
INDUSTRY OVERVIEW

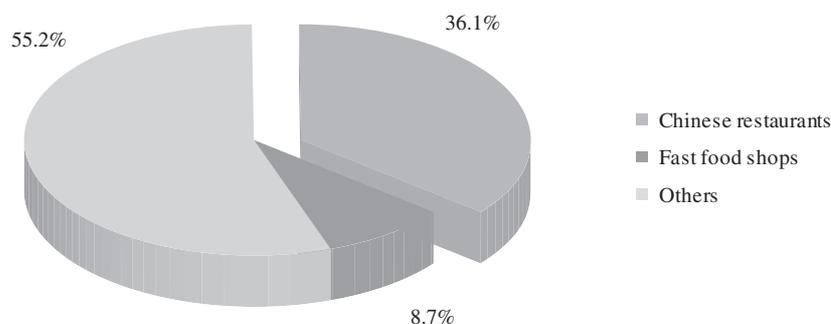
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RESTAURANT INDUSTRY IN HONG KONG

“Dining is the most important value among the general populace” (“民以食為天”) is a rooted belief in the Chinese culture. Renowned as the culinary capital of Asia, and the breed of both Eastern and Western culture, Hong Kong boasts more than 12,000 restaurants by the end of 2010. According to the household expenditure survey conducted by the Census and Statistics Department of the Government for the purpose of assessing the composite consumer price index released in April 2011, approximately 27.5% of the expenditure of residents in Hong Kong are spent on food, among which approximately 17.1% of the spending represents meals bought away from home.

According to the data from the Census and Statistics Department of the Government, among the established restaurants in Hong Kong, approximately 36.1% were Chinese restaurants.

The following chart illustrates the segmentation of the restaurant industry in Hong Kong in 2009:



Source: Census and Statistics Department of the Government

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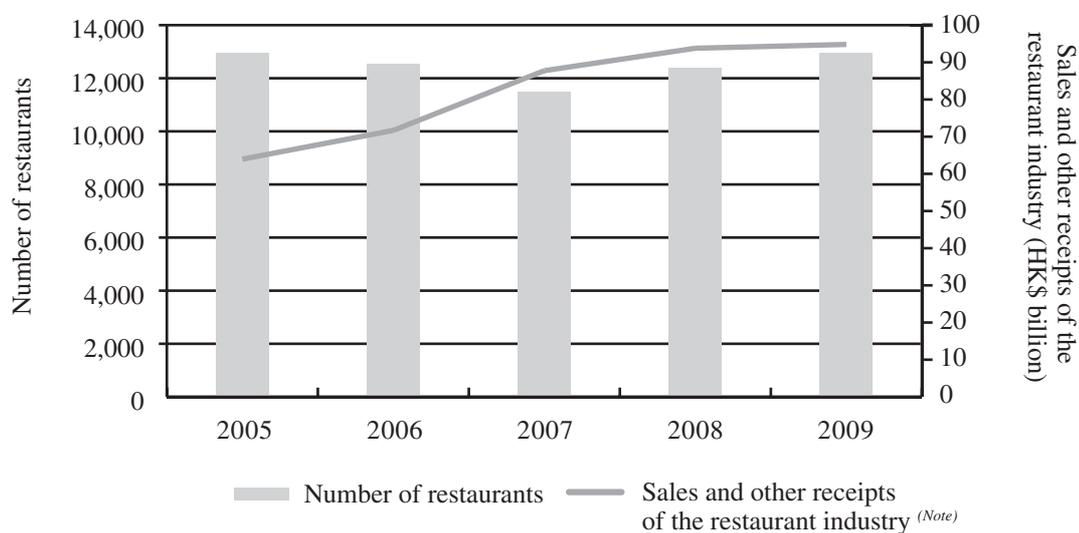
Most of the Chinese restaurants specialise in one or more of the following cuisines, such as Cantonese, Chiu Chow, Peking, Shanghainese, Sichuan and Hunan, Chinese Vegetarian or Chinese Festive Foods and Chinese Wine. Cantonese cuisine, being one of the eight major cuisines in the Chinese culture, is one of the favorites among locals and tourists.

Establishment of restaurants in Hong Kong

The number of restaurants established in Hong Kong remained relatively stable, which slightly dropped from approximately 12,944 in 2005 to approximately 12,939 in 2009, among which, the number of Chinese restaurants established in Hong Kong increased from approximately 4,465 to approximately 4,675. Establishment was defined as an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location. The sales and other receipts in the restaurant industry increased from approximately HK\$63,948 million in 2005 to approximately HK\$94,814 million in 2009, representing a CAGR of approximately 10.3%.

