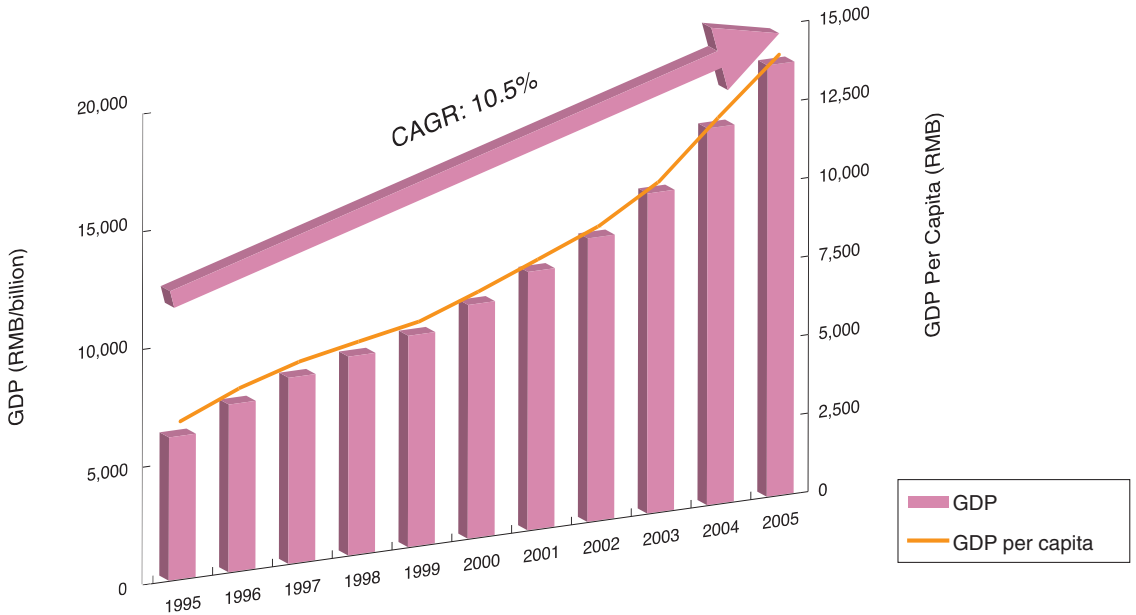


INDUSTRY OVERVIEW

This section contains information and statistics relating to the Hong Kong and PRC economies and the industry in which we operate. We have derived such information and data partly from various official governmental publications. The Sponsor and our Directors have taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. Neither we, the Underwriters nor any of their respective affiliates or advisers have independently verified the information directly or indirectly derived from official government sources, and such information may not be consistent with other information compiled within or outside China.

THE PRC ECONOMY

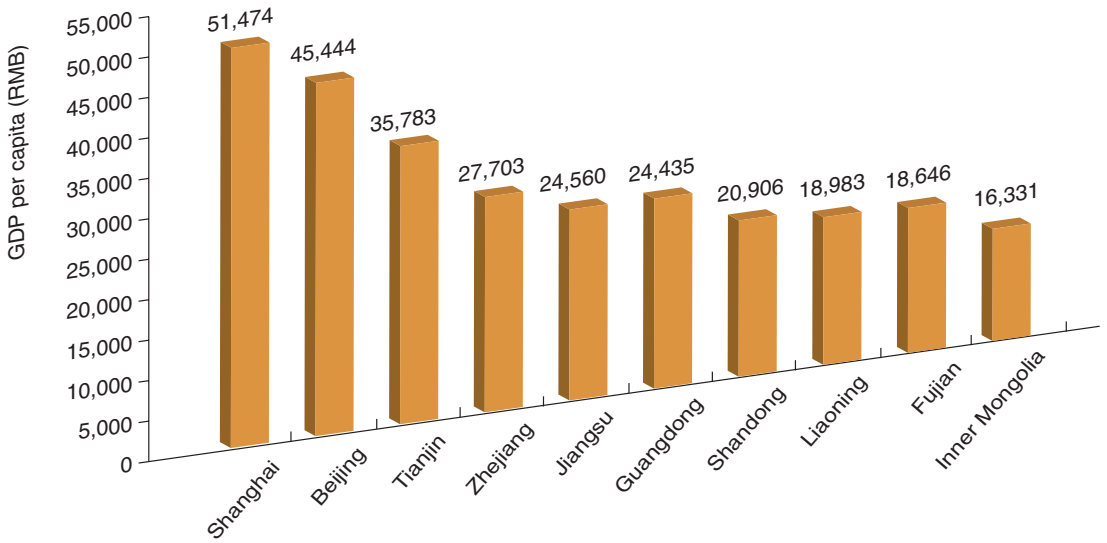
Since the PRC adopted the “Open Door Policy” in 1978, its economy has been experiencing steady growth. According to statistics provided by the NBS, the PRC’s population has grown to approximately 1.3 billion in 2005. The PRC’s gross domestic product, or GDP, grew at a CAGR of approximately 10.5% per annum from 1995 to 2005 with GDP per capita increasing from RMB5,046 to RMB14,040 during the same period. The PRC’s GDP per capita exceeded US\$1,000 for the first time in 2001. The following chart illustrates the growth trend of the PRC’s GDP and GDP per capita from the years 1995 to 2005:



