
INDUSTRY OVERVIEW

Certain information and statistics relating to our industry provided in this section have been derived from official government sources. In addition, this section and elsewhere in the document contains information extracted from a commissioned report, the Frost & Sullivan Report, prepared by Frost & Sullivan, for the purposes of this document. See “– About This Section”. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, other than Frost & Sullivan with respect to the information contained in the Frost & Sullivan Report.

A. HONG KONG

Characteristics of the economy relevant to the Cha Chaan Teng Industry

GDP

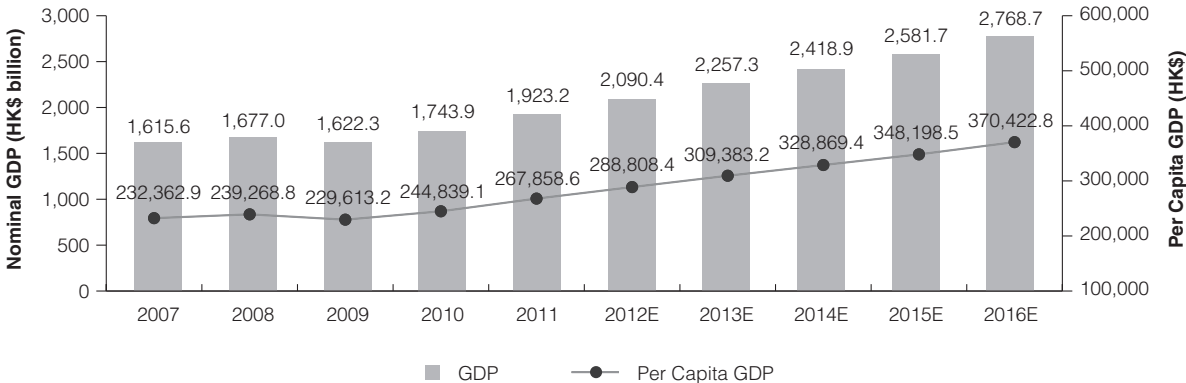
Apart from the economic downturn resulting from the global financial crisis in 2009, the economy in Hong Kong has maintained steady growth since 2007. In 2010 and 2011, Hong Kong’s economy grew at a rate of 7.0% and 6.0% per annum, respectively. This was due to rapid growth in many Asian economies and moderate recoveries in Europe and the United States that allowed Hong Kong’s external trade to remain competitive. Growth was also supported by an expanding domestic market due to increasing intra-regional production activities and growing number of tourists from China.

According to the Frost & Sullivan Report, nominal GDP in Hong Kong grew from approximately HK\$1,622.3 billion in 2009 to approximately HK\$1,923.2 billion in 2011. According to the Frost & Sullivan Report, nominal GDP in Hong Kong is expected to reach HK\$2,768.7 billion in 2016, representing a CAGR of 7.3% from 2012 to 2016.

The per capita GDP increased from approximately HK\$229,613.2 in 2009 to approximately HK\$267,858.6 in 2011. The strong rebound of the Hong Kong economy in 2011 led to an increase in per capita GDP by 9.4% in 2011. According to the Frost & Sullivan Report, the per capita GDP in Hong Kong is expected to amount to HK\$370,442.8 in 2016, representing a CAGR of 6.4% from 2012 to 2016.

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The following table and chart illustrate the growth trend of GDP and GDP per capita in Hong Kong for the years 2007 to 2011 and projected growth from 2012 to 2016:

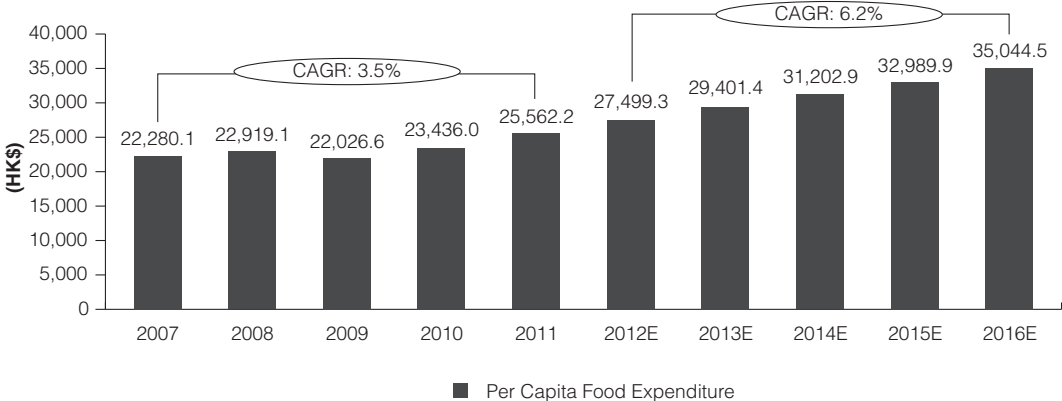


Source: Census and Statistics Department of the Government of Hong Kong, IMF and Frost & Sullivan Report

Disposable Income and Food Expenditure

According to the household expenditure survey conducted by the Census and Statistics Department of the Government of Hong Kong for the purpose of assessing the 2009/10-based composite consumer price index released in April 2011, approximately 27.5% of the household expenditure of residents in Hong Kong was spent on food, which ranks second after housing expenses of approximately 31.7%. Among the expenditure spent on food, approximately 17.1% of the spending represents meals bought away from home.

Illustrated in the graph below, the annual per capita food expenditure in Hong Kong experienced a decline in 2009 by 3.9%, and then recovered by 6.4% in 2010, in line with Hong Kong GDP trend during this period. The consumption was HK\$25,562.2 in value in 2011, with an annual growth rate of 9.1%. According to the Frost & Sullivan Report, per capita food expenditure in Hong Kong is expected to reach HK\$35,044.5 in 2016, representing a CAGR of 6.2% from 2012 to 2016.



Source: Census and Statistics Department of the Government of Hong Kong and Frost & Sullivan Report

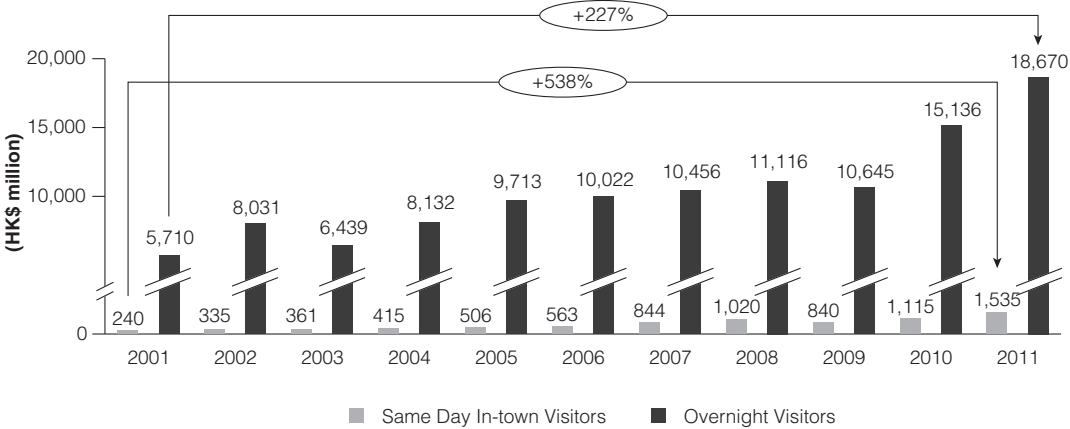
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Increased Tourism as a Driver of Growth

Financial services, trading and logistics, tourism, and producer and professional services are the four key industries of the Hong Kong economy. They have been the driving forces of Hong Kong’s economic growth, providing the impetus for the growth of other sectors and creating employment. The restaurant industry is among one of the major segments in the tourism industry.

According to the Hong Kong Tourism Board, the total number of tourist arrivals in Hong Kong rose from approximately 15.5 million in 2003 to approximately 29.6 million in 2009, representing a CAGR of approximately 11.4%. The contribution from the expenditure associated with inbound tourism increased from approximately HK\$74.9 billion in 2003 to approximately HK\$162.9 billion in 2009.

According to the Frost & Sullivan Report, the total expenditure on dining by tourists in Hong Kong has grown steadily from 2001 to 2011, increasing from HK\$240 million to HK\$1,535 million for same day in-town visitors and from HK\$5.7 billion to HK\$18.7 billion for overnight visitors, respectively.



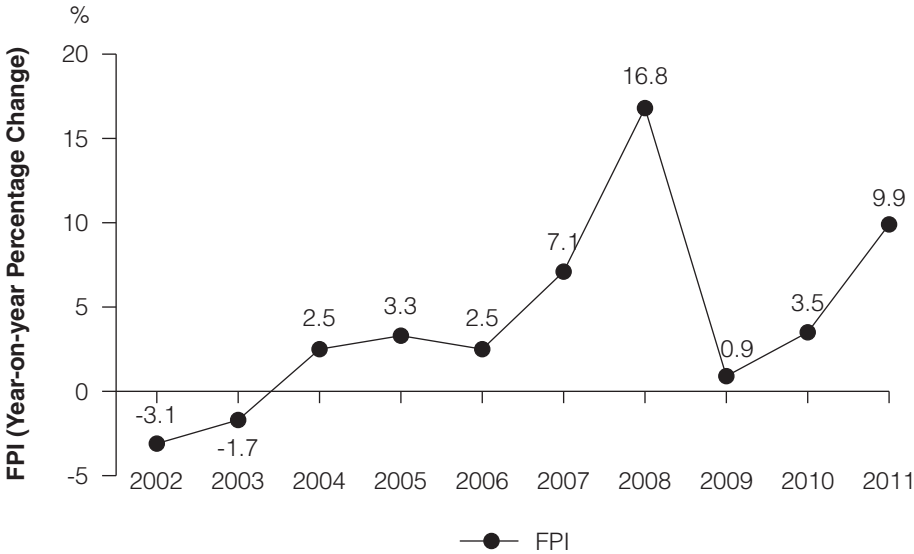
Note: Total expenditure on dining refers to total expenditure on meals outside hotels.

