

INDUSTRY OVERVIEW

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CHINESE CUISINE IN THE INTERNATIONAL MARKET

Introduction

Chinese cuisine is one of the most popular cuisine types internationally. Originally, Chinese cuisine was brought overseas by early Chinese immigrants. Since the late 20th century, Chinese cuisine restaurant brands started to expand to major overseas markets including Southeast Asia, North America, East Asia, Europe and Australia, and has now spread to over 130 countries. The number of Chinese cuisine restaurants in the international market has reached over 600,000 in 2021. Chinese cuisine serves as a window to showcase Chinese culture to the world. The growing popularity of Chinese cuisine restaurants enables them to attract not only overseas Chinese guests, but also local guests in different countries.

¹ The contract sum to Frost & Sullivan is US\$86,478 for the preparation and use of the F&S Report, and we believe that such fees are consistent with the market rate. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. Frost & Sullivan has over 45 global offices with more than 3,000 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

The market research process for this study has been undertaken through detailed primary research which involves discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from local government departments, and market research on industry and enterprise player information issued by our chief competitors.

Projected total market size was obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers. The F&S Report was compiled based on the below assumptions: (i) global economy is likely to maintain steady growth in the next decade; (ii) global social, economic, and political environment is likely to remain stable in the forecast period; and (iii) growing economy in overseas countries, increasing population in overseas countries, increasing Chinese population in overseas countries, appealing flavor of Chinese cuisine, innovation on Chinese cuisine, are likely to drive the future growth of the industry. The impact of COVID-19 has been incorporated in the assumptions.

Unless otherwise specified, “international market” in this section refers to the global market excluding mainland China, Hong Kong, Macau and Taiwan.

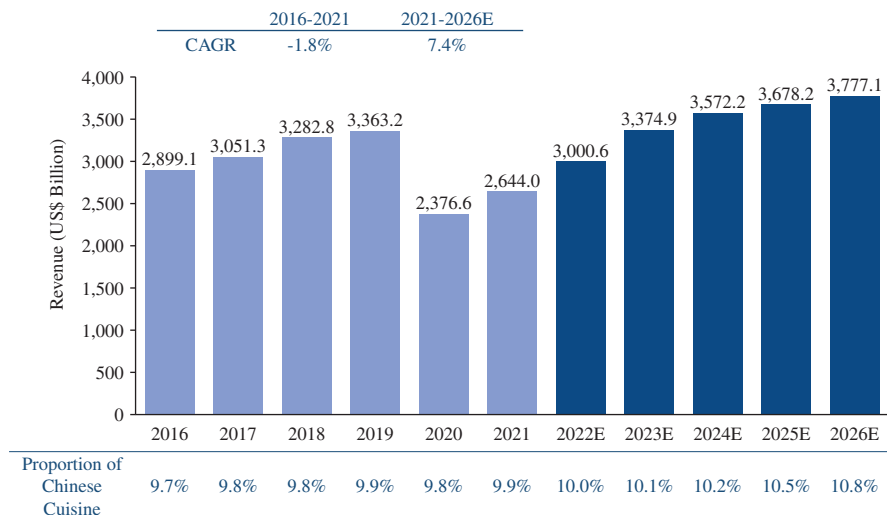
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However, despite their popularity, very few Chinese cuisine restaurants have achieved global brand recognition and scale while maintaining consistently high service and quality standards. Due to the challenges in integrating into local culture, adapting to local tastes and eating habits and complying with local regulatory requirements, only a limited number of Chinese cuisine chain restaurants operate internationally. In 2021, Chinese cuisine restaurant brands in the international market that had over ten restaurants and brands that operated in two or more countries only accounted for 13.0% and less than 5.0% of the Chinese cuisine restaurant market in terms of the number of restaurants, respectively. More recently, Chinese cuisine chain restaurants have gradually put more effort into standardization, localization and brand building to expand internationally.