Source: China Statistical Yearbook 2006

INDUSTRY OVERVIEW

Among all the cities in the PRC, Beijing and Shanghai, being the two major financial and economic centres, make the most significant contributions to the PRC's GDP per capita. They have the highest GDP per capita amongst all municipalities and provinces in the PRC, and are currently the country's leading consumer markets. In addition, it is expected that the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai will further enhance and strengthen the two cities' economic growth and consumption as well as those of their surrounding regions. The chart below shows the GDP per capita of the top 10 municipalities and provinces in the PRC in the year 2005:

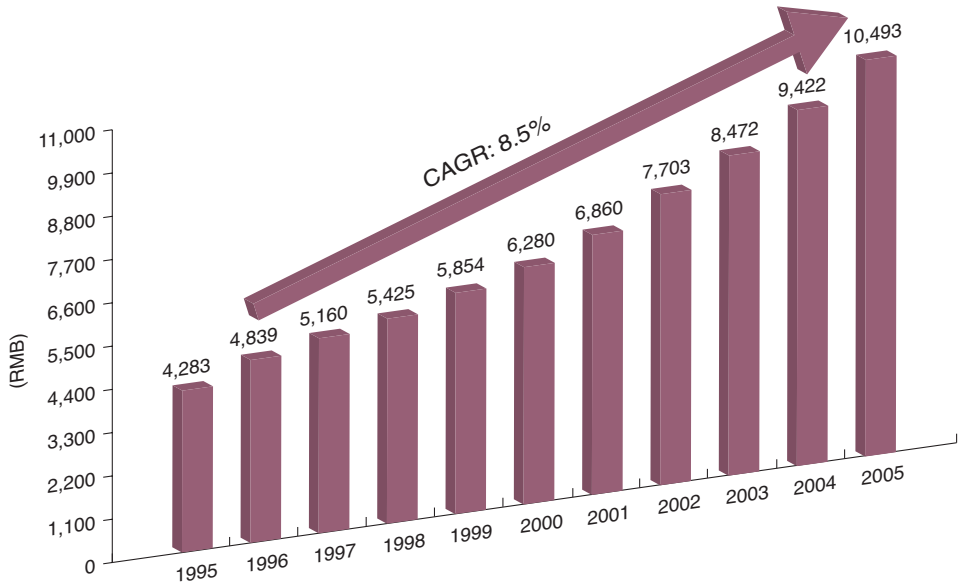


Source: China Statistical Yearbook 2006

INDUSTRY OVERVIEW

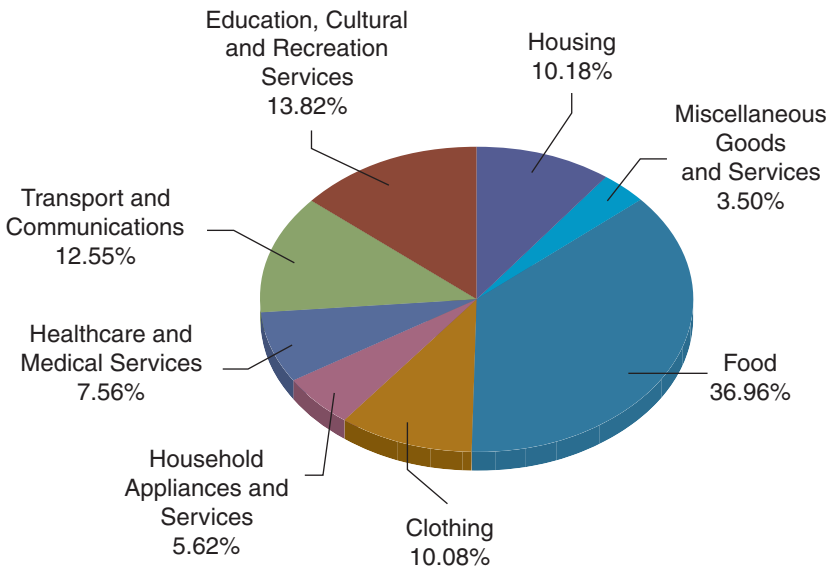
Increase in Consumer Spending Power

The PRC's economic development has given rise to better living standards and improved affluence of its population. This is evidenced by the gradual increase in the average income level of the population in the PRC, in particular, among urban households. According to the NBS, the per capita annual disposable income of urban households in the PRC has enjoyed a CAGR of 8.5% from 1995 to 2005, increasing from approximately RMB4,283 in 1995 to RMB10,493 in 2005. The chart below illustrates the per capita annual disposable income of urban households in China from 1995 to 2005:



Source: China Statistical Yearbook 2006

In 2005, most urban households spent their disposable household income on the following:



Source: China Statistical Yearbook 2006

THE FCR MARKET

We brand ourselves as an operator of fast casual restaurants. Fast casual restaurants or FCRs are a hybrid between fast food restaurants and traditional sit-down restaurants. Fast food restaurants serve ready-to-eat food made from standardised food ingredients. They offer minimal services and customers have to pay for their food prior to consuming it. At the other end of the spectrum, the full-serviced restaurants serve made-to-order food with a diversity of food ingredients and cooking styles. Full table services are provided by waiters, and customers pay after consumption of food and services. As a hybrid of these two restaurant formats, we serve a standard menu of made-to-order food and offer standard table services, which customers pay for after the consumption of foods and services.