Source: Hong Kong Tourism Board and Frost & Sullivan Report

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Food Price Index

Food prices vary based on overall supply and demand as well as other factors including environmental conditions such as climate and natural disasters. The Food Price Index (FPI) showed a higher growth than that of Consumer Price Index (CPI) from 2007 to 2011. Especially in 2008, it reached 16.8% while CPI was only 4.3%. The following chart sets forth the year-on-year changes of the FPI in Hong Kong from 2002 to 2011:

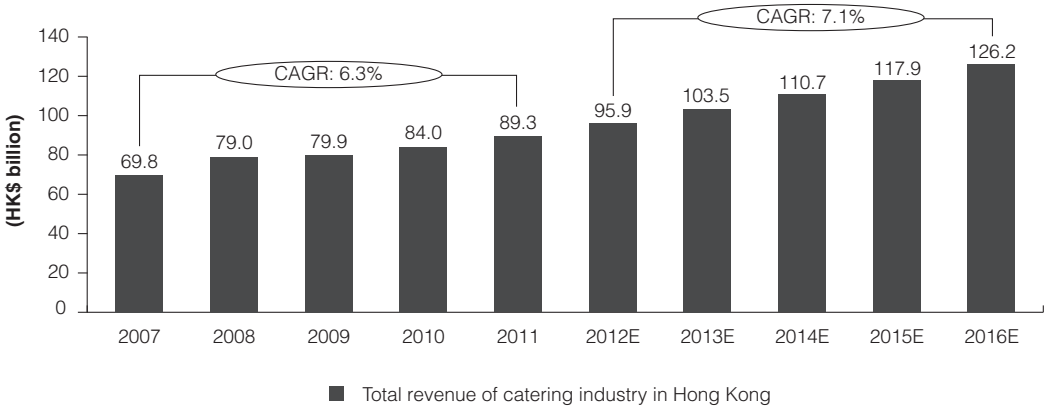


Source: Census and Statistics Department of the Government of Hong Kong, the International Monetary Fund (IMF) and Frost & Sullivan Report

Analysis of Hong Kong Catering Industry

Overview

From 2007 to 2011, the total revenue of the catering market in Hong Kong had increased from HK\$69.8 billion to HK\$89.3 billion. During the period from 2012 to 2016, the market size is expected to grow at a CAGR of 7.1%, to HK\$126.2 billion in 2016, according to the Frost & Sullivan Report.



Source: Census and Statistics Department of the Government of Hong Kong and Frost & Sullivan Report

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Market Segments

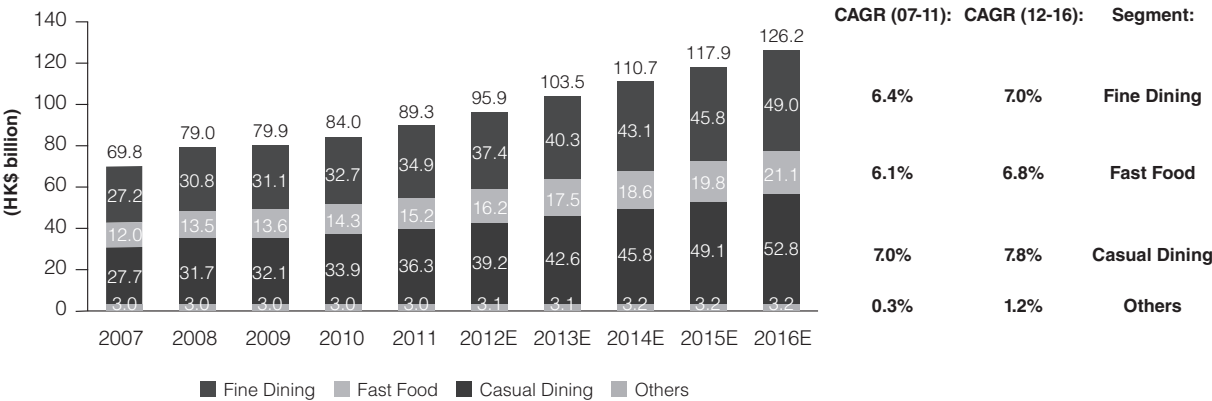
According to the Frost & Sullivan Report, the catering industry in Hong Kong and China can be further categorized based on operating models of restaurants and types of cuisine as follows:

Market Segment	Sub Market Segment	Definition
Fine Dining		Fine dining refers to the catering segment that is made up of traditional sit-down restaurants with full table service provided by waiters. Restaurants generally offer food at set lunch and dinner times rather than all day.
Casual Dining	Cha Chaan Teng	Casual dining refers to catering establishments that serve moderately priced food in a casual environment. They typically provide some table service. Opening times are longer and meal times are more flexible than those of fine dining. This segment comprises: <ul style="list-style-type: none"> • Cha Chaan Teng restaurants; • Western casual dining establishments; • Cafés, mainly serving coffee and snacks; • Tea houses, mainly serving tea and dim sum; and • Bars serving soft drinks, alcoholic drinks along with snacks.
	Western Casual Dining	
	Tea Houses	
	Cafés	
	Bars	
Fast Food		Fast food restaurants serve both Chinese and Western style food. Fast food is distinguished by fast and consistent food service. Fast food restaurants typically have order taking and cooking platforms designed specifically to order, prepare and serve menu items with speed and efficiency. The menus at most fast food restaurants serve standardised items. Typically, customers order at a counter and pick up food that is then taken to a seating area or consumed off the restaurant premises, with no table service.
Others		Other catering establishments include takeaway shops, hawker stalls, roadside vendors and those establishments not otherwise described in the organized segments above. This segment also includes event catering.

According to the Frost & Sullivan Report, there were 15,760 restaurants in Hong Kong’s catering market in 2011. Of these, 34.9% were in the fine dining segment, 34.8% were in the casual dining segment, 11.8% were in the fast food segment and 18.5% were in the others segment by number of restaurants.

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The following graph shows the market size of each of these segments for the years 2007 to 2011 and projected contribution from 2012 to 2016.



Source: Census and Statistics Department of the Government of Hong Kong and Frost & Sullivan Report

The market size of the casual dining segment is the greatest among the four catering categories despite accounting for a smaller market share when calculated by number of restaurants. This is due to the fact that casual dining has the largest target audience given the affordability and variety in cuisine offerings. Further, casual dining establishments have more flexible food service times, longer business hours and serve a larger number of customers per establishment.

Restaurant Operating Models

Chain restaurants represent a significant proportion of restaurant establishments in Hong Kong. In 2011, the proportion of revenue of Hong Kong’s catering market contributed by chain restaurants reached HK\$16.5 billion with a market share of 18.5%. Non-chain restaurants in Hong Kong catering market generated sales revenue of HK\$72.8 billion in 2011, which comprised 81.5% share of total revenue.

The number of, and revenue from, chain restaurants is anticipated to rise due to, among other things, the higher scalability and operational efficiency of restaurant chains compared with independent operations, and generally better access to financing by established restaurant chains compared with independent operations. According to the Frost & Sullivan Report, these factors will continue to contribute to the further growth of the chain restaurant segment.

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Analysis of the Casual Dining Segment

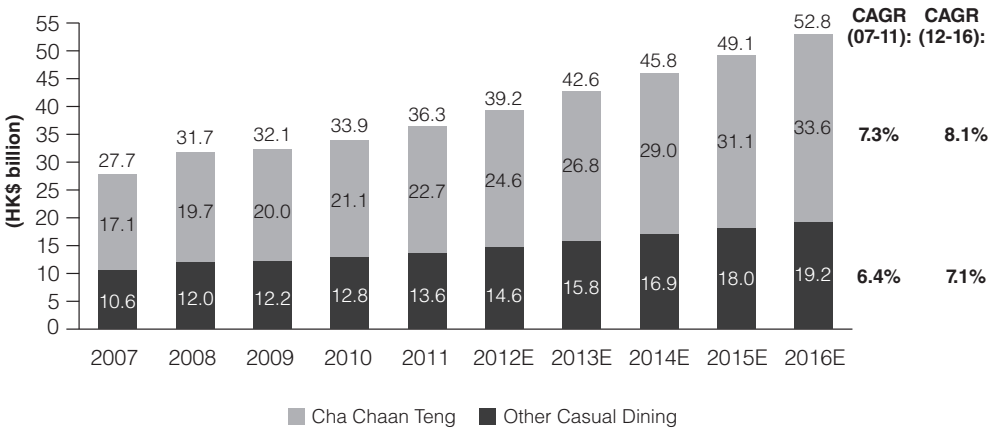
According to the Frost & Sullivan Report, casual dining establishments in Hong Kong and China can be classified into the following categories:

