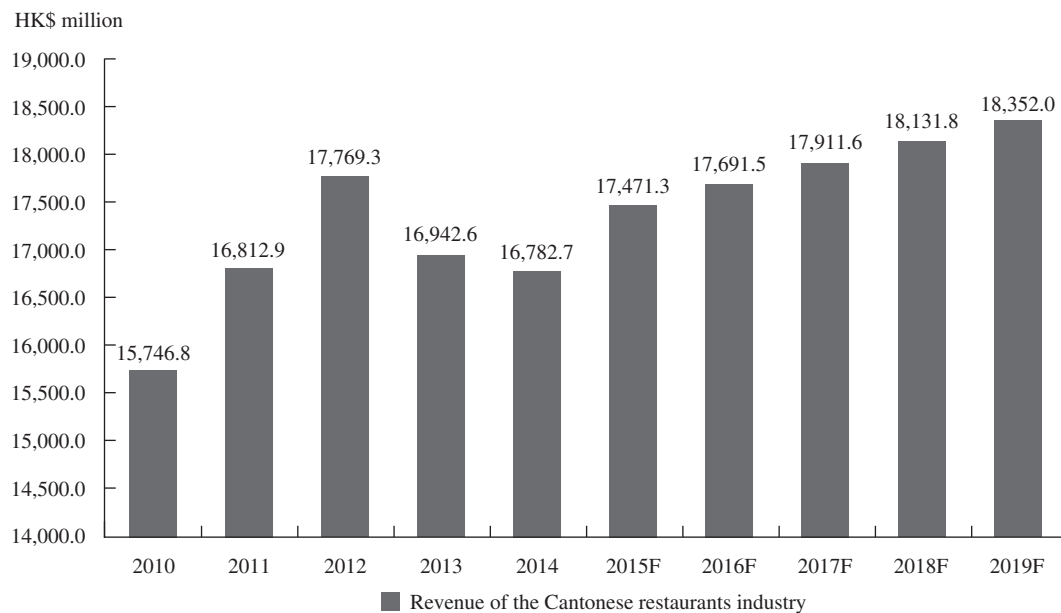
Hong Kong's full-service Cantonese restaurant market

Recent development

Cantonese restaurants serve tea, dim sum and simple Cantonese dishes during the day. In the evening, the Cantonese restaurants serve Cantonese dishes and/or banquets for events such as weddings. The revenue generated from the Cantonese restaurants industry showed an overall increasing trend between 2010 and 2014, growing from around HK\$15,746.8 million to around HK\$16,782.7 million, at a CAGR of about 1.6%. After the announcement of the anti-graft campaign by the Chinese government, there had been lessened enthusiasm on luxurious spending in high-end Cantonese restaurants. Some of the Chinese visitors had shifted their interest from fine-dining to casual dining or even Hong Kong style cafe as well as other popular local choices. The above factors lowered the revenue of the Cantonese restaurants and its percentage contribution to the total revenue generated from the catering industry. It is expected that the revenue of the Cantonese restaurants industry would increase from around HK\$17,471.3 million in 2015 to around HK\$18,352.0 million in 2019 due to the drop in rental

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prices since 2015 which would probably bring more opportunities for the expansion of Cantonese restaurants. The graph below sets out the revenue generated from the Cantonese restaurants industry in Hong Kong from 2010 to 2019:



Sources: Census and Statistics Department, HKSAR; Ipsos research and analysis

Notes:

1. "F" denotes for forecasting data.
2. Cantonese restaurant includes all the restaurants under Hong Kong Standard Industrial Classification Version 2.0 ("HSIC V2.0") code 651109.

The key players in the Cantonese restaurants industry of Hong Kong include Maxim Catering Limited, Lei Garden Group, Fulum Group Holding Limited and Tao Heung Holding Limited. Among these players, most of them operate a wide range of restaurants focusing on various cuisines such as Sichuan, Shanghai or even other Asian cuisines such as Japanese and Korean.