The PRC⁽¹⁾

With the largest population in the world, the PRC has a large consumer base which provides ample growth opportunities for the F&B industry. As the PRC's economy continues to grow, life has become increasingly fast-paced, especially in the developed cities such as Beijing and Shanghai. As the pace of life continues to accelerate in the urban areas, consumers will have an increasing need for convenience and spend less time cooking. Hence, we believe that more white-collar workers will prefer to dine out and the demands on the F&B industry would continue to grow. The market size of the PRC F&B industry has been increasing progressively. The F&B industry has achieved tremendous growth over the years, with the consumer expenditure reaching approximately RMB1,607,276 million in 2004.

According to a report published by Euromonitor on the food services industry in the PRC, for the year 2004, approximately 90% of white-collar workers in Beijing between the ages of 18 and 35 dined out frequently, especially during the lunch breaks of their working week, and in the evenings during holidays.

According to the same report, the frequency of dining out is the highest during week days, with more than 54% of the total workforce eating out in the evenings over four times per week, and 31% eating out in the evenings two to three times per week. 84% of people prefer eating in Chinese restaurants and almost 55% prefer eating western fast foods, such as Kentucky Fried Chicken ("KFC") and McDonald's.

Note:

- (1) Figures and statistics provided under this paragraph have been extracted from the "Consumer Foodservice in China" reports for the years 2005 (dated November 2005) and 2006 (dated October 2006) compiled by Euromonitor and have been published with the consent of Euromonitor. The "Consumer Foodservice in China" report is an independent report compiled by Euromonitor which is not commissioned by any of our Directors or the Global Coordinator.

INDUSTRY OVERVIEW

Statistics collated by Euromonitor show that Asian fast food⁽¹⁾ is preferred over western fast food in the PRC. Western food, although well received by consumers in the PRC, is still considered more of a novelty and is considered unsuitable for daily consumption. Particularly, in South China where steamed food is widely consumed, consumers who dine out every day prefer to eat rice, noodles or dumplings, which are staples in the Chinese diet. This Chinese culture has led to the rising popularity of Asian FCRs in many regions of China.

The table below show the composition of the fast food outlets in the PRC F&B industry, the number of transactions and the sales made by the different types of fast food outlets from the years 2000 to 2005 and the estimated growth until 2010:

Number of Outlets	2000 (actual)	2001 (actual)	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (estimated)	2007 (estimated)	2008 (estimated)	2009 (estimated)	2010 (estimated)
Asian fast food	606,659	663,317	721,256	778,432	841,690	900,820	959,540	1,017,249	1,073,328	1,127,097	1,177,904
Bakery products											
fast food	3,283	3,803	4,405	4,877	5,480	6,003	6,456	6,849	7,294	7,662	7,934
Convenience stores											
fast food	1,750	2,800	4,563	8,459	10,400	12,480	14,726	17,082	19,473	21,810	23,991
Chicken fast food	1,254	1,457	1,898	2,207	2,646	3,074	3,501	3,934	4,357	4,717	5,060
Burger fast food	423	494	606	717	780	862	926	999	1,088	1,169	1,227
Ice cream fast food	55	76	95	116	150	186	226	259	289	318	347
Total	613,424	671,947	732,823	794,808	861,146	923,425	985,375	1,046,372	1,105,829	1,162,773	1,216,463
Transactions (Million)											
Asian fast food	8,295.9	9,556.6	11,001.2	12,719.3	14,510.9	15,975.1	17,265.8	18,485.8	19,885.0	20,984.0	22,252.5
Chicken fast food	253.9	335.8	446.1	565.2	700.9	835.3	971.5	1,111.7	1,282.2	1,388.4	1,535.4
Burger fast food	106.5	133.1	157.4	184.2	206.3	227.0	245.1	267.2	293.9	313.0	336.5
Convenience stores											
fast food	59.4	101.1	172.7	292.3	380.0	475.0	574.7	672.4	790.1	877.0	982.2
Bakery products											
fast food	60.2	68.4	77.7	86.5	98.0	107.9	117.8	127.4	136.9	145.0	154.6
Ice cream fast food	5.5	6.1	6.7	8.2	10.7	13.1	15.7	17.9	20.5	22.2	24.3
Total	8,781.4	10,201.1	11,861.8	13,855.7	15,906.8	17,633.4	19,190.6	20,682.40	22,408.6	23,729.6	25,285.5
Sales Value (RMB million)											
Asian fast food	38,758.9	45,170.0	52,753.8	60,756.4	68,857.6	77,253.9	82,817.7	87,926.6	93,853.4	98,162.9	103,676.6
Chicken fast food	6,369.4	8,622.7	11,514.5	14,811.0	18,620.1	22,124.5	25,412.1	28,434.4	32,096.3	34,486.5	37,904.3
Burger fast food	2,894.2	3,357.3	5,291.0	6,075.3	7,316.0	8,413.4	9,254.7	10,133.9	11,147.3	11,927.6	12,881.9
Bakery products											
fast food	241.0	278.1	330.2	378.0	433.7	480.8	520.1	557.6	597.0	630.7	669.5
Ice cream fast food	184.6	240.0	331.2	440.0	615.0	774.9	937.6	1,073.6	1,245.4	1,363.7	1,500.0
Convenience stores											
fast food	65.6	105.0	189.3	370.7	511.6	665.0	831.3	1,014.2	1,201.8	1,370.1	1,534.5
Total	48,513.7	57,773.1	70,410.0	82,831.4	96,354.0	109,712.5	119,773.5	129,140.3	140,141.2	147,941.5	158,166.8

