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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from a commissioned report, the F&S Report, prepared by Frost & Sullivan which is an Independent Third Party. We believe that the sources of the information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information derived from the above sources has not been independently verified by us, the Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any of our or their respective directors, advisers, officers, employees, agents, affiliates and/or representatives or any other persons or parties involved in the Share Offer and no representation is given as to its accuracy. Please refer to “Risk Factors — Risks relating to the statements made in this prospectus and from other sources — Statistics and facts in this prospectus have not been independently verified.” for details. We confirm, after taking reasonable care, that there have been no material adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.*

### SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consultant, to prepare a report on the night entertainment and restaurant markets in Hong Kong at a fee of HK\$400,000. The F&S Report has been prepared by Frost & Sullivan without our influence.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy covering various industry sectors including food, beverage and entertainment. Frost & Sullivan has proven track records in providing market research studies to government departments/agencies and private clients in the regions where the F&S Report covers.

The F&S Report includes information on the night entertainment and restaurant markets in Hong Kong. In preparing the F&S Report, Frost & Sullivan conducted detailed primary research which involved having in-depth discussions with the industrial association, industry experts and leading industry participants. Frost & Sullivan has also conducted secondary research which involved reviewing company annual reports, independent research reports and data from its own research database. Frost & Sullivan obtained the figures for the estimated total market size from historical data analysis plotted against macroeconomic data as well as considered the industry drivers. Frost & Sullivan considers the source of information as reliable because (i) it is the general market practice to adopt official data and announcements from various Hong Kong government departments; and (ii) the information obtained from interviews is for reference only and the findings in the F&S Report are not based on the results of these interviews.

The F&S Report was compiled based on the following assumptions: (i) the global economy is to maintain a steady growth across the forecast period; and (ii) there is no external shock such as financial crisis or the wide outbreak of diseases to affect the demand and supply of services in clubbing and restaurant markets in Hong Kong during the forecast period. Frost & Sullivan and we believe that the basic assumptions used in preparing the F&S Report, including those used to make future projections, are factual, correct and not misleading. Frost & Sullivan has independently analysed the information.

The historical market information from 1 January 2016 to 31 May 2016 was not available as the overall industry research conducted by Frost & Sullivan was based on calendar year and 31 December is the typical time node for historical data analysis.

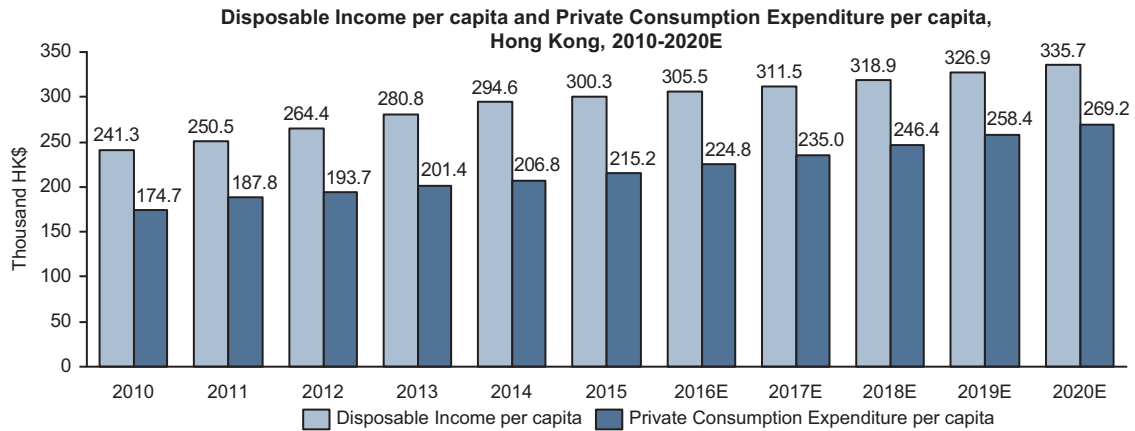
Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications.

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### MACRO ECONOMY IN HONG KONG

Per capita private consumption expenditure in Hong Kong has seen steady growth from 2010 to 2015, growing at a CAGR of 4.3% from approximately HK\$174,700 in 2010 to HK\$215,200 in 2015. It is anticipated that the private consumption expenditure per capita in Hong Kong will reach approximately HK\$269,200 in 2020 at a CAGR of 4.6% from 2016 to 2020 which is mainly driven by the increasing disposable income per capita and purchasing power of Hong Kong.