Categories of Casual Dining Establishments in Hong Kong and China	
Category	Definition
Cha Chaan Teng (茶餐廳)	<p>A style of casual restaurant or diner, with waiter service, that originated in Hong Kong. These restaurants serve affordable dishes which combines traditional Cantonese fare, such as milk tea, fish balls and pineapple buns, with Western and Asian elements, such as beef steak, Malaysian curry and Chiuchow-style noodles. A feature of Cha Chaan Teng restaurants are the set meals. There are various sets throughout the day for breakfast, lunch, afternoon tea and dinner. The lunch and dinner sets usually include a soup and a drink.</p> <p>The existence of Cha Chaan Teng restaurants is closely tied to the development of the history of Hong Kong. After World War II, western dining culture influenced the general public of Hong Kong significantly and western dishes were popular to the people in Hong Kong but they were not available at prices that the general public could afford. Bing Sut (冰室), the preceding establishments of Cha Chaan Teng, served semi-Western-style dishes at affordable prices to the general public of Hong Kong. Over the decades, Bing Sut evolved into Cha Chaan Teng and became a local and authentic dining culture of Hong Kong which combines traditional Cantonese fare, with Western and Asian elements. Many dishes were a fusion of both Chinese and Western style ingredients and cooking styles.</p> <p>Cha Chaan Teng restaurants are commonly found in Greater China, particularly Hong Kong, Macau and parts of Guangdong. Cha Chaan Teng restaurants in China serve traditional Cha Chaan Teng dishes and also incorporate local dishes specific to the region, such as those from Sichuan and Hunan cuisine, on their menus. Since the 1980s they can also be found in the Chinatown districts of many Western countries like Australia, Canada, United Kingdom and the United States.</p>
Western Casual Restaurants	An establishment serving moderately priced Western food in a casual atmosphere.
Tea Houses	Asian style restaurant serving dim sum and tea.

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Categories of Casual Dining Establishments in Hong Kong and China	
Category	Definition
Cafés	An establishment which focuses on serving coffee. Also refers to an informal restaurant offering a range of snacks and meal items typically known as a “coffee shop”.
Bars	An establishment focused on serving drinks, both alcoholic and non-alcoholic. Food items include simply cooked snacks.

Cha Chaan Teng restaurants account for the largest market share of the casual dining segment in Hong Kong in terms of revenue. Western casual restaurants form the second largest segment in terms of revenue in 2011. The following graph shows the contribution of different segments to the total market size of the casual dining market for the years 2007 to 2011 and projected contribution from 2012 to 2016.



Note: Other casual dining include western casual restaurants, tea house, cafés and bars.

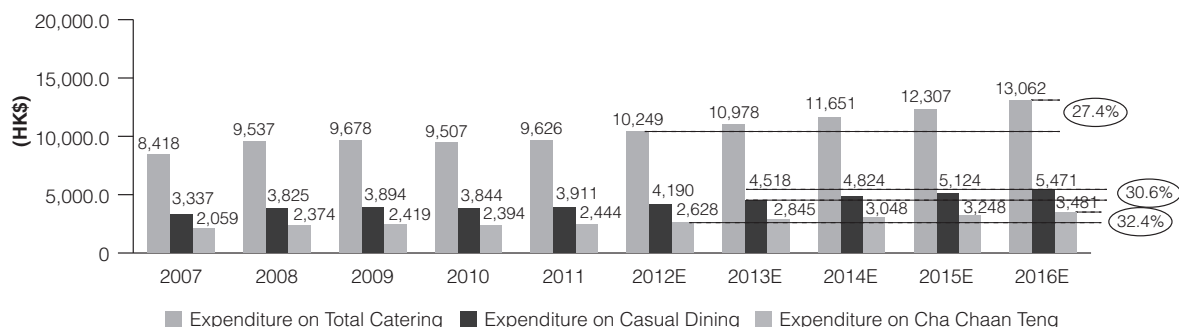
Source: Frost & Sullivan Report

Analysis of the Hong Kong Cha Chaan Teng Market

According to the Frost & Sullivan Report, Cha Chaan Teng restaurants are the most popular casual dining segment in Hong Kong and are expected to remain the preferred casual dining option.

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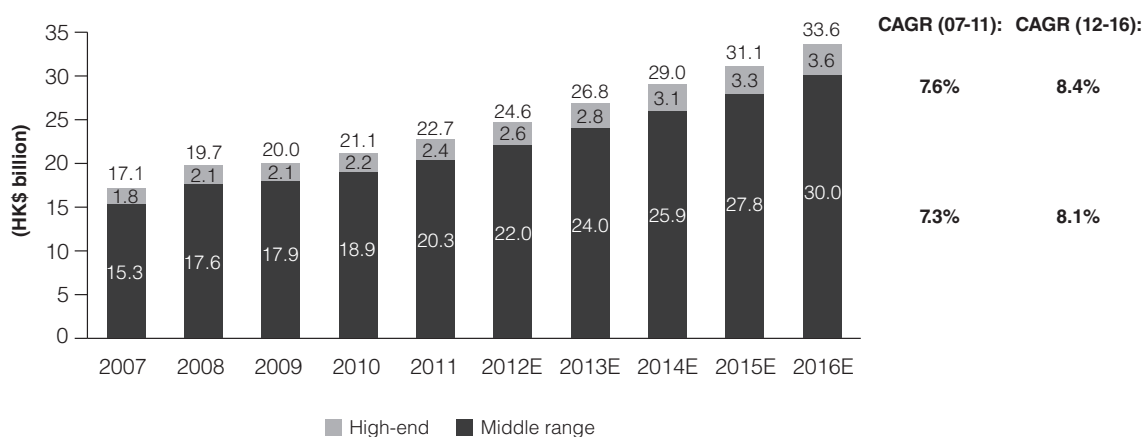
Annual per capita expenditure (for Hong Kong residents, excluding visitors) on total catering increased from HK\$8,418 in 2007 to HK\$9,626 in 2011, representing a growth rate over the period of 14.4%. The annual per capita expenditure on casual dining for such customers grew from HK\$3,337 in 2007 to HK\$3,911 in 2011, representing a higher growth rate over the period of 17.2%. The annual per capita expenditure on the Cha Chaan Teng, a subcategory of casual dining, grew from HK\$2,059 in 2007 to HK\$2,444 in 2011, representing a growth rate over the period of 18.7%. According to the Frost & Sullivan Report, per capita expenditure on the Cha Chaan Teng is expected to reach HK\$3,481 in 2016, representing a growth rate over the period of 32.4%.



Note: Per capita refers to local resident in Hong Kong, visitors are excluded. The market size used to calculate per capita expenditure excludes the part that was contributed by visitors.

Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, high-end Cha Chaan Teng restaurants normally meet certain quantitative conditions in terms of annual sales revenue, per capita consumption and qualitative conditions such as capacious operating area, comfortable dining ambience, and tasty dishes. The annual sales revenue of high-end Cha Chaan Teng restaurants should exceed HK\$18 million and the per capita consumption should be over HK\$50. Other Cha Chaan Teng restaurants are classified into the middle range market segment.



Note: The annual sales revenue of high-end Cha Chaan Teng should exceed HK\$18 million and the per capita consumption should be over HK\$50.

Source: Frost & Sullivan Report

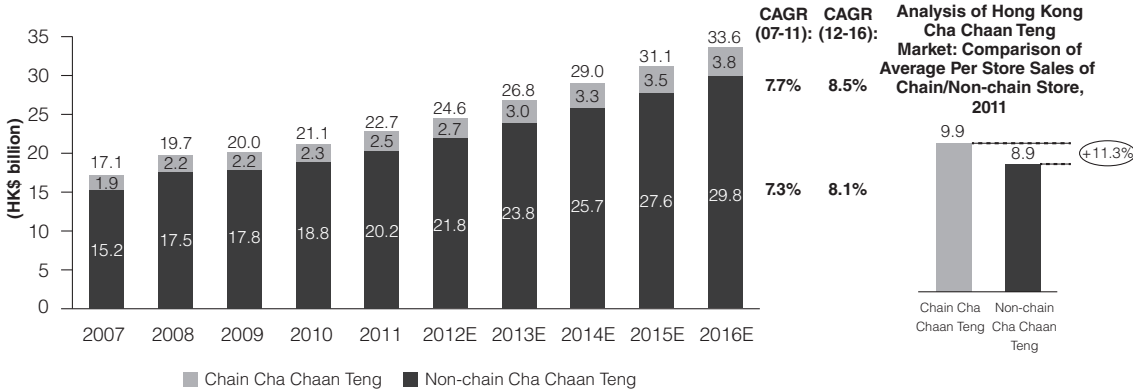
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Cha Chaan Teng Restaurant Breakdown by Operating Model

For the purposes of the Frost & Sullivan Report, chain restaurants refer to restaurants that have two or more stores with the same name that are either under shared corporate ownership or franchising agreements.

The Frost & Sullivan Report analysis of the Cha Chaan Teng industry shows that in 2011, there were a limited number of Hong Kong-wide chains and that the market is dominated by independent restaurant operations. In 2011, 10.1% of the 2,520 Cha Chaan Teng restaurants in Hong Kong were classified as chain restaurants and 11.1% of the HK\$22.7 billion revenue from Cha Chaan Teng restaurants in 2011 came from chain stores.

Of all the chain Cha Chaan Teng companies, less than five companies have over 10 stores and the majority of companies have only two to three stores. The average per store sales of chain Cha Chaan Teng restaurants was HK\$9.9 million, 11.3% higher than that of non-chain Cha Chaan Teng in 2011, since chain stores have the competitive advantages of prestigious brand image, higher per capita expenditure and larger customer base. Due to the advantages enjoyed by having economies of scale such as using central kitchen, chain Cha Chaan Teng also enjoy higher profitability. See "— Competitive Landscape of Chain Cha Chaan Teng Restaurants," below for more detailed analysis of chain Cha Chaan Teng restaurants.



