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## INDUSTRY OVERVIEW

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*The information and statistics set out in this section and other sections of this Document were extracted from the Frost & Sullivan Report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors and advisers or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.*

### SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, an Independent Third Party, to conduct a study of China’s non-alcoholic beverage industry, beverage shop industry and freshly-made tea shop industry. We agreed to pay Frost & Sullivan a fee of RMB1,370,000 for the preparation of the Frost & Sullivan Report, and our Directors consider that such fee reflects market rates and are of the view that the payment of the fee does not affect the fairness of conclusions drawn in the Frost & Sullivan Report. Founded in 1961, Frost & Sullivan has over 45 global offices with more than 3,000 industry consultants, market research analysts, technology analysts and economists.

### RESEARCH METHODOLOGY

During the preparation of the Frost & Sullivan Report, Frost & Sullivan conducted primary research that involved discussing the status of the industry with industry participants and industry experts, as well as secondary research that involved reviewing company reports, independent research reports and Frost & Sullivan’s own database.

### BASIS AND ASSUMPTION

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China’s and the overseas economy is likely to maintain steady growth in the next decade, as according to the National Bureau of Statistics and the International Monetary Fund (IMF), China’s and the global nominal GDP is expected to maintain a CAGR of 5.8% and 4.7% from 2023 to 2033; (ii) China’s social, economic, and political environment is likely to remain stable in the forecast period; (iii) market drivers like the growing per capita disposable income, increasing urbanization rate, continuous innovation, development of technology and government support are likely to drive the beverage shop industry and freshly-made tea shop industry. According to the National Bureau of Statistics, in China, the per capita annual disposal income increased with a CAGR of 6.8% from 2018 to 2023 and is expected to grow with a CAGR of 5.8% from 2023 to 2028. Also, the urbanization rate in China increased from 59.6% in 2018 to 66.2% in 2023, and is expected to reach 73.5% in 2028.

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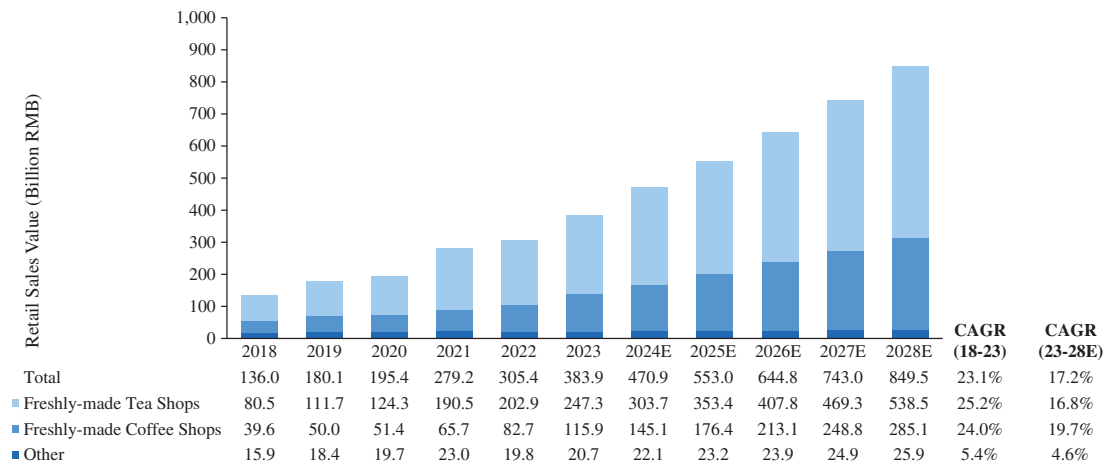
### ANALYSIS OF CHINA’S BEVERAGE SHOP INDUSTRY

#### Market Size of China’s Beverage Shop Industry

With the consumption upgrade, people’s consumption demands have become more diversified and personalized, which promotes the enrichment of consumer goods. This trend creates abundant development opportunities in the beverage shop industry. The total market size of China’s beverage shop industry experienced an upward trend from RMB136.0 billion in 2018 to RMB383.9 billion in 2023, representing a CAGR of 23.1%.