Market Size

Historically, the international catering service market has experienced rapid growth, increasing from US\$2,899.1 billion in 2016 to US\$3,363.2 billion in 2019. Due to the COVID-19 pandemic, the international catering service market experienced a temporary decrease in 2020 and began to recover in 2021 to US\$2,644.0 billion as the COVID-19 pandemic gradually came under control. With more countries lifting restrictions, the international catering service market is expected to continue its steady growth and reach US\$3,777.1 billion in 2026 at a CAGR of 7.4% from 2021 to 2026. The following chart illustrates the historical and forecasted market size of the international catering service market.

Market Size of International Catering Service Market, 2016-2026E

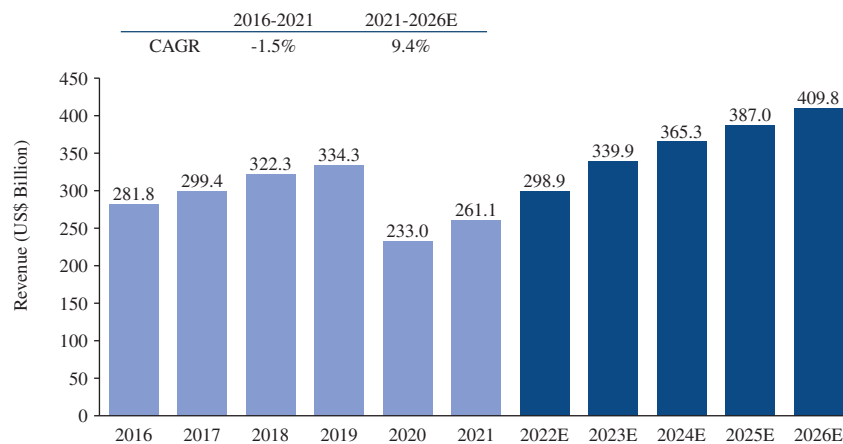


Source: Frost & Sullivan

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As a percentage of the international market, the Chinese cuisine restaurant market is steadily growing, from 9.7% in 2016 to 9.9% in 2021 and is expected to continue to grow to 10.8% in 2026. This is primarily driven by the growing popularity of Chinese culture and increasing acceptance of Chinese food, as well as innovations that adapt Chinese cuisine to local guests. Growth of Chinese cuisine restaurants in the international market will outpace the growth of international catering services market, growing from US\$261.1 billion in 2021 to US\$409.8 billion in 2026 at a CAGR of 9.4%. The following chart illustrates the historical and forecasted market size of Chinese cuisine restaurants in the international catering service market.

Market Size of Chinese Cuisine Restaurants in the International Market, 2016-2026E



Source: Frost & Sullivan

HOT POT CUISINE⁽¹⁾ IN THE INTERNATIONAL MARKET

Hot pot is one of the most representative Chinese cuisine styles, with a history of over 1,700 years. Hot pot is prepared with a simmering pot of soup stock at the dining table. While the hot pot is kept simmering, food ingredients are placed into the pot and are cooked at the table. Hot pot dishes typically include various choices of food ingredients, such as sliced meat, fresh vegetables, tofu, wontons and seafood. After the food ingredients are cooked, the guests usually eat them with a dipping sauce for enhanced flavor.

Note:

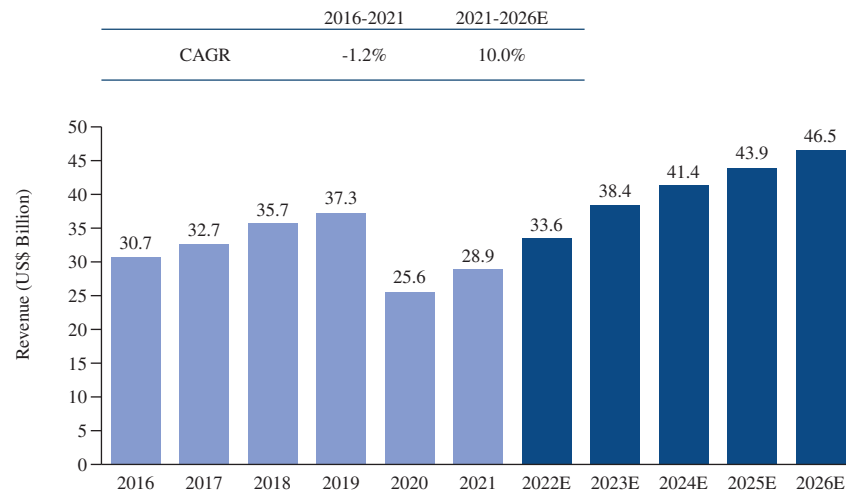
(1) Unless otherwise specified, hot pot cuisine refers to a segment of Chinese cuisine and therefore the market size of the international hot pot restaurant market only include Chinese-style hot pot.

