Out of the quandary: Steady advances in the new era

China's Chain Restaurants: Road to Capital Series Report 2023

pwc 普华永道

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Content

Foreword

For catering companies, 2022 was a challenging year. Many businesses faced fewer actual days of operation and lower customer number at physical locations. With the uncertainty of store operations, the industry as a whole has ushered in a time of reshaping, where many choose to keep a low profile and strengthen both internal and external capabilities – it is under this backdrop that catering companies are finding it an absolute necessity to reduce costs, increase efficiency, and enhance their business' flexibility and resistance to risk.

According to the National Bureau of Statistics, China's catering industry revenue in 2022 was approximately RMB4.4 trillion, a year-on-year (YoY) decline of over 6% from 2021. In the face of short-term sluggishness of the offline catering market, companies are actively responding to the situation by adopting such methods as cross-category innovation and fusion, development of pre-prepared food product lines, development of the franchising market, and cooperation with online platforms to acquire new customers, to find new growth opportunities. As people's lives return to normal in 2023, the catering industry was the first consumer sector to show signs of recovery. After a two-month adjustment period at the beginning of the year, catering income has grown strongly from March onwards, and market confidence has been restored. Despite the uncertainties ahead, catering chains that have gone through years of trials and implemented strategic adjustments will be able to capitalise on market opportunities more quickly.

From 2022 to the first quarter of 2023, a total of 2 catering enterprises completed A-share listing, 2 enterprises listed on the HKEX, 1 enterprise listed on NASDAQ, and more than 10 catering enterprises submitted listing applications. Investment and financing activities in the primary market tend to be more tempered but remain active.

Against this background, the China Chain Store & Franchise Association and PricewaterhouseCoopers (PwC) jointly tracked and researched the road to capital of China's chain restaurant enterprises for the third consecutive year from the standpoint of the capital market, to analyse the development trend of primary and secondary capital markets of the catering industry and provide references for the vast number of participants in the industry.

This report has been updated and expanded on the basis of the previous two issues. Firstly, we analyse growth drivers of China's catering companies based on the catering industry's full-year data for 2022, combined with the latest trends in the catering market in the first half of 2023. Secondly, the research sample of listed catering companies is adjusted to 27 listed and potential listed companies with stores in mainland China to continuously track their performances and market capitalisation, as well as to follow the investment and financing trends in the brick and mortar catering market and analyse market investment hotspots and trends. In addition, this report adds new primary research on 51 brick and mortar chain restaurant brands to analyse the recovery of the offline restaurant market in the first half of 2023 and the revenue expectations of restaurant companies for 2023. Finally, the report analyses the latest trends in listing rule changes and the choice of listing exchanges in the restaurant industry.

We hope that the results of this research can provide a guideline for catering companies in their future advances.

June 2023

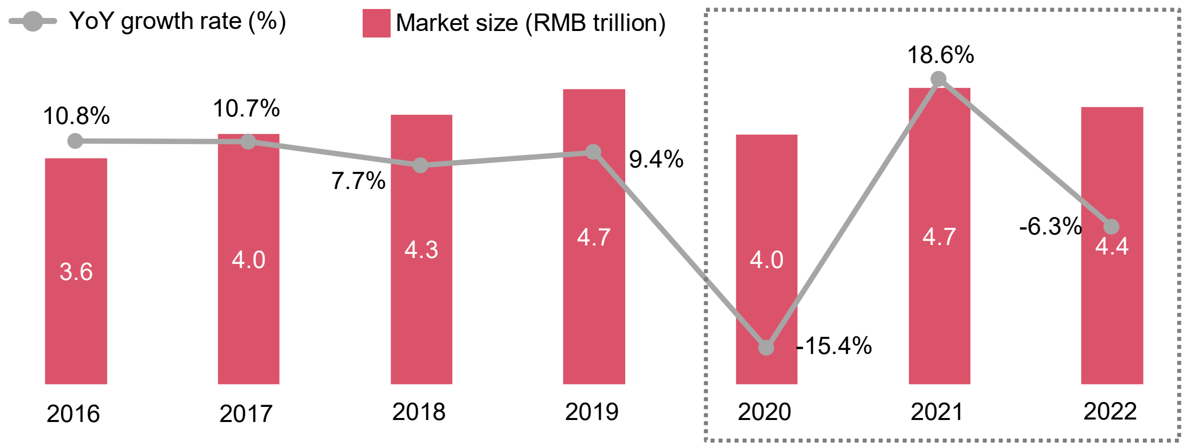
1 Catering industry in 2022

The catering industry faces pressure again in 2022

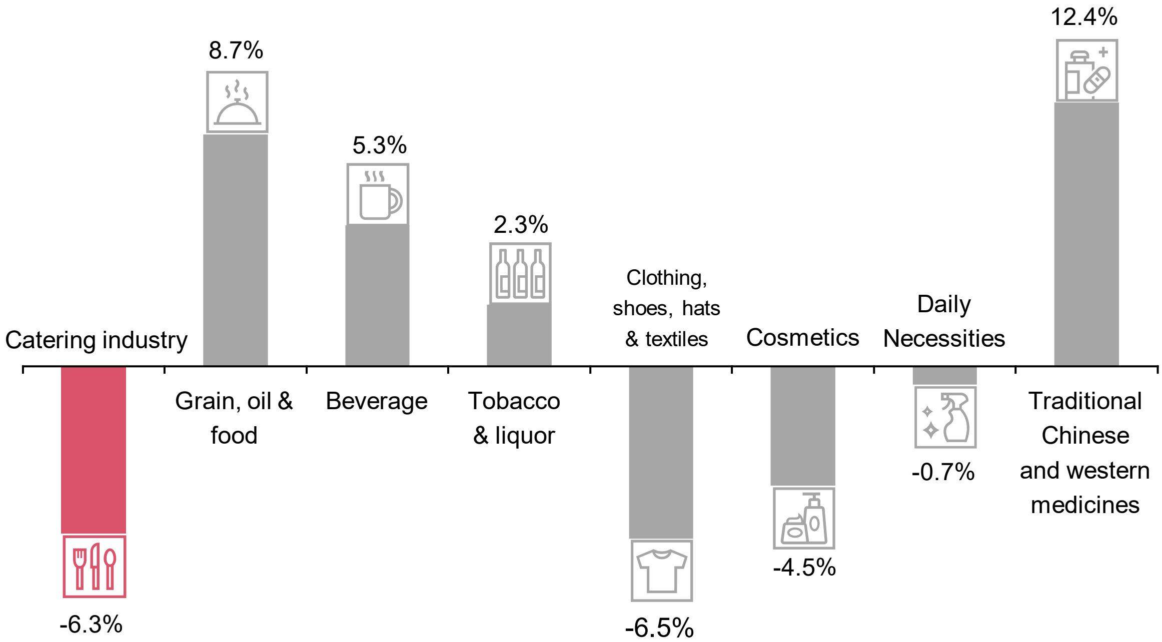
After a strong rebound in 2021, the catering industry fell back again in 2022, with the market size declining by approximately 6% YoY, due to a reduction in the number of business days open for dine-in. After the government issued the '10 New Measures' and other policies aimed at optimising COVID control, economic activities across the country began to resume in an orderly manner, and the catering market was able to warm up.

Among industries related to the staple goods, catering was one of the most affected industries. Catering, clothing, shoes, hats & textiles, cosmetics, and daily necessities have all experienced declines compared to 2021. And the decline of the catering industry was second only to clothing, shoes, hats & textiles.

Catering industry market size and growth in China (2016-2022)



Year-on-Year growth rate of retail sales of consumer goods[1] in 2022



Note: 1. Refers to YoY growth rate of retail sales of enterprises (units) above a certain size. As the list of enterprises (units) above a certain size is updated every year, the calculation is restricted to the latest list designated by the National Bureau of Statistics for data comparability.
Source: National Bureau of Statistics

Catering companies are actively exploring new growth avenues

Cross-category integration to meet multi-scene needs

A wide variety of 'solo-dining meals', 'small family meals', and 'fresh foods at convenience store' scenarios have emerged in recent years. Takeaway has become the main channel and many consumers have blurred the concept of 'three meals a day'. Afternoon tea and late night meals with emotional value, outdoor camping and late-night drinks with social value have also become the trend of people's leisure and entertainment, and in order to meet the needs of these diversified scenarios, catering companies have become more flexible in their operating hours.

Meanwhile, with Generation Z becoming the main consumer group, offline catering is focusing more and more on meeting the consumer vision of a better life through high-quality products and services, and the innovative fusion of cross-cuisine categories, such as 'hot pot + dessert', 'barbecue + milk tea' and 'bookstore + coffee', has become the new signature of some catering brands.

The rise of new retail cultivating new consumer habits

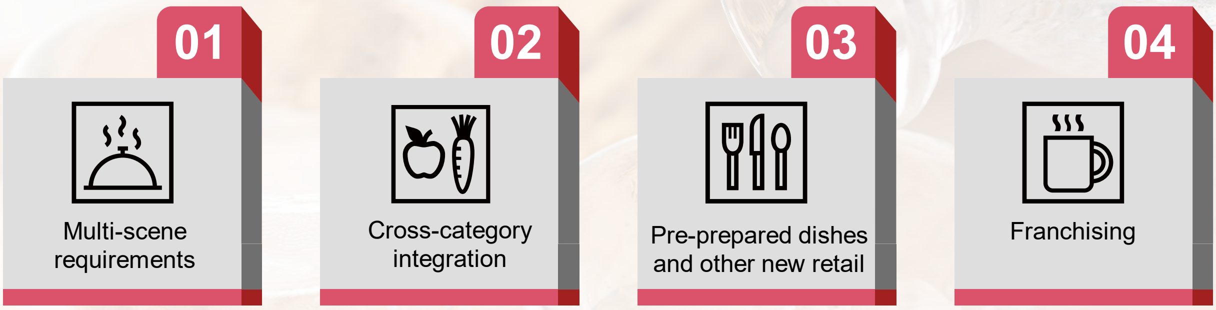
Catering companies are also rapidly developing new product formats in order to create more revenue streams and implement online and offline co-development strategies. Pre-made dishes, semi-finished products and various types of retail products that meet the consumer demand for easy cooking at home are commonplace in residential group-buying activities. New consumption habits are being cultivated, prompting accelerated development of pre-prepared dishes reaching not just businesses but also consumers directly.

Pre-cooking and retail-isation have also become the major forces for catering companies. In order to reduce costs and increase efficiency, simplify the cooking process and improve the efficiency of meal services, a number of catering companies have upgraded their supply chains and accelerated the process of catering industrialisation. It has become a trend to develop a variety of semi-finished products, cooking packages and also launch retail products based on individual store characteristics.

Directly operated brands opening to franchising, in exploration of new chain growth opportunities

Compared to franchised brands, directly operated brands have to confront more expensive initial capital investments and serious operating cost pressures, so business challenges faced by such enterprises have been even more acute in recent years.

Since the beginning of 2023, the catering market has taken the lead in ushering in the recovery. A number of directly-managed brands have started to explore franchising or partnership models. Whether for the purpose of alleviating financial pressure, or to seize recently vacated market spaces, it has become the consensus of several leading brands, which used to be directly managed only, that the launch of franchise programs is necessary for their national strategy.



Source: public information

Community focus, smaller storefront, specialised positioning

Raw ingredients, rent, and labour are the three major costs of catering businesses. Affected by uncertainty, catering businesses will also pay long-term attention to their ability to reduce costs and increase efficiency, so the 'small store' model with its smaller area, less staff investment, flexible structure, and proximity to the community has become the trend.

In terms of category, small store segments with regional characteristics are also gradually rising. Some large restaurant groups have also accelerated implementing a 'second growth curve', and have launched sub-brands under specific market segments with regional characteristics or based on traditional Chinese culture.

The online to-go food service market expands further as Tik-Tok enters this market

Tik-Tok has achieved the combination of a content platform, marketing channel, and product seller on the road to commercialisation, providing restaurant merchants with another fully linked trading platform that integrates exposure, traffic driver and conversion.

Expanding global footprints

The global catering market is gradually recovering, and 'outbound' has once again become a hot topic for catering enterprises. The United States, Japan and Southeast Asia have a high degree of acceptance of Chinese food and are the first choice of many Chinese catering enterprises when going overseas.

In recent years, players from a number of categories, including milk tea, coffee and hot pot, have accelerated their overseas footprint. Catering industry players constantly consider ways to overcome the frictions in the offshore environment, realise profitability in overseas stores and scale up their brand, and although difficult, the curtain of globalisation has been lifted.

Source: public information

2 Primary and secondary market trends in the catering industry

2.1 Secondary market performance of listed/to be listed catering companies

Overview of research scope and sample

In terms of the secondary market, a number of catering companies are very active. There were 13 catering companies delivering their IPO applications in 2022. As of the first quarter of 2023, 5 companies have completed their IPO, namely Wufangzhai, Ziyan Foods, Tims China, Domino's Pizza and Super Hi International (divestiture), while 3 companies were undergoing the IPO process.

The research sample consists of 27 listed/to be listed catering chain companies[1] with stores in mainland China, of which 26 are listed and 1 is in the IPO process. All of the 27 companies have disclosed their 2022 financial reports, while 10 have disclosed their financial performance in the first quarter of 2023.
The information sources for the research include annual reports, prospectuses, official websites and other public channels.

The revenue scale of the sample companies varies widely, with most companies' revenue in the range of RMB1-5 billion.

Nearly half of the sample companies have 100-1,000 stores.

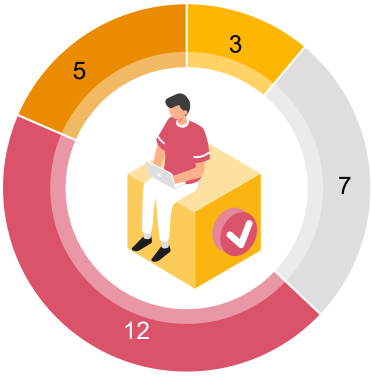
The sample companies are mainly HKEX-listed.

The sample companies focus mainly on Full-Service Restaurant (excl. hotpot), Quick-Service Restaurant (QSR) and Street Food.

Note: 1. Listed/To be listed catering chain companies which have disclosed their 2022 financial reports are selected as sample companies. The list of sample companies is detailed in the appendix. Among them, Super Hi International was divested from Haidilao for listing at the end of 2022, so its business performance before divestiture can be found in the financial statements of Haidilao for 2021 and previous years. For comparable analysis, Super Hi International is still included in the 2022 data analysis of Haidilao.
Source: Wind, company website

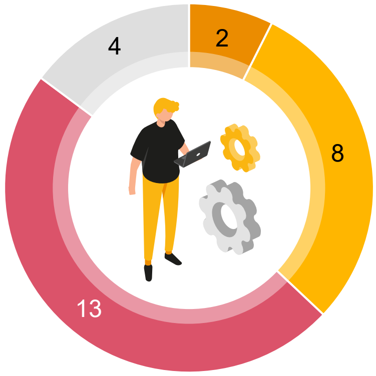
Sample companies by revenue

Unit: # of companies



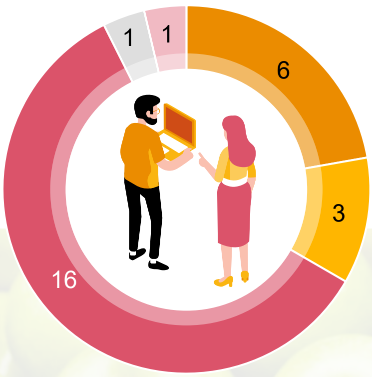
Sample companies by number of stores

Unit: # of companies



Sample companies by listing venue

Unit: # of companies



Sample companies by category[1]

Unit: # of companies

Note: 1. Companies involving multiple types of restaurant business are categorised according to their main brands.
Source: Wind, company website

In terms of revenue, full-service restaurant (excl. hotpot) has been most affected in recent years, while other categories have achieved revenue growth through standardised store expansion

Companies from all categories have tried to improve revenue by supplementing with take-out channels and new retail businesses. However, decreased operational days still exerted a greater impact on the single store revenue. Categories with a higher degree of standardisation continued to achieve overall revenue growth through business expansion.