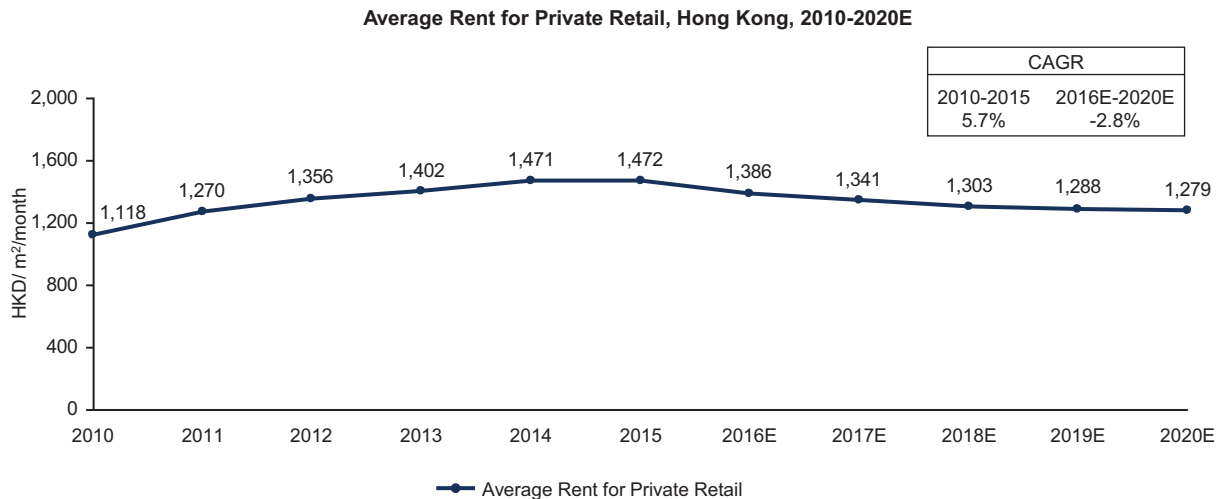
During 2010 to 2015, disposable income per capita in Hong Kong grew at a CAGR of 4.5% from approximately HK\$241,300 in 2010 to HK\$300,300 in 2015. From 2016 to 2020, it is expected to continue the growth at a CAGR of 2.4%, reaching approximately HK\$335,700 by the end of 2020 stimulated by steady inflation in coming years and the expected increase in per capita income. The growth in disposable income per capita would imply a higher domestic consumption, and thus there would be a potential increase in the demand for night entertainment and casual dining at restaurants.



*Source: Census and Statistics Department of HK Government, Frost & Sullivan*

### Average private retail rent

The average rent for private retail is expected to have an overall moderate decrease from 2016 to 2020. The average rent for private retail properties in Hong Kong rose from HK\$ 1,118/m<sup>2</sup> per month in 2010 to HK\$ 1,472/m<sup>2</sup> per month in 2015 at a CAGR of 5.7%. It is expected that the average rent for private retail properties will drop from HK\$ 1,386/m<sup>2</sup> per month in 2016 to HK\$ 1,279/m<sup>2</sup> per month in 2020 at a CAGR of -2.8% which is mainly propelled by tourism and retail sales performance with the declining number of tourists from mainland China.



*Source: Census and Statistics Department of HK Government, Frost & Sullivan*

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### OVERVIEW OF THE NIGHT ENTERTAINMENT INDUSTRY

The night entertainment industry in Hong Kong can be categorised into the following establishments based on the operation model and type of services offered as below.

<u>Market segment</u>	<u>Specific characteristics</u>
Clubs	Clubs in general can be identified by establishments operating at night until late hours with entrance fees, DJs playing strong beat music and dance floors. In Hong Kong, clubs with a dance floor must obtain a liquor licence with a dancing endorsement. Some clubs in Hong Kong are multi-functional with day-time operating as restaurants and night clubs from night hours. Primarily, the premium clubs are located in prime districts in Hong Kong such as Lan Kwai Fong in Central.
Bars and pubs	Bars and pubs are establishments that primarily serves alcoholic beverages and limited supply of snacks and hot food. The term “bar” is derived from the specialised counter setting at premises where beverages are served. Some bars and pubs offer entertainment equipment such as pool tables, darts, beer pong etc.
Restaurants	Restaurants in Hong Kong with a liquor licence are able to serve alcoholic beverages. Some restaurants in Hong Kong are multifunctional as night clubs at night-time or with a bar table set up as a bar/pub.
Karaoke Bars	Karaoke bars are establishments which offer karaoke entertainment and also serve alcoholic drinks.
Others	Any other businesses that serve alcoholic beverages for consumption at the premises.