Currently, the two most prevailing types of beverage shops in China’s beverage shop industry are (i) freshly-made tea shops and (ii) freshly-made coffee shops. As tea is the traditional drink in China, the freshly-made tea shop industry have experienced a rapid development and expansion. The market size of freshly-made tea shop industry increased from RMB80.5 billion in 2018 to RMB247.3 billion in 2023 with a CAGR of 25.2%. The market share of freshly-made tea shop industry increased from 59.2% in 2018 to 64.4% in 2023. In the foreseeable future, along with consumption upgrade and increasing demand for quality tea drinks, the market size of the freshly-made tea shop industry is expected to increase to RMB538.5 billion in 2028, occupying 63.4% of China’s beverage shop industry in 2028.

#### Market Size of China’s Beverage Shop Industry, Breakdown by Types, 2018 – 2028E



Source: Frost & Sullivan

Note: Others include juice shops, and shops with carbonated beverages or other beverages as their main products, which are mainly street shops.

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### Market Drivers of China’s Beverage Shop Industry

***Increasing Disposable Income and Urbanization Rate and Consumption Upgrade:*** Over the past few years, spending on meals and drinks has experienced strong growth as urban residents seek to improve their living standards and increasingly dine out. This trend has been supported by the increasing disposable incomes and urbanization rate. In particular, the expanding middle class with strong spending power and increasing propensity to dine out is expected to drive the beverage shop industry in China. This consumption upgrade has led to diversified needs for catering services, including quality and healthy food, restaurant atmosphere, service quality and other social and leisure needs. Notably, freshly-made tea shops have emerged and increasingly occupied China’s beverage shop industry in response to the evolving market demands in recent years.

***Popularity of Online Food Delivery:*** As the penetration of mobile devices increases and Chinese consumers’ pace of life becomes faster, the demand for online food delivery is expected to continue to grow, especially in China’s beverage shop industry. In particular, beverage shops that offer both dine-in and delivery services are expected to benefit from the foregoing trend.

***Innovation and Diversification in Dishes and Drinks:*** Beverage shops in China offer various kinds of beverages, such as coffee, freshly-made tea drinks and juice. In recent years, China’s beverage shops have expanded the choices of ingredients and culinary methods, especially as Chinese consumers become more open to accepting new ideas and making beverages under new culinary concepts. For instance, beverage shops in China have created a number of new combinations of ingredients with coffee, milk tea, fresh fruits and even wines. This trend of creativity provides Chinese consumers more diversified choices and encourages them to purchase more frequently in beverages shops.

### ANALYSIS OF CHINA’S FRESHLY-MADE TEA SHOP INDUSTRY

The upstream of the freshly-made tea shop industry comprises a variety of raw material suppliers, mainly providing different kinds of raw materials such as tea, fruit, dairy products and packaging materials which are necessary for the production of freshly-made tea drinks. The participants in the midstream of the freshly-made tea shop industry are freshly-made tea drink companies, which are responsible for the design, production and packaging of freshly-made tea drinks. These tea drinks are freshly made on the spot of tea shops, based on raw materials including tea, fruit, milk and various kinds of ingredients, such as pearl and coconut jelly. The main business models of freshly-made tea shops include self-operated model and franchise model. The downstream participants of the freshly-made tea shop industry are various sales channels, including offline stores, self-delivery platforms and third-party delivery platforms. Consumers now can choose to order their tea drinks online and receive them through in-store pickup or delivery.

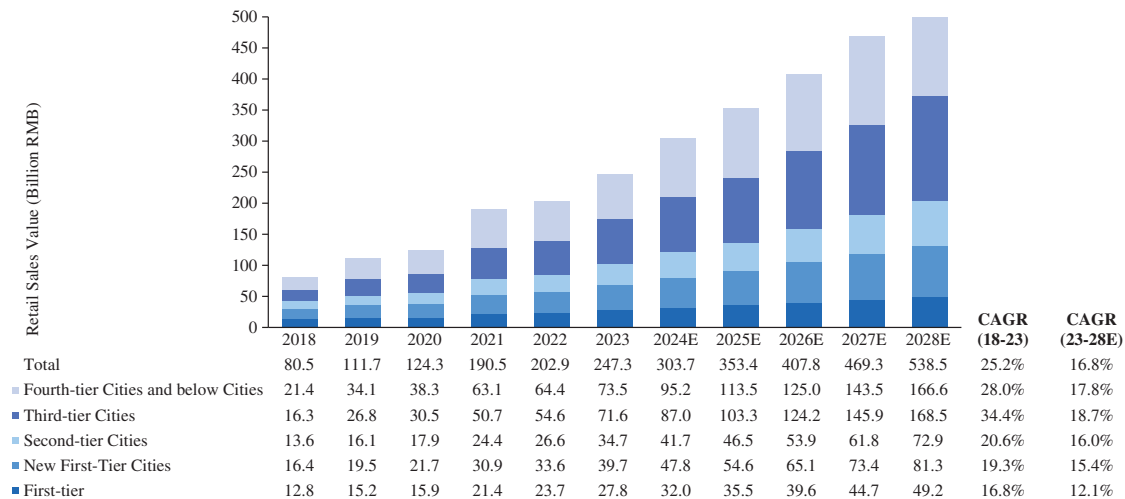
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### Market Size of China’s Freshly-Made Tea Shop Industry