Source: Frost & Sullivan Report

Competitive Landscape of Chain Cha Chaan Teng Restaurants

The Cha Chaan Teng Market is highly fragmented. The market has low barriers to entry with relatively low capital requirements and levels of operational skill needed to establish a business, which is why Cha Chaan Teng restaurants have traditionally been family owned and operated.

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Chain Cha Chaan Teng operators have entered the market and gained considerable market share and increased market penetration as illustrated by the following table prepared by Frost & Sullivan:

Analysis of Hong Kong Cha Chaan Teng Chain Restaurant Market by Number of Restaurants (2011)

<u>Criterion of Tiers: Number of Restaurants</u>	<u>Approximate Number of Operators</u>	<u>Approximate Revenue Share</u>
1 10 or more restaurants	4	7.4%
2 2–9 restaurants	30	7.2%
3 1 restaurant	2,000	85.4%

This effective market penetration by chain Cha Chaan Teng restaurant operators is a function of a number of factors including:

- **Number of restaurants** — the number of restaurants is directly proportional to the revenue share per operator.
- **Dining ambience** — typically chain Cha Chaan Teng are in the high-end category of Cha Chaan Teng. They have a greater operational floor area than stand-alone restaurants and typically the décor and amenities are of a higher standard. Additionally, customers are confident that they will be able to enjoy consistent taste and comfortable dining experience at different outlets under the same brand.
- **Geographic location of restaurants** — typically chain Cha Chaan Teng are located in areas with high footfall and are spread across Hong Kong Island, New Territories and Kowloon, capturing customers in all areas.
- **Number of seats per store** — chain Cha Chaan Teng typically have larger operational floor area and the number of seats per store is greater than non-chain restaurants.
- **Brand awareness and marketing** — chain Cha Chaan Teng have an established corporate image and the brand is already widely recognized. Customers are usually more comfortable dining at restaurants that they are familiar with and working with companies they already know and trust.
- **High turnover rate** — typically chain Cha Chaan Teng have a greater turnover rate, which is defined as how many times each seat in the restaurant is occupied per day, often due to the fact that chain Cha Chaan Teng are open longer hours than non-chain restaurants.
- **Greater average check size** — typically chain Cha Chaan Teng are in the high-end category of Cha Chaan Teng and have higher average menu prices and consequently greater check sizes.
- **Greater operational efficiencies** — typically chain Cha Chaan Teng can take advantage of their scale of output that allows the average cost of purchasing and producing food to be less than that of non-chain restaurants.

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Frost & Sullivan has compiled the following table on the top ten chain Cha Chaan Teng restaurant operators in Hong Kong, selected and ranked in terms of revenue in the year ended December 31, 2011, as of December 2011:

Brand	Revenue in the year ended								No. of Restaurants				
	December 31, 2011	Market share	Turnover rate	Annual per store sales	Average daily revenue	Average daily no. of invoice	Average check size	Average menu price	Total no. of restaurants	Hong Kong	New Territories	No. of seats	
	(HK\$ million)	(%)	(Customer/Seat/Day)	(HK\$ million)	(HK\$'000)		(HK\$)	(HK\$)		Island	Kowloon		
Tsui Wah Restaurant	722	3.2	11.47	40.4	105.6	806	90	37	19	7	7	5	2,950
Tai Hing Roast Restaurant	497	2.2	10.72	19.3	49.3	470	61	33	28	10	13	5	2,510
Tai Hing New Century	305	1.3	9.67	27.7	77.0	741	66	33	11	1	9	1	1,630
Ngan Lung Restaurant	270	1.2	9.80	20.1	53.6	589	52	30	14	2	3	9	1,675
Macau Restaurant	156	0.7	10.44	31.3	86.7	825	35	32	5	3	2	—	820
Maxim's Hong Kong Day	63	0.3	8.39	13.6	29.2	331	30	30	6	4	1	1	630
Ming Yuen Restaurant	60	0.3	10.80	15.0	41.7	502	33	29	4	—	4	—	360
Lan Fong Yuen	46	0.2	11.43	12.1	31.9	343	44	29	4	3	1	—	295
Fu Doo Restaurant	43	0.2	10.32	10.7	43.8	554	30	27	4	—	1	3	285
Macau Tsui Yuen Restaurant	37	0.2	10.49	9.3	25.7	306	29	27	4	—	3	1	230

Note: The data above is based on the assumption that the number of operating days of the restaurants is 365 days annually.

Analysis of the Hong Kong Cha Chaan Teng Market Drivers and Development Trends

Current Market Drivers

Affluent Economy with High Per Capita Income

Hong Kong is an affluent and growing economy. Nominal GDP in Hong Kong grew from approximately HK\$1,622.3 billion in 2009 to approximately HK\$1,923.2 billion in 2011. Per capita discretionary spending on food has also increased commensurately. Dining plays an important role in Hong Kong people's lives while consumption demand from local residents sustains the growth of Hong Kong's catering industry.

Hong Kong consumers tend to be value focused, which means demand for affordable yet casual dining options, such as Cha Chaan Teng, is expected to continue to increase.

Increased Tourism from China

Performance of Hong Kong catering industry is highly correlated with that of Hong Kong tourism industry. In 2011, Hong Kong received a record-high of 42 million visitors from around the world, which was a remarkable increase of 16.4% over 2010, according to the Tourism Commission of the Commerce and Economic Development Bureau of Hong Kong. In 2011, China continued to be the single largest visitor source of Hong Kong with 28.1 million arrivals, accounting for 67.0% of total arrivals. Amongst all China arrivals, 14.5 million (51.6%) were same-day visitors, up by 31.7% year-on-year. 65.3% or 18.3 million visitors came to Hong Kong under the Individual Visit Scheme, up by 28.8% year-on-year.

The increasing number of visitors to Hong Kong leads to a rise in the demand for catering industry. Particularly, local and traditional Hong Kong style restaurant, such as Cha Chaan Teng, dim sum, street food stalls (Dai Pai Dong), which provide an authentic Hong Kong dining experience, are gaining popularity among tourists.

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Changing Lifestyle and Demographic Profile

Hong Kong consumers are leading a faster-paced way of life, leaving them with less time and desire to prepare meals at home, and, as a result of their busy schedules, convenience is becoming an increasingly important criterion in their food purchasing decisions.

Further, with an increasing number of women in the Hong Kong work force, the growth in the number of single person households and an aging population, it has led to more potential opportunities in the Cha Chaan Teng sector as customers seek out affordable and flexible dining options that suit their lifestyles.

Hong Kong as a Gateway to China

Hong Kong is one of the most open and trade-dependent economies in the world. The signing of the Closer Economic Partnership Agreement (CEPA) in 2003 with China allows Hong Kong to have preferential access to China's service industries. Hong Kong has established itself as the financial center for capital raising in the primary markets for domestic Chinese companies. Currently, the government foresees greater integration with the Pearl River Delta economies as the biggest potential for sustained growth. With a cooling in, and a diminishing role of, construction activity, Hong Kong has the opportunity to become the service industry's base to spur the tertiary sector in China.

Current Market Trends

Hong Kong as a Brand Platform for China and Asia

Due to geographical proximity, mature logistic infrastructure, reliable finance and banking systems, linguistic and cultural similarities and good political and trading relations, Hong Kong acts as a gateway to the China market. A base market in Hong Kong provides enterprises with business channels and exposure to build up brand image both regionally and worldwide.

Increased Market Commitment by Leading Participants

The strong growth as well as relatively high margin of the chain Cha Chaan Teng restaurants in Hong Kong have encouraged existing brand owners to show increased commitment to further expand by increasing penetration in existing markets as well as entering into new markets. Brand owners' further sales penetration and marketing efforts are expected to drive up the total sales value of the high-end Hong Kong Cha Chaan Teng chains in the future.

B. CHINA

Characteristics of the Economy Relevant to the Cha Chaan Teng Industry

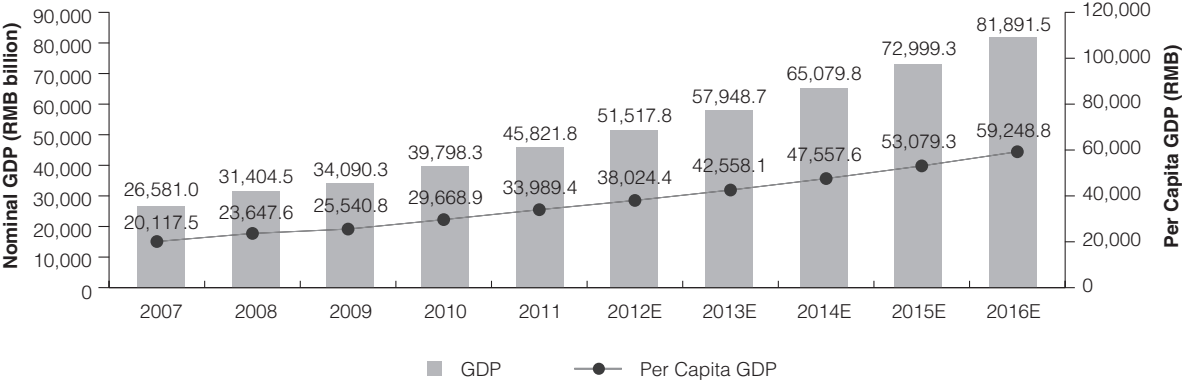
Large Population and strong GDP growth

With a population of over 1.3 billion, China is the most populous country in the world. China's GDP has grown rapidly since economic reforms began in the late 1970s. In recent years, although not entirely immune to the global economic downturn, China has experienced significantly less impact from the recent global financial crisis and a quicker recovery than many other countries in the world. According to National Bureau of Statistics, China's GDP grew at a rate of 8.6% from 2008 to 2009. China's economy continued to

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grow at a rate of 9.5% over 2010, reaching RMB45,821.8 billion in 2011. The Chinese government announced several significant investment policies with definite targets for the various industries to support economic growth during the 12th five-year period. Based on these strong investment policies and an awareness of the need to balance the economic structure between investment and domestic consumption, the Frost & Sullivan Report estimates that the economic expansion in China in terms of nominal GDP is expected to grow at a CAGR of 12.3% from 2012 to 2016.