The following chart illustrates the number of restaurants in Hong Kong and the sales and other receipts of the restaurant industry from years 2005 to 2009:

**Number of restaurants in Hong Kong and sales and other receipts
of the restaurant industry from years 2005 to 2009**



Note: Other receipts were defined by the Census and Statistics Department of the Government as the rental income from letting or subletting land and premises and income other than sales and receipts for services rendered.

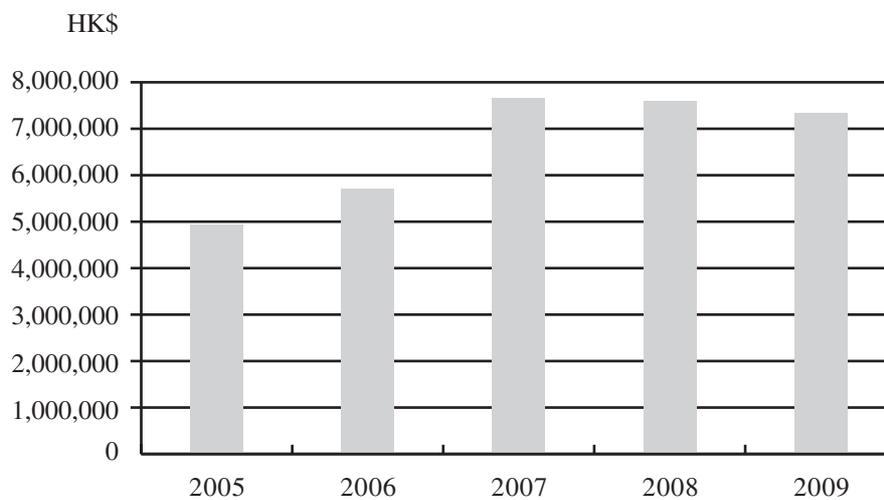
Source: Census and Statistics Department of the Government

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While the sales and other receipts of the restaurant industry experienced a higher CAGR than the number of restaurants established from year 2005 to 2009, the restaurants benefited from the economy recovery and earned an average sales and other receipts per establishment of approximately HK\$4.9 million in 2005 to approximately HK\$7.3 million in 2009, representing a CAGR of 10.5%.

The following chart illustrates the average sales and other receipts per establishment from year 2005 to 2009:

Average sales and other receipts per establishment from years 2005 to 2009



Source: Census and Statistics Department of the Government

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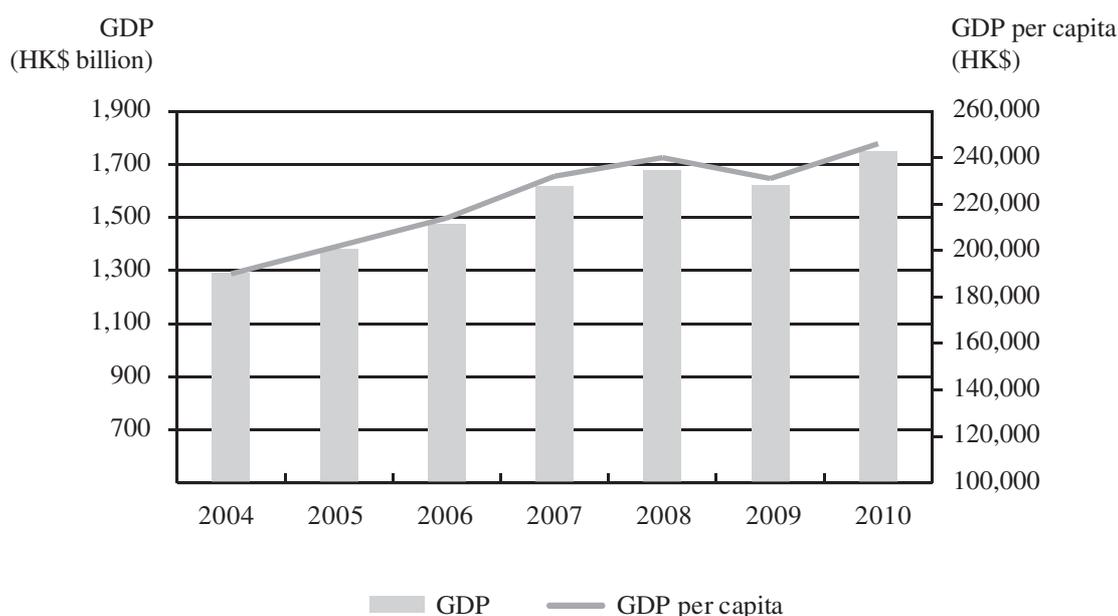
ECONOMY IN HONG KONG