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Compared with other types of Chinese cuisine, hot pot restaurants usually do not require as many skilled chefs and hot pot soup bases can be prepared ahead of time, making it more scalable and readily standardized. In addition, hot pot is generally more welcomed by foreign guests as there is a wide selection of food ingredients and flavors, and is more customizable to guest tastes. Hot pot is a form of communal dining that is meant to be shared, which many foreign guests enjoy as a group with friends and family.

Hot pot is one of the most popular segments of Chinese cuisine in the international market, accounting for 11.1% of the international Chinese cuisine restaurant market in 2021 in terms of restaurant revenue. The market size of hot pot restaurants in the international market increased from US\$30.7 billion in 2016 to US\$37.3 billion in 2019 prior to the COVID-19 pandemic. Due to the pandemic, the market size decreased to US\$25.6 billion in 2020. As the COVID-19 pandemic eased, the hot pot segment has begun to recover, growing to US\$28.9 billion in 2021. The number of hot pot restaurants in the international market is expected to increase from 134,000 in 2021 to 169,000 in 2026. As a result of the increasing number of hot pot restaurants, the growing popularity of hot pot, ease of localization to attract local guests and its high degree of scalability and standardization, hot pot restaurants in the international market is expected to outpace the growth of other Chinese cuisines, reaching US\$46.5 billion in 2026 at a CAGR of 10.0%. The following chart illustrates the historical and forecasted market size of the international hot pot restaurant market.

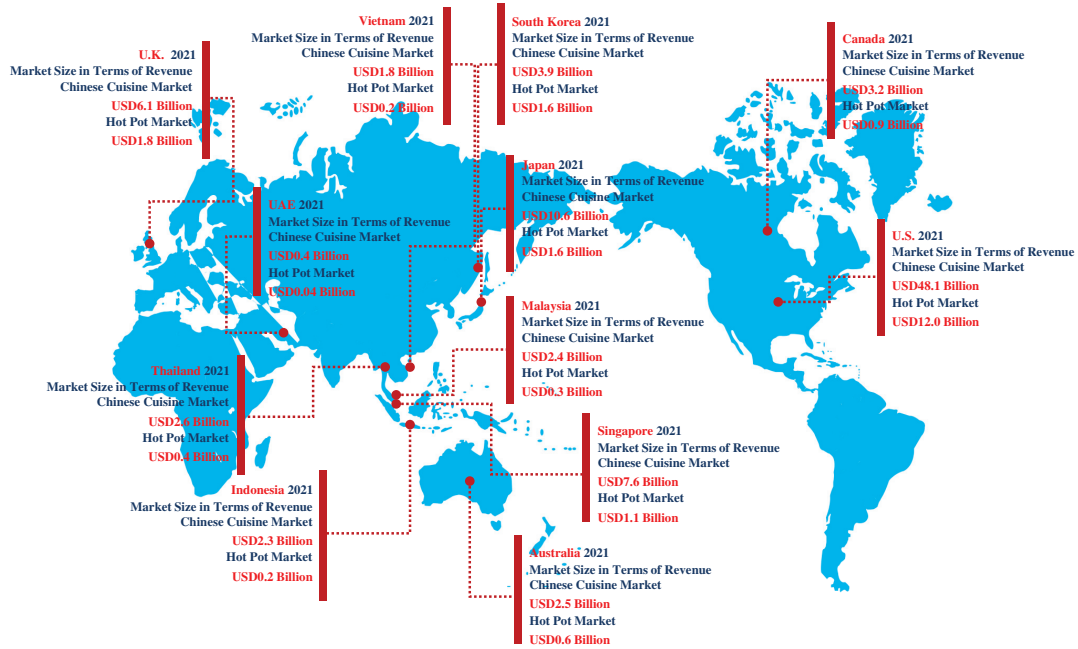
Market Size of the International Hot Pot Restaurant Market, 2016-2026E