China’s per capita GDP has also grown over the past five years, with relatively slower growth in 2009 due to the financial crisis. Domestic demand has played an increasing important role in driving GDP growth, contributing to 92% of China’s 10.3% GDP growth from 2009 to 2010. In 2011, the GDP per capita reached RMB33,989.4, and IMF estimates that it will increase to RMB59,248.8 in 2016, representing a CAGR of 11.7% from 2012 to 2016.



Source: National Bureau of Statistics, IMF and Frost & Sullivan Report

Rapid Increase Urbanization Rate

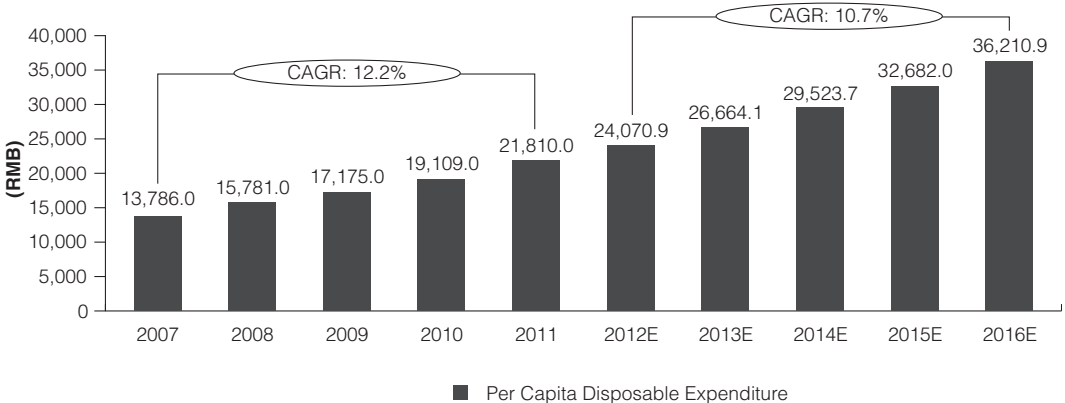
Rapid economic development in China has contributed to an accelerating trend towards urbanization and an increasingly affluent population. With the migration of rural population to urban areas and the transformation of towns into large cities, urbanization in China has accelerated as a result of the rapid industrialization. From 2007 to 2011, the urbanization rate in China increased from 44.9% to 50.4%. Frost & Sullivan anticipates that the urbanization rate in China to reach 53.1% in 2016.

Increasing Disposable Income and Drivers of Growth

As a result of China’s rapid economic development, living standards have improved, as reflected in the increase in income and consumption levels of both urban and rural households. Further recent tax reforms approved an increase in the individual income tax free threshold to RMB3,500 per month for Chinese nationals and a new streamlined schedule of tax brackets. The lowest tax bracket will be reduced from 5 to 3 percent and will cover a larger number of workers in a move widely viewed as a reaction to public concerns over inflation and rising food prices.

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Per capita disposable income in China increased from RMB13,786.0 in 2007 to RMB21,810.0 in 2011, representing a CAGR of 12.2%. Frost & Sullivan expects this figure will continue to rise to RMB36,210.9 in 2016, representing a CAGR of 10.7%.

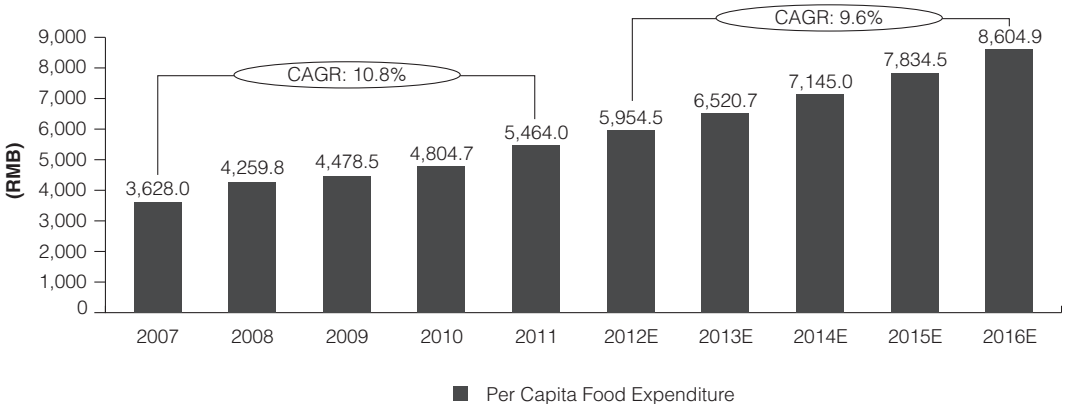


Source: National Bureau of Statistics, IMF and Frost & Sullivan Report

Per Capita Food Expenditure

The per capita food expenditure in China has grown at a CAGR of 10.8% from 2007 to 2011. Annual per capita food expenditure in 2011 was RMB5,464.0 growing at an annual rate of 13.7%, which almost doubled the growth rate figure for 2010, representing strong recovery from the global financial crisis.

As a result of China’s robust economic growth, increasing disposable income, rapid urbanization and growing income and consumption, the number and frequency of consumers dining out in China have increased. Today, dining out is not only convenient, but has also become a social event for most consumers. In addition, given a faster pace of life and increasing disposable income, more consumers prefer to dine out to enjoy the food and dining atmosphere with friends or business associates. Smaller family size and an increasing percentage of women in the workforce also contribute to growth in dining out. With these factors in mind, Frost & Sullivan projects per capita food expenditure in China to reach RMB8,604.9 in 2016, representing a CAGR of 9.6% from 2012 to 2016.



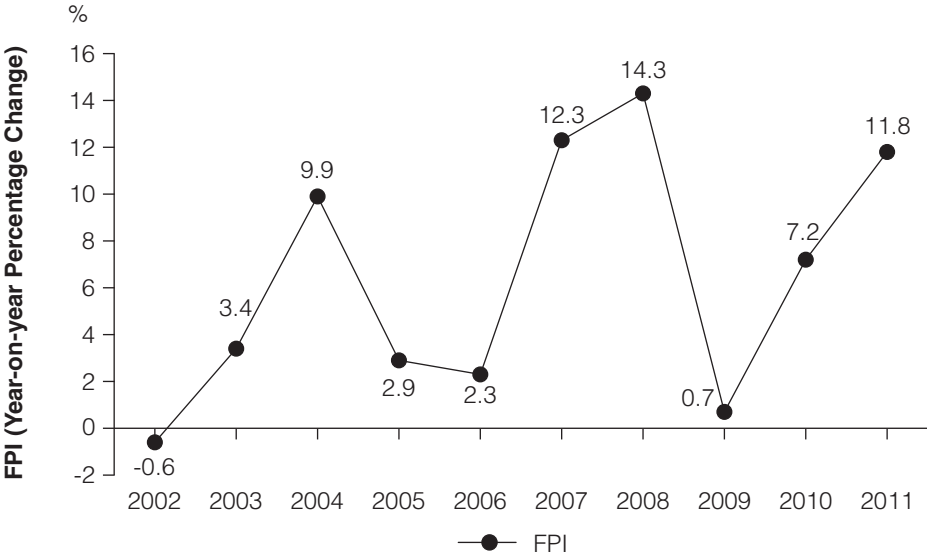
Source: National Bureau of Statistics and Frost & Sullivan Report

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Food Price Index

Food prices vary based on overall supply and demand as well as other factors including environmental conditions such as climate and natural disasters. The FPI in China fluctuated during the past decade with the highest growth of 14.3% in 2008 and a negative growth of -0.6% in 2002. The food inflation in China hit a record high in 2008, then dropped at 0.7% in 2009. In the past three years, with the uncertainty of demand and supply of global food markets, the FPI in China has been increasing and is anticipated to continue to be impacted by the volatile global economic situation, global merchandise trade market, and increased costs for domestic food suppliers.

The following chart sets forth the year-on-year changes of the FPI in China from 2002 to 2011:



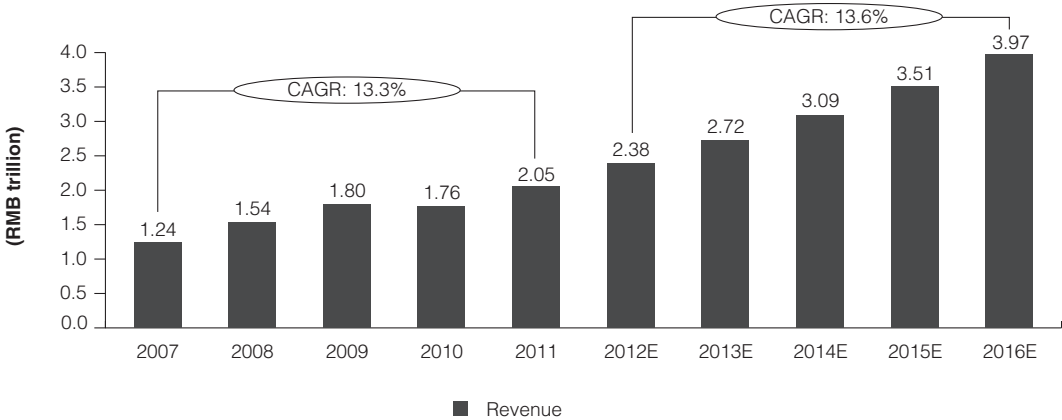
Source: National Bureau of Statistics, IMF and Frost & Sullivan Report

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Analysis of the China Catering Industry

Overview

From 2007 to 2011, the total revenue of the catering market in China had increased from RMB1.2 trillion to RMB2.1 trillion, representing a CAGR of 13.3%. During the period 2012 to 2016, the market size is expected to grow at a CAGR of 13.6%, reaching RMB4 trillion in 2016, according to the Frost & Sullivan Report.