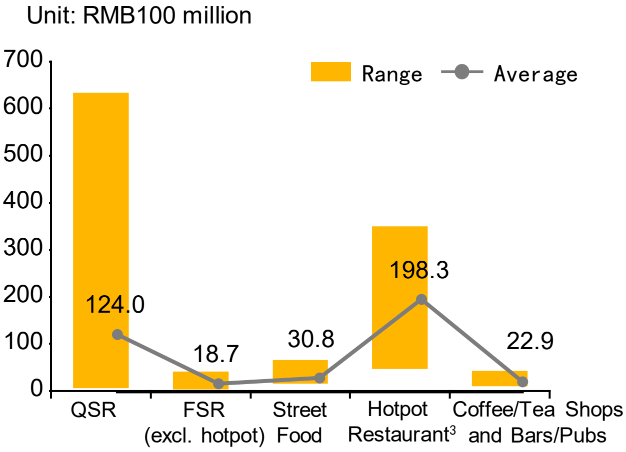
Quick-Service Restaurant (QSR)

More than 65% of QSR sample companies achieved double-digit revenue growth in 2022 compared to 2019, although the performance of single store has not fully recovered. With dine-in services being restricted, sample companies tried to offset the revenue reduction by growing take-out business which accounted for more than 30% of overall revenue in 2022 thanks to well-established takeaway channels. Meanwhile, QSR companies were still actively opening new stores to improve market penetration and expand their geographic coverage.

Full-Service Restaurant (excl. hotpot) (FSR)

The FSR was the most affected category during 2022, and the only one that recorded negative growth in revenue compared to 2019. Most of the sample companies adopt multi-brand strategies, cross-cuisine integration, upstream and downstream extension in the industry chain as their main business model. However, due to the focus on in person experiences, higher initial investment per store, burden of high fixed costs, significantly decreasing table turnover rates, nearly 70% of the sample companies saw a drop in revenue compared to 2019. In spite of store upgrade and renovation, dish updates, take-out menu development and delivery system construction, FSR companies would find it hard to achieve sustainable revenue growth if they do not refresh their brands and enhance brand power.

Range and average[1] of revenue of sample companies by category in 2022



Street Food

Most of the street food brands operate on a franchise-based business mode with direct operation as supplementary, allowing them to be more resilient. Sample companies developed strategies to expand their market presence based on the pace of recovery of different channels and market trends, and expanded their market share through continued brand empowerment.

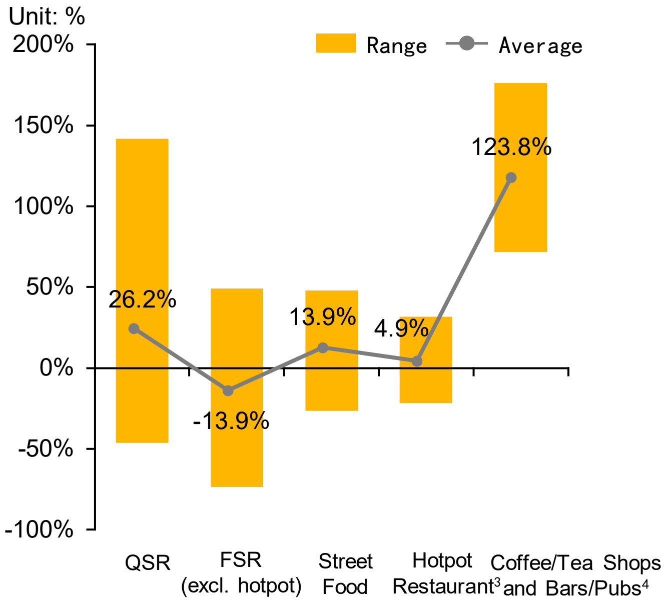
Hotpot Restaurant

All the sample companies of hotpot brands have more than 1,000 stores. Most of them chose to close stores that failed to meet expectations and slow down the pace of new store openings in order to stabilise business conditions. With a high degree of standardisation of dishes, sample companies achieved a secondary growth curve in revenue through hotpot delivery, group purchasing and door-to-door services. Retail products have also become best-selling products on various e-commerce platforms.

Coffee/Tea Shops and Bars/Pubs

As an emerging segment in the catering market, drink companies are undergoing rapid development with aggressive store expansions. Chinese new tea drinks and coffee category relied on well-established take-out channels and contact-free pickup for online orders and reduced the impact of restrictions on dine-in services. Bars/pubs companies were seeking new revenue growth opportunities by exploring new cooperation modes of franchising.

Range and average[1] of revenue growth rate[2] of sample companies by category (2022 vs 2019)



Note: 1. Refers to arithmetic averages. 2. Revenue growth rate = (revenue for 2022 / revenue for 2019 - 1) * 100%. 3. Super Hi International was divested from Haidilao for listing at the end of 2022, so its business performance before divestiture can be found in the financial statements of Haidilao for 2021 and previous years. The financial statements for 2022 of Super Hi International and Haidilao are summed for comparison with 2019. 4. Tim Hortons China opened its first store in mainland China in early 2019 and has opened stores rapidly in the past two years with a high growth rate. Therefore Tim Hortons China is excluded in the calculation of the main business revenue growth rate range and average of the coffee/tea shops and bars/pubs category
Source: Annual reports, prospectuses

In terms of profitability, all categories faced declines in varying degrees compared to 2019, but to a lesser extent in QSR, Street Food and Hotpot Restaurant

Overall, the average profitability of all categories declined in varying degrees compared to 2019. Higher operating costs were incurred during 2022 in many catering companies. The shortage of supplies and restrictions on transportation further increased raw materials and logistics costs; the long-term procurement of required pandemic supplies such as masks, thermometers and sanitisers brought additional operating expenses; in addition, with fewer operating days, fixed expenses such as rent and labour costs further exerted pressure on the overall store.

Quick-Service Restaurant (QSR)

QSR restaurant companies were relatively less affected, with more than half of the sample companies having achieved profitability. Although a number of QSR companies opened new stores whilst continuing to adjust store models to improve operating efficiency, rising ingredient and labour costs, combined with higher platform fees, continue to affect profitability.

Full-Service Restaurant (excl. hotpot) (FSR)

There was a big gap among FSR companies in terms of profitability, with nearly 70% of the sample companies' EBIT in the red. With relatively high requirements for raw material quality, freshness, and cooking, many listed FSR companies faced severe gross margin pressures. Due to the shutdown of brick and mortar stores, some FSR companies realised the necessity of take-out channels, which correspondingly increased expenses such as take-out platform fees and other related expenses. As the offline losses were partially offset by the new retail business, the decline in profitability was unavoidable due to the generally limited scale of new retail businesses.

Street Food

The franchise mode enabled street food to be the only category which turned a profit across the board. In recent years, upstream breeding costs have increased significantly due to the rising prices of commodities, food and feed stuff, with the increase in the price of ducklings in particular hitting leading braised meat companies, which, unable to entirely transfer the increased costs downstream, faced varying degrees of profit decline.

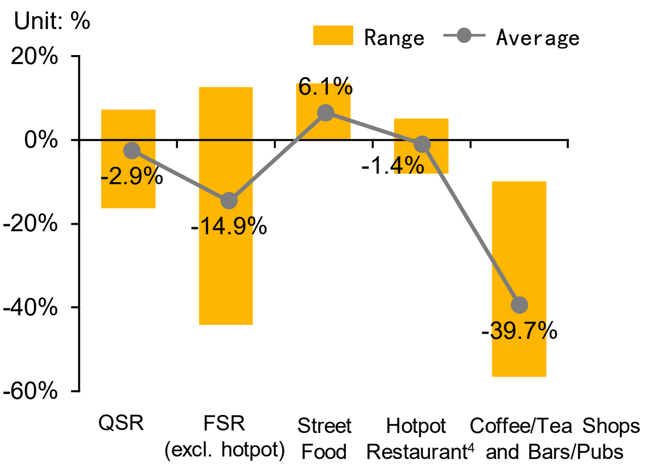
Hotpot Restaurant

With social distancing restrictions, hotpot, with its high social value, saw declines in both table turnover and single-store revenue. Leading players tried to improve the overall profitability by closing some underperformed stores.

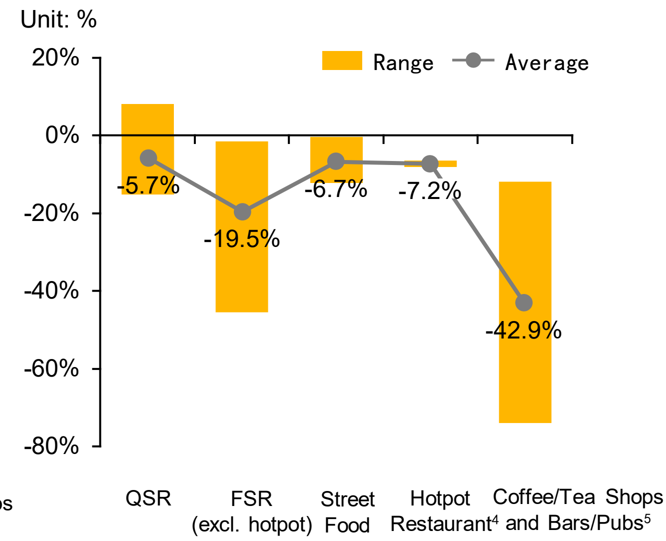
Coffee/Tea Shops and Bars/Pubs

In the increasingly competitive segment market of coffee/tea shops and bars/pubs, losses and expansions are both on show. In order to seize market share, top players opened new stores rapidly, while they continued to aggressively promote and market to attract consumers. The challenging market environment prolonged the ramp-up period of new stores and destabilised the revenue of existing stores, presenting profitability challenges to the companies.

EBIT%[1] range and average[2] of sample companies by category in 2022



Range and average[2] of EBIT% change[3] of sample companies by category (2022 vs 2019)



Note: 1. EBIT% = EBIT / revenue, where profit is calculated excluding non-recurring items. 2. Refers to arithmetic averages. 3. EBIT% change = EBIT% in 2022 - EBIT% in 2019. 4. Super Hi International was divested from Haidilao for listing at the end of 2022, so its business performance before divestiture can be found in the financial statements of Haidilao for 2021 and previous years. The financial statements for 2022 of Super Hi International and Haidilao are summed for comparison with 2019. 5. Tim Hortons China opened its first store in mainland China in early 2019 and has opened stores rapidly in the past two years with a high growth rate. Therefore Tim Hortons China is excluded in the calculation of the main business revenue growth rate range and average of the coffee/tea shops and bars/pubs category.
Source: Company prospectus, annual reports

Though not yet fully recovered, most catering companies continue to use various means to expand revenue streams externally and reduce costs and increase efficiency internally

As of 2022, nearly half of the sample catering companies have not yet recovered to the revenue scale in 2019, while most have experienced significant declines in profitability. Beset by severe challenges, most sample companies actively took measures to explore new income sources externally and reduce costs and enhance efficiency internally.

Omnichannel and multifaceted development

- Yum: Further promoted business development in different channels and scenarios, including dine-in, delivery, take-out and online sales of pre-made dishes, such as steak and pasta. In addition, the company continued developing self-owned retail brand 'Soul Fun' for online pre-made dishes.
- Tai Hing: Strengthened the marketing of take-out and self-pickup business and deepened cooperation with delivery platforms to enhance the stability of business structure.
- Tang Palace: Accelerated the development of take-out menus and dishes, launched the 'Meal for One' set suitable for take-out, and built its own take-out mini program to reduce its dependency on the third-party take-out platforms.

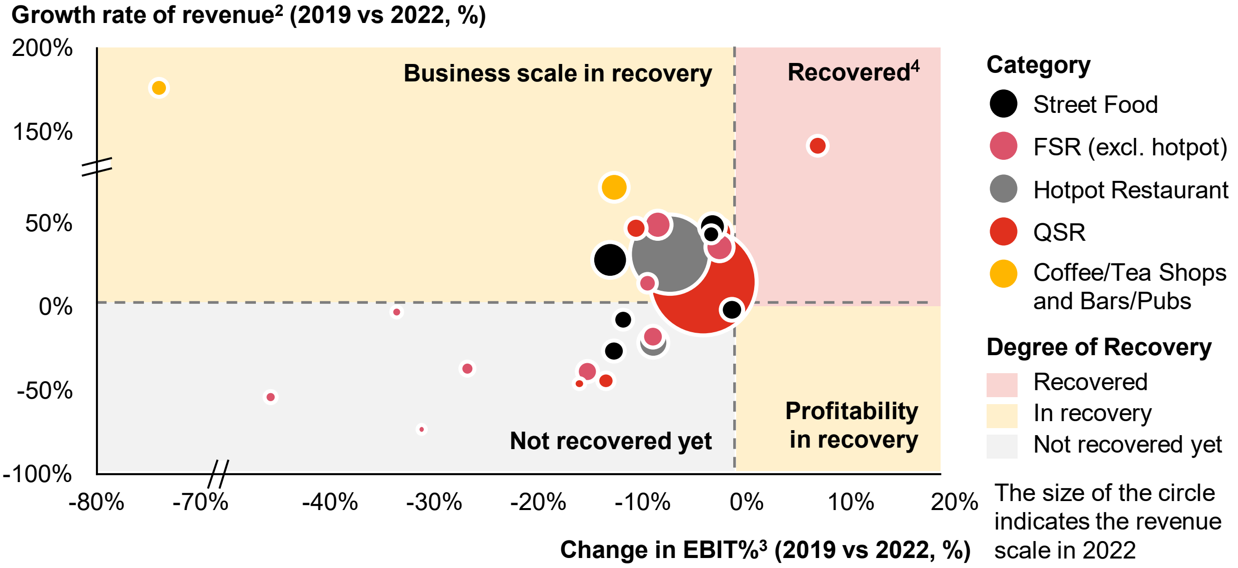
All-day and new-scenario coverage

- Yum: The brands under the group increased their offerings for different time periods. For example, KFC offered late-night snacks and afternoon tea, while Pizza Hut continued improving its breakfast and business lunch offerings.
- XiabuXiabu: Coucou Hotpot under the group will launch an afternoon tea set of tea + dessert combo, and late-night snack series, consisting of casual braised food and barbecue to increase table turnover rate during non-peak dining period. In addition, XiabuXiabu would also launch self-cook hotpot series for camping and picnic.

Cost reduction and efficiency enhancement for steady development

- **Optimise the layout of offline stores and reduce the expenses brought by blind store expansion:** Companies such as Ajisen Ramen, Tai Hing and Haidilao have adopted robust store expansion plans and attached importance to single-store efficiency, with the optimisation of store distribution at the core.
- **The advantages of the 'small store model' is clear**: Best Food, Yum and CSC have reduced initial investments, rental costs, and store labour headcount through their 'small store' strategy, which has improved sales per square metre and to some extent eased operation pressure.
- **Combination of local and centralised procurement to reduce raw material supply risk and procurement and logistics costs:** Ziyan Food has increased the proportion of local procurement, especially for raw materials with short shelf-life such as vegetables, to supplement the centralised procurement by the headquarters.
- **Flexible staff arrangement to reduce labour costs:** Tai Hing arranged employees to work flexibly in accordance with the actual situation of different regions, and have employees take days off during off-peak seasons to minimise labour waste.