Source: Euromonitor

Note:

- (1) In the "Consumer Foodservice in China" and "Consumer Foodservice in Hong Kong" reports compiled by Euromonitor, "Asian fast food" has been defined as food outlets selling noodles, dumplings, sushi and similar food products.

INDUSTRY OVERVIEW

In order to remain competitive, F&B companies that are eager for a slice of the large PRC F&B market will have to make an effort to introduce new elements to attract customers. As the PRC continues to open its economy to foreign investment, more and more foreign investments are expected to flow into China, bringing with it foreign talent and cuisine. Since China's accession to the WTO, the entry barriers for setting up chain restaurants have been lifted, thereby giving the international market players a level playing field to invest and expand their operations in the PRC.

The continued efforts to promote tourism and food services will benefit both industries in the PRC. Along with the increased income levels, tourism will see dynamic growth in the coming years and hence will contribute to higher sales of the overall F&B industry.

Hong Kong⁽¹⁾

According to the "Consumer Foodservice in Hong Kong" survey conducted by Euromonitor, Hong Kong ranked 1st in the world in terms of frequency of FCR visits with some consumers visiting FCRs at least once a day whilst others visiting FCRs once a week. The FCR phenomenon is due to the fact that over 98% of the population in Hong Kong live in apartments which tend to be small. Hence cooking facilities are usually basic due to limited space. Due to their relatively lower prices, rapid and convenient service, FCR outlets are quite popular. The table below shows the composition of the fast food outlets in the F&B industry, the number of transactions made, and sales between the years 1999 and 2004 and the estimated growth until 2010:

Number of Outlets	2000 (actual)	2001 (actual)	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (estimated)	2007 (estimated)	2008 (estimated)	2009 (estimated)	2010 (estimated)
Convenience stores											
fast food	553	683	698	760	815	895	972	1,048	1,013	1,094	1,108
Ice cream fast food	363	340	326	311	304	309	337	365	393	421	449
Burger fast food	220	269	270	272	272	271	279	285	291	298	305
Asian fast food	106	106	107	102	104	106	110	115	120	125	130
Other fast food	119	118	120	121	123	129	135	141	147	153	159
Bakery products											
fast food	66	81	83	69	92	103	105	114	124	135	146
Chicken fast food	58	57	62	63	64	69	74	78	82	86	89
Total	1,485	1,654	1,666	1,698	1,774	1,882	2,012	2,146	2,170	2,312	2,386

Note:

- (1) Figures and statistics provided under this paragraph have been extracted from the "Consumer Foodservice in Hong Kong" reports for the years 2005 (dated January 2006) and 2006 (dated November 2006) compiled by Euromonitor and have been published with the consent of Euromonitor. The "Consumer Foodservice in Hong Kong" report is an independent report compiled by Euromonitor which is not commissioned by any of our Directors or the Global Coordinator.

INDUSTRY OVERVIEW

Number of Outlets	2000 (actual)	2001 (actual)	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (estimated)	2007 (estimated)	2008 (estimated)	2009 (estimated)	2010 (estimated)
Transactions (Million)											
Burger fast food	125.3	124.0	121.7	117.1	116.5	119.2	127.7	136.3	149.2	151.8	159.2
Asian fast food	19.7	20.6	21.3	18.0	21.3	22.8	24.0	25.3	26.6	28.0	29.4
Convenience stores											
fast food	18.0	19.2	21.4	19.2	22.5	24.3	25.9	27.7	29.7	31.7	33.9
Ice cream fast food	15.1	12.2	12.5	12.3	12.6	12.2	12.6	13.1	13.5	14.1	14.6
Chicken fast food	11.8	11.3	11.2	10.9	11.0	12.1	13.2	14.4	15.5	16.4	17.4
Other fast food	8.5	8.5	8.7	8.3	8.5	9.5	10.5	11.3	12.3	10.0	13.6
Bakery products											
fast food	4.7	5.6	5.7	4.7	6.0	6.7	7.5	8.4	9.6	10.9	12.5
Total	203.1	201.4	202.5	190.5	198.4	206.8	221.4	236.5	256.4	262.9	280.6
Sales Value (HK\$ Million)											
Burger fast food	4,155.7	4,182.8	4,106.9	3,927.3	3,879.0	4,181.4	4,516.6	4,853.7	5,189.4	5,523.4	5,852.5
Chicken fast food	902.7	896.6	887.0	861.1	852.4	954.5	1,072.6	1,185.9	1,306.3	1,432.7	1,540.7
Asian fast food	615.9	672.0	724.7	564.1	756.8	803.6	855.4	913.0	970.5	1,031.9	1,094.3
Other fast food	330.0	332.0	335.3	318.6	321.7	353.9	382.2	410.9	438.8	463.0	486.1
Ice cream fast food	287.6	289.1	293.0	287.2	290.0	273.4	294.1	314.5	335.4	356.8	379.0
Bakery products											
fast food	228.0	281.9	287.0	234.1	302.8	340.0	387.6	445.1	514.0	596.3	694.7
Convenience stores											
fast food	196.0	230.6	257.0	230.0	270.0	302.0	327.7	354.9	384.0	414.7	447.0
Total	6,715.9	6,885.0	6,890.9	6,422.4	6,672.7	7,208.8	7,836.2	8,478	9,138.4	9,818.8	10,494.3