China’s freshly-made tea shop market can be divided by different city tiers. From 2018 to 2023, the freshly-made tea shop markets in new first-tier cities, third-tier cities and fourth-tier and below cities have witnessed rapid growth from RMB16.4 billion, RMB16.3 billion and RMB21.4 billion in 2018 to RMB39.7 billion, RMB71.6 billion and RMB73.5 billion in 2023, respectively, representing CAGRs of 19.3%, 34.4% and 28.0%, respectively.

In the foreseeable future, the freshly-made tea shop market in new first-tier cities, third-tier cities as well as fourth-tier and below cities are expected to further grow with CAGRs of 15.4%, 18.7% and 17.8% from 2023 to 2028, respectively, along with the rapid development of the whole market.

**Market Size of China’s Freshly-Made Tea Shop Market,  
Breakdown by City Tier, 2018 – 2028E**



Source: Frost & Sullivan

In 2023, freshly-made tea shop chain brand occupied 64.7% market share in China’s freshly-made tea shop market and the penetration rate of freshly-made tea shop chain brand is expected to grow to 73.5% by 2028.

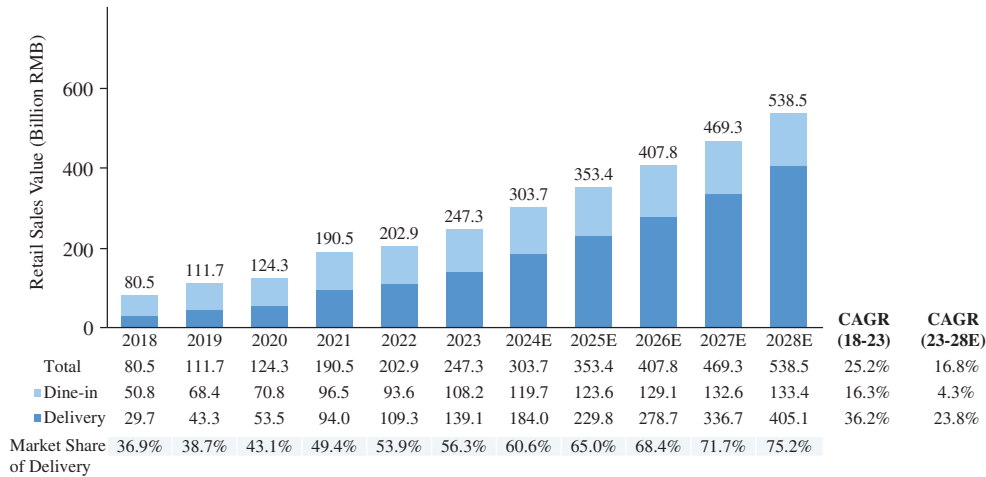
Online food delivery in China has witnessed a fast growth during the past several years, driven by the increased popularity of online food delivery platforms and apps, as well as changes in lifestyles and dining preferences especially in young populations. The demand for online food delivery is expected to continue to grow with the increasing penetration of mobile devices and the expedited pace of Chinese’ lives.

The retail sales value realized through online food delivery in China’s freshly-made tea shop market increased from RMB29.7 billion in 2018 to RMB139.1 billion in 2023 with a CAGR of 36.2%, representing approximately 56.3% of the total retail sales value in China’s

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freshly-made tea shop market. The retail sales value realized through online food delivery in China’s freshly-made tea shop market is expected to reach RMB405.1 billion in 2028 with a CAGR of 23.8% from 2023 to 2028.