Source: National Bureau of Statistics and Frost & Sullivan Report

Market Segments

For the purposes of the Frost & Sullivan Report, the catering industry in China is categorized based on restaurant operating model and types of cuisine in the same manner as indicated above in “— Analysis of the Hong Kong Catering Industry — Market Segments”. As before, these segments are:

- Fine dining;
- Casual dining;
- Fast Food; and
- Others.

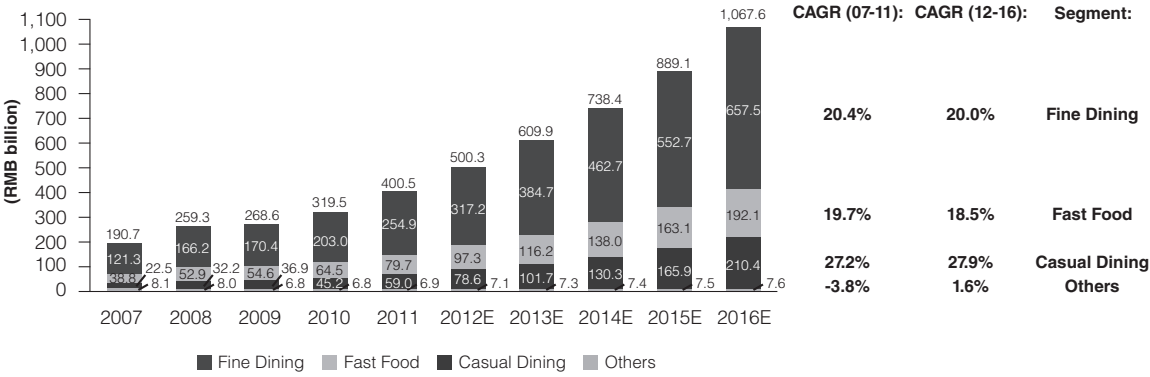
Please see the table in “— Analysis of the Hong Kong Catering Industry — Market Segments” for definitions.

According to the Frost & Sullivan Report, there were 42,349 restaurants above the designated size in China’s catering market in 2011. For the purposes of the Frost & Sullivan report only those restaurants that generated revenue annual sales revenue of over RMB2 million were defined as restaurants above the designated size and analyzed. From 2007 to 2011, revenue generated by restaurants above the designated size in China increased from RMB190.7 billion to RMB400.5 billion, representing a CAGR of 20.4%. According to Frost & Sullivan, this market is expected to grow at a CAGR of 20.9% in the years between 2012 and 2016 with total sales revenue reaching RMB1,067.6 billion in 2016.

INDUSTRY OVERVIEW

Of the 42,349 restaurants above the designated size, 45.6% were in the fine dining segment, 25.0% were in the casual dining segment, 23.0% were in the fast food segment and 6.4% were in the others segment.

The following graph shows the contribution of each of these segments to the total catering market for the years 2007 to 2011 and projected contribution from 2012 to 2016.



Source: Frost & Sullivan Report

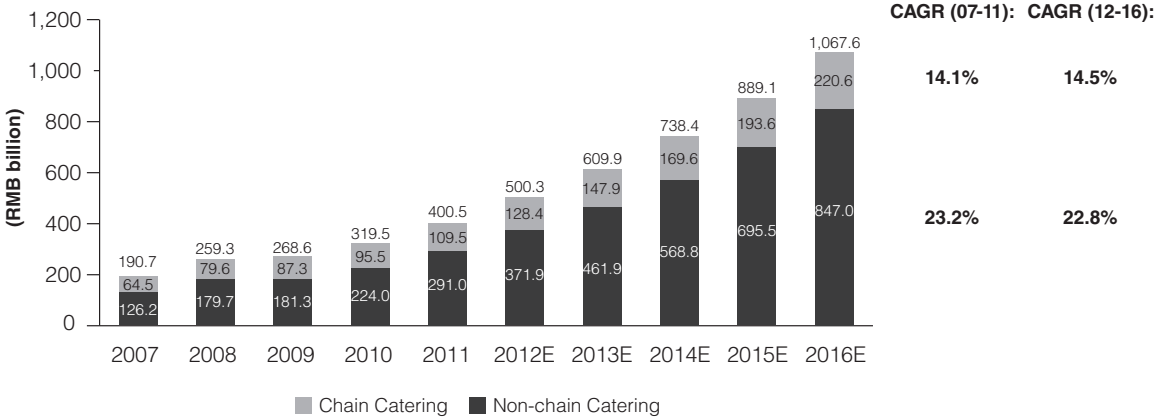
Casual dining represented only 14.7% of the total China catering market in 2011 with sales revenue of RMB59.0 billion in 2011; however, this segment has been growing at a CAGR of 27.2% in the past five years, the fastest growing segment in the catering industry. Further, according to the Frost & Sullivan Report, casual dining is expected to grow at a CAGR of 27.9% in the next five years, reaching RMB210.4 billion in 2016. In comparison, fine dining and fast food are expected to increase with a relatively modest growth rate of 20.0% and 18.5% respectively during the period.

Restaurant Operating Models

Chain restaurants represent a significant proportion of restaurant establishments in China. In 2011, of the total 42,349 restaurants above the designated size, the proportion of chain restaurants was 40.5%.

INDUSTRY OVERVIEW

From 2007 to 2011, the total sales value of chain restaurants increased from RMB64.5 billion to RMB109.5 billion with a market share of 27.3% in 2011. In the next five years, sales revenue from chain restaurants is estimated to reach RMB220.6 billion representing a CAGR of 14.5%.



Source: Frost & Sullivan Report

Although independent operations still represent the majority in China’s catering segment for a number of reasons including difficulties in satisfying different regional tastes throughout China, the market share of chains has continued to rise in recent years due to, (i) greater population mobility reducing regional taste barriers, (ii) increased consumer concerns over food safety issues, making branded restaurant chains the more attractive choice, (iii) the higher scalability and operational efficiency of restaurant chains compared with independent operations, and (iv) generally better access to financing by established restaurant chains compared with independent operations. Factors such as these will continue to contribute to further growth in the chain catering segment.

Analysis of the China Casual Dining Segment

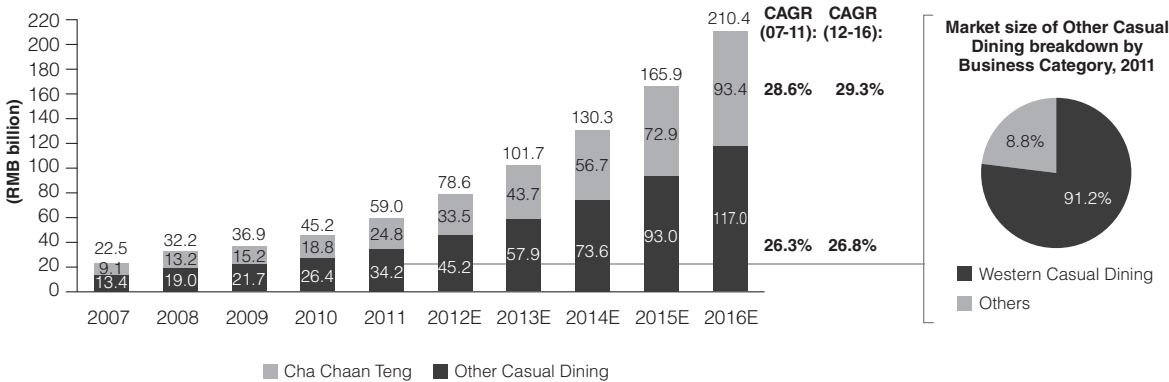
According to the Frost & Sullivan Report, the casual dining market in China can be classified in the same manner as indicated outlined above in the section “— Analysis of the Casual Dining Segment”. As before, these classifications are:

- Cha Chaan Teng restaurants, although Cha Chaan Teng restaurants in China serve traditional Cha Chaan Teng dishes, they also incorporate local dishes specific to the region, such as those from Sichuan and Hunan cuisine, on their menus;
- Western casual restaurants;
- Cafés, mainly serving coffee and snacks;
- Tea houses, mainly serving tea and dim sum; and
- Bars serving soft drinks and alcoholic drinks.

Please see the table in the “— Analysis of the Casual Dining Segment” section for definitions.

INDUSTRY OVERVIEW

Cha Chaan Teng restaurants hold a significant share of the casual dining segment in China in terms of revenue. The following graph shows the contribution of each of Cha Chaan Teng and other casual dining segments to the total market size of the casual dining market for the years 2004 to 2011 and projected contribution from 2012 to 2016.



Note: Other casual dining include western casual restaurants, tea houses, bars and café.