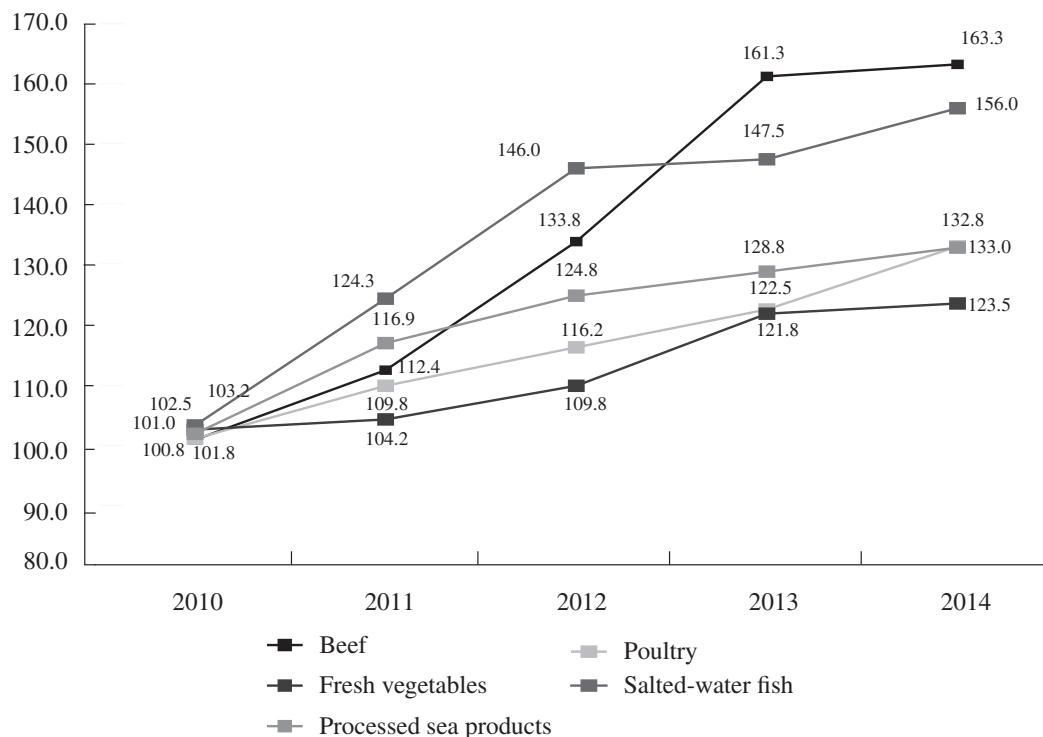
According to the Hong Kong Census and Statistics Department, in 2014, there were a total of 1,830 Cantonese restaurants in Hong Kong, while 1,189 (about 65.0%) of them were non-chained restaurants and only 641 (about 35.0%) of them were operated by chained restaurant players. Around one third of Cantonese restaurants in Hong Kong were chained. The major reason is that once the operator has opened more than one restaurant, they start to enjoy economies of scale as some of the costs such as average cost of raw materials can be shared among several restaurants when they are procuring larger quantity. Besides the cost of raw materials, arrangement of staff resources will be more flexible for chained restaurant and hence it helps the operators to lower the labour cost which is considered as a significant component in the catering industry.

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Major cost components

(a) Raw materials

Beef, poultry, fresh vegetables, salted-water fish and processed sea products are some of the most commonly used raw materials in Cantonese restaurants. As these raw materials have contributed to a significant amount of the cost in a Cantonese restaurant, any price fluctuation will lead to a direct effect on the profit margin of the Cantonese restaurant. During the Track Record Period, all of the five food categories as mentioned above recorded an increase in price in the previous 5 years, but at a different scale. The graph below sets out the composite CPI of key raw materials in Cantonese restaurants in Hong Kong from 2010 to 2014:



(b) Staff costs

The average wage trend for workers in the catering industry in Hong Kong grew from around HK\$8,600.0 in 2010 to around HK\$11,033.0 in 2014, at a CAGR of about 6.5%. Following the commencement of the Statutory Minimum Wage in 2011 and subsequent revision in May 2015, the minimum wage rate increased from HK\$28.0 per hour to HK\$32.5 per hour. Despite it directly benefiting the lowest earners in the catering industry, some upward adjustments on the wage of other workers in the catering industry also became necessary in order to maintain the employment retention rate and hence the efficiency of the companies. Another pressure causing the increase in wage of workers in the catering industry was the inflation rate. Between 2010 and 2014, the inflation rate fluctuated between 2.4% and 5.3%. This caused the urge for the public to demand for higher wages so as to compensate for the increase in living costs.