Source: Frost & Sullivan

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Currently, Chinese cuisine restaurants are mainly concentrated in regions where there are large populations of Chinese immigrants, such as Southeast Asia, East Asia and North America. These regions accounted for a significant proportion of the total international Chinese cuisine restaurant market. The following map summarizes the market size of Chinese cuisine restaurants and hot pot restaurants in our target markets.



Source: US Census, Japan Food Service Associate, Department of Statistics Singapore, Frost & Sullivan Analysis

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COMPETITIVE LANDSCAPE

Chinese Cuisine Restaurants in the International Market

Currently, the international Chinese cuisine restaurant market is very fragmented with over 600,000 restaurants. We ranked third among all Chinese cuisine restaurant brands in the international market in terms of 2021 revenue. Top five market players in the international Chinese cuisine restaurant market also include Panda Restaurant Group and PF Chang’s China Bistro. The following table summarizes the five largest Chinese cuisine restaurant brands in the international market in terms of 2021 revenue.

Ranking	Group ^{Note}	Background	Revenue in 2021 <i>(US\$ million)</i>	Number of restaurants as of December 31, 2021
1	Company A	Founded in the United States in 1983, Company A is a quick service restaurant chain primarily offering westernized Chinese cuisine. In 2021, it had approximately 2,200 restaurants.	~4,000	~2,200
2	Company B	Founded in the United States in 1993, Company B is a casual dining restaurant chain offering westernized Chinese cuisine. In 2021, it had approximately 320 restaurants.	~1,000	~320
3	Our Company	For details, please see “Business.”	312.4	94
4	Company C	Founded in Taiwan in 1972, Company C is a casual dining restaurant chain offering Jiangsu and Zhejiang cuisine. In 2021, it had approximately 120 restaurants internationally.	~150	~120
5	Company D	Founded in Singapore in 2002, Company D is a casual dining restaurant chain offering seafood, Chinese and Cantonese cuisines. In 2021, it had approximately 90 restaurants internationally.	~130	~90

Note: The identities of our competitors are omitted due to confidential reasons as these companies are all private companies.

Source: The data of the Group is provided by the Group, Frost & Sullivan

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We covered the most countries with self-operated restaurants in 2021 among all Chinese cuisine restaurant brands in the international market. The following table sets forth the five largest Chinese cuisine restaurant brands in terms of country coverage by self-operated restaurants.

Ranking	Group ^{Note}	Background	Number of countries covered by self-operated restaurants
1	Our Company	For details, please see “Business.”	11
2	Company A	Founded in the United States in 1983, Company A is a quick service restaurant chain primarily offering westernized Chinese cuisine. In 2021, it had approximately 2,200 restaurants.	4
3	Company E	Founded in China in 1999, Company E is a Mongolian-style hot pot restaurant chain. In 2021, it had approximately 25 restaurants internationally.	2
3	Company B	Founded in the United States in 1993, Company B is a casual dining restaurant chain offering westernized Chinese cuisine. In 2021, it had approximately 320 restaurants.	2
3	Company F	Founded in China in 2001, Company F is a Mongolian-style hot pot restaurant chain. In 2021, it had approximately 25 restaurants internationally.	2

Note: The identities of our competitors are omitted due to confidential reasons as these companies are all private companies.

Source: The data of the Group is provided by the Group, Frost & Sullivan

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Chinese Cuisine Restaurants Originating from China

We were the largest China-originated Chinese cuisine restaurant brand in the international market in terms of 2021 revenue. The following table summarizes the five largest restaurant brands originating from China in terms of revenue in 2021.