Source: Frost & Sullivan

Analysis of the China Cha Chaan Teng Market

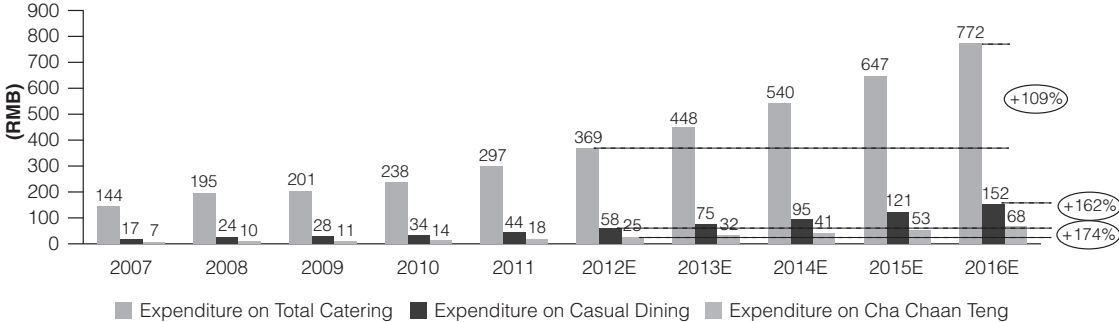
Cha Chaan Teng restaurants entered the China casual dining market in the late 1990s. They opened first in major costal cities, particularly Guangdong and Shanghai and some Southern Chinese cities. A second wave of openings began in 2007 in the Pearl River delta area and at the same time in the cities in Northern China. They have rapidly become a favored dining option for Chinese customers. In 2011 there were 3,728 Cha Chaan Teng restaurants in China and Frost & Sullivan expects the Cha Chaan Teng segment to grow at a faster pace among all the casual dining segments to 2016.

This growth is in part due to the fact that the menu offerings at Cha Chaan Teng restaurants appeal to traditional Chinese tastes as the style of typical Hong Kong dishes on offer are not dissimilar to Chinese fare, however, most Cha Chaan Teng restaurants also serve Western food or fusion food for customers, adding more variety to their menus. Additionally, Cha Chaan Teng restaurants are open long hours and do not have set lunch and dinner times, which allow for more dining flexibility.

Total annual per capita expenditure on catering reported an aggregated increase of 106% from RMB144 in 2007 to RMB297 in 2011, among which the annual per capita expenditure on casual dining increased by 157% from RMB17 to RMB44. Cha Chaan Teng, a subcategory of casual dining, showed an aggregated growth rate of 168% from RMB7 in 2007 to RMB18 in 2011. The rapid growth in the total catering industry and particularly in the Cha Chaan Teng category, was due to the significant growth in per capita annual disposable income, the urbanization process, and changes in consumers consumption patterns that have increased the acceptance of, and preference for, casual dining.

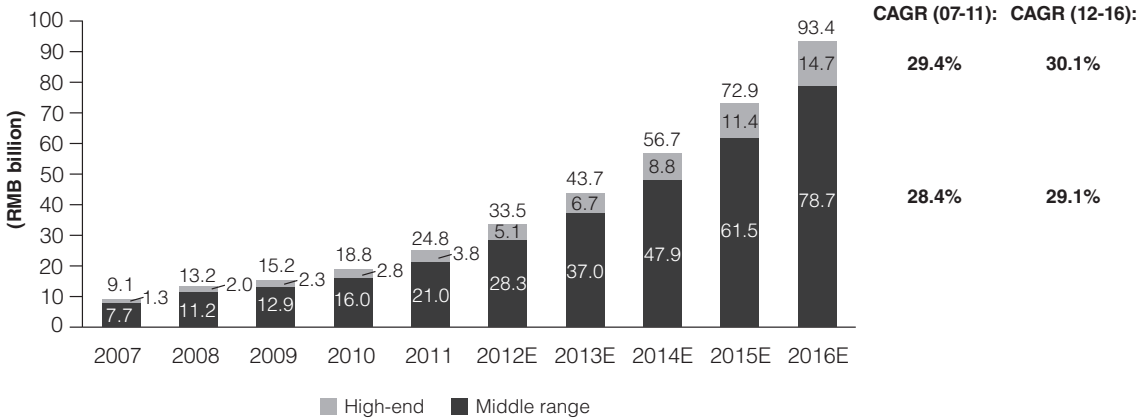
INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, the annual per capita expenditure on total catering is expected to reach RMB772 in 2016 and the per capita expenditure on Cha Chaan Teng is expected to reach RMB68 in 2016, with an aggregated growth rate of 174%.



Source: Frost & Sullivan

According to the Frost & Sullivan Report, high-end Cha Chaan Teng restaurants normally meet certain quantitative conditions in terms of annual sales revenue, per capita consumption and qualitative conditions such as capacious operating area, comfortable dining ambience, and tasty dishes. The annual sales revenue of high-end Cha Chaan Teng restaurants should exceed RMB20 million and the per capita consumption should be over RMB55. Other Cha Chaan Teng restaurants are classified into the middle range market segment.



*Note: The annual sales revenue of high-end Cha Chaan Teng should exceed RMB20 million and the per capita consumption should be over RMB55.

Source: Frost & Sullivan

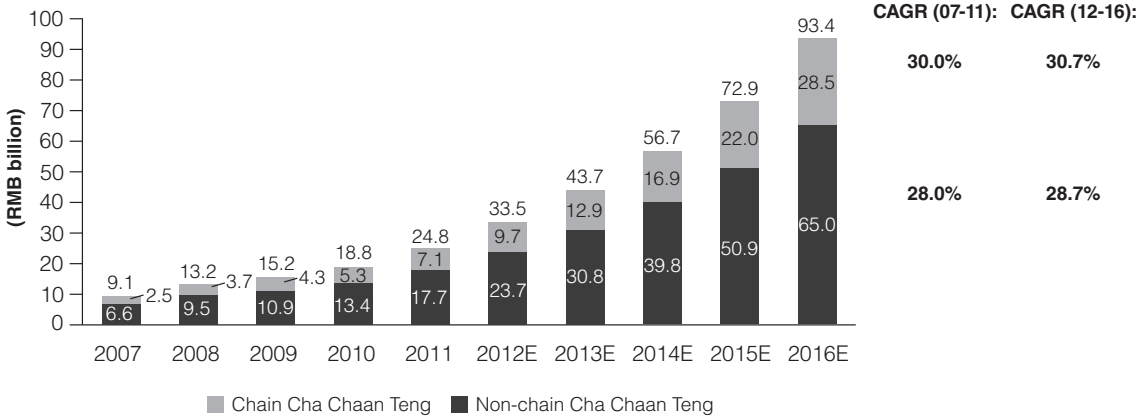
Cha Chaan Teng Restaurants Breakdown by Operating Model

As in the discussion of the Hong Kong Cha Chaan Teng market, for the purposes of the Frost & Sullivan Report, chain restaurants refer to restaurants that have two or more stores with the same name that are either under shared corporate ownership or franchising agreements.

INDUSTRY OVERVIEW

Although the majority of Cha Chaan Teng restaurants in China are independent restaurant operations, in 2011 a significant 27.5% of the 3,728 Cha Chaan Teng restaurants in China were classified as chain restaurants and these chain Cha Chaan Teng held 28.6% of the RMB24.8 billion revenue of Cha Chaan Teng restaurants in 2011.

From 2007 to 2011, the chain Cha Chaan Teng market in China experienced robust growth, with sales revenue rising from RMB2.5 billion to RMB7.1 billion. The sales revenue of non-chain Cha Chaan Teng is estimated to increase from RMB17.7 billion in 2011 to RMB65.0 billion in 2016, representing a CAGR of 28.7%. This is, in part, due to the rising spending power of Chinese consumers together with their increasing focus on quality of the food and preference for established restaurant chains, especially in light of the series of highly publicized food safety issues in recent years in China.



Source: Frost & Sullivan

Competitive Landscape of Chain Cha Chaan Teng Restaurants

In general, chain Cha Chaan Teng restaurants in China is at an early stage of development, with a limited number of nationwide chains in a market dominated by independent restaurant operations. The limited number of nationwide chains in this market is primarily due to (i) the greater focus on ambiance and quality of the food compared with low-end market, and (ii) the generally higher capital expenditure per restaurant compared with low-end restaurants.

Chain Cha Chaan Teng restaurant operators have entered the market and gained considerable market share and increased market penetration as illustrated by the following table prepared by Frost & Sullivan:

Analysis of China Cha Chaan Teng Chain Restaurant Market by Number of Restaurants (2011)

Criterion of Tiers: Number of Restaurants	Approximate Number of Operators	Approximate Revenue Share
1 10 or more restaurants	6	6.7%
2 2-9 restaurants	900	22.2%
3 1 restaurant	2,700	71.1%

INDUSTRY OVERVIEW

This effective market penetration by chain Cha Chaan Teng restaurant operators is a function of similar factors to those set out above in “— Analysis of the Hong Kong Cha Chaan Teng Market — Cha Chaan Teng Restaurants Breakdown by Operating Model — Competitive Landscape of Chain Cha Chaan Teng Restaurants”.