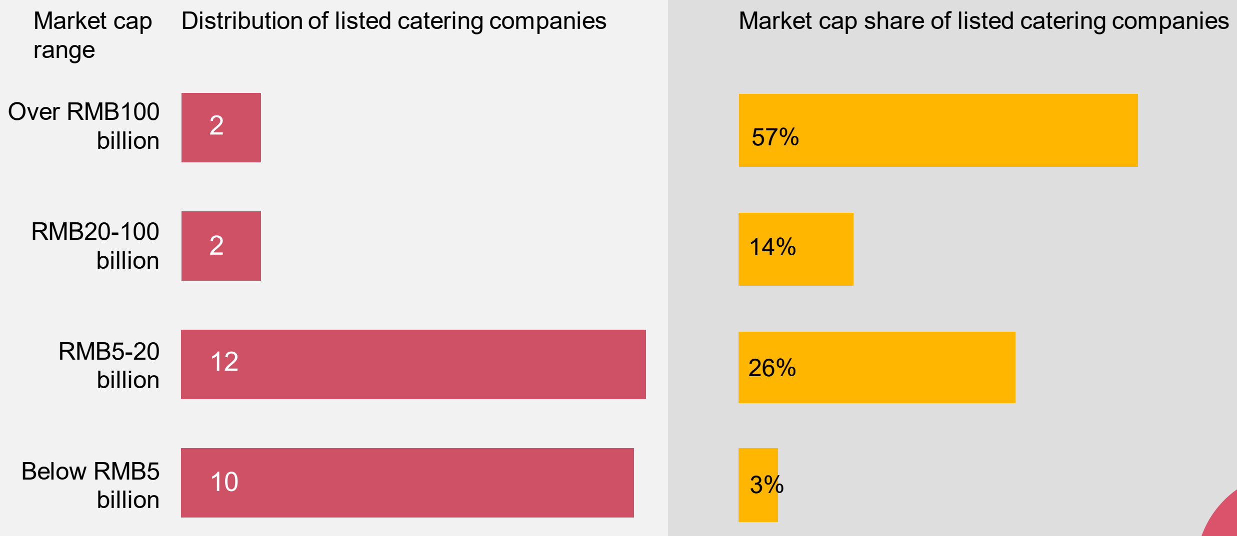
Distribution[5] of sample companies by growth in revenue and changes in EBIT%[1]



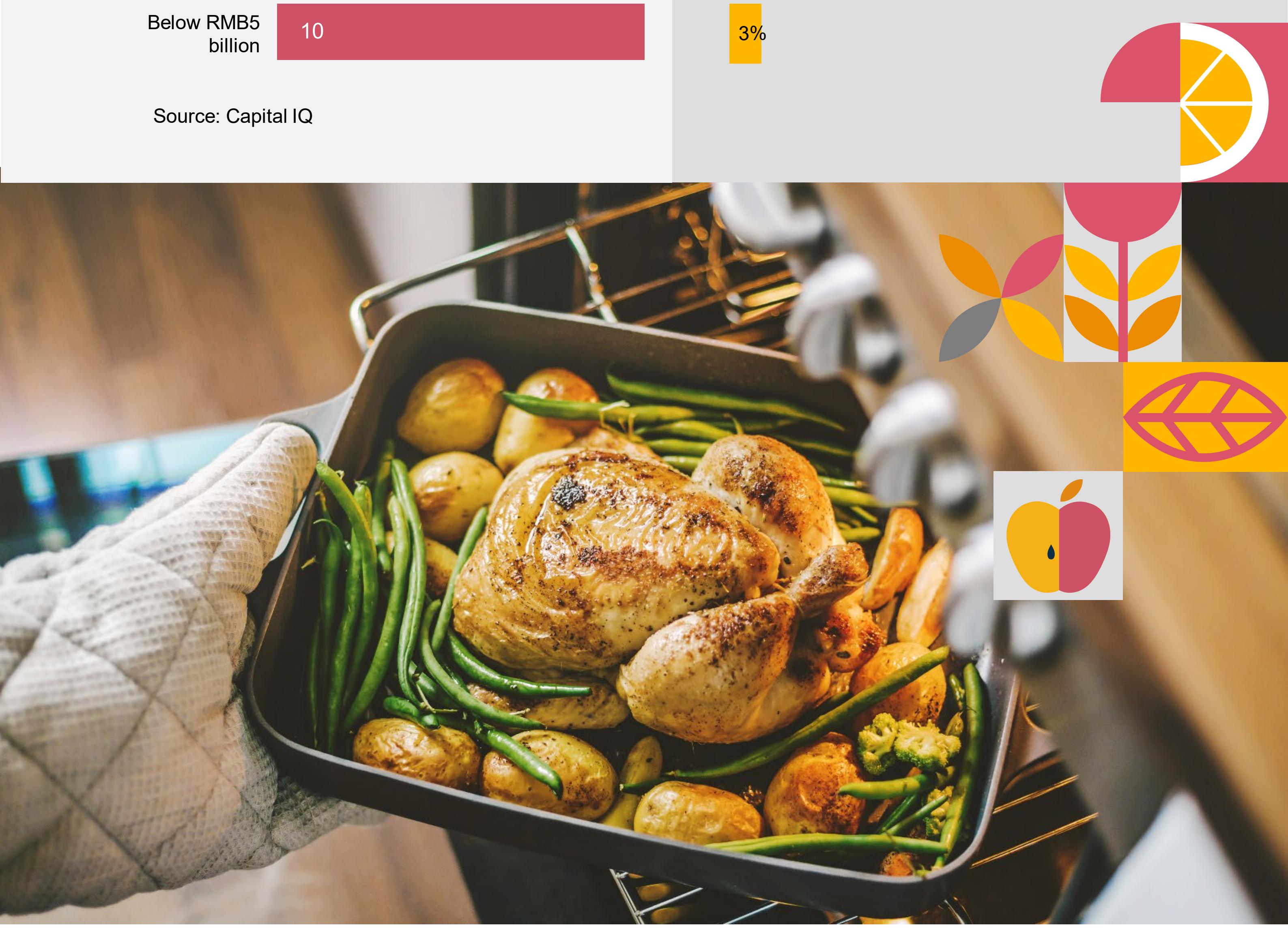
Note: 1. EBIT% = EBIT / revenue, where profit is calculated excluding non-recurring items. 2. Growth rate of revenue = (revenue for 2022 / revenue for 2019 - 1) * 100%. 3. Change in EBIT% = EBIT% in 2022 - EBIT% in 2019; 4. "Recovered" companies only gained a positive change in EBIT% in 2022 compared to 2019, instead of a positive growth in profitability. 5. Tim Hortons China is excluded in the calculation, which entered China in early 2019 and is still at a high-growth, high-loss stage; the financial statements for 2022 of Super Hi International and Haidilao are summed for comparison with 2019.
Source: Company prospectus, annual reports

In terms of market cap, two leading listed companies (with a market cap of more than RMB100 billion) accounted for nearly 60% of total

Market capitalisation of listed restaurant companies as of 31 December 2022

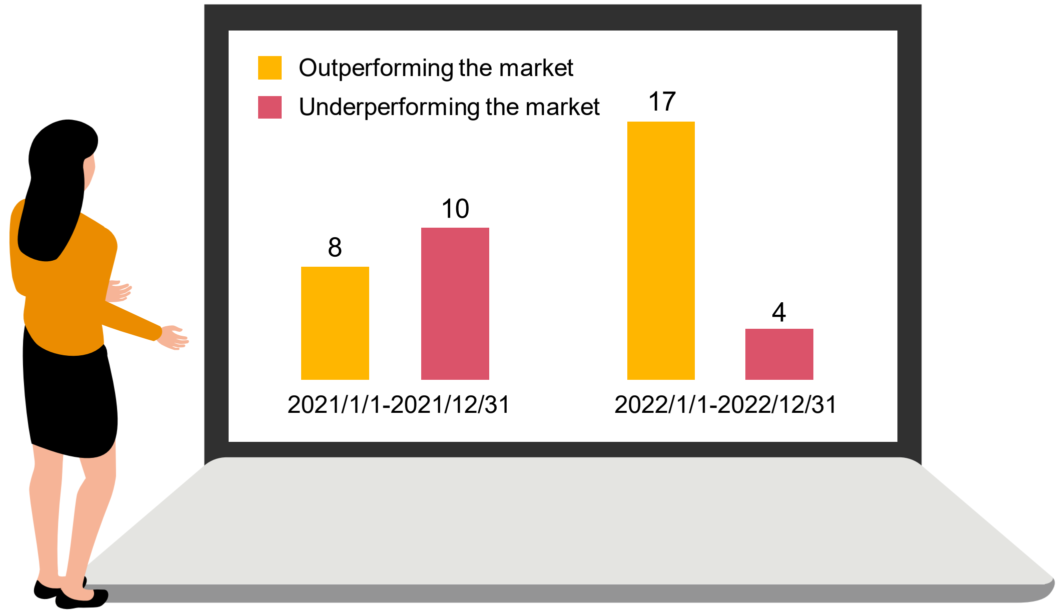


Source: Capital IQ

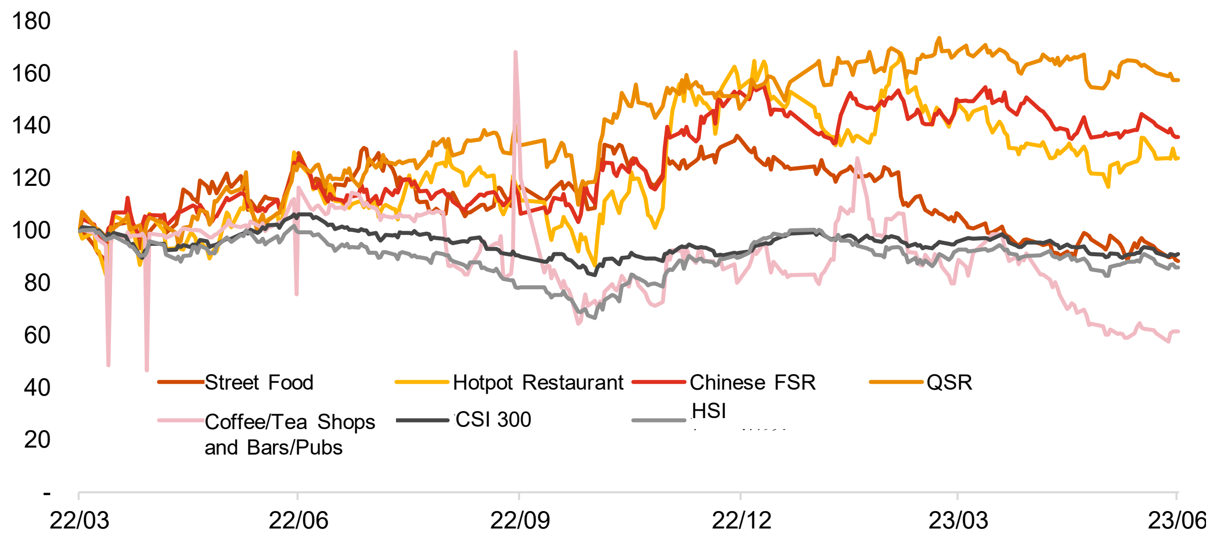


The number of listed catering companies has risen with stocks outperforming the market in 2022 compared to 2021

Share price performance of listed catering companies in the past 2 years[1]



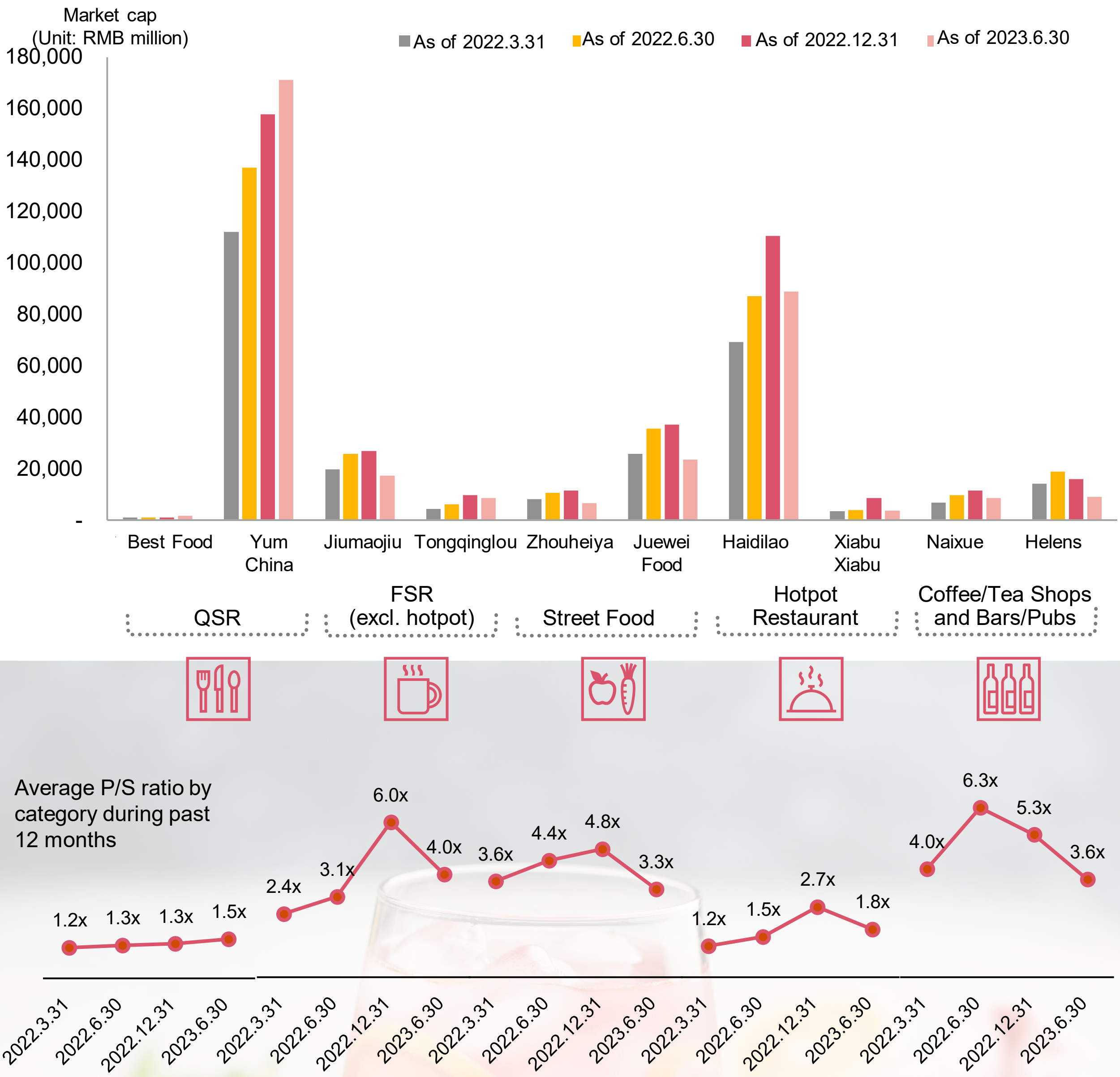
Share price performance of catering companies by category[2]
2022.03.31-2023.06.30



Note: 1. We weight the daily share prices based on each company's market cap within each category, and set share price on March 31 2022 as the base to show the fluctuations of each category and the market index in different periods. 2. We calculated CAGR of each catering company's share price and compare it with with the market index. For catering companies listed in Shanghai and Shenzhen Stock Exchange, we use CSI 300 as the benchmark; for catering companies listed in Hong Kong Exchanges, we use HSI as the benchmark.
Source: Capital IQ, Public Information

With an optimistic consumer market, the market capitalisation of most catering companies gradually recovered at the end of 2022, but short-term fluctuations persisted in 2023H1

Market cap and P/S ratio of some listed companies



Source: Capital IQ, public information

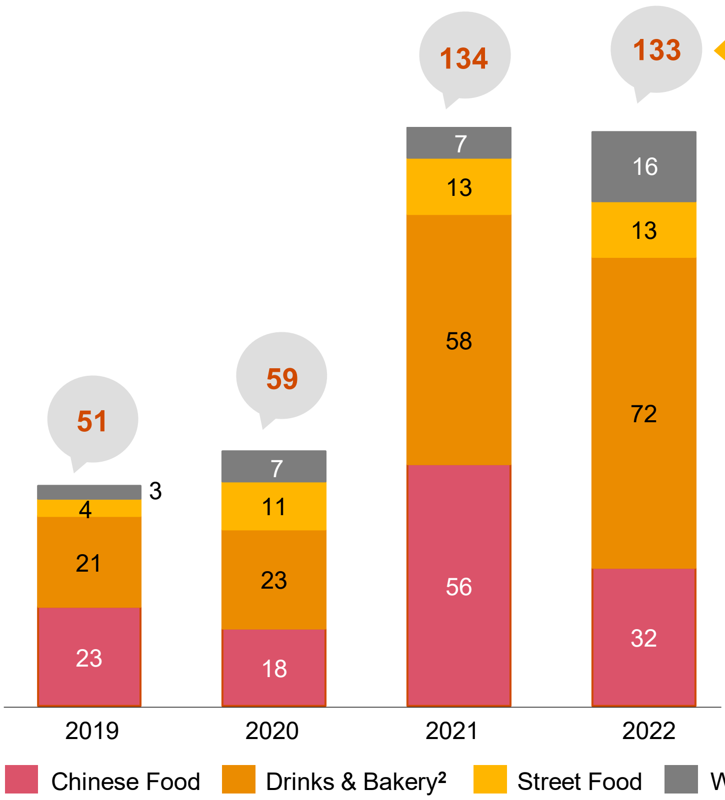
2.2 Primary market investment trends and hotspots

Overview of domestic investment and financing deal number in offline catering market

The total deal number in offline catering market exceeded 130 in 2022 (close to that in 2021). Many offline restaurant brands had to downsize or slow down expansion plans, and capital became increasingly cautious when making large investments; in addition, emerging brands with differentiating features attracted capital to actively participate in early stage investments. As a result, seed/angel round investment and financing events remained active, when mega deals significantly decreased compared with 2021. Since some ongoing deals started in late 2021 were completed in 2022H1, the overall investment and financing market was active in the first three quarters, and dropped significantly in the fourth quarter.