### Market Size and Market Share of China’s Freshly-Made Tea Shop Market, Breakdown by Dine-in and Delivery, 2018 – 2028E



Source: Frost & Sullivan

### Competitive Landscape of China’s Freshly-Made Tea Shop Industry

China’s freshly-made tea shop market is fragmented. There are over 2,000 freshly-made tea brands in China’s freshly-made tea shop market. The top five players collectively accounted for approximately 40.0% of market share in terms of retail sales value in 2023. The Group was the third-largest freshly-made tea drink company in China with RMB16.9 billion of retail sales value, occupying around 6.8% market share in 2023.

### Ranking and Market Share of Top Five Players in China’s Freshly-Made Tea Shop Market in Terms of Retail Sales Value, 2023

Ranking	Group	Retail Sales Value in 2023 (RMB Billion)	Market Share in 2023 (%)	Number of Stores 2023	Number of Covered Cities	Price Range
1	Company A	44.0	17.8%	~31,600	~360	4-12
2	Company B	19.2	7.8%	~9,000	~200	6-20
3	<b>The Group</b>	<b>16.9</b>	<b>6.8%</b>	<b>7,801</b>	<b>344</b>	<b>6-22</b>
4	Company C	10.4	4.2%	~7,800	~340	7-21
5	Company D	8.3	3.4%	~7,000	~315	9-21

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*Note:* The market players’ data are based on public information and estimations derived from expert interviews. Due to confidentiality of each player, there may be deviation from their internal financial data.

**Company A:** Established in 1997, this company is a private company headquartered in Zhengzhou, Henan province, China. This company serves various types of products, including ice cream, milk tea, fruit tea, fresh tea, and coffee. This company has over 30,000 stores.

**Company B:** Established in 2010, this company is a private company headquartered in Taizhou, Zhejiang province, China. This company serves various types of products, including milk tea, coffee, fruit tea, fresh tea, and snacks. This company has over 9,000 stores.

**Company C:** Established in 2013, this company is a private company headquartered in Shanghai, China. This company serves various types of products, including fruit tea and milk tea. This company has over 7,500 stores.

**Company D:** Established in 2007, this company is a private company headquartered in Chengdu, Sichuan province, China. This company serves various types of products, including grass jelly products, milk tea, fruit tea, and fresh tea. This company has over 7,000 stores.

*Source: Frost & Sullivan*

The Group covered 344 cities and has 10.6% of stores in first-tier cities, 26.9% of stores in new first-tier cities, 20.9% of stores in second-tier cities, 19.4% of stores in third-tier cities and 22.2% of stores in fourth-tier and below cities in 2023. Compared to other leading players in China’s freshly-made tea shop market, the Group’s distribution in each of the tier cities is relatively even, which has a more diversified distribution.

### Store Distribution by City Tier of Top Five Players in China’s Freshly-Made Tea Shop Market, 2023

Ranking	Group	First-tier cities (%)	New first-tier cities (%)	Second-tier cities (%)	Third-tier cities (%)	Fourth-tier and below cities (%)
1	Company A	~5%	~19%	~19%	~25%	~32%
2	Company B	~3%	~18%	~30%	~26%	~23%
3	<b>The Group</b>	<b>10.6%</b>	<b>26.9%</b>	<b>20.9%</b>	<b>19.4%</b>	<b>22.2%</b>
4	Company C	~7%	~21%	~22%	~21%	~28%
5	Company D	~4%	~31%	~11%	~19%	~36%

*Source: Frost & Sullivan*

### Market Drivers of China’s Freshly-Made Tea Shop Industry

**Enhanced Product Development Capabilities and Marketing Initiatives:** To cater for evolving market demand, freshly-made tea drink brands make efforts on product development and marketing initiatives. In particular, freshly-made tea drink brands offer a wide range of products to meet consumers’ demand for new recipes and unique experiences, such as mixing tea bases with different kinds of fruits. Leading freshly-made tea drink brands constantly experiment with new flavors and ingredients to serve diverse tastes, while incorporating local

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ingredients from different regions into their product development. In terms of marketing initiatives, many freshly-made tea drink brands have co-branded with famous TV series, anime or cartoons to increase attractiveness to customers. Together, these factors drive the development of China’s freshly-made tea shop market.