Source: Euromonitor

In the past few years, Hong Kong has seen an increase in the number of tourists from the PRC. Since the introduction of the Mainland/ Hong Kong Closer Economic Partnership Agreement (“CEPA”), many PRC business tourists have been visiting Hong Kong. According to Euromonitor, there were 2.08 million PRC tourists who visited Hong Kong in December 2004 alone, which represents a 16% increase as compared to December 2003. Euromonitor estimates that the F&B industry is set to benefit from the increased tourism activity and spending, resulting in a CAGR of 2% in sales value and a CAGR of 3% in both the number of outlets and transactions between the years 2005 and 2009.

Information relating to Euromonitor

Euromonitor International is considered one of the best providers of quality international market intelligence on industries, countries and consumers. It has more than 30 years’ of experience in publishing market reports, business reference books and online information databases. Continuous development of its services and technologies ensures that it remains at the cutting edge of information solutions. Euromonitor tailors its research solutions to match individual requirements.

INDUSTRY OVERVIEW

Euromonitor International's industry information system, the Integrated Market Information System (IMIS), is the strategic information tool that the world's leading manufacturers, retailers, distributors and suppliers rely on to understand consumer markets and support business decisions:

- Strategic analysis of market performance globally and nationally including supply-side and demand drivers, product development, marketing and retailing trends
- Historic market size performance at country, regional and global levels
- Brand and company market shares by country, regionally and globally
- Profiles of leading companies and strategies for success
- Future market outlook and sales forecasts

A wide range of organizations doing business internationally rely on Euromonitor International's country and consumer analysis to understand country markets and the factors influencing consumer choices, as it provides over one million demographic, economic and marketing statistics, detailed income, expenditure and lifestyle statistics and analysis on over 205 countries.

Organizations that rely on the Euromonitor International's business intelligence to aid research and strategic planning include:

- World's leading consumer foodservice providers and retailers
- Raw material suppliers, ingredient manufacturers, distributors and packagers
- Investment banks and strategic consultancy firms
- Marketing consultancies and the advertising industry
- Public, national and government libraries
- Universities and business schools

OUR INDUSTRY RANKING

According to the "China's Top 100 F&B Enterprises" survey jointly conducted by the Department of Commercial Reform and Development of the MoC, the China Cuisine Association and the China National Commercial Information Centre, fast food companies accounted for approximately 27% of the F&B companies listed in the "China's Top 100 F&B Enterprises" list in 2004. In 2001, there were only 12 fast food companies which were ranked in the "China's Top 100 F&B Enterprises" ranking list. In the year 2003, this number increased to 18 companies. The year 2004 has also reflected a steady increase in the number of fast food companies, with 27 fast food companies listed. In terms of annual revenue, we were ranked the 30th overall for the year 2004 under the "China's Top 100 F&B Enterprises" list, and were ranked 7th amongst the fast food companies in the PRC.

INDUSTRY OVERVIEW

We were ranked 7th in terms of revenue among the fast food restaurants companies in the PRC for the year 2004. We improved our ranking to the 5th position for the year 2005. Although we have been classified as a fast food company under the “China’s Top 100 F&B Enterprises” survey, we consider ourselves as a FCR which offers fast, convenient food with table service in casual restaurant settings. We were ranked as follows under the “China’s Top 100 F&B Enterprises” survey:

Year: 2005

**Among the fast food
restaurants**

Company

1	中國百勝餐飲集團 (Yum! Group)*
2	麥當勞(中國)有限公司 (McDonald’s (China) Co., Ltd.)*
3	德克士食品開發有限公司 (Dicos Food Development Co., Ltd.)*
4	北京吉野家快餐有限公司 (Beijing Yoshinoya Co., Ltd)*
5	上海領先餐飲管理有限公司 (Shanghai Lead Food Restaurant Management Co., Ltd.)*
6	真功夫餐飲連鎖機構 (Kongfu Catering Management Co., Ltd.)
7	馬蘭拉麵快餐連鎖有限責任公司 (Malan Noodle Fast Food Chain Co., Ltd)
8	大娘水餃餐飲有限公司 (Grand Mother Dumpling Food Co., Ltd.)
9	麗華快餐有限公司 (Lihua Fast Food Co., Ltd.)
10	深圳麵點王飲食連鎖有限公司 (Shenzhen Mian Dian Wang Foodservice Co., Ltd.)