Domestic investment and financing deal number in offline catering market[1] (2019-2022)

Unit: # of transactions



- In the offline catering market, investment activities soared in 2021, and remained active in 2022 even with uncertainty. Investors focused more on early financing stage with smaller deal size
- Among all categories, drinks & bakery covered a relatively large proportion in terms of deal number, in which coffee, Chinese new tea drinks and other sub-categories continued to be favoured by capital in 2022. Among Chinese food, Chinese FSR was most affected with financing events slumping compared with 2021. Top burger brands expanded storefronts against unfavourable market trends, and a number of local affordable Western FSR companies actively expanded in less-developed areas, attracting capital to invest in Western FSR

Note: 1. The deal data analysis of catering brands in this chapter only involves the offline catering industry, excluding investment in other industry chain segments such as supply chain, condiments, catering service software and delivery services. The above statistics include 132 deals with deal value undisclosed. 2. Drinks & bakery category includes bakery, coffee, Chinese new tea drinks and beverages.
Source: CV Source, Qimingpian, Qichacha

Overview of domestic investment and financing deal value in the offline catering market

In 2022, although the overall deal market was essentially as active as in 2021, the overall deal value fell back significantly due to reduced mega deals (over RMB100 million) number, and halved mega deal sizes. However, in the retracting catering industry, drinks & bakery category retained its relative appeal to investors.

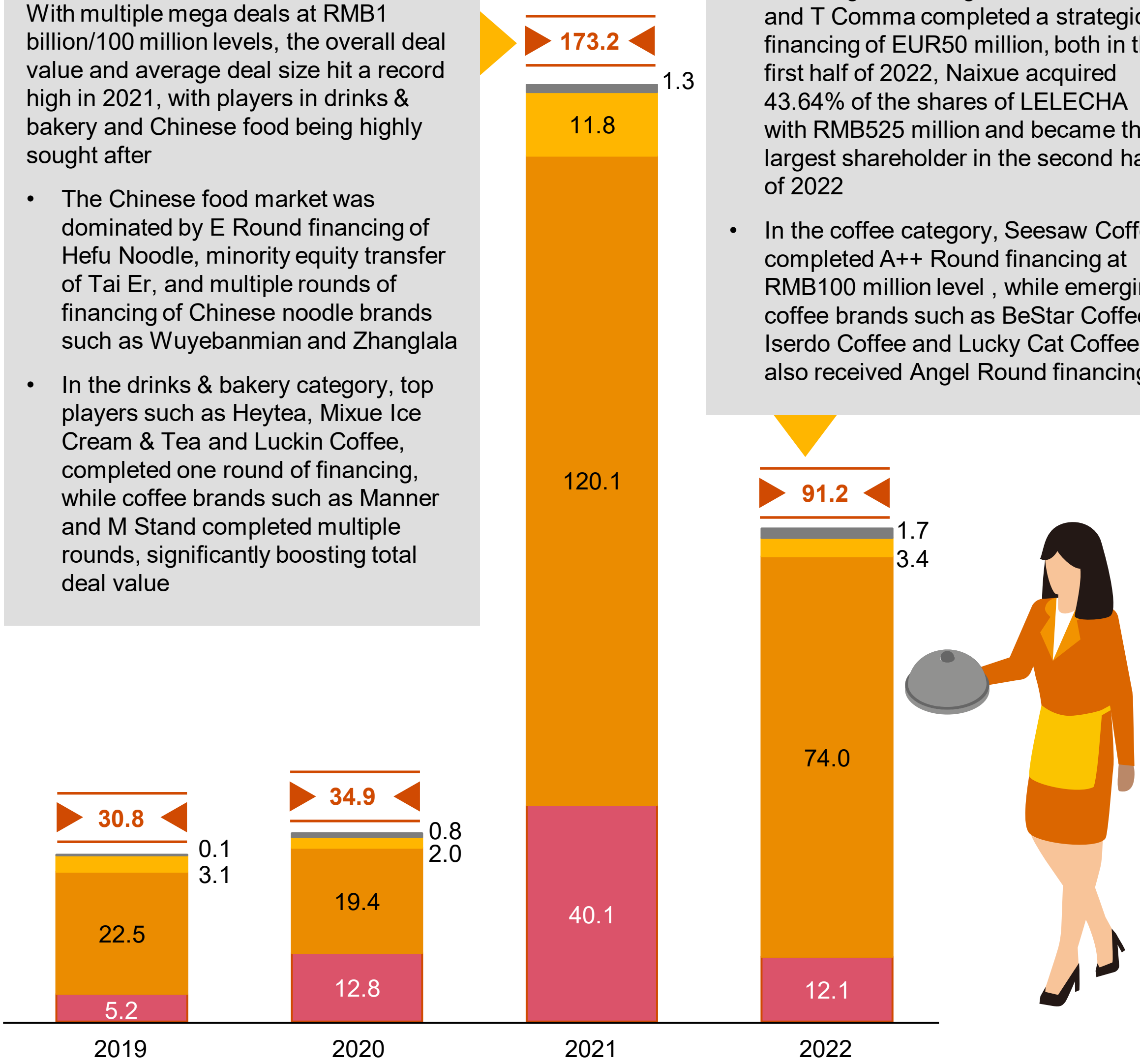
Domestic M&A deal value in offline catering market (2019-2022)
Unit: RMB100 million

The proportion of mega deals above the RMB100 million level was significantly reduced in 2022. The equity transfer of Luckin Coffee in H12022 was the only billion-level deal (nearly RMB3.1 billion).

- In the Chinese new tea drinks category, Shuyi Tealicious completed A Round financing amounting to RMB600 million, and T Comma completed a strategic financing of EUR50 million, both in the first half of 2022, Naixue acquired 43.64% of the shares of LELECHA with RMB525 million and became the largest shareholder in the second half of 2022
- In the coffee category, Seesaw Coffee completed A++ Round financing at RMB100 million level , while emerging coffee brands such as BeStar Coffee, Iserdo Coffee and Lucky Cat Coffee also received Angel Round financing

With multiple mega deals at RMB1 billion/100 million levels, the overall deal value and average deal size hit a record high in 2021, with players in drinks & bakery and Chinese food being highly sought after

- The Chinese food market was dominated by E Round financing of Hefu Noodle, minority equity transfer of Tai Er, and multiple rounds of financing of Chinese noodle brands such as Wuyebanmian and Zhanglala
- In the drinks & bakery category, top players such as Heytea, Mixue Ice Cream & Tea and Luckin Coffee, completed one round of financing, while coffee brands such as Manner and M Stand completed multiple rounds, significantly boosting total deal value



Average deal size (Unit: RMB100 million)[1]

2019	2020	2021	2022
1.0	0.9	2.0	1.0

Chinese Food | Drinks & Bakery | Street Food | Western Cuisine/Japanese Food

Note: 1. The above statistics of deal number exclude 132 deals with deal value undisclosed.
Source: CV Source, Qimingpian, Qichacha

Overview of domestic investment and financing deals in the offline catering market by category

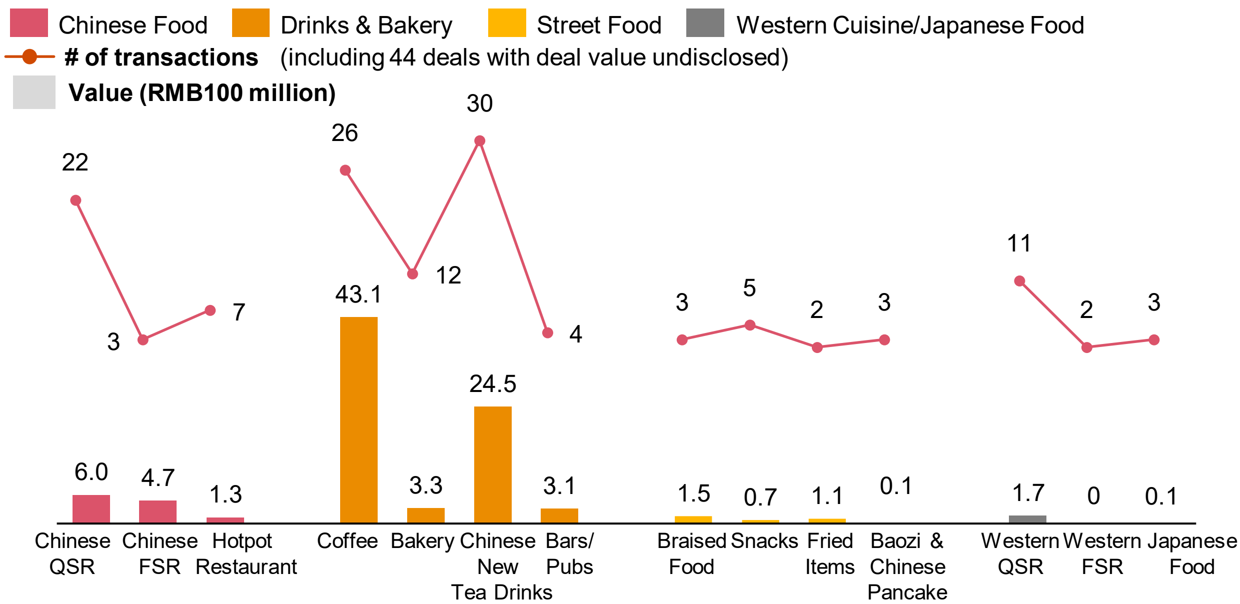
Coffee, Chinese new tea drinks and Chinese QSR remained the most active categories in 2022. As deals moved to earlier stages, the average deal size of each category has declined by varying degrees compared to 2021.

Specifically, following a wave of interests in Chinese new tea drinks in 2021, coffee became the category with the highest average deal size in 2022, mainly due to the USD443 million control acquisition by Luckin Coffee. The increase of urbanisation rate and the boom of youth consumption drove more capital towards coffee, with regional brands targeting Generation Z emerging, such as Y Coffee in Ningbo, Coco. Juliet in Shaoxing, DOC Coffee in Changsha, and Sobuff Coffee in Guangzhou. In contrast, the reshuffle was accelerated in the Chinese new tea drinks market. On the one hand, the mid-range Shuyi Tealicious received the largest investment, while top brands lowered the price to approach more consumers; on the other hand, local tea drinks brands carried out rapid outward expansion with the support of capital, such as Ah Ma Hand Made in Guangxi. At the same time, some niche brands also attracted capital by their strong SKUs, such as Ningji LemonTea (a lemon tea brand), T COMMA (a fresh fruit tea brand) and Teadaye (a coconut tea brand).

Market interests in Chinese noodles receded in 2022, while the rice noodle category arouse wide enthusiasm with Tam Jai International's listing on HKEX in 2021. Similar to Chinese noodle restaurants, offline rice noodle brands were also well-positioned for rapid store expansion, with 'small store' strategy, low average transaction value and strong geographic presence facilitating market capturing in less-developed areas. For instance, Jiangxiaoluo, Shifenxiang and Ganshiji all obtained investment.

Deals involving fried chicken and burger brands also reflected the market's pursuit for efficiency. The growth of Western QSR market size once slowed down due to limited category innovation, but the market started to pick up for fast delivery and take-out services in 2022. Affordability was the key strategy to opening the market in less-developed areas, with nearly eight affordable Western QSR brands receiving financing in 2022, including Guster Burger, Dejishi and Chuzheng. At the same time, the rise of fitness culture has driven the consumption of western light diets, and three brands received capital, including Foodbowl, thus, the activity of Western QSR market reached a historical high.

Value and number of domestic investment and financing deals in offline catering market by category in 2022



Average deal size (Unit:RMB100 million)[1]

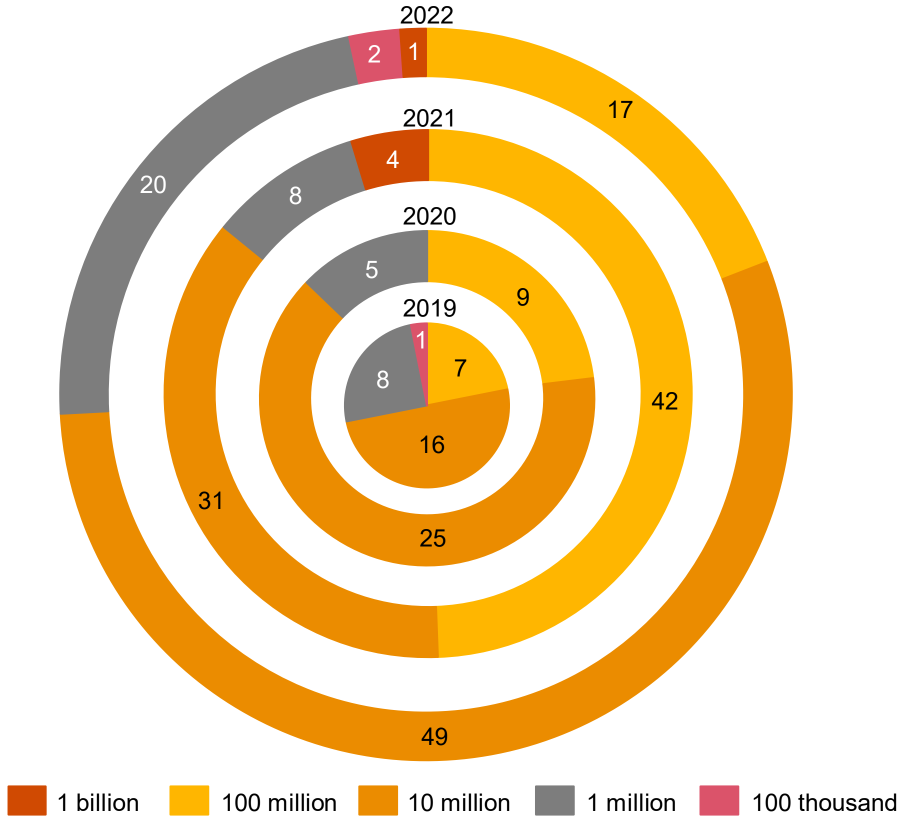
0.4	1.6	0.3	3.3	0.3	1.0	1.0	0.8	0.2	0.5	0.1	0.2	Undisclosed	0.1

Note: 1. The above statistics of deal number exclude 44 deals with deal value undisclosed.
Source: CV Source, Qimingpian, Qichacha

Deal Size

Distribution of investment and financing deals in offline catering market by deal size[1] (2019-2022)

Unit: # of transactions



Note: 1. The above statistics exclude 132 deals with deal value undisclosed.
Source: CV Source, Qimingpian, Qichacha

Major deals involving offline catering brands

Major investment and financing deals in offline catering market in 2022

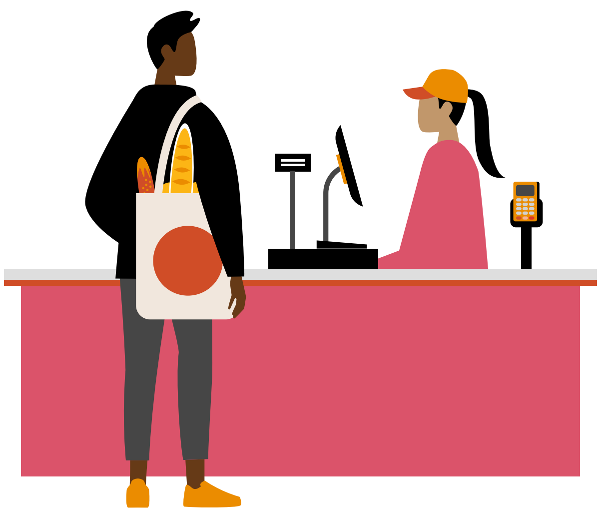
Target	Category	Deal value	Round	Date
Luckin Coffee	Drinks & Bakery	USD443 million	Acquisition of controlling interest	2022.01
Tim Hortons	Drinks & Bakery	USD94.5 million	PIPE Round[1]	2022.03
Shuyi Tealicious	Drinks & Bakery	RMB600 million	Strategic Financing	2022.02
LELECHA	Drinks & Bakery	RMB525 million	Common Control Acquisition	2022.12
T COMMA	Drinks & Bakery	EUR50 million	Strategic Financing	2022.04
Tim Ho Wan	Chinese Food	Approximately HKD410 million	Non-control Acquisition	2022.08
Jidong	Drinks & Bakery	Tens of millions of USD	Angel Round	2022.07
Seesaw Coffee	Drinks & Bakery	Hundreds of millions of RMB	A++ Round	2022.02
COMMUNE	Drinks & Bakery	Hundreds of millions of RMB	A+ Round	2022.01
Ningji LeomonTea	Drinks & Bakery	Hundreds of millions of RMB	A+ Round	2022.01

The above major deals accounted for about 75% of the total disclosed deal value for the year, and the overall rounds were mainly at the early stage. The new Chinese bakery had been highly favoured but failed to keep its position in 2022, while financing events recurred in the coffee & drinks sub-category. As opposed to star deals of Heytea and Mixue Ice Cream & Tea in 2021, mid-end coffee drinks brands succeeded in attracting capital and triggered M&A mega deals in 2022, highlighting the fact that competitiveness in the less-developed areas and consumer reach were key to success.