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(c) Rental costs

The average monthly retail rental rate in Hong Kong grew from about HK\$1,117.7 per square meter in 2010 to about HK\$1,469.3 per square meter in 2014, reaching a CAGR of about 7.1%. For the rental price index, it increased from 122.9 in 2010 to 173.1 in 2014, at a CAGR of about 8.9%. The rapidly increasing private retail rental rate was mainly caused by high demand and limited supply for retail space. According to the Hong Kong Retail Management Association, the retail sector recorded strong double-digit growth, particularly in luxury goods. As China's GDP has been consistently strong during 2010 to 2014, Mainland Chinese tourists' demand for luxury goods remained very strong. While landlords witnessed the immense expansion of the industry they also raised the rent accordingly. Thus, the average retail rent increased rapidly over this period.

Factors of competition

Customers in Hong Kong value highly the quality of Cantonese restaurants in an array of ways such as service and food quality. There is an increasing trend that customers view the process of dining at Cantonese restaurants a special experience and it will attract or retain customers if the experience is satisfactory.

Food consumption is one of the biggest spending of customers and thus price is one of their main concerns. Assuming similar quality, customers will favor restaurants charging at a lower price. In particular, a lower price lures customers who consider costs as the top priority, without focusing too much on quality. Therefore, restaurants charging at a lower price are more likely to prevail in the Cantonese restaurants industry in Hong Kong.

Cantonese restaurants with well-established reputation are appealing to customers, no matter local or visitors, as the reputation built is an indicator of the food quality, service provided, environment, value for money and so on.

Market Drivers

Rising tourist numbers bring confidence to the Cantonese restaurants industry. With the expected increase in the population of Hong Kong, the Cantonese restaurants industry is expected to grow continuously, especially with its popularity among the local citizens. On the other hand, with the steady growth of the Hong Kong economy, the average annual household disposable income also increased. Booming tourism is another supporting factor for the catering industry in Hong Kong. According to the Hong Kong Tourism Board, the number of tourist visits to Hong Kong grew from around 36.0 million in 2010 to around 60.8 million in 2014, at a CAGR of 14.0%. The total catering expenditure of tourists showed a significant upward trend which is expected to continue in the coming years. As Cantonese cuisine has been recognized by tourists to be one of the most representable Chinese cuisines in Hong Kong, it is expected that the increasing number of both the local population and foreign tourists with increasing catering expenditure would drive the steady growth of the Cantonese restaurants industry in Hong Kong for the coming 5 years.

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The Hong Kong government has hosted multiple events to facilitate the growth of the Cantonese restaurants industry, such as the Hong Kong Wine and Dine Festival and Food Expo held by the Hong Kong Trade Development Council. In the past years, the Food Expo mainly focused on light refreshments sales. However, in recent years, with the increasing popularity of the event, especially within the younger demographics, more restaurants from the Cantonese restaurants industry began to participate in order to raise brand awareness of the general public.

Entry Barriers

Cantonese cuisine requires a wide range of cooking techniques in which experience is exceptionally important for some cuisines like dim sum or seafood. As such, in order to open a successful and profitable Cantonese restaurant, an experienced chef is important. Given the current situation that lots of the experienced chefs in Hong Kong have retired, finding suitable chefs has been a challenging task for restaurant operators.

In Hong Kong, limited supply of retail space has been a long existing issue for players in both the retail and the catering industry, and it is the largest portion of operating cost. As a result, finding a suitable location with affordable rent is always the primary concern for operators in the Cantonese restaurants industry. Given the recent weak performance in the retail sector, the retail rental market started to cool down since 2015, allowing operators in the catering industry to expand at a relatively affordable rent.

Opportunities

Many large Cantonese restaurant groups have been extending their business to specifically attract the younger demographics. By having different lines of restaurants targeting different demographics with a large price range, the Cantonese restaurant groups can increase the public brand recognition and expand their customer base, which is beneficial to the Cantonese restaurants industry.

The rental price index has been increasingly high in the past years which has put certain pressure on the industry. Therefore, many of the Cantonese restaurants have moved upstairs for cheaper rent to lessen their financial burden. However, it is expected that the rental price index of Hong Kong would go down again. Therefore, it provides opportunities for Cantonese restaurants to move back to retail spaces with a better location where they can attract more customers. It can also help increase the profit margin and further growth of the Cantonese restaurants industry in Hong Kong.