***Increasing Disposable Income and Urbanization Rate:*** In China, the per capita annual disposal income increased from RMB28.2 thousand to RMB39.2 thousand from 2018 to 2023 with a CAGR of 6.8%. Also, per capita annual disposal income in new first-tier and second-tier cities in China has increased from RMB40.6 thousand and RMB34.9 thousand in 2018, respectively, to RMB55.0 thousand and RMB49.8 thousand in 2023 with CAGRs of 6.3% and 7.4%, respectively. In addition, the urbanization rate in China increased from 59.6% in 2018 to 66.2% in 2023. With continuously increasing disposal income and urbanization rate, consumers now have a higher standard for the taste and quality of food and tea drinks. Consumers prefer tea drinks made from quality tea leaves instead of milk tea powder or tea dregs. The increasing product standard and changing demand of consumers, freshly-made tea shops need to provide new flavors of their products to attract consumers. With the continuous innovation of freshly-made tea shops, China’s freshly-made tea shops market has grown fast in China.

***Development of Delivery Service and Online Order:*** The penetration rate of China’s mobile internet users has increased from 58.5% in 2018 to 80.2% in 2023. A growing number of consumers prefer to order food and drink through their mobile phones. China’s fast-paced lifestyle also boosts the development of delivery service, which creates various channels for China’s freshly-made tea shops to sell their products. The development of delivery service and online order systems allows China’s freshly-made tea shops to increase their sales volume, thereby driving the freshly-made tea shop market to keep growing in the next few years.

### Opportunities of China’s Freshly-Made Tea Shop Industry

***Brand Awareness Enhancement:*** (i) Brand reputation is the key factor to differentiate from other players in the market with a large number of participants and no market dominator. Participants of China’s freshly-made tea shop industry need to improve and strengthen their brand reputation to compete with all other market players. Freshly-made tea shops are also continuously increasing their brand awareness and the repurchase rate to establish a strong brand stickiness for consumers in the market. (ii) The freshly-made tea shops can attract new consumers and maintain loyal consumer base with more bestselling products and enhanced marketing efforts. Since most consumers are willing to try new products, players with strong brand reputation and innovative products are expected to attract their consumers to repurchase more often.

***Technology Upgrade and Digitalization:*** (i) A wide range of new technologies in relation to the freshly-made tea shops such as digital payment and online ordering systems have become more pervasive and have made it more convenient and efficient for the transaction between consumers and freshly-made tea shops. In addition, those tea shops are able to collect and analyze consumer behavioral data to launch targeted marketing campaigns, increase consumer



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stickiness and enhance brand loyalty. With these advanced technologies and digital functions, freshly-made tea shops are improving their business performance and operation. (ii) In addition, freshly-made tea shops also have built their online platforms to enrich the shopping scenarios and provide a more convenient shopping experience for consumers. Freshly-made tea shops are able to establish their private traffic pool through online apps and to provide more customized products for consumers. Therefore, the development of technology and digitalization is expected to be a major market driver that helps freshly-made tea shops improve operating and management efficiency.

***Product Innovation and Product Offering:*** Continuous product innovation has become a strong driving force for the development of the freshly-made tea shop market. To meet the needs of new generation consumers, freshly-made tea shops are constantly innovating in terms of raw materials, products, packagings, sales and marketing methods. In addition, China’s freshly-made tea shops have been constantly innovating their product offerings and delivering new consumption experience for consumers with products such as milk-cap tea, health-supplement tea and mixed fruit tea. In addition, along with the increasing health awareness, consumers tend to purchase low-calorie and low-sugar products, which also brings potential business development opportunities for existing freshly-made tea shops. With more diversity in tea drink products, the freshly-made tea shop market is expected to have more growth opportunities in the future.

***Industry Consolidation:*** With the development of Internet and online apps with review functions, consumers now can easily share their opinions with each other. More and more consumers are attracted to leading brands in the market who enjoy high reputations and offer quality products. In terms of collective retail sales value, market share of the top five players increased from 36.3% in 2022 to 40.0% in 2023. Hence, leading freshly-made tea shops are expected to gain larger market shares and the market is expected to be more concentrated.