In the coffee sub-category, Luckin Coffee has achieved positive cash flow in a short period of time by optimising its overall business strategy, including store adjustment and product pricing, as well as deploying its experience in cost control and private marketing. Centurium, together with IDG Capital and Ares SSG Capital Management, completed the acquisition of 383 million Class A common shares of Luckin Coffee with USD443 million in January 2022. After entering the Chinese market in 2019, Tim Hortons has been rapidly expanding through channel cooperation, e-commerce operation and multiple-type stores with the help of a local team and capital, and has been listed on NASDAQ through 'SPAC+PIPE', becoming the first SPAC stock among Chinese coffee brands in September 2022.

Note: 1. Private Investment in Public Equity refers to the practice of private investments or mutual funds buying shares of a company at a price below the prevailing market value.
Source: CV Source, Qimingpian, Qichacha

In the Chinese new tea drinks sub-category, LELECHA attracted Naixue with its high brand recognition and channel value in eastern China. Then Naixue acquired a 43.64% equity of LELECHA for RMB525 million, and the two parties are expected to optimise industry competitiveness and seek new growth opportunities in the future by way of joint venture. In addition, flexible pricing strategy enabled mid-end brands to be compatible both upwards and downwards, while several mid-range chain brands planned to further explore growth space in the future with the market layout yet to take shape. Shuyi Tealicious and Jidong gained recognition and support from investors in 2022 with their differentiated top SKUs and well-established store networks.



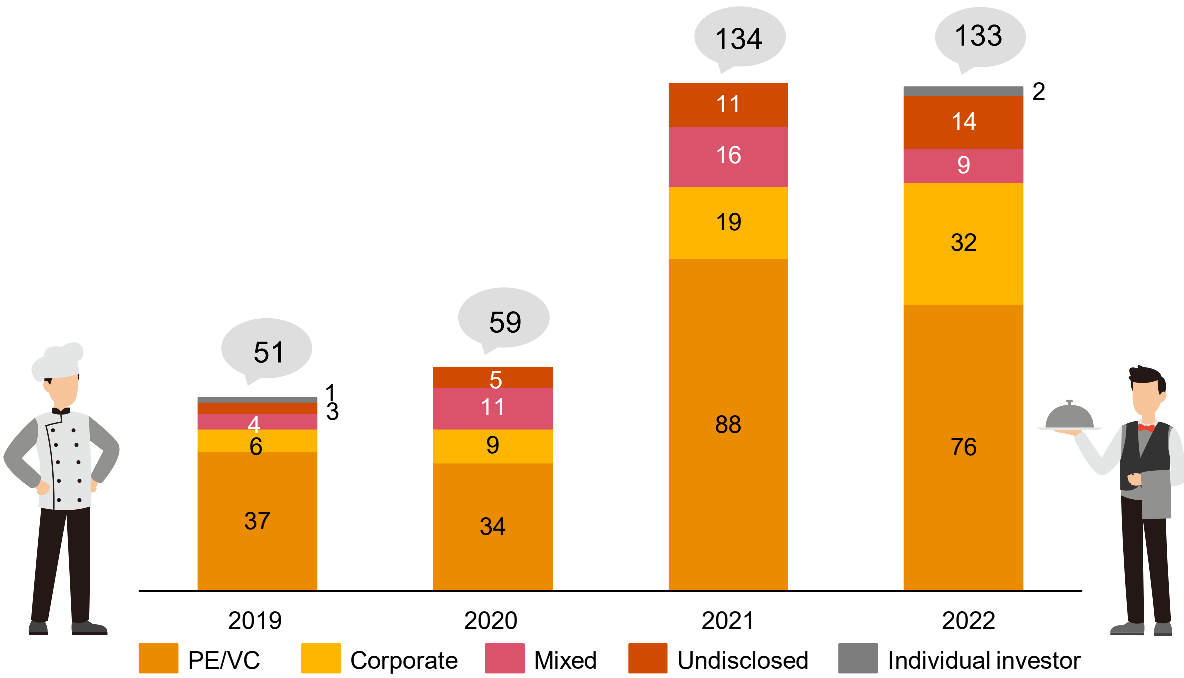
Investor profile

In terms of investors, PE/VC were still the most active players in the catering industry. 2022 saw more diversified categories for investment compared to 2021. In addition to Chinese QSR, Chinese new tea drinks and coffee, PE/VC also focused on Japanese food, western cuisine and drinks.

On the other hand, corporate investors were more active in 2022 compared to previous years. Catering corporate investors tended to invest in brands in categories in which they operate business expansion or market integration, especially for the competitive coffee and Chinese new tea drinks categories, where the top brands actively promoted the incubation of new brands; Internet/gaming industry investors showed significantly less interest in 2022, with the market turning to more professional catering management investors, such as Shoo Loong Kan, Best Food Holdings and Jollibee Group.

Distribution of investment entities in offline catering market[1] (2019-2022)

Unit: # of transactions



Note: 1. The above statistics exclude 33 deals with investment institution undisclosed.
Source: CV Source, Qimingpian, Qichacha

Investment outlook

In 2022, demand for offline catering was restrained and multiple categories faced shocks, accelerating the Matthew Effect to a certain extent. Hit by low operational efficiency, poor cash flow management, and serious product homogenisation, small- and medium-sized enterprises went through a rough period under great pressure. Previous aggressive store expansion strategies have to be re-examined.

Under this context, catering investors, on the one hand, will focus on sub-categories to seek new opportunities, and on the other hand, prefer catering brands with a certain scale, in order to maintain relatively stable growth amidst uncertainty.

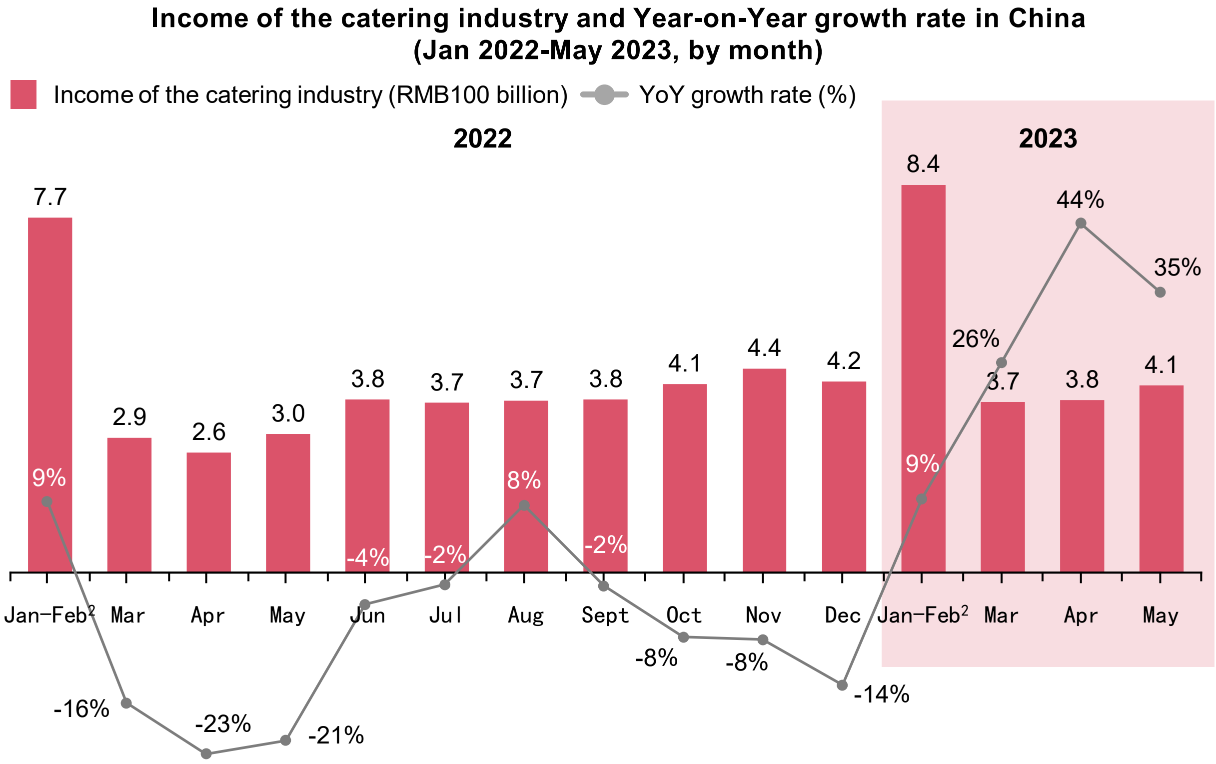
The optimised '10 New Measures' were implemented in China in December 2022. Based on experience of Japan and the United States, the catering industry would soon usher in a period of recovery. With fierce competition in the high-tier market, the market in less-developed areas is bound to occupy an important position in the new round of recovery with great potential, so regional brands that have already occupied a share in the market will also gain continuous attention from investors.

In the future, competition in the catering industry will be focused largely on 'differentiation', which is not only reflected in the price, category, region, but also in the ability to improve operational efficiency. Catering companies need to focus on themselves, optimise operational capabilities, and achieve endogenous growth to actively respond to the strong rebound in the future catering market.

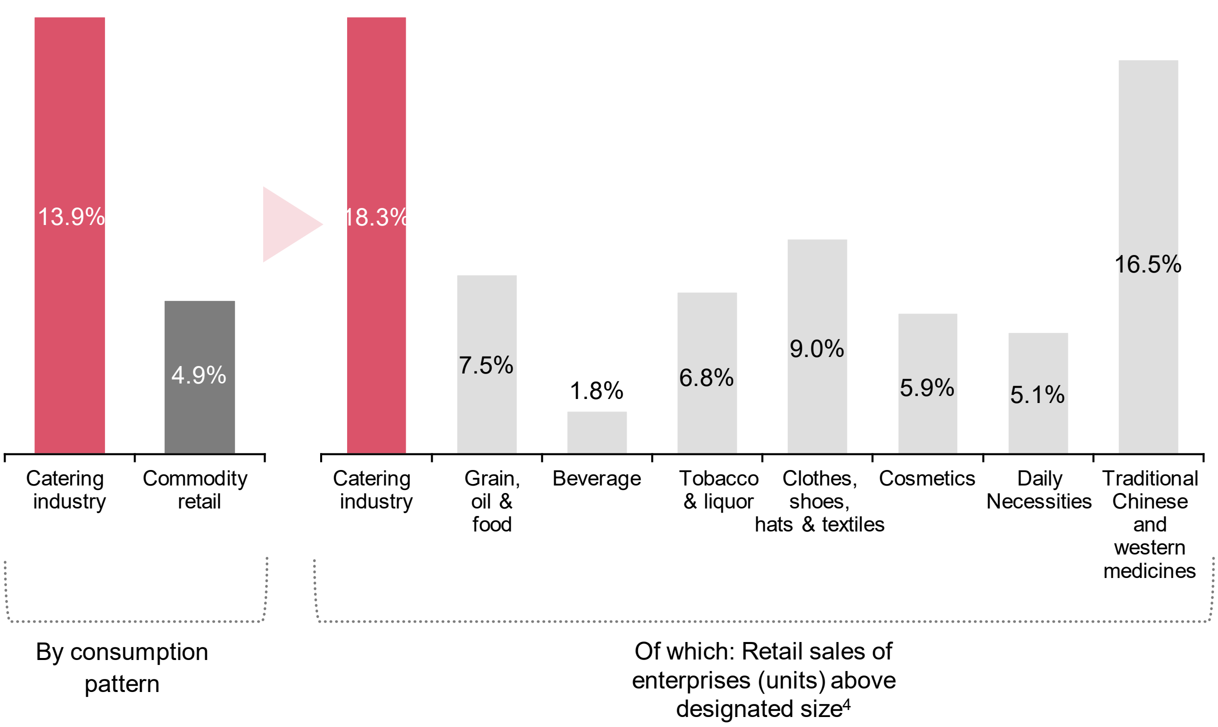
Source: Public information

3 The recovery trends in the first quarter of 2023

3.1 The recovery momentum of the catering industry



Year-on-Year growth rate of retail sales of consumer goods in the first quarter of 2023[3] (%)

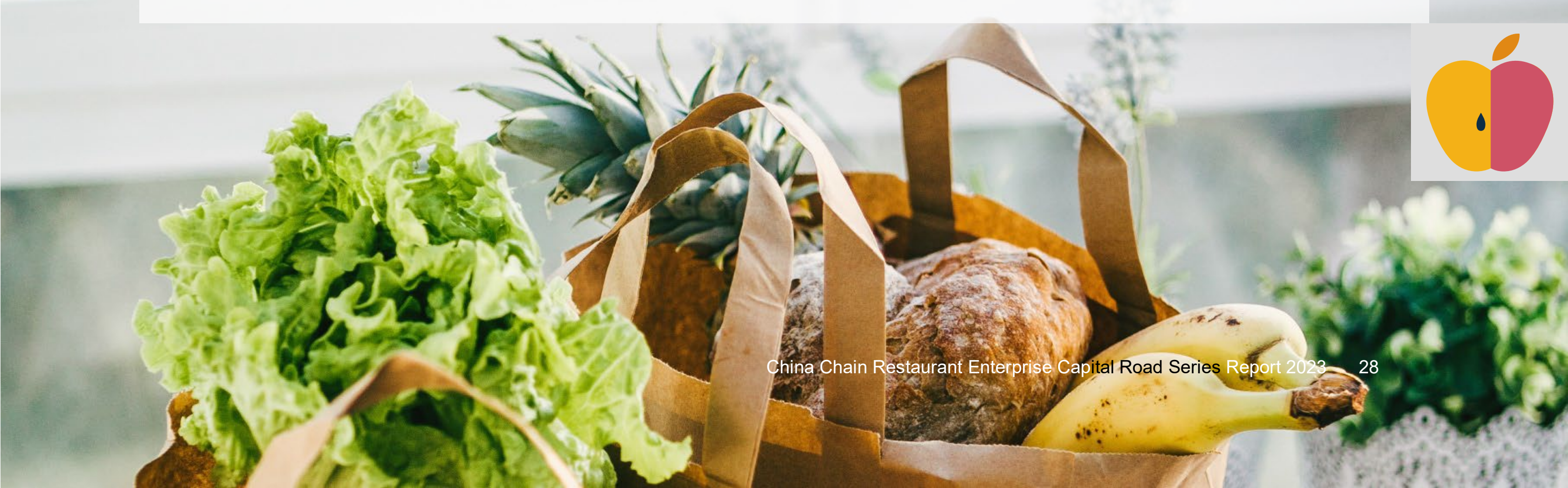


Amid uncertainty, catering revenue fell by more than 15% YoY from March to May in 2022. Though it was then on a recovery path, the growth remained slow with negative YoY growth in catering income for most months of the year.

In the beginning of 2023, foodservice consumption rebounded strongly, indicating a promising start for catering industry with a growth rate of 13.9% during the first quarter which was higher than the 4.9% growth rate of commodity retail. The performance of catering enterprises above a certain size proved even stronger.