Ranking	Group ^{Note}	Background	Revenue in 2021	Number of restaurants as of December 31, 2021
<i>(US\$ million)</i>				
1	Our Company	For details, please see “Business.”	312.4	94
2	Company C	Founded in Taiwan in 1972, Company C is a casual dining restaurant chain offering Jiangsu and Zhejiang cuisine. In 2021, it had approximately 120 restaurants internationally.	~150	~120
3	Company G	Founded in China in 2003, Company G is a Sichuan-style hot pot restaurant chain. In 2021, it had approximately 15 restaurants internationally.	~19	~15
4	Company E	Founded in China in 1999, Company E is a Mongolian-style hot pot restaurant chain. In 2021, it had approximately 35 restaurants internationally.	~17	~35
5	Company F	Founded in China in 2001, Company F is a Mongolian-style hot pot restaurant chain. In 2021, it had approximately 25 restaurants internationally.	~13	~25

Note: The identities of our competitors are omitted due to confidential reasons as these companies are all private companies.

Source: The data of the Group is provided by the Group, Frost & Sullivan

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MARKET DRIVERS AND FUTURE TRENDS

The following are the key market drivers and future trends of the Chinese cuisine and hot pot restaurants in the international market.

- ***Economic growth in the international market.*** Over the past ten years, many countries that we have operations in have experienced steady economic growth. All the countries that we currently have operations in have experienced GDP growth ranging from 3.7% to 7.8% from 2016 to 2021, except for Japan. Particularly, the nominal GDP of the United States, Singapore and Vietnam grew with CAGRs ranging from 4.2% to 7.8% from 2016 to 2021. According to the International Monetary Fund, despite the COVID-19 pandemic, many countries have recovered economically from the outbreak of COVID-19 and their nominal GDPs are expected to continue to grow in the future. In addition, the steady growth of per capita disposable income has led to consumption upgrades. From 2016 to 2021, all the countries that we currently have operations in have experienced positive growth in disposable income per capita ranging from 0.3% to 7.3% and developing countries, such as Indonesia, Vietnam and Malaysia, are expected to enjoy higher growth in the future. As a result of the consumption upgrades, consumers in the international market tend to desire higher-quality food, a better and more comfortable dining environment and a different cultural experience.
- ***Increasing overseas Chinese population.*** Overseas Chinese people are a large demographic for Chinese restaurants in the international market, especially for restaurant brands that originate from China. There are large communities of Chinese immigrants, students and travelers in overseas countries, such as Singapore and the United States. The Chinese population in overseas countries has increased in past years and has reached about 60 million (including their descendants). It is expected that the Chinese population in overseas countries will keep increasing in the future with the COVID-19 pandemic gradually coming under control.
- ***Growing popularity of Chinese food and Chinese culture.*** In recent years, China’s cultural influence has grown along with its economic growth and increasing globalization. With the growing overseas Chinese population and number of foreign visitors in China, Chinese culture is becoming increasingly popular in other countries. For local guests who have not been to China, Chinese cuisine restaurants offer them opportunities to experience Chinese culture. Accordingly, leading Chinese cuisine restaurant brands will be able to attract more local guests by providing authentic Chinese cuisine that appeals to local tastes and preferences.

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- ***Increasing penetration of food delivery and multiple sources of revenue.*** The demand for food delivery service surged during the COVID-19 pandemic, when social distancing was required and governments imposed restrictions on dine-in services. In many countries, guests have developed the habit of ordering food delivery, as it is more convenient than cooking at home. In addition, many Chinese cuisine brands have developed new revenue channels, which can offset the sales decline of dine-in services. For example, prepackaged food has gained popularity over the last few years, especially among those who do not have sufficient time but still prefer to cook at home. Prepackaged food offers an alternative way for guests to enjoy home cooking in a simple, fast and healthy way. Companies with strong supply chain management capabilities can procure better ingredients and condiments, therefore providing high-quality prepackaged products. In addition, many Chinese cuisine restaurants also develop other product types, such as boba milk tea, which has gained popularity among guests.