Threats

Due to multiple food safety issues happened in the past, such as the incidents of Shanghai Husi Food Co., Ltd., a PRC meat processing company, which affected a large proportion of the catering providers, including some of the Cantonese restaurant providers in Hong Kong, there is an increase in concern over the traceability and reliability of raw materials or semi-processed ingredients obtained by the local restaurants. The Hong Kong Government has also enforced

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new laws and rules to tighten the restriction on the obtainment of common ingredients used in the Cantonese restaurants industry. For instance, the Centre for Food Safety has recently announced the legislative proposals on Regulation of Edible Fats and Oils and Recycling of "Waste Cooking Oils". This may put further pressure on the Cantonese restaurants in this competitive and capital intensive operation environment.

Due to the fact that the minimum wage of Hong Kong is raised again in 2015, the operation costs of Cantonese restaurants increased again since a proportion of the employees in the industry were the lowest earners in Hong Kong. At the same time, the problem of labour shortage, resulting from the demanding nature of the jobs which discourages younger people to join the industry, has deterred the growth of the Cantonese restaurants industry in Hong Kong.

Market shares and ranking

Ipsos has compiled the following table of the top five Cantonese restaurant operators in Hong Kong in the year ended 31 December 2014:

Rank	Company name	Revenue (HK\$ million)	Market share (%)	Number of Cantonese restaurant in Hong Kong
1	Company A	2,584.3	15.4	65
2	Company B	2,304.4	13.7	62
3	Company C	2,103.3	12.5	39
4	Company D	1,196.2	7.1	33
5	Company E	605.2	3.6	11
	Total	8,793.4	52.3	

According to the Ipsos Report, the Group accounted for about 1.1% of the revenue in Cantonese restaurant industry in Hong Kong for the year ended 31 December 2014.

Trends and developments

(a) Multi-branding

The multi-branding strategies have been adopted by many major players in the Cantonese restaurants industry. For the same type of cuisine such as Cantonese, the players tend to provide both high-end and mid-end restaurants, fitting customers with various budgets. As the customers of these Cantonese restaurants become more demanding, they tend to appreciate restaurants which are specialised. Therefore, those major restaurant operators in the Cantonese restaurants industry opened many restaurants specialising in specific regional dishes of Cantonese cuisine where the trend is expected to continue in the coming years.

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(b) Shift from fine dining to casual dining

Strong efforts have been made to attract younger demographics to the Cantonese restaurants industry. Cantonese casual dining restaurants allow gatherings for 2 to 6 people. By providing light refreshments with lighter portions, these restaurants are usually in a slightly lower price range when compared to traditional Cantonese restaurants, and so they would be more attractive for the younger generation.

(c) Importance of presentation

More efforts are now required to attract more people. It could be achieved by increasing attractiveness of the restaurant via visual presentation of dishes. The design of dishes is therefore becoming more complex. At the same time, there are more themed restaurants that offer unique and extraordinary style dishes. For example, the Hello Kitty Chinese Restaurant attracts people from all ages who are fans of the popular Japanese anime character. Another example would be Bo Innovation, the Chinese molecular gastronomy restaurant that uses scientific techniques to reconstruct dishes. Dishes with an outstanding presentation further encourage people to take photos of the dishes and upload to social media, which acts as soft marketing for the restaurants.

Hong Kong's full-service non-Cantonese Chinese restaurant market

According to the Hong Kong Census and Statistics Department, revenue generated from the non-Cantonese Chinese restaurants industry recorded an overall growth between 2010 and 2014, from around HK\$4,044.2 million to around HK\$4,310.3 million, at a CAGR of about 1.6%. It is expected that revenue of the non-Cantonese Chinese restaurants industry would increase from around HK\$4,487.2 million in 2015 to around HK\$4,713.3 million in 2019 as it is anticipated that there will be more opening of new restaurants as the rental price has started to drop since early 2015, providing a greater flexibility to the restaurants' expansion plans.

The market size of the non-Cantonese Chinese restaurants industry in Hong Kong experienced positive growth from around HK\$4,044.2 million in 2010 to around HK\$4,310.3 million in 2014, attributed to the growing tourism industry in Hong Kong. To name a few, the few major players of the non-Cantonese Chinese restaurant industry in Hong Kong are Maxim Group, Crystal Jade Group and Xiao Nan Guo Group.