* these enterprises are foreign-invested enterprise

INDUSTRY OVERVIEW

Year: 2004

Among the fast food restaurants

Company

1	Yum! Group* (中國百勝餐飲集團)
2	Beijing Xiao Tu Dou Co., Ltd. (北京小土豆企業(集團)有限公司)
3	Dicos Food Development Co., Ltd.* (德克士食品開發有限公司)
4	Xi'an Food Service(Group) Co., Ltd. (西安市飲食服務(集團)股份有限公司)
5	Malan Noodle Fast Food Chain Co., Ltd (馬蘭拉麵快餐連鎖有限責任公司)
6	Hebei Qianxihe Foods Co., Ltd. (by Shares) (河北千喜鶴飲食股份有限公司)
7	Shanghai Lead Food Restaurant Management Co., Ltd.* (上海領先餐飲管理有限公司)
8	Shanghai Hong Qi Food Co., Ltd. (上海弘奇食品有限公司)
9	Shanghai U.B.C. Food Chain Management Co., Ltd.* (上海上島餐飲連鎖經營管理有限公司)
10	Suzhou DIO Food Management Co., Ltd.* (蘇州迪歐餐飲管理有限公司)

* these enterprises are foreign-invested enterprise

Market Development Trends

As the PRC economy continues to grow and household income increases, dining out has become a trend. With the increase in time pressure as the population continues to live a faster pace of life, the demand for fast food will invariably increase. We anticipate that our industry will shift from one which solely competes on price to one which would be influenced by brand recognition and uniqueness in taste. The industry is also placing more emphasis on nutritious and healthy food, good services and appealing environment.

Seasonality

Our chain restaurant business is subject to seasonal differences. The sales drivers for our Group are school vacations or other western occasions such as Christmas and Valentine's Day. We do not experience any seasonality for our packaged noodle business.

Competition

The F&B industry in the PRC is highly competitive. As the population in the PRC becomes more cosmopolitan and the demand for variety increases, competition faced by us in the FCR market is expected to come from many directions. We believe that consumers nowadays tend to value branding, service quality, food hygiene, uniqueness and variety of products. Besides competing on pricing, we anticipate that the focus of competition will expand to branding and service quality.

We face competition from the international fast food chains such as McDonald's, Pizza Hut and KFC. Some of our competitors have financial and marketing resources and capabilities which surpass us, thereby enabling them to expand more rapidly in the PRC. Many of them, such as KFC and McDonald's have established themselves in the PRC market from as early as the mid-1980s and early 1990s. These early entrants have gained wide popularity among the PRC population. We believe that achieving economies of scale and expanding our business operations are significant factors in maintaining our competitiveness in the F&B industry.

REGULATORY FRAMEWORK

The PRC

Our business belongs to the F&B industry. The principal PRC laws and regulations governing the F&B industry include, but are not limited to:

- Company Law of the PRC (中華人民共和國公司法) (the "PRC Company Law")
- The Food Hygiene Law of the PRC (中華人民共和國食品衛生法) (the "Food Hygiene Law")
- The Environmental Protection Law (中華人民共和國環境保護法) (the "Environmental Protection Law")
- The Fire Control Law (中華人民共和國消防法) (the "Fire Control Law")

PRC Company Law

The PRC Company Law, promulgated on 29th December 1993 and revised by the National People's Congress Standing Committee on 27th October 2005, seeks to reform various aspects of the 1993 PRC Company Law and to simplify the establishment and operation of foreign invested enterprise ("FIEs") incorporated in the PRC by lowering

INDUSTRY OVERVIEW

capitalisation requirements, increasing shareholder and creditor protection, improving corporate governance, relaxing rules regarding the establishment of Subsidiaries and generally improving the transparency of Chinese companies as follows:

- **Lower Minimum Capital Requirements:** the minimum registered capital requirement for the establishment of a limited liability company has been reduced to RMB30,000 while the minimum registered capital for a company limited by shares, has been reduced to RMB5 million.
- **Non-cash Asset Contribution for Registered Capital:** the new PRC Company Law broadens the range of methods by which investors may contribute to the registered capital of companies by permitting the contribution of “non-cash assets which can be monetarily valued and legally transferred” to up to 70% of the new company’s total registered capital.
- **Introduction of a single-shareholder Company:** under the new PRC Company Law, a domestic limited liability company can be established by a single shareholder.
- **Inter-company Investments:** the new PRC Company Law removes the former restrictions that the aggregate amount of a company’s investments in other companies cannot exceed 50% of the company’s net asset value and allows the setting of a limit on such investment(s) to be at the discretion of the shareholders.

In the PRC, FIEs are also subject to different rules and regulations. Article 218 of the new PRC Company Law states that, where other PRC laws and regulations governing foreign investment differ from the provisions of the new PRC Company Law, the former shall prevail.