ENTRY BARRIERS

There are significant entry barriers in operating a large-scale Chinese cuisine restaurant brand in the international market in different countries. The following sets forth major entry barriers:

- ***Brand recognition and awareness.*** Generally, brand recognition and awareness are highly related to the restaurant’s food taste, safety and quality, service and environment, among others. In the international Chinese cuisine restaurant market, a Chinese cuisine restaurant with strong brand recognition is more likely to be welcomed by guests in different countries. Generally, an international Chinese cuisine restaurant with strong brand awareness will have more exposure on social media platforms, which would attract more guests. In addition, strong brand awareness also helps brands to have relatively high bargaining power on the price of raw materials from local suppliers and rental costs in attractive commercial districts. It is hard for new brands to establish widespread awareness while existing brands with established brand awareness can gain market share easier.
- ***Ability to manage the quality and operating standards internationally.*** For Chinese cuisine restaurant brands operating in multiple countries, it is more difficult to ensure that all restaurants adopt the same standards and comply with local laws and regulations, especially taking into account the different regulatory environments in different countries. Leading players in the market usually have strong and efficient management systems that allow them to implement standardized operations, thoroughly understand and comply with local regulations and steadily develop their Chinese cuisine restaurants in the international market.

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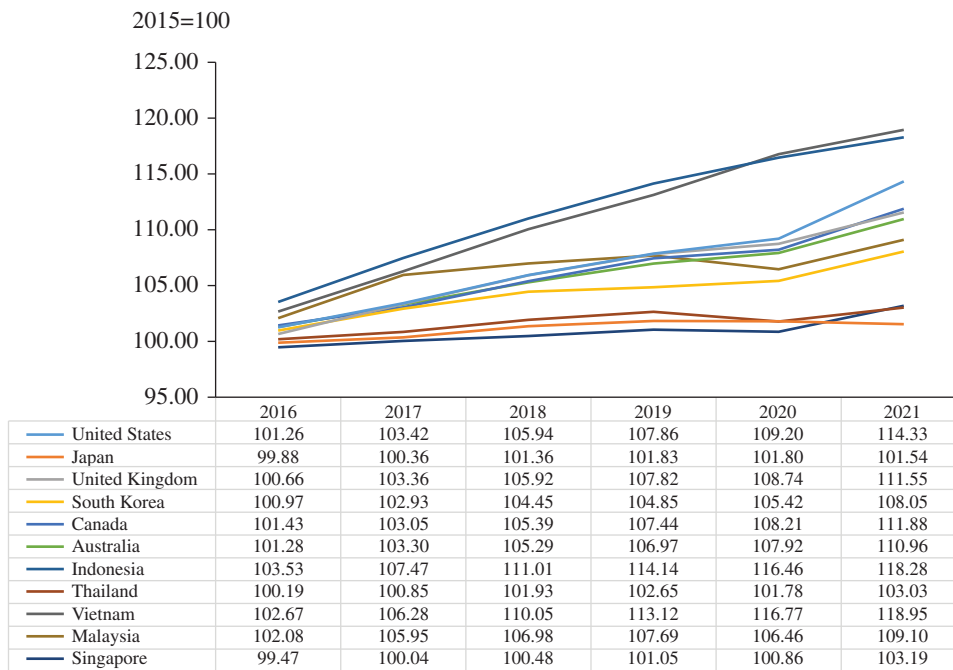
- ***Localization capabilities.*** It is crucial for an international restaurant brand to have localization capabilities to cater to the different tastes and preferences in different countries. Through localization, international restaurant brands can develop deeper and more solid roots in the local community. Compared to other cuisine types, Chinese cuisine generally uses more types of ingredients and its flavors are more diverse, allowing Chinese cuisine to have more flexibility for localization. Within Chinese cuisine, the hot pot dining format and wide selection of food ingredients and flavors in hot pot make it more customizable to local tastes and preferences. These characteristics enable Chinese cuisine, especially hot pot, to enjoy continued growth in the international market. In addition to menu localization, localizing operations, including understanding local customs and practices, and complying with local laws and regulations, are also crucial for international restaurant brands to successfully operate in multiple jurisdictions. New entrants may need significant time and effort to develop these localization capabilities.
- ***Ability to manage a comprehensive supply chain system internationally.*** The quality and taste of food and drinks provided in the restaurant largely depend on the freshness and quality of raw materials. For a Chinese cuisine restaurant brand in the international market, it is important to procure fresh and high-quality raw materials, especially food ingredients, at favorable prices from reliable suppliers and effectively manage the inventories and logistics across restaurants in different countries. Existing market players have already built reliable supply chains, while new entrants with less experience in supply chain management may experience difficulties, which may result in high costs and affect the overall dining experience of guests.
- ***Talent recruitment, training and management capability in different countries.*** The catering service industry is a labor-intensive industry that requires lots of employees for daily operations. It is important for a Chinese cuisine restaurant brand in the international market to recruit, train and manage their employees to ensure that they comply with laws and regulations deliver exceptional services and food to guests, and drive the brand’s expansion. Existing leading market players have adopted a well-established system to train and cultivate qualified restaurant staff and restaurant managers, while new entrants have to spend a long time building such a system. New entrants may also face the risk of high employee turnover rate, which will adversely affect their restaurant operations.