***Franchise Model that Enables Rapid Growth for Market Participants:*** The franchise model has gained popularity in the freshly-made tea shop industry, particularly for leading companies seeking rapid expansion. Under the franchise model, franchisees can take advantage of the established brand recognition and marketing efforts of the brand operators, also receive training and ongoing support to help them run their businesses. This model has been proven successful in the freshly-made tea shop industry. The franchise model also delivers various benefits for the franchisors, such as the increases of brand exposure and customer loyalty, as well as entering into new markets without assuming the risks and costs in relation to opening new stores. Overall, the franchise model has become an increasingly popular way for freshly-made tea shops to expand their business and reach new consumers. With careful planning and management, franchise model can deliver win-win situation for both franchisors and franchisees.



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### Challenges of China’s Freshly-Made Tea Shop Industry

**Rising Labor Costs:** Human resource is a key factor in the freshly-made tea shop industry. As the economy develops, labor costs in China have kept increasing in recent years. The average annual salary of employees in the freshly-made tea shop industry increased from RMB39.6 thousand to RMB49.3 thousand from 2018 to 2023 at a CAGR of 4.5%. Going forward, the average annual salary of employees in the freshly-made tea shop market is expected to increase along with the growing nominal GDP in China. The rising labor cost is likely to pose challenges to the market development.

**Fierce Competition:** The freshly-made tea shop industry in China is highly competitive. In 2023, the market size of China’s freshly-made tea shop market was RMB247.3 billion, with the top five players collectively accounting for approximately 40.0% of the market share in terms of retail sales value, according to Frost & Sullivan. The competition may be increasingly intense in the future due to the growing number of freshly-made tea shop brands and the lack of clear differentiation in product offerings, pricing and other key aspects among these brands. The proximity of freshly-made tea shops under different brands in adjacent areas also contributes to heightened competition. According to Frost & Sullivan, the distance between ChaPanda stores and the tea shops of other leading players in the surrounding areas generally range from 0.1km to 5km.

### Entry Barriers of China’s Freshly-Made Tea Shop Industry

**Franchisee Management:** The scale expansion by opening up franchising is accompanied by significant challenges, including franchisee management, franchisee profitability expectations, supply chain support capabilities and quality control management of key raw materials. While the established brands usually have proper management modes, experienced management personnel and well-designed management system, it takes time for new market entrants and emerging brands to gain experience and finding suitable franchisee management model.

**Brand Awareness:** In general, the brand awareness of a freshly-made tea shop is highly subject to its leading products. A product with nationwide popularity has the ability to change the trend in China’s freshly-made tea shop market. Meanwhile, the well-known market players may prefer to collaborate with freshly-made tea shops with high brand recognition in the market. For the new market entrants, it is hard for them to establish relationships and brand awareness in a short period of time.

**Standardization and Regulatory Compliance:** As freshly-made tea shops grow in size, it becomes more difficult to ensure that all tea shops carry out standardized operations, especially with respect to food quality, food safety, hygiene and service quality. It is difficult to ensure consistent product taste and flavor across hundreds of tea shops. In addition, it is challenging to manage a large freshly-made tea shop network with more employees and ensure that all tea shops and staff comply with the laws and regulations of multiple jurisdictions. In this situation,

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good and functional standardization and regulation management of a freshly-made tea shop is very crucial for the brand to expand in the market. Therefore, new market entrants are expected to experience difficulties in maintaining the standardization process while growing fast in China.

***Supply Chain Management:*** In China’s freshly-made tea shop market, to sustain its business in the market, efficient and effective supply chain management is very important for every market participant to provide quality products and reduce related operating cost. To ensure the fresh and natural taste of their products, leading players cooperate with stable suppliers or set up their own farms and orchards to provide raw materials. Good supply chain management allows freshly-made tea shops to achieve better performance and monetization efficiency. For new market entrants, it takes relatively longer to build up a stable supply chain management system if they wish to expand their business nationwide.

***Store Location Selection:*** Selecting a good location is an essential step for a freshly-made tea shop to succeed in the first place. A great location is able to bring larger consumer traffic and potential higher sales. Usually, freshly-made tea shops are likely to be opened in the center of shopping malls or on the first floor, where most consumers walk by during their stay. Those large shopping malls also favor to cooperate with notable freshly-made tea shops to bring more consumers to the shopping malls. However, new market entrants are less attractive for both consumers and shopping centers; therefore, it is difficult for new entrants to choose a preferable location for their freshly-made tea shops.