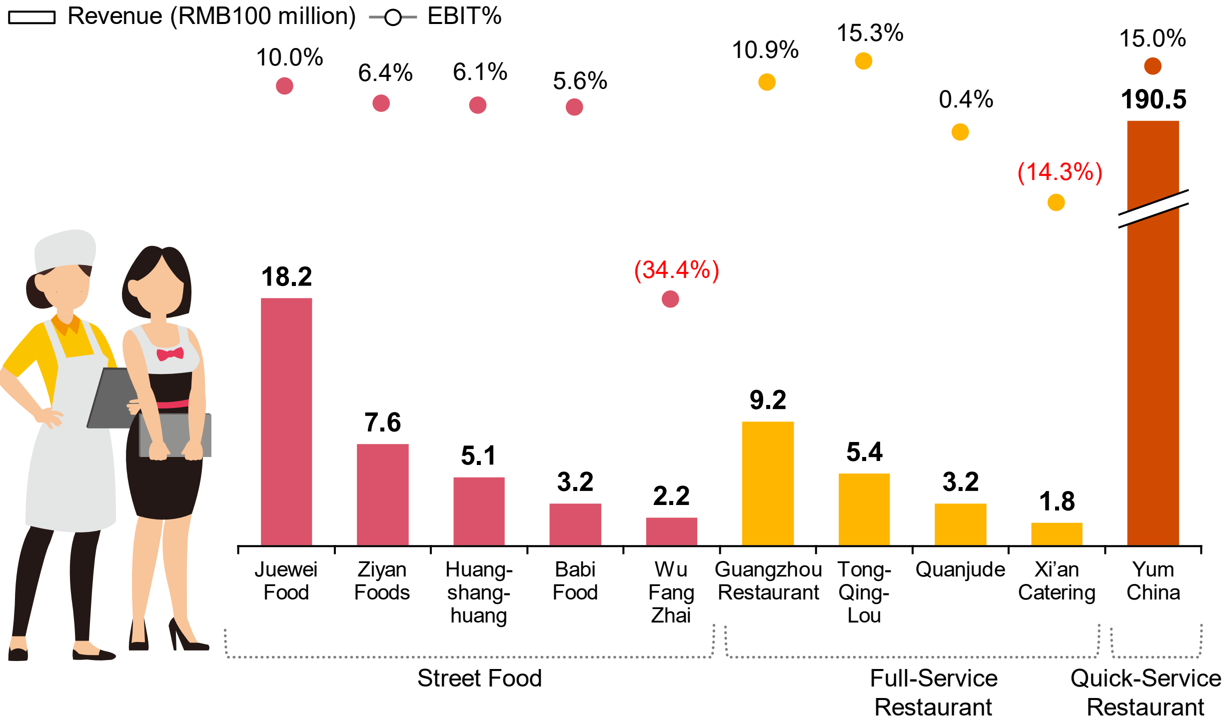
According to the National Bureau of Statistics, the YoY growth of catering industry income exceeded 25% for three consecutive months, with the latest statistics showing an increase of 35% in May 2023, which achieved a growth of over 12% compared to that of May 2019 and greatly boosted the confidence of the market.

Note: 1. YoY growth rate of catering industry income by month = (income of catering industry during the month / income of catering industry in the same period of the previous year-1)*100%. 2. The National Bureau of Statistics releases combined Jan. and Feb. figures, no separate data disclosed. 3. YoY growth rate of retail sales of consumer goods = (retail sales of consumer goods in the period / retail sales of consumer goods in the same period of the previous year -1)*100%. 4. As the list of enterprises(units) above designated size is updated every year, the calculation is restricted to the latest list designated by the National Bureau of Statistics for data comparability.
Source: National Bureau of Statistics



Financial highlights of listed companies for the first quarter of 2023

Revenue and EBIT%[1] of the sample companies for the first quarter of 2023



	Juewei Food	Ziyan Foods	Huangshanghuang	Babi Food	Wu Fang Zhai	Guangzhou Restaurant	Tong-Qing-Lou	Quanjude	Xi'an Catering	Yum China
YoY revenue growth(%) in 2023Q1[2]	8.0%	13.8%	(5.6%)	3.2%	(28.7%)	23.1%	27.3%	49.4%	53.5%	17.8%
Ratio of revenue for 2023Q1 to revenue for 2022	27.5%	21.0%	26.2%	21.0%	8.8%	22.4%	32.3%	44.5%	36.4%	30.0%
Changes in EBIT%[3] (2023Q1 vs 2022Q1)	1.4%	1.6%	(0.3%)	(8.6%)	(26.2%)	2.2%	8.2%	28.0%	23.4%	7.5%

With China gradually returning to normal since early 2023, brick and mortar restaurants have reopened for business and streets are bustling again.

Based on 10 selected companies who have disclosed 2023Q1 financial results, most have shown varying degrees of encouraging recovery. More than half of the companies generated revenues for 2023Q1 that exceeded 1/4 of the full year 2022. The average YoY growth of revenue in 2023Q1 was over 16%, with the full-service restaurant brands proving a bit stronger. As the markets resumed operation in Dec 2022, which was followed by New Year's Day and the Spring Festival, the demand for family or social dining increased, substantially benefiting the full-service restaurants. As a result of the rapid growth in revenue, the EBIT margins of the full-service and quick-service restaurants in 2023Q1 have also improved, rising by an average of 13.6 percentage points from the year before.

As we enter 2023, the demand for dining out is reviving. In addition, offline catering companies are promoting their business by means of store improvement, efficiency optimisation, and brand awareness enhancement through marketing and innovative approaches, etc. The growth momentum is expected to improve further in the future.

Note:1. EBIT% = EBIT / revenue, where profit is calculated excluding non-recurring items. 2. YoY revenue growth(%) in 2023Q1 = (revenue for 2023Q1 / revenue for 2022Q1-1) * 100%. 3. Changes in EBIT% = EBIT% in 2023Q1 -EBIT% in 2022Q1.
Source: Annual reports, Wind

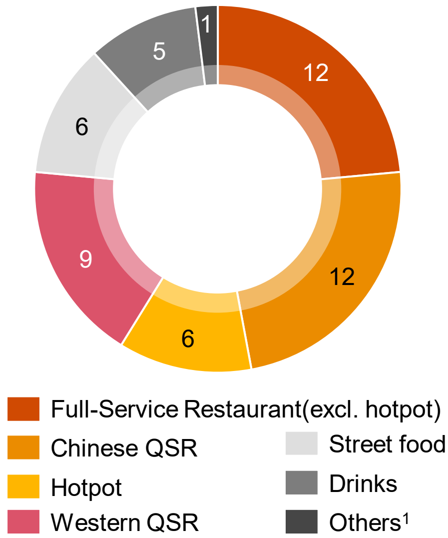
3.2 A survey of catering chain brands on revenue performance and expectations

Basic information

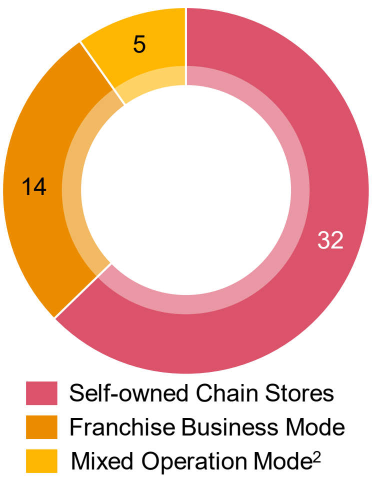
The survey was conducted in the form of an anonymous online questionnaire, participated by a total of 51 offline catering chain brands:

- By category: 12 full-service restaurant (excl. hotpot), 21 quick-service restaurant, 6 hotpot, 6 street food, 5 drinks and 1 others.
- By business operation mode: more than 60% of the brands surveyed are direct operation brands, of which most are full-service restaurant (excl. hotpot), quick-service restaurant and hotpot; 14 are franchise brands, of which most are street food and drink brands; 5 brands use a mixed operation mode, which is a combination of direct and franchise operation.
- By number of stores: 7 brands with stores over 1,000, mainly in western QSR and hotpot restaurants; 20 brands with 100-1,000 stores in all categories; 20 brands with 10-100 stores, of which most are brands of full-service restaurant (excl. hotpot) and Chinese QSR; 4 other brands run stores less than 10.

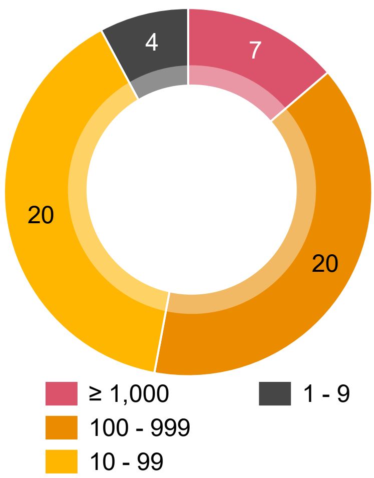
Brands by category
Unit: # of brands



Brands by business operation mode
Unit: # of brands



Brands by number of stores
Unit: # of brands

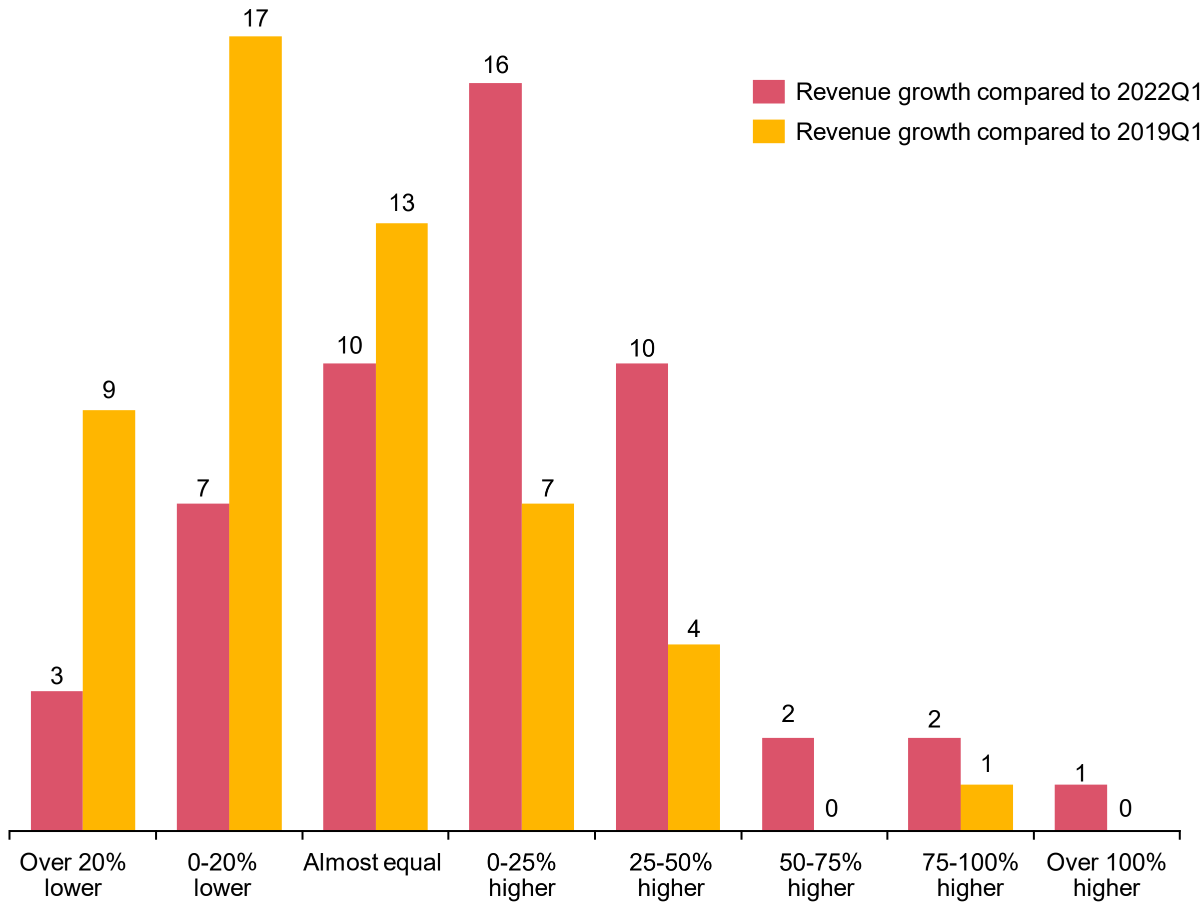


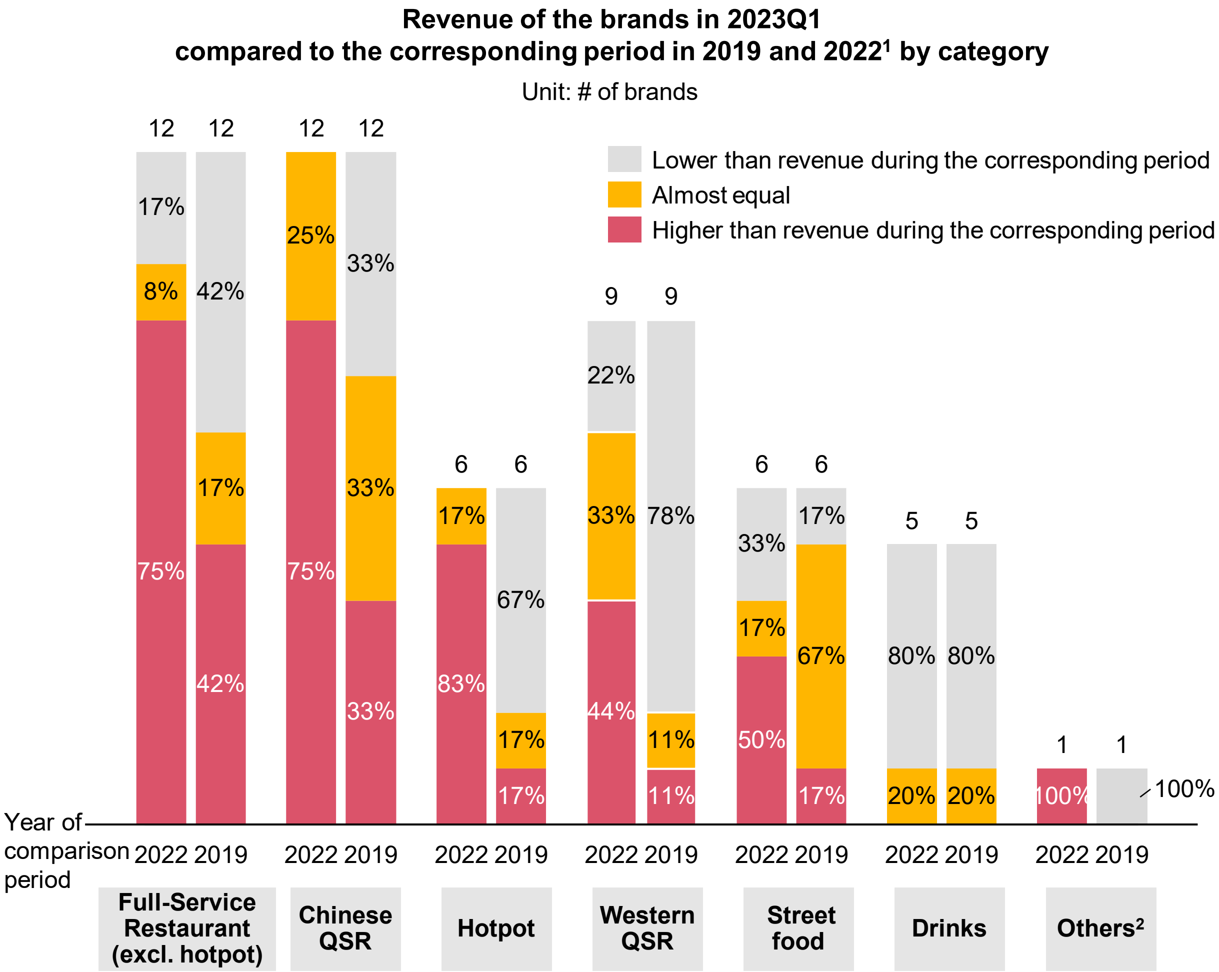
Note: 1. Refers to buffet restaurant specifically. 2. Refers to the mixed mode of self-owned restaurant operations and franchise business.
Source: The Questionnaire Survey by CCFA

Revenue performance during the first quarter of 2023

Revenue of the brands in 2023Q1 compared to the corresponding period in 2019 and 2022[1]

Unit: # of brands





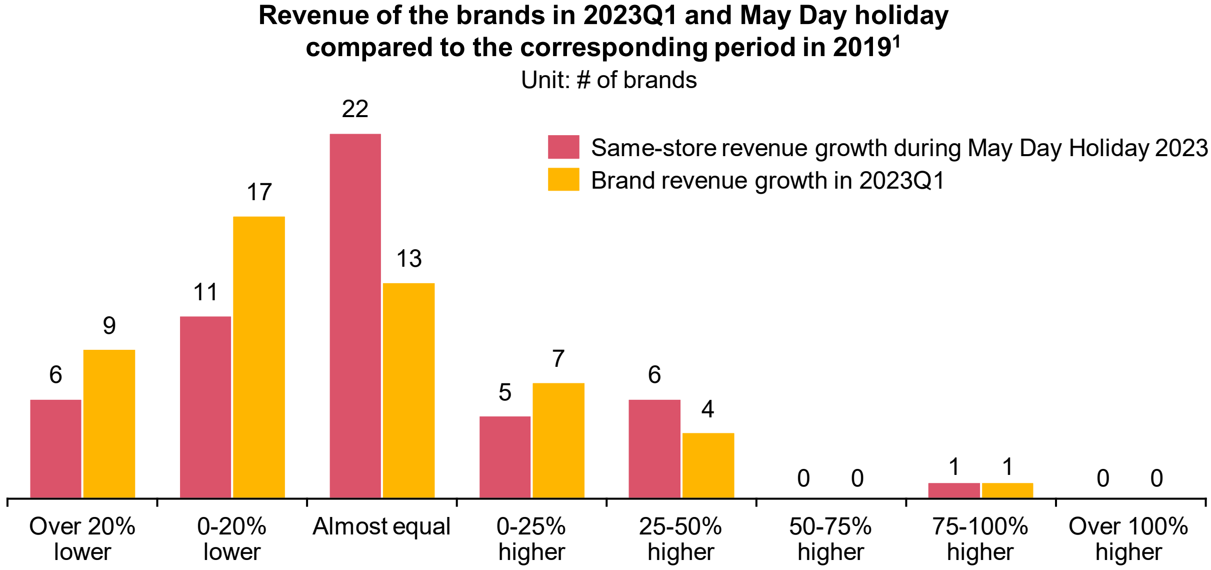
After a series of adversities in 2022, the business of the 51 brands have been recovering at a fast pace since 2023Q1. In terms of revenue, 60% of brands performed better than last year. Those brands of hotpot, Chinese QSR and FSR (excl. hotpot) showed excellent resilience, with 83%, 75% and 75% of the brands having attained positive growth respectively. In addition, over 75% and 65% of the western QSR and street food brands reported flat or better than year-ago revenues, respectively. Against expectations, 4 out of 5 drink brands witnessed a drop in revenue in 2023Q1.