Frost & Sullivan has compiled the following table on certain chain Cha Chaan Teng restaurant operators in China, which we believe are major competitors of the Company in China, as of December 2011:

Brand	Revenue in									No. of Restaurants		
	the year		Annual	Average	Average	Average	Average	Total no.				
	ended								per store	daily	daily no.	menu
	December	Turnover	sales	revenue	of invoice	check size	price	restaurants	North	South	East	No. of
31, 2011	rate										seats	
	(RMB	(Customer/	(RMB	(RMB'000)	(RMB)	(RMB)						
	million)	Seat/Day)	million)									
Bi Feng Tang												
Delicious Food.	560	4.33	19.2	48.6	383	127	36	32	1	—	31	6,595
Xinwang Restaurant	275	5.05	26.6	69.4	469	148	39	11	—	—	11	3,085
Charme Restaurant.	283	5.29	26.9	71.5	395	181	48	11	3	—	8	2,650
Tai Hing Roast Restaurant	198	5.09	17.0	45.8	355	129	41	12	3	6	3	2,080
Lisboa Restaurant	175	5.16	25.0	69.4	489	142	33	7	—	—	7	1,545
Coolboy Cha Chaan Teng.	157	4.91	22.4	62.3	461	135	32	7	7	—	—	1,380
Bamboo Village.	120	4.82	16.2	37.0	301	123	31	9	—	—	9	1,790
Uncle Restaurant.	118	4.95	10.7	29.8	314	95	31	11	—	10	—	1,870
Shenzhen Zhengpin Café	97	4.62	9.7	26.9	317	85	16	10	—	10	—	1,528
Jeawa Restaurant	56	4.85	11.2	31.1	232	134	29	5	—	—	5	830
Tsui Wah Restaurant.	56	6.18	27.9	77.8	418	186	55	2	—	—	2	552

Note: The data above is based on the assumption that the number of operating days of the restaurants is 365 days annually.

Chain Cha Chaan Teng restaurants have an established reputation for consistent food quality and better ambience, hence will be better positioned to leverage this growth opportunity and expand their scale rapidly. The currently established chain Cha Chaan Teng restaurants have the first mover advantage of higher market awareness, relatively easier access to financing, and greater economies of scale as they continue to expand their networks. As a result, Frost & Sullivan expects that the chain Cha Chaan Teng segment will outgrow the non-chain Cha Chaan Teng market.

Location of Chain Cha Chaan Teng Restaurants

Chain Cha Chaan Teng operations are concentrated in major cities in China and, due to regional variations in consumer taste, leading chain operators usually exhibit strength within specific cities. Some chain operators first enter into affluent cities as their core market, and subsequently expand into surrounding regions.

According to the Frost & Sullivan Report, of the ten chain Cha Chaan Teng restaurant operators in China which we believe are major competitors of the Company, seven have a presence in Shanghai, which is the city with the greatest number of chain Cha Chaan Teng restaurants at 72. Beijing has seven chain Cha Chaan Teng restaurants, operated by three chain companies, Guangzhou has one chain operator with ten restaurants and two operators have a presence in Shenzhen, operating 16 restaurants in total.

INDUSTRY OVERVIEW

Analysis of the China Chain Cha Chaan Teng Market Drivers and Development Trends

Current Market Drivers

Economic Growth and Higher Per Capita Income

The economic growth of China has accelerated significantly since 2007. Per capita GDP has risen from RMB20,117.5 in 2007 to RMB33,989.4 in 2011, according to the National Bureau of Statistics and the Frost & Sullivan Report. This has directly benefited the casual dining sector as overall economic growth has been accompanied by increased disposable incomes, which have fuelled consumption demand. Demand for casual dining options, such as Cha Chaan Teng, are likely to continue to increase.

Increasing urbanization

According to the Frost & Sullivan Report, the proportion of people dwelling in urban areas has increased from 44.9% in 2007 to 50.4% in 2011. This rise in urbanization along with the rise in travel and communication is likely to result in increasing exposure to Western lifestyles, which will, in turn, drive aspirational shifts in lifestyle to more sophisticated products and services.

Increased Eating Out and Business Dining

There is increased dining out for family and friend gatherings not only during the important holidays or anniversaries, but also on weekends or for ad hoc parties, largely because of increasing affluence and the importance of family in Chinese culture. Also, the faster pace of life has led young professionals to dine out and buy home delivery service from chain Cha Chaan Teng restaurants with increasing frequency.

China's increasing commercial activities and evolving business environment significantly contribute to the growth of chain Cha Chaan Teng restaurants. These chains provide a suitable environment for business entertainment to bridge and promote the relationship between companies or individuals, which is a critical part of business practice in China. Furthermore, the budget as well as average spending on business dining is generally higher and more stable than dining with family and friends. The business entertainment sector will offer significant growth potential, especially within China's tier one metropolitan as well as the emerging commercial cities.

Increasingly discerning and adventurous consumers

Chinese consumers are placing increasing importance on food safety and quality, health and wellness, cuisine flavor and tastes, as well as dining environment and services. Greater spending power has allowed Chinese consumers to be more conscious about food safety and healthiness of food, and to be increasingly discerning about the brand and prestige of food service. As a result, brand consciousness will increase and consumers will prefer to purchase branded goods fueling an estimated increase in the sales revenue of chain Cha Chaan Teng in China from RMB9.7 billion in 2011 to RMB28.5 billion in 2016 at a CAGR of 30.7% the chain Cha Chaan Teng market.

Further, various kinds of cuisines are emerging into China, and as Chinese consumers start to dine out more often they are being exposed to innovative dining styles and cultures. Cha Chaan Teng is a fusion of Eastern and Western dining culture, which meets the diverse demands of consumers in one location.

INDUSTRY OVERVIEW

Current Market Trends

Increasing Penetration into Emerging Small- and Medium-size Cities

As personal wealth spreads from China’s large coastal cities to smaller cities, as well as from Eastern China to Western China, a number of premium and luxury consumer products, including mid- to high-end food service brands, have expanded aggressively into second and third tier cities to target a wider group of potential customers.

Leading Chain Cha Chaan Teng restaurant operators have in recent years expanded into cities such as Qingdao, Shenyang, Suzhou and Dalian. Frost & Sullivan expects this trend to continue.

Increased Market Commitment by Leading Participants

The strong growth as well as relatively high margin of the chain Cha Chaan Teng restaurants in China have encouraged existing brand owners to show increased commitment to further increase market share and penetration in existing markets as well as enter into new markets.

Brand owners’ further sales penetration and marketing efforts are expected to drive up the total sales value of the mid- to high-end Cha Chaan Teng chains through to 2016.

ABOUT THIS SECTION

General

This “Industry Overview” section contains information extracted from the Frost & Sullivan “Final Report for Market Study on Cha Chaan Teng in Greater China” dated November 2, 2012 commissioned from Frost & Sullivan for the purposes of preparing this document. We paid a total of RMB0.8 million to Frost & Sullivan for the preparation and use of the Frost & Sullivan Report.

Research Methodology

Frost & Sullivan has refined its research methodology over many years of experience, having researched diverse markets in many different life cycles from the embryonic to mature.

Frost & Sullivan’s Market Engineering System has following characteristics:

- Focus on challenges, problems, and the needs of industry participants.
- Based on primary market research, and not on secondary or previously published ones.
- Focus on detailed, comprehensive, “bottom-up” data collection techniques.
- Based on measurements.

In the PRC and Hong Kong, Frost & Sullivan adopted a methodology of both primary research and secondary research, obtained knowledge, statistics, information, and industry insights on the market trends within the catering industry and Cha Chaan Teng market. Primary research involved interviewing leading industry participants and third-party industry associations.

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Secondary research involved reviewing company annual reports, official bureaus' database, independent research reports or journals, and Frost & Sullivan's proprietary database built up over the past decades.

Assumption for Growth and Forecast

Forecast data was obtained from historical data analyses plotted against macroeconomic data as well as specific industry-related drivers, such as diversification of catering categories and consumer expenditure on dining out. Frost & Sullivan developed its forecasts on the following bases and assumptions:

- The social, economic and political environments being examined remain stable during the forecast period, which ensures the sustained and steady development of the catering market in Hong Kong and China.
- Per capita disposable income of urban residents is expected to continue to rise in China, especially in third tier and fourth tier cities. It is expected that per capita disposable income of urban residents in China will continue to rise from approximately RMB24,070.9 in 2012 to approximately RMB36,210.9 in 2016, with a CAGR of 10.7% over the period. Frost & Sullivan believes this increasing disposable income of urban residents will be the key impetus for the growth of consumer expenditure of urban residents in China.
- Per capita expenditure of urban residents is expected to continue to rise in China. It is expected that per capita expenditure of urban residents in China will continue to rise from approximately RMB16,586.0 in 2012 to approximately RMB23,331.8 in 2016, with a CAGR of 8.9% over the period.
- Per capita food consumption of urban residents is expected to continue to rise in China. It is expected that per capita food consumption of urban residents in China will continue to rise from approximately RMB5,954.5 in 2012 to approximately RMB8,604.9 in 2016, with a CAGR of 9.6% over the period.
- Frost & Sullivan has considered related industry key drivers that are likely to drive catering market in the forecast period, including continued urbanization driving increased demand for dining out, increasing number of tourist to Hong Kong, PRC government's supporting initiatives in catering industry, and consumer's pursuit for various categories of catering. Urbanization rate in China is expected to increase from approximately 50.9% in 2012 to approximately 53.1% in 2016. With the close connection of commerce, culture and tourism between China and Hong Kong, it is expected that the number of visitors to Hong Kong will reach approximately 41.0 million in 2016.

The research may be affected by the accuracy of these assumptions and the choice of these parameters.

About Frost & Sullivan

Frost & Sullivan is a global consulting company founded in 1961 and has 40 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. It has been in the Asia region for 20 years. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy.

Based in the United States, it has been covering the Chinese market through its offices in China since the 1990s. It has direct access to the most knowledgeable experts and market participants in the Greater China's catering market research and its industry consultants.