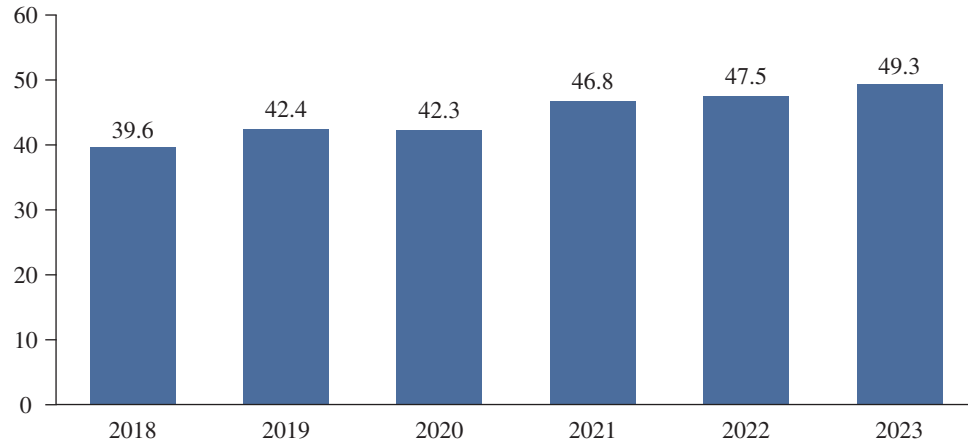
### **Cost Analysis of China’s Freshly-Made Tea Shop Industry**

In line with the growing macro economy, the annual income of employees in the freshly-made tea shop market in China has increased steadily from 2018 to 2023. Labor cost is expected to keep the growing trend in the coming five years due to the developing macro economy, growing disposable income and inflation. Going forward, the average annual salary of employees in the freshly-made tea shop market is expected to increase along with the growing nominal GDP in China.

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### Average Annual Salary of Employees in Freshly-Made Tea Shop Market (China), 2018-2023

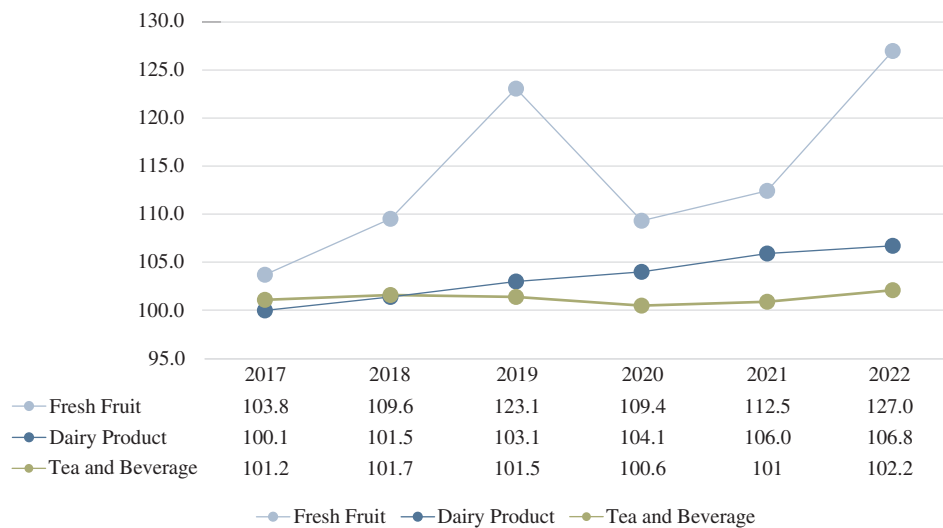
Average Annual Salary  
(Thousand RMB)



Source: Frost & Sullivan, National Bureau of Statistics

Three major types of raw materials of freshly-made tea shops used in the process of making freshly-made tea drinks are fresh fruit, dairy products, and tea and beverage. Along with the stable growth of China’s CPI, CPI on fresh fruit has increased from 103.8 in 2017 to 127.0 in 2022 and CPI on dairy products has increased consistently from 100.1 to 106.8 from 2017 to 2022. CPI on tea and beverage has increased from 101.2 in 2017 to 102.2 in 2022.

### CPI (2016 Base) on Raw Materials (China), 2017-2022



Source: Frost & Sullivan, National Bureau of Statistics