The major customers of the non-Cantonese restaurants industry are the local Hong Kong population who wish to try Chinese dishes other than Cantonese cuisine as well as the immigrants moving from those Chinese provinces where the cuisines are originated. To these customers, ordinary Cantonese cuisine can no longer satisfy their needs, they demand more original flavours as well as some traditional cooking methods from various provinces in China, leading to a need for more non-Cantonese Chinese restaurants with specific selling points.

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SHENZHEN, PRC

Macroeconomic environment in Shenzhen

According to the National Bureau of Statistics of Shenzhen, the GDP in Shenzhen grew from about RMB958.2 billion to about RMB1,600.2 billion between 2010 and 2014, at a CAGR of about 13.7%. The GDP of Shenzhen is expected to increase from around RMB1,765.0 billion in 2015 to around RMB2,491.0 billion in 2019 and maintain a growth rate of about 9.0% from 2015 to 2019.

According to the National Bureau of Statistics of Shenzhen, the average per capita disposable income in Shenzhen increased from around RMB32.4 thousand to around RMB48.7 thousand at a CAGR of about 10.7% from 2010 to 2014. The rising average per capita disposable income in Shenzhen is attributed to inflation and stable economic growth over the past 5 years. With increasing disposable income, it is expected that people in Shenzhen will adjust their spending in food and catering upward, supporting the growth of the catering industry in Shenzhen as a whole.

According to the National Bureau of Statistics of Shenzhen, the CPI for food in Shenzhen increased from around 107.7 in 2010 to around 111.9 in 2011. The index then fluctuated from between 102 to 105 in the following 3 years, and reached 103.5 in 2014. There is a net decrease when compared with the figure in 2010.

Shenzhen's full-service Cantonese restaurant market

Recent development

According to the Shenzhen Catering Service Association, between 2010 and 2014, the revenue of the Cantonese restaurants industry in Shenzhen showed an increase from around RMB9,836.5 million to around RMB14,661.8 million, at a CAGR of about 10.5%. Between 2015 and 2019, it is expected that revenue of the Cantonese restaurants industry in Shenzhen would re-enter the phase of steady growth after the slowdown in 2013 and 2014, mainly fueled by increasing disposable income which will eventually lead to a larger market size.

Most of the key players in the Cantonese restaurants industry in Shenzhen are restaurant groups originated in Shenzhen, such as Laurel Group, Chunmanyuan Catering Service Group, Victory Restaurant Group and Shenzhen Dragon Group to name a few, operating around 5-12 restaurants at the same time.

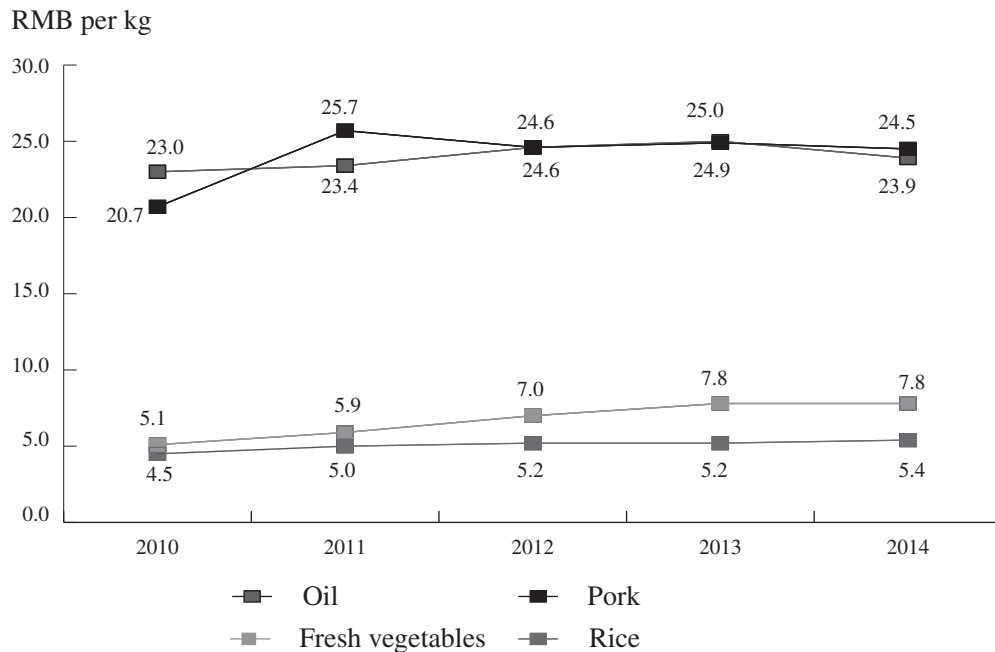
According to openrice.com.cn, in 2014, there were a total of 2,039 Cantonese restaurants in Shenzhen, while 1,447 (about 71.0%) of them were non-chained restaurants and only 592 (about 29.0%) of them were operated by chained restaurant players. In Shenzhen, the ratio of chained restaurants made up of roughly 29.0%, slightly below 35.0% in Hong Kong. Some brands and well-managed enterprises started to set up chain stores in recent years.