Foreign investors usually establish a presence in the PRC via one of the following legal forms:

1. Equity Joint Venture;
2. Co-operative Joint Venture;
3. Wholly Foreign-owned Enterprises (“WFOE”);
4. Foreign-invested Joint Stock Limited Company; or
5. Representative Office.

A joint venture or WFOE would take the form of a limited liability company that does not issue shares but has “registered capital” and “total investment” (paid-up capital plus permitted borrowing) figures which must first be approved by the PRC Government. FIEs which have foreign shareholdings of more than 25% generally enjoy various policy incentives, including tax benefits.

INDUSTRY OVERVIEW

The areas of business in which a FIE can be engaged in are categorised in the Catalogue Guiding Foreign Investment in Industry as “encouraged,” “permitted”, “restricted”, or “prohibited,” depending on the PRC Government’s plans to encourage or discourage foreign investment in particular sectors of industry.

Food Hygiene Law

The Food Hygiene Law, which was promulgated in 1995, is the principal law regulating the production, operation and supervision of food. The Food Hygiene Law sets out the requirements and hygiene standards for food production, food packaging, the prescribed contents of food packaging labels, as well as the hygiene requirements of food production premises, facilities and equipment, and the transportation and trading of food.

The Ministry of Health is the PRC government body in charge of the regulation and supervision of food hygiene in the PRC. The Food Hygiene Law provides that enterprises intending to engage in food production must first obtain hygiene permits issued by local administrative departments of the Ministry of Health prior to being allowed to make applications to the local administrative departments of the State Administration of Industry and Commerce for the issuance of business licences. Without a food hygiene permit, an enterprise cannot engage in the food production business.

The Food Hygiene Law provides that certain hygiene requirements must be adhered to during the food production process. These requirements include, but are not limited to the following:

- The environment within and outside of the food production site must be clean and tidy and prescribed distances must be kept from any toxic or dangerous sites;
- The production facilities and process must be designed to prevent cross-contamination between the processed food products and raw food ingredients;
- Facilities and installations for packaging, transportation and storage of food must be kept safe and clean; and
- Operators of food production facilities must maintain a constant standard of personal hygiene, wash their hands thoroughly and wear clean work clothes and headgear when preparing or selling food.

The Food Hygiene Law provides that food packaging labels or product description must be clearly printed, easily identifiable and contain the following information (subject to the requirements of different products) which must not be misleading:

- Name of product;
- Place of manufacture;
- Name of manufacturer;

INDUSTRY OVERVIEW

- Date of manufacture;
- Approval number or code number;
- Product specifications;
- Formula or major ingredients;
- Date of expiration of quality warranty; and
- Method of consumption or use.

Enterprises in violation of the provisions of the Food Hygiene Law could, depending on the severity of the violation, be warned, ordered to rectify, have illegal gains confiscated, fined, ordered to stop production, required to make an immediate announcement recalling food sold, or have their hygiene permits forfeited. In cases where serious harm on health has been inflicted, the offending enterprises and its officers may be held criminally liable.

Environmental Protection Law

Promulgated in 1989, the Environmental Protection Law stipulates the legal framework for environmental protection in the PRC. The purposes of the Environmental Protection Law are to protect and enhance living environment, prevent and cure contamination and other public hazards, and safeguard human health. The State Environment Protection Authority (“SEPA”) implements uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at county level and above are responsible for the environmental protection in their respective jurisdictions.

Enterprises producing environmental contamination and other public hazards must incorporate environmental protection work into their planning and establish environmental protection systems. Those enterprises should also adopt effective measures to prevent contamination and hazards to the environment (eg waste, gas, water, deposits, dusts, pungent gases, radioactive wastes and magnetic radiation).

SEPA may impose penalties against persons or enterprises in violation of the Environmental Protection Law, depending on the individual circumstances and extent of contamination. Such penalties include warnings, fines, impositions of deadlines for cure, stop-orders, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, and/or orders to close down the offending enterprises. Where the violation committed is serious, enterprises in violation may be required to pay damages to victims. Persons directly responsible may also be subject to criminal liability.

Fire Control Law

The Fire Control Law of the PRC was promulgated on 29th April 1998 for the purpose of preventing and reducing fire damage, safeguarding citizen's personal security, public property and civil assets, and ensuring public security. The Public Security Department of the State Council monitors and administers the fire control work nationwide. Local fire control bureaus at county level and above are responsible for monitoring and administering fire control in their respective jurisdictions.

Before the commencement of any construction project, the design and drawings of the project must first be filed with the relevant fire control bureau for approval to ensure that the design of the construction project conforms with the requirements under the Fire Control Law. Approval from the Fire Control Bureau must first be obtained before the PRC Construction Administration Department will issue a construction licence to the construction project.

Upon the completion of a construction project, fire prevention mechanisms of the construction project will be evaluated by the Fire Control Bureau. Construction projects which have not been evaluated by the Fire Control Bureau will not be allowed to operate.

For construction projects which do not conform to the requirements under the Fire Control Law, the Fire Control Bureau may order corrections to be made within a time limit. Those failing to abide by such correction orders may be ordered to suspend construction and/or fined.