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COST STRUCTURE

The costs of raw materials represented a major cost item for hot pot restaurants in the international market. The consumer price index (“CPI”) is a crucial indicator in assessing the costs of raw materials. In all of the countries where we currently have operations, the 2015-based CPIs have increased from 2016 to 2021. The following table summarizes the CPIs of these countries.

Consumer Price Index of Select Countries, 2016-2021

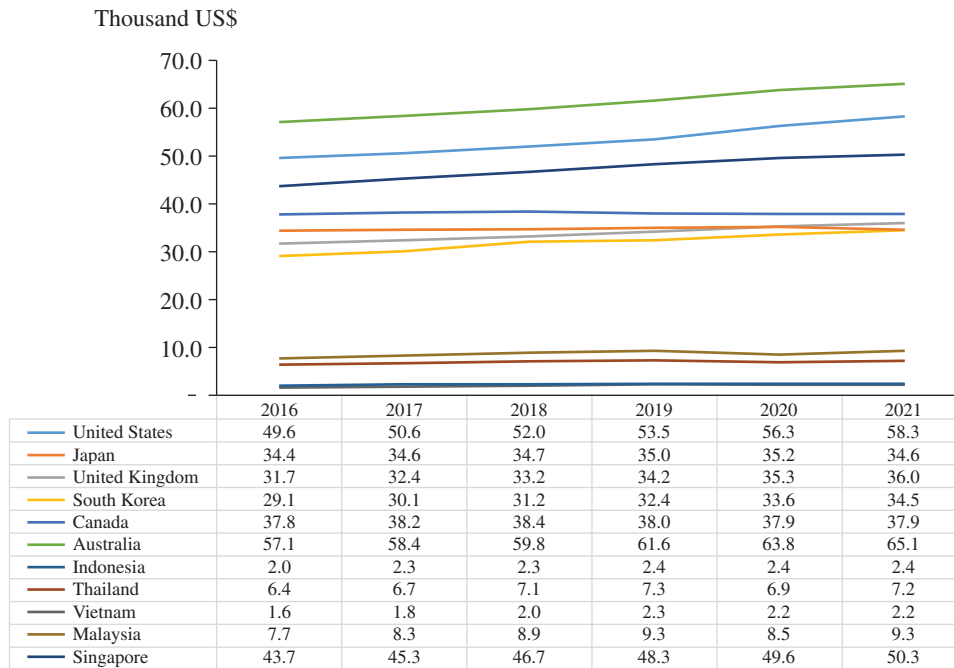


Source: Frost & Sullivan, IMF (April 2022)

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Labor costs are another major cost item for hot pot restaurants in the international market. In line with economic growth, the average annual income of laborers has generally increased steadily from 2016 to 2021 in most countries where we currently have operations, while some countries have experienced a slight decrease due to the COVID-19 pandemic. The following table summarizes the average annual income of laborers in the countries where we currently have operations.

Average Annual Income of Select Countries, 2016-2021



Source: Frost & Sullivan