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Major cost components

(a) Raw materials

The graph below sets out the average price of key raw materials in Cantonese restaurants in Shenzhen from 2010 to 2014:



Source: National Bureau of Statistics of Shenzhen

(b) Staff costs

According to the Shenzhen Human Resources and Social Security Bureau, the average wage per month for a worker in the catering industry in Shenzhen grew from around RMB2,606.0 in 2010 to around RMB3,945.0 in 2014, at a CAGR of about 10.9%. Shortage of labour supply is a long existing problem for catering industry, ranging from senior position such as chef to operational level like manager or waiter. There is an average of 10% to 20% job vacancy within the industry. Together with the relatively high turnover rate in the catering industry which is about 10% per month, there is always a net demand in the catering industry in Shenzhen, leading to a steady growth of the average wage for workers over the past few years.

(c) Rental costs

According to the Shenzhen Real Estate Information Network, the average rental rate in Shenzhen recorded a slight decrease of about 2.9% in 2011. The fall in commercial rent was mainly due to the structural change of the property sector, where the percentage of lower rent properties has increased by 10%, from about 38% in 2010 to about 48% in 2011, leading to a drop in average rental rates. In 2012, Shenzhen's average rental rate increased by about 10.8%

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compared with the previous year, and the number further grew by another 32.7% in 2013, reaching around RMB300 per square meter per month. In 2014, the rental rate in Shenzhen was around RMB284 per square meter per month, reflecting a 5.3% fall compared with 2013. In Luohu, the rental rate surged by 70% and reached around RMB599 per square meter month. But in contrast, the average rental rate in Futian, Bao'an and Nanshan recorded negative growth in 2014, leading to a drop in overall rental rate in Shenzhen.

Market Drivers

The number of tourists visiting Shenzhen increased from around 32.9 million in 2010 to around 49.9 million in 2014, and it is expected to remain on its uprising trend for the coming 5 years. Together with the stable number of mainland visitors visiting Hong Kong where over 60% of them will stop by Shenzhen, the expectation for the revenue of the catering industry in Shenzhen can be considered to be optimistic, at the same time facilitating the growth of Cantonese restaurant industry.

With an average age in the city being maintained at around 30, it is expected that there will be a sustainable demand for wedding banquets, benefiting Cantonese restaurants which have always been considered as the most popular venue for wedding banquets. Shenzhen has been viewed as a city of youth as there is a significant amount of non-registered residents (about 69.2%), together with the post 80s and 90s groups which are one of the major contributors to the catering industry in Shenzhen. It is expected that the revenue of the catering industry in Shenzhen, especially those casual dining restaurants or those serving Cantonese cuisine, will grow in the coming few years.

Entry Barriers

In the catering market, branding is a main concern for customers. A time honoured brand name can help operators to survive and develop in the industry. Building a brand requires all sorts of resources such as capital, technology, talents and continuous promotions, which is very challenging for new investors.

Human resources safeguard a firm's sustainable development. It is therefore essential to keep and cultivate talents, especially in Shenzhen where the staff turnover rate can reach 10% per month. Managing a restaurant involves all sorts of work like passing down the cultures, staff training, operating model, marketing and branding. These are all obstacles for new players in the market.