GDP

Apart from the economic downturn resulting from the global financial crisis in 2008, the economy in Hong Kong has maintained steady and stable growth in recent years since 2004. According to the Census and Statistics Department of the Government, the GDP in Hong Kong grew from approximately HK\$1,292 billion in 2004 to approximately HK\$1,748 billion in 2010, representing a CAGR of approximately 5.2%. The GDP per capita increased from approximately HK\$190,000 in 2004 to approximately HK\$246,000 in 2010, representing a CAGR of 4.4%.

The following table and chart illustrate the growth trend of the GDP and GDP per capita in Hong Kong from years 2004 to 2010:

Growth trend of the GDP and GDP per capita in Hong Kong from years 2004 to 2010



	2004	2005	2006	2007	2008	2009	2010
GDP (HK\$ billion)	1,292	1,383	1,475	1,616	1,677	1,622	1,748
Nominal GDP growth (%)	4.6%	7.0%	6.7%	9.6%	3.8%	-3.3%	7.8%
GDP per capita (HK\$)	190,000	202,000	214,000	232,000	240,000	231,000	246,000

Source: Census and Statistics Department of the Government

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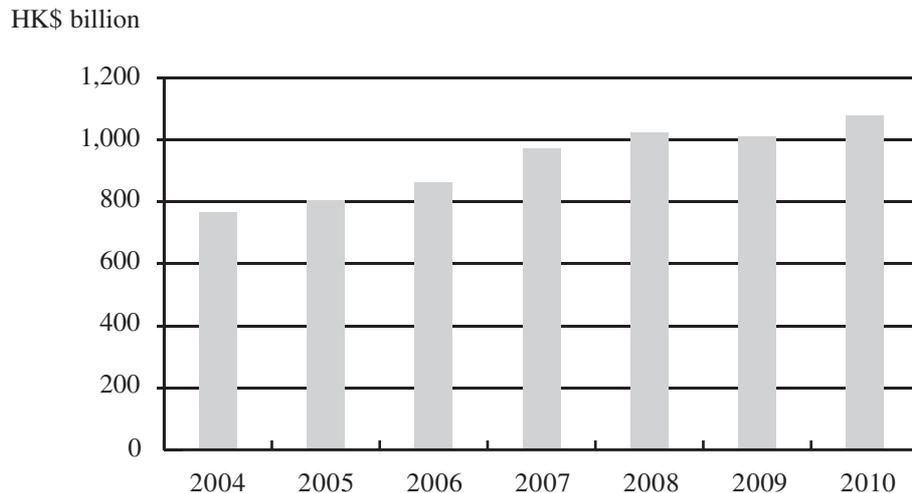
Private consumption

Residents in Hong Kong spend considerable amount of their income on food. According to the household expenditure survey conducted by the Census and Statistics Department of the Government for the purpose of assessing the composite consumer price index released in April 2011, approximately 27.5% of the expenditure of residents in Hong Kong was spent on food, which ranks the second after housing expenses of approximately 31.7%. Among the expenditure spent on food, approximately 17.1% of the spending represents meals bought away from home. Therefore, volatility in the private consumption in Hong Kong has a direct impact on the restaurant industry.

Following the Asia financial crisis in 1997 and the end of the SARS epidemic in 2004, the economy of Hong Kong swiftly rebounded from recession owing to the surge in private consumption and expenditure. The private consumption in Hong Kong has been increasing steadily in recent years. Notwithstanding the effects of the global financial crisis which brought the private consumption down by approximately 1.0% in 2009, the private consumption in Hong Kong grew from approximately HK\$767.9 billion in 2004 to approximately HK\$1,079.5 billion in 2010, representing a CAGR of approximately 5.8%.

The following chart illustrates the private consumption in Hong Kong from years 2004 to 2010:

Private consumption in Hong Kong from years 2004 to 2010



Source: Census and Statistics Department of the Government

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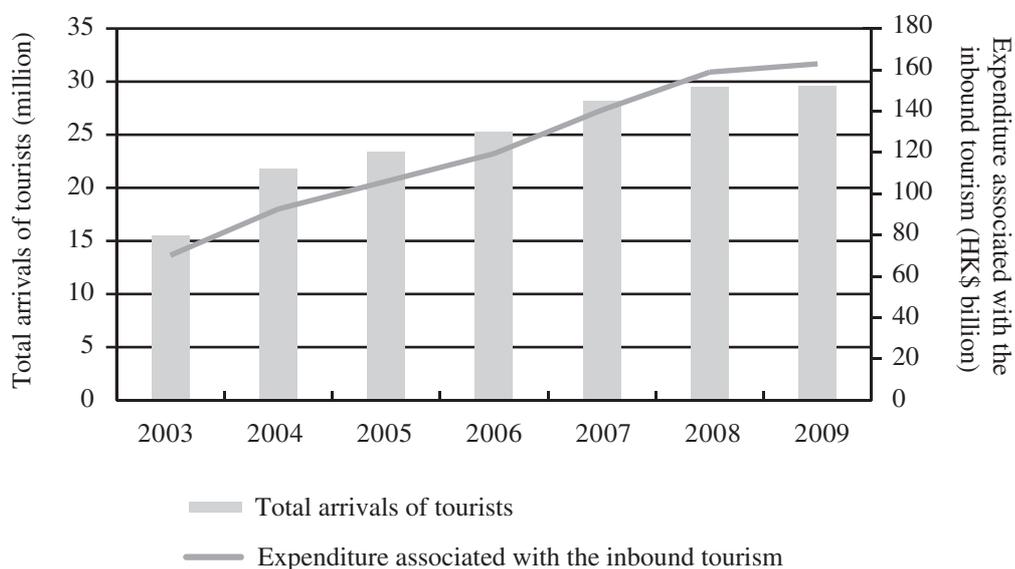
Growth of the tourism

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

Hong Kong is one of the favorite cities for tourists. Hong Kong was ranked 7th among the 50 major cities for the most delicious food category according to the 2009 Anholt-GfK Roper City Brands Index™. The total arrivals of tourists in Hong Kong rose from approximately 15.5 million in 2003 to approximately 29.6 million in 2009, representing a CAGR of approximately 11.4%. The contribution from the expenditure associated with the inbound tourism increased from approximately HK\$70.2 billion in 2003 to approximately HK\$162.9 billion in 2009.

The following chart illustrates the total arrivals of tourists and the expenditure associated with the inbound tourism in Hong Kong from years 2003 to 2009.

Total arrivals of tourists and the expenditure associated with the inbound tourism in Hong Kong from years 2003 to 2009



Source: Census and Statistics Department of the Government

The constant surge in the arrivals of tourists in Hong Kong in recent years provided considerable contribution to the restaurant industry. The contribution from tourism expenditure in 2009 increased more than double from that of 2003, which reached approximately HK\$162.9 billion and remained a major driver for the growth of the restaurant industry.

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RELATIONSHIP BETWEEN THE RESTAURANT INDUSTRY AND THE ECONOMY IN HONG KONG

It is commonly known that the prosperity in the restaurant industry is associated with the performance of the economy in Hong Kong. With approximately HK\$94,814 million total sales and other receipts in the restaurant industry in 2009, the industry contributes to approximately 5.8% of the total GDP of Hong Kong in the same year.

The restaurant industry also supports the economy in Hong Kong through employment. According to the quarterly report of employment and vacancies statistics issued by the Census and Statistics Department of the Government in March 2011, the total number of persons engaged in food and beverage services reached approximately 222,000 by the end of December 2010, representing approximately 8.7% of the total number of employment in Hong Kong (other than those in the civil service).

Number of persons engaged in food and beverage services

		As at 31 December		
	2007	2008	2009	2010
Food and beverage services	207,129	207,301	215,186	221,902
Others	<u>2,248,790</u>	<u>2,261,570</u>	<u>2,289,464</u>	<u>2,337,338</u>
Total*	<u><u>2,455,919</u></u>	<u><u>2,468,871</u></u>	<u><u>2,504,650</u></u>	<u><u>2,559,240</u></u>

* Figures relate only to those industries covered in the employment and vacancies statistics issued by the Census and Statistics Department of the Government which may not be exhaustive.

Source: *Census and Statistics Department of the Government*

With approximately 8.7% of the total number of employment in Hong Kong (other than those in civil service) engaging in the food and beverages services, the restaurant industry is significantly related to the overall performance of Hong Kong's economy. The restaurant industry in Hong Kong depends upon, among others, (i) the GDP in Hong Kong; (ii) the private consumption in Hong Kong; and (iii) the growth of the tourism. Despite the intense competition, the restaurants in Hong Kong enjoyed growth in the sales and other receipts per establishment, partly due to the generally positive outlook and economy recovery. Any surge or slump in the consumer spending power in Hong Kong would inevitably have a related impact on the restaurant industry in the same direction.