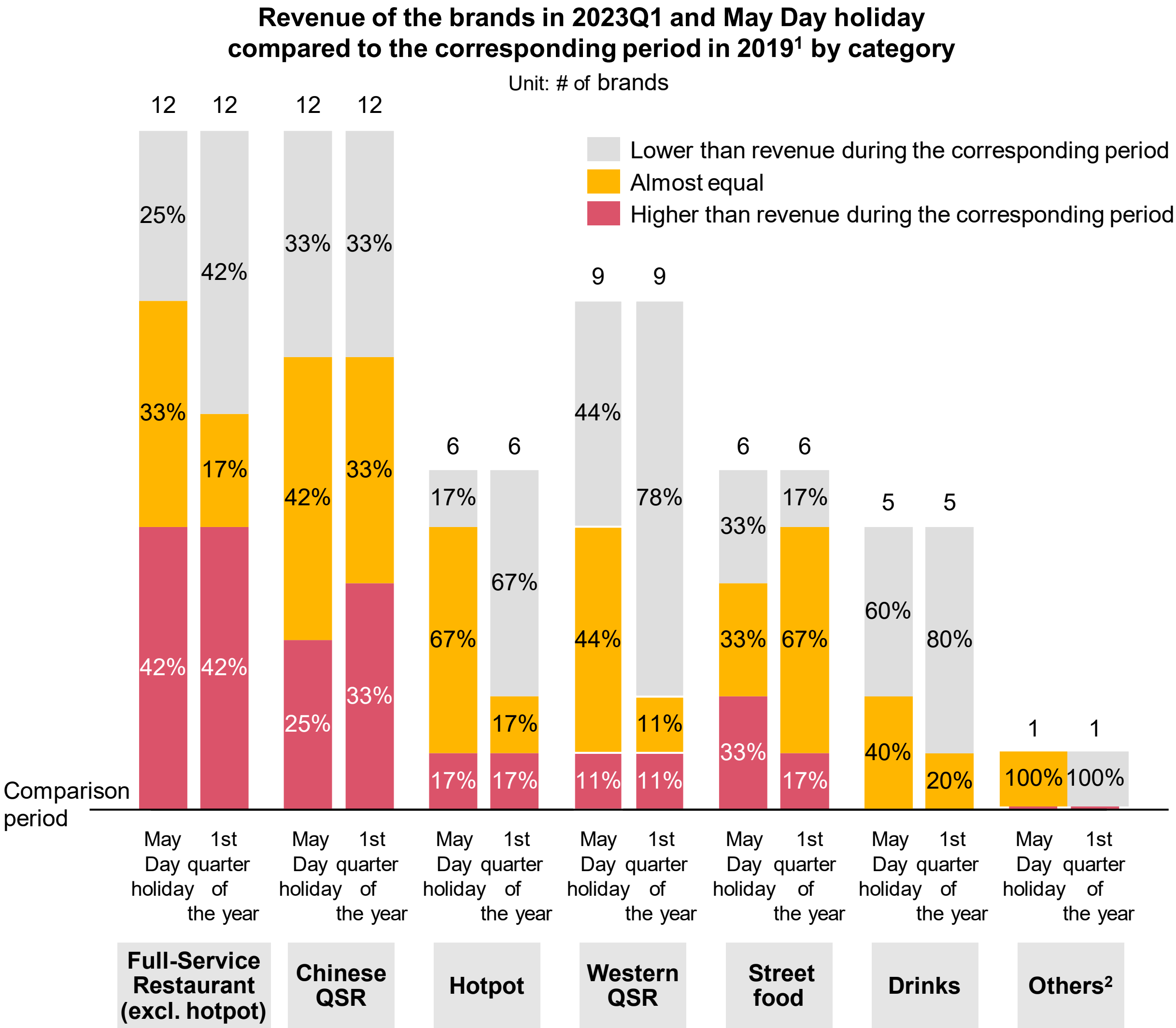
While it may take some time to fully recover, the catering market has registered a slow but stable performance with good momentum for growth. Nearly half of the brands reported to have achieved revenues for 2023Q1 as much or even higher than 2019Q1:

- FSR (excl. hotpot), Chinese QSR and street food brands rebounded faster than brands of other categories.
- Among the brands that reported relatively poor performance compared to the level in 2019, over 70% have posted an increase in revenue in 2023Q1 against 2022Q1.
- Though limited by the small sample size, the performance of the drink brands may indicate an increasingly intense competition in this market segment. For one, with market penetration as the goal, leading players have set lower prices for the customers in less-developed areas. For another, the high cost of social media marketing makes it unsustainable for most brands. There seems to be little room left for small and medium-sized brands as well as for brands targeting lower tier cities.

Note: 1. Revenue of a brand in 2023Q1 compared to the corresponding period in 2019 and 2022 = (revenue of the brand for 2023Q1/ revenue for 2019Q1 or 2022Q1)*100%, where revenue of a brand includes all revenues from both new and existing self-owned stores, franchise-related business and retail business, etc. 2. Refers to buffet restaurant specifically.
Source: The Questionnaire Survey by CCFA

Revenue performance during the May Day holiday in 2023 compared to 2019





Heading into 2023, consumption boomed during holidays and benefited the catering sector in particular. The China Tourism Academy reported a full recovery of the domestic tourism market during the May Day holiday, with the estimated number slightly exceeding that of 2019. With headline 'Zibo Barbecue' as an example, the domestic tourism industry prospered, making food service a hot topic. Emerging destinations with natural sights utilised social media to attract thousands of visitors, expanding the local catering consumption. Two-thirds of the brands reported to have realised revenues during the 2023 holiday season equal to or even higher than that in 2019.

As can be seen from the revenue performance of sample brands during the May Day holiday, the holiday tourist boom promoted the restaurant business in most categories. However, the effect differs with destination. For first-tier cities where trending brands thrive, there was relatively limited room left for boomed traveling economy to boost the catering business, given the large number of residents who already possess strong spending power. As for lower-tier cities which have become popular destinations with the help of social media and improved transportation, the local economy gained a lot during the holiday. With the release of pent-up demand for traveling, 'special forces-style' tourism has become the latest travel craze. The tourists, usually the young people, would follow a rather strict itinerary to visit as many attractions and try as much food as they can in order to make the most out of their trips. They prefer restaurants that serve local cuisines and are convenient without the need for reservations or dine-in only requirements, etc.

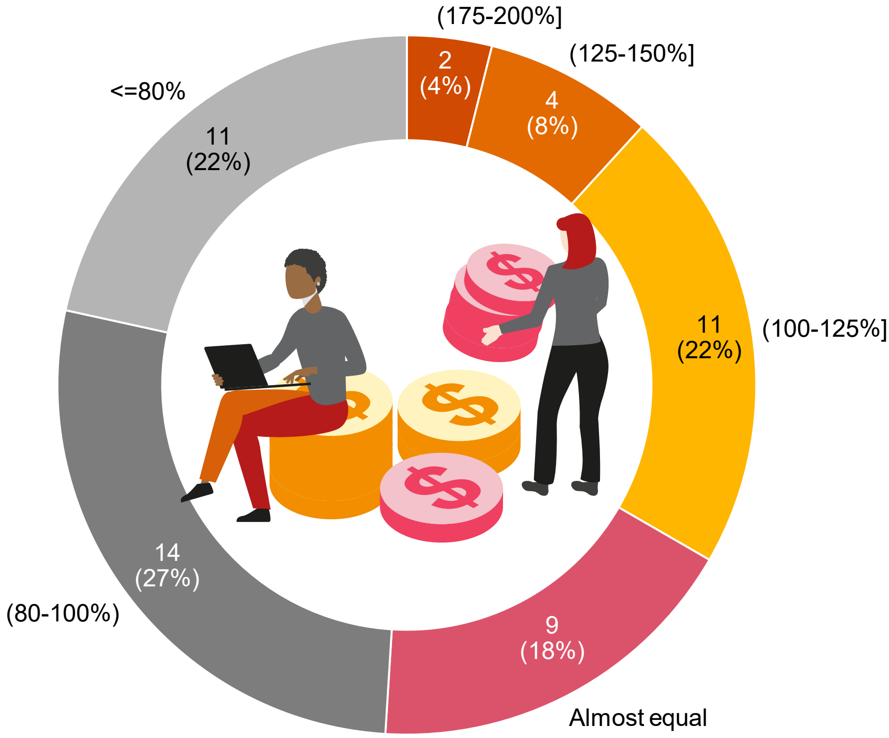
Despite the differences in city coverage, category, and destination popularity of sample brands, revenue performance improved across the board during the May Day period compared to 2023Q1 on the whole. However additional measures may be required to sustain the growth momentum after the holiday.

Note: 1. Revenue of a brand in 2023Q1 compared to the corresponding period in 2019 = (revenue of the brand for 2023Q1/ revenue for 2019Q1)*100%, revenue of a brand during May Day Holiday 2023 compared to the corresponding period in 2019 = (revenue of the brand for May Day Holiday 2023/ revenue for May Day Holiday 2019)*100%, where revenue of a brand includes all revenues from both new and existing self-owned restaurant operations, franchise-related business and retail business, etc. 2. Refers to buffet restaurant specifically.
Source: The Questionnaire Survey by CCFA

Full year revenue expectations of the brands for 2023

Expected revenue of the brands for 2023 compared to 2019[1]

Unit: # of brands



By and large, the rising ‘weekend economy’ and holiday travel are accelerating recovery of the catering market, with more than half of the respondents expecting to restore revenue back to 2019 levels this year.

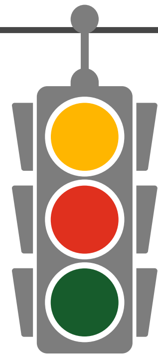
Respondents from three categories - Chinese QSR, full-service restaurant (excl. hotpot), and hotpot – were more optimistic. Over 67% of the brands expect revenues in 2023 to return 2019 levels, among which there are 50% of Chinese QSR brands anticipating positive growth compared with 42% for FSR (excl. hotpot) brands. Western QSR and drink brands are relatively pessimistic about the future, with only 20% of the respondents believing they will achieve revenues this year at levels similar to those in 2019.

Brands with directly managed only or mixed business models are relatively optimistic about their business growth in 2023. Nearly 60% of the respondents indicated that revenues are expected to recover and even surpass the levels in 2019. When it comes to small and medium-sized brands running a franchise business, the situations become much more complicated. In market segments where the competition among the leading companies is becoming increasingly intense, such as drinks and hotpot, franchise brands have to confront not only the fierce competition, but also challenges to build and rebuild trust between brands and franchisees.

Note: 1. Expected revenue of a brand includes all revenues from both new and existing self-owned restaurant operations, franchise-related business and retail business, etc. Expected revenue of a brand for 2023 compared to 2019 = (expected revenue of the brand for 2023/realised revenue for 2019)*100%. 2. Refers to the mixed mode of self-owned restaurant operations and franchise business.
Source: The Questionnaire Survey by CCFA

4 Listing rules and choice of listing venue in the catering industry

4.1 The latest trends of listing rules in the catering industry

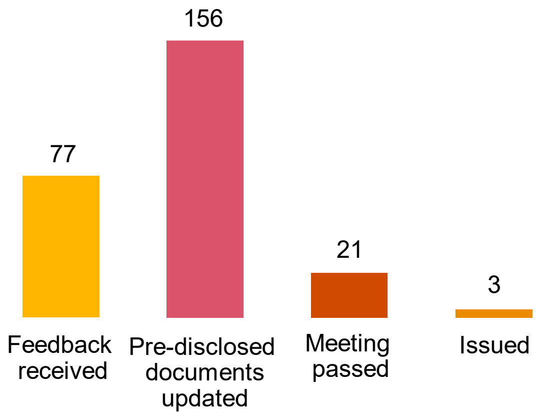


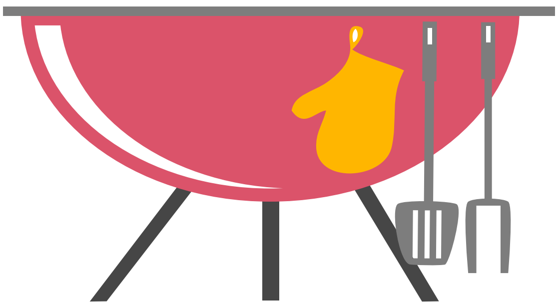
Restrictions on ‘red/yellow/green-light’ industry?

At the beginning of 2023, rumors had it that the China Securities Regulatory Commission (CSRC) would impose industry restrictions on IPO on the main board, so that ‘red-light industries’ would be entirely forbidden, while only top enterprises in ‘yellow-light industries’ can file for IPO, which triggered a fierce debate among all industries.

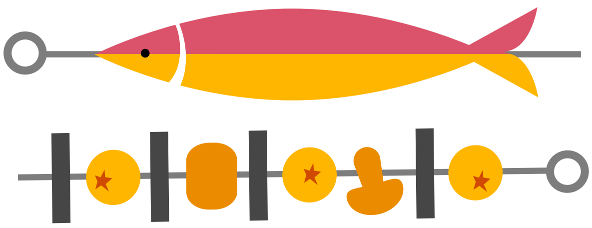
According to some detailed approval and examination criteria by media, in general, the main board should consists of blue-chip companies, or high-quality enterprises with mature business models and stable performance. Most of the industries restricted refer to the old ones, while the listing of food, FMCG catering chain enterprises garner attention of all parties.

Impact on food and catering projects still unclear





Data show that as of 31 January 2023, there were nearly 300 queuing enterprises filing for IPO on the main board under review, of which 77 have received feedback, 156 have updated application documents to be pre-disclosed, 21 have passed the meeting, and 3 are in the process of issuance. Among the 300 enterprises, there were a large number of F&B, or catering enterprises.



4.2 Comparison and selection of listing venues among HKEX, Main Board, STAR Market, ChiNext and BSE

On 17 February 2023, CSRC issued rules on Registration-based IPO System, with immediate effect.

The comprehensive registration-based system seeks to build a more comprehensive market and regulatory system, with more inclusive listing conditions. The registration-based system will fully cover SHSE, SZSE, BSE and NEEQ, and clarify the positioning of each board: Main Board mainly for blue-chip companies, STAR Market for ‘sci-tech’ enterprises, ChiNext for growth-oriented innovative startups, and BES for innovative SMEs. At the same time, for the core requirement for listing on the Main Board, ‘sustainable profitability’ is changed into ‘sustainable operating ability’, lifting the restrictions on having uncompensated losses and the proportion of intangible assets, and enterprises with ‘differentiated voting rights’ are allowed for IPO. ChiNext has clearly indicated that it is time for the implementation of listing criteria for unprofitable enterprises, and ChiNext has abolished the profitability requirements for red-chip enterprises and enterprises with ‘differential voting rights’. The revision of the listing requirements of various boards has also brought more choices for enterprises in the catering industry for listing venues.