Similar to other restaurants in the catering industry, Cantonese restaurants basically have a similar or even higher requirement regarding initial capital investment as most of the Cantonese restaurants have a larger gross area, more staffs as well as a more comprehensive, multi-purpose kitchen to cope with their business needs, hence leading to a significantly higher capital requirement when compared with other types of restaurant.

Opportunities

According to the "China Private Wealth Report 2015", by the end of 2014, there were over one million high net worth individuals with investment assets of over ten million in China, where Guangdong alone has contributed about 10% of them and Shenzhen has the largest

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number of high net worth individuals in the province. On the other hand, during the change of consumer habit, post 80s and 90s generation have gradually grown to become the major consumer group in the catering industry supporting the growth of casual dining and restaurants serving Cantonese cuisine, such as Hong Kong style cafes, or Cantonese restaurants from Hong Kong serving dim sum. In terms of family consumption, an increasing amount of families in Shenzhen tend to dine out at weekends. Restaurants located in shopping malls, with a medium price range and serving Cantonese/Chinese cuisine are generally more welcomed by the family consumers.

In March 2013, the Chinese government approved the set-up of free trade zone in Shekou, Shenzhen, in which business cooperation within Guangdong-Hong Kong-Macau region is expected to increase, creating a demand for the catering industry in Shenzhen.

Threats

The increase in cost for raw materials, labour and rent has significantly driven up the operating cost in the Cantonese restaurants industry in Shenzhen, resulting in a drastic drop in profitability. As inflation is expected to persist in the coming few years, restaurant operators will need to adjust their operation model or strategy in order to cope with the rising cost.

Catering industry in China has been blamed for its poor hygiene level and low management standard. Scandal like Ractopamine and gutter oil is not rare in China. With consumers' ever rising concern towards food safety, how to monitor the food safety and traceability in order to regain the confidence of consumers will be one of the biggest challenges to the restaurant operators in China.

Market shares and ranking

Ipsos has compiled the following table of the top five Cantonese restaurant operators in Shenzhen in the year ended 31 December 2014:

Rank	Company name	Revenue (RMB million)	Market share (%)	Number of Cantonese restaurant in Shenzhen
1	Company F	397.8	2.7	7
2	Company A	384.1	2.6	12
3	Company G	293.4	2.0	10
4	Company H	272.9	1.9	11
5	Company I	139.7	1.0	5
Total		1,487.9	10.2	

According to the Ipsos Report, the Group accounted for about 0.2% of the revenue in the Cantonese restaurants industry in Shenzhen for the year ended 31 December 2014.

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Trends and developments

(a) Cantonese restaurant can no longer rely on government spending or receptions

After the implementation of anti-graft campaign, there was a drastic change in China's catering market. In first tier cities such as Shanghai, Beijing and Shenzhen, high net worth individuals with real demand have become the pillar for high-end Cantonese food, supporting the market to a certain extent. Regarding consumption related to government reception, it would be hard to see improvement in a year or two, which is anticipated to affect some Cantonese restaurants in Shenzhen, especially those focusing on high-end dishes such as seafood, abalone or shark fins. Nowadays, many restaurants offer a wide range of dishes and services to customers, in a hope to attract those with a demand for special events, which include all types of weddings, anniversary and birthday meals, and to satisfy customers' need.

(b) Increasing number of restaurants with a more effective business model

In the future, the number of restaurants practising an effective business model is expected to grow. These kinds of restaurants generally involve lower starting cost, less space and manpower for cooking, as well as lower expenses on salary and renovation. Their business model allows them to build a production chain and capture the economies of scale easily. The expansion of hotpot restaurants in Shenzhen can be considered as an example, where its success is closely related to the high profit margin, standardisation and convenience to replicate.

(c) Younger generation starts to contribute more to the catering industry

As the post 80s and 90s generation have gradually become the main contributor in the catering industry, there was a rapid expansion of casual dining restaurants in recent years due to the increasing demand from the young generation. A similar trend can also be observed in Hong Kong and a significant number of restaurants are being operated by chained Cantonese restaurant groups such as Maxim Group and Lei Garden Group. The rise of new technologies such as mobile payment has also brought new developmental opportunities to Cantonese restaurants. If Cantonese restaurants can utilise these technologies and incorporate their own specialties to carry out new brand positioning and differentiation, a lot of potential in the market can be realised.