Hong Kong

In accordance with the applicable laws and regulations in Hong Kong, FCR chain restaurant operators and food manufacturing and processing factory operators are required to obtain certain licences from a number of governmental authorities before they can commence business. The relevant laws and regulations are set out below:

- Public Health and Municipal Services Ordinance and Food Business Regulations (Chapter 132 of the Laws of Hong Kong)
- Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong)
- Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)

Public Health and Municipal Services Ordinance and Food Business Regulations

1. General Restaurant Licence

Under the Public Health and Municipal Services Ordinance, a restaurant operator is required to obtain a restaurant licence from the FEHD before operation of business.

INDUSTRY OVERVIEW

The FEHD will only issue a restaurant licence when the following pre-requisites are fulfilled:

- (a) the premises have met the stringent health requirements under the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong);
- (b) the premises have adequate ventilation;
- (c) the premises have met the Buildings Department's structural requirements;
- (d) the premises do not have unauthorised building works affecting public safety;
- (e) the premises have adequate means of escape in the case of emergency; and
- (f) the premises have met the Fire Services Department's requirements on fire safety.

In assessing the suitability of premises for use as a restaurant, the FEHD would also consult the Buildings Department and the Fire Services Department. The FEHD will process an application only when the premises are deemed safe and suitable by these two departments.

2. Provisional General Restaurant Licences

Under regulation 33C of the Food Business Regulation, the FEHD may issue provisional general restaurant licences to premises which have met all essential health, ventilation, building and fire safety requirements. This allows applicants to operate their restaurants on a provisional basis pending the issue of full licences.

The FEHD will issue a provisional general restaurant licence if:

- the application has been accepted by the Application Vetting Panel;
- the applicant has been issued with a list of essential health and ventilation requirements as well as building and fire safety requirements for the issue of a provisional licence; and
- the FEHD is satisfied, upon receipt of the report of compliance with the provisional licensing requirements from the applicant enclosing certifications by professionals in prescribed forms that all essential requirements have been met.

3. Food Factory Licence

Under the Public Health and Municipal Services Ordinance, any person who intends to utilise particular premises for the preparation and/or manufacture of food for human consumption must obtain a food factory licence from the FEHD before commencement of such business. This is to ensure the maintenance of a good standard of hygiene at the premises concerned and the wholesomeness of the food supplied.

INDUSTRY OVERVIEW

Just as in the case of general restaurant licences applications, the application of food factory licence will be considered by the FEHD, the Fire Services Department and the Buildings Department respectively.

Dutiable Commodities Ordinance

It is an offence under Section 17(3B) of the Dutiable Commodities Ordinance (Chapter 109 of the Laws of Hong Kong) to sell liquor without a licence. Any person who intends to sell liquor at any premises for consumption on those premises must obtain a liquor licence issued by the Liquor Licensing Board before commencement of such business.

The Liquor Licensing Board shall not grant a liquor licence unless it is satisfied that:

- (i) the applicant is a fit and proper person to hold the licence;
- (ii) the premises to which the application relates are suitable for selling or supplying intoxicating liquor; and
- (iii) in all the circumstances the grant of the licence is not contrary to the public interest.

A person convicted of the offence is liable to a fine of HK\$1,000,000 and imprisonment for two years.

Water Pollution Control Ordinance

Under the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong), it is an offence to discharge pollution matter in a water control zone.

The maximum penalty is:

- (A) For discharges of any waste or polluting matter:

6 months imprisonment and

- for a first offence, a fine of HK\$200,000
- for a second or subsequent offence, a fine of HK\$400,000

in addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day.

INDUSTRY OVERVIEW

(B) For discharges of poisonous or noxious matter:

- for a first offence, a fine of HK\$400,000 and imprisonment for one year
- for a second or subsequent offence, a fine of HK\$1 million and imprisonment for two years
- in addition, if the offence is a continuing offence, a fine of HK\$40,000 for each day

All trade effluent discharged into a water control zone should be covered by a licence which will specify the maximum amount of pollutants allowed to be discharged from the licensed site.

The EPD has the power to refuse to grant a licence if the discharge will or is likely to endanger public health, will be harmful to the sewerage or drainage system or will be harmful to the health or safety of the operation or maintenance staff.

Upon granting the licence, the EPD requires the licensee to undertake regular monitoring of the discharge and submit analysis reports to the EPD.

Compliance

In compliance with the relevant laws and regulations, the restaurants and food processing centre of the Group have been granted valid general restaurant licences, provisional general restaurant licences and/or food factory licences (as the case may be) issued by The Directors of the FEHD.

The general restaurant licences and the food factory licences are granted for one year which are renewable annually, whereas provisional general restaurant licences are granted for a period of six months.

To comply with the Water Pollution Control Ordinance, all chain restaurants operated and managed by us have either obtained or applied for water pollution control licences from the EPD, which are valid for five years.

To comply with the Dutiable Commodities Ordinance, all chain restaurants operated and managed by us and in which liquor is sold and consumed have obtained liquor licences from the Liquor Licensing Board.