Differentiated requirements of each board

	HKEX - Main Board	China A-share			
		Main Board	STAR Market	ChiNext	BSE
Positioning	No special positioning	Blue-chip companies	Sci-tech innovative enterprises	Growth-oriented innovative startups	Innovative SMEs
Stabilisation period of the actual controller, management team and main business	3 years	3 years	2 years	2 years	2 years
Market capitalisation and financial indicators	3 sets	3 sets	5 sets	3 sets	4 sets
Acceptance of 'unprofitable' enterprises	Yes	No	Yes	Yes	Yes
Acceptance of red-chip enterprises		Yes	Yes	Yes	No
Acceptance of enterprises with 'differential voting rights'	Yes	Yes	Yes	Yes	Yes
Market cap requirement for enterprises with 'differential voting rights'	At least 10 billion	At least 10 billion	At least 5 billion	At least 5 billion	At least 600 million

Main Board

Blue-chip companies

- Mature business model
- Stable performance
- Larger scale
- Being representative of the industry

STAR Market

Sci-tech innovative enterprises

- The new generation of IT
- Biomedical
- New material
- New energy
- High-end equipment
- Energy conservation & environmental protection

ChiNext

Growth-oriented innovative startups

- New technologies
- New business
- New industry
- New model

Relying on the mega trend of innovation, creation and creativity

BSE

Innovative SMEs

- Specialised
- Refined
- Differential
- Innovative

'Earlier, smaller, newer'

Financial and market capitalisation criteria — General companies (1/2)

HKEX-Main Board	China A-share			
	Main Board (3 sets)	STAR Market (5 sets)	ChiNext (3 sets)	BSE (4 sets)
Criteria 1: market cap + Continuous profit making • estimated market cap of no less than HKD500 million • total net profit for the last two years of no less than HKD45 million • net profit for the last year of no less than HKD35 million	**Criteria 1: continuous profit making + cash flows/revenue** • no requirements for market cap • positive net profit for each of the last three years with total amount no less than RMB150 million • net profit for the last year of no less than RMB60 million • total net operating cash flows of no less than RMB100 million for the last three years or total revenue of no less than RMB1 billion for the last three years	**Criteria 1.1: market cap + continuous profit making** • estimated market cap of no less than RMB1 billion • positive net profit for each of the last two years with total amount no less than RMB50 million	**Criteria 1:continuous profit making** • no requirements for market cap • positive net profit for each of the last two years with total amount no less than RMB50 million	**Criteria 1.1: market cap + continuous profit making + ROE*** • estimated market cap of no less than RMB200 million • net profit of no less than RMB15 million for each of the last two years • ROE of no less than 8% on average for the last two years
		Criteria 1.2:market cap + profit + revenue • estimated market cap of no less than RMB1 billion • positive net profit for the last year • revenue of no less than RMB100 million for the last year	**Criteria 2:market cap + profit + revenue** • estimated market cap of no less than RMB1 billion • positive net profit for the last year • revenue of no less than RMB100 million for the last year	**Criteria 1.2:market cap + profit + ROE*** • estimated market cap of no less than RMB200 million • net profit of no less than RMB25 million for the last year • ROE of no less than 8% for the last year
——	——	**Criteria 2:market cap + revenue + R&D** • estimated market cap of no less than RMB1.5 billion • revenue of no less than RMB200 million for the last year • total R&D expenditures (including expensed and capitalised) for the last three years representing no less than 15% of total revenue within such years	——	**Criteria 3:market cap + revenue + R&D** • estimated market cap of no less than RMB800 million • revenue of no less than RMB200 million for the last year • total R&D expenditures (including expensed and capitalised) for the last two years representing no less than 8% of total revenue within such years

Financial and market capitalisation criteria — General companies (2/2)

HKEX-Main Board	China A-share			
	Main Board (3 sets)	STAR Market (5 sets)	ChiNext (3 sets)	BSE (4 sets)
Criteria 2: market cap + revenue + cash flow • estimated market cap of no less than HKD2 billion • revenue of no less than HKD500 million for the last year • total net operating cash flows of no less than HKD100 million for the last three years	**Criteria 2:market cap + revenue + cash flow + profit** • estimated market cap of no less than RMB5 billion • positive net profit for the last year • revenue of no less than RMB600 million for the last year • total net operating cash flows of no less than RMB150 million for the last three years	**Criteria 3:market cap + revenue + cash flow** • estimated market cap of no less than RMB2 billion • revenue of no less than RMB300 million for the last year • total net operating cash flows of no less than RMB100 million for the last three years	——	**Criteria 2:market cap + revenue + cash flow** • estimated market cap of no less than RMB400 million • revenue of no less than RMB100 million on average for the last two years • revenue growth rate of no less than 30% for the last year • positive net operating cash flows for the last year
——	**Criteria 3:market cap + revenue + profit** • estimated market cap of no less than RMB8 billion • positive net profit for the last year • revenue of no less than RMB800 million for the last year	**Criteria 4:market cap + revenue** • estimated market cap of no less than RMB3 billion • revenue of no less than RMB300 million for the last year	**Criteria 3:market cap + revenue** • estimated market cap of no less than RMB5 billion • revenue of no less than RMB300 million for the last year	——
Criteria 3: market cap + revenue + exemption • estimated market cap of no less than HKD4 billion • revenue of no less than HKD500 million for the last year • The requirement for a trading record of at least three financial years will be waived in the following cases: - the directors and management of the new applicant have sufficient and satisfactory experience of at least three years in the line of business and industry of the new applicant; and - management continuity for the most recent audited financial year	——	**Criteria 5:market cap + technology** • estimated market cap of no less than RMB4 billion • possess significant superiority in technology and meet the corresponding requirements - for pharmaceutical companies, at least one of its core products approved for phase II clinical trial - for medical device companies, need to comply with the corresponding requirements in terms of core products, stage achievements, market space, technological advantages, continuous operation ability, information disclosure, etc.	——	**Criteria 4:market cap + R&D** • estimated market cap of no less than RMB1.5 billion • total R&D expenditures (including expensed and capitalised) of no less than RMB50 million for the last two years

Financial and market capitalisation criteria — Red-chip companies

	Main Board	STAR Market	ChiNext	BSE
Applicable object	**Companies that satisfy the national strategy with core technology and high market recognition, and belong to industries such as internet, big data, cloud computing, artificial intelligence, software and integrated circuits, advanced equipment manufacturing, biomedicine, new generation of information technology, new energy, new materials, new energy vehicles, green environmental protection, aerospace and marine equipment, with enhanced technology and considerable market size scale.** **Red-chip companies with great national strategic significance are not subject to the restrictions of the above industries.**			Red-chip companies are not yet allowed to list
Red-chip companies already listed abroad	Criteria 1: • estimated market cap of no less than RMB200 billion			
	Criteria 2: • estimated market cap of no less than RMB20 billion • possess independently developed and internationally leading technologies, strong ability for technology innovation and relative competitive edge over its peers			
Unlisted red-chip companies	Criteria 1: • estimated market cap of no less than RMB20 billion • revenue of no less than RMB3 billion for the last year	——	——	
	Criteria 2: • estimated market cap of no less than RMB10 billion • fast growing revenue* • possess independently developed and internationally leading technologies and relative competitive edge over its peers			
	Criteria 3: • estimated market cap of no less than RMB5 billion • revenue of no less than RMB500 million for the last year • fast growing revenue* • possess independently developed and internationally leading technologies and relative competitive edge over its peers			

*To fulfil 'fast growing revenue' requirement, companies shall meet one of the following criteria:

1. The compound growth rate of revenue for the last three years is not less than 10%, if revenue is not less than RMB500 million for the last year.
2. The compound growth rate of revenue for the last three years is not less than 20%, if revenue is less than RMB500 million for the last year.
3. If the industry is at a declining stage in the life cycle due to the periodic fluctuation, the compound growth rate of revenue for the last three years is higher than the average growth rate of competing companies in the same industry.

The 'fast growing revenue' requirement is not applicable to red-chip companies in R&D stage or valuable to national innovative development strategy.

Financial and market capitalisation criteria — Issuers with weighted voting rights (WVR)

	HKEX - Main Board	China A-share			
		Main Board	STAR Market	ChiNext	BSE
Issuers with weighted voting rights (WVR) structure	**Criteria 1:market cap + profit** • estimated market cap of no less than HKD10 billion • revenue of no less than HKD1 billion for the last year	**Criteria 1: market cap + profit** • estimated market cap of no less than RMB20 billion • positive net profit for the last year	**Criteria 1:market cap** • estimated market cap of no less than RMB10 billion		**Criteria 1.1:market cap + continuous profit making + ROE** • estimated market cap of no less than RMB600 million • the other requirements the same as BSE criteria 1.1 for general companies **Criteria 1.2:market cap + profit + ROE** • estimated market cap of no less than RMB600 million • the other requirements the same as BSE criteria 1.2 for general companies
	Criteria 2:market cap • estimated market cap of no less than HKD40 billion	**Criteria 2: market cap + profit +revenue** • estimated market cap of no less than RMB10 billion • positive net profit for the last year • revenue of no less than RMB1 billion for the last year	**Criteria 2:market cap + revenue** • estimated market cap of no less than RMB5 billion • revenue of no less than RMB500 million for the last year		**Criteria 2:market cap + revenue + cash flow** • estimated market cap of no less than RMB600 million • the other requirements the same as BSE criteria 2 for general companies **Criteria 3:market cap + revenue + R&D** • estimated market cap of no less than RMB800 million • the other requirements the same as BSE criteria 3 for general companies **Criteria 4:market cap + R&D** • estimated market cap of no less than RMB1.5 billion • the other requirements the same as BSE criteria 4 for general companies

5 Conclusion

Conclusion

The market witnessed a tremendous investment boom of catering industry in 2021 and a return to rationality in 2022. In recent years when offline catering had endured hardship, consumer demand has changed and the catering industry as a whole experienced structural transformation. To a certain extent, these changes also promoted the concentration of resources to industry leaders, marking a more obvious Matthew Effect.

Heading into 2023, the catering industry is now showing signs of recovery, but growth has not been universal. We are seeing partial, structural rebound in selected scenarios. Data indicates that consumers have become more rational when making decisions. People are pursuing more than just food on the table or superficial sensations. Rather, cost-effectiveness has become a key decision driver, deriving also the requirement for healthy ingredients, perhaps ushering in an era where value for money dominates.

With recovery still weak and uncertain, it is still vital for chain restaurants to recuperate and recharge. On the one hand, strategic maneuvers such as business transformation and operating model optimisation still need time to settle and cement. On the other hand, consumer habit changes still need to be proven in the long run. Whilst these changes are ongoing, catering companies need to keep a keen eye on the latest evolution in the consumption market and react fast. Chain restaurant companies will do well to bide their time and strengthen both internal and external capabilities, in order to truly capture future market opportunities and make steady strides.

June 2023

6 Appendix

Appendix I. List of sample companies

Company Name	(To be) Listing Venue	Major Brands
Best Food Holding Company Limited	HKEX	Hehegu, Xinladao, Xiao-Mian, Bingz, Yuepin, Fuke, Dafulan, Zaihuangbao, Seesaw Coffee, Panda Hot Pot
Yum China Holdings Limited	NYSE & HKEX	KFC, Pizza Hut, Little Sheep, HuangJiHuang, COFFii&JOY, East Dawning, Taco Bell, Lavazza
DPC Dash Ltd	HKEX	Domino’s Pizza
TAO HEUNG GROUP LIMITED	HKEX	Tao Heung, Tao Heung Tea House, Pier 88, Hak Ka Hut, Cheers Restaurant Chao Inn Chung's Cuisine / Chung's Kitchen, Tao Square Cheers Palace, Tao's Kitchen, Tai Cheong Bakery, Chung's House, Grand Ballroom, BAKER TALENT, etc.
Guangzhou Restaurant Group Company Limited	SHSE	Guangzhou Restaurant, TaotaoJu, TianJiPin, XinyueCheng, etc.
HAIDILAO INTERNATIONAL HOLDING LTD.	HKEX	Haidilao, Hanshe, U-ding, etc.
HELENS INTERNATIONAL HOLDINGS COMPANY LIMITED	HKEX	Helens
Jiumaojiu International Holdings Limited	HKEX	TAI ER, Jiumaojiu, Song Hot-Pot Factory, The Uncle Chef, Laimeili
Juewei Food Co., Ltd.	SHSE	Juewei
Jiangxi Huangshanghuang Group Food Co., Ltd.	SZSE	Huangshanghuang, Zhengzhenglaolao, Dujiaoxi, etc.
Nayuki Holdings Limited	HKEX	Naixue、TaiGai
Shanghai XNG Holdings Limited	HKEX	Shanghai Min, The Dinning Room, Maison De L‘Hui, ORENO, Wolfgang Puck, Doutor, etc.
Shanghai Ziyan Foods Co., Ltd.	SHSE	Ziyan
Tang Palace (China) Holdings Limited	HKEX	Tang Palace, Tang Palace Seafood Restaurant, Tang's Cuisine, Social Place, Canton Tea Room, Soup Delice, Pepper Lunch, PappaRich, etc.
SUPER HI INTERNATIONAL HOLDING LTD.	HKEX	SuperHi-Haidilao
TongQingLou Catering Corporation Limited.	SHSE	TongqinLou, QinxiaoYue, Tongqinglou Baozi
Tai Hing Group Holdings Limited	HKEX	Tai Hing, Men Wah Bing Teng, TeaWood, Asam Chicken Rice, Trusty Congee King, Pho Lê, Dao Cheng, Dimpot, Dumpling Station, Peppercorn, Tommy Yummy, Tori Yoichi, Sing Kee Seafood Restaurant, etc.
Tam Jai International Co. Limited	HKEX	TamJai Yunnan Mixian, Tamjai Samgor
Ajisen (China) Holdings Limited	HKEX	Ajisen Ramen
Xi'An Catering Co., Ltd.	SZSE	Xi 'an Restaurant, Lao Sun Family Restaurant, Tongsheng Xiang Restaurant, Xi 'an Roast Duck Restaurant, Spring Hotel, Baiyunzhang Dumpling House, East Asia Hotel, Jufengyuan Hotel, Wuyi Hotel, Taoli Village, Qingya Zhai
Xiabuxiabu Catering Management (China) Holdings Co., Ltd.	HKEX	XiabuXiabu, coucou, ShaoHot
Country Style Cooking Restaurant Chain Holding Limited	in IPO process in HKEX	CSC, Mr. Rice
China Quanjude (Group) Co., Ltd.	SZSE	Quanjude, Fangshan, Fengze Garden, Sichuan Restuant
Zhou Hei Ya International Holdings Company Limited	HKEX	Zhouheiya
Zhejiang Wufangzhai Industry Co., Ltd.	SHSE	Wufangzhai
Zhongyin Babi Food Co., Ltd.	SHSE	Babi Mantou, HaoLiKe, ZaoYiDian
TH International Limited	NASDAQ	Tianhao Coffee

Source: Annual reports, Official website

Appendix 2. Notes on M&A analysis

Explanatory notes on data shown in this report

- The data is presented based on information compiled by ChinaVenture, Qimingpian, Qichacha, public information and PwC analysis, unless stated otherwise;
- Detailed information or transaction size were not disclosed in many deals, which would affect the comprehensiveness and trend of our analysis to a certain extent;
- The transaction size mentioned in the report only includes the transaction with disclosed amount; for transaction size disclosed in the form of approximates shown in the table below, we used the corresponding rounded figures in our calculation and analysis;
- The deals presented in this report do not include deals that are known to have been terminated or are still in process;
- The report only includes deals involving mainland China and operating entities in mainland China, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- We have adjusted the deal value for 2022 based on the average exchange rate of RMB against each currency as of 30 December 2022

Disclosed fund raising amount	Converted amount
Hundreds of thousands	500,000
Nearly a million	1,000,000
A few millions	5,000,000
Nearly ten millions	10,000,000
Tens of millions	50,000,000
Nearly a hundred of millions	100,000,000
Hundreds of millions	300,000,000

Industry classification

In order to analyse the investment and M&A activities and trends in the catering industry in a more targeted manner, the offline catering industry in the report is narrowly defined, which includes only retail brands of Chinese food, western cuisines and Japanese food, coffee, bakery, Chinese new tea drinks and street food with offline stores, and excludes investment in other industry chain segments such as supply chain, condiments, catering service software and delivery services.

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