As at 28 July 2016, there were 7,285 establishments in Hong Kong with a liquor licence with 108 of which having obtained a dancing endorsement. Entrance fee is one of the key differentiators between clubs and bars/pubs. Unlike bars/pubs which do not charge customers for entrance and generate revenue from the sales of food and beverages, clubs usually charge an entrance fee to ensure that specific groups of customers (i.e. those who are willing to pay for entertainment on top of food and beverages) can enjoy in an upscale, safe and private environment. For example, some clubs have their own lists of invited guests while entrance fee will be applied for other customers. Therefore, although entrance fee is not the main income stream for club operators, it serves as a tool to ensure a high quality social environment for customers in the club.

### OVERVIEW OF THE CLUBBING MARKET

#### History and development

The origins of the clubbing market date back to 1978, when Gordon Huthart opened the first club in Lan Kwai Fong, “Disco Disco” which was located at 38-44 D’Aguilar Street, Central, which is the present location of our club, Volar. Allan Zeman, dubbed the “Father of Lan Kwai Fong”, came along in the 1980s and started to transform the area into restaurants and clubs.

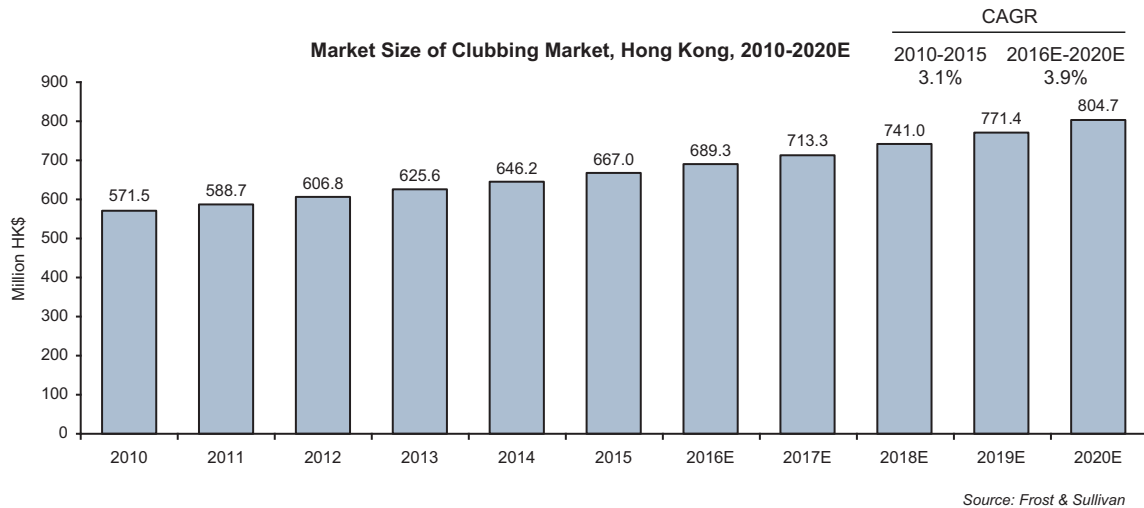
In 1980s, the nightclub culture was gaining popularity from expatriates as well as locals. Lusters of smaller bars and clubs emerged in Minden Avenue and Knutsford Terrace in the Tsim Sha Tsui district. In 1990s, Allan Zeman had developed Lan Kwai Fong into a world-famous night entertainment district. Clubbing industry recorded a rapid growth during this decade. In the Lan Kwai Fong area, there are currently over 100 bars, clubs and restaurants. The clubbing market is now well-established and the players in the market are eager to sustain, consolidate and gain their market share and to eliminate weaker and poor performing players. At present, the clubbing market in Hong Kong has potential for growth.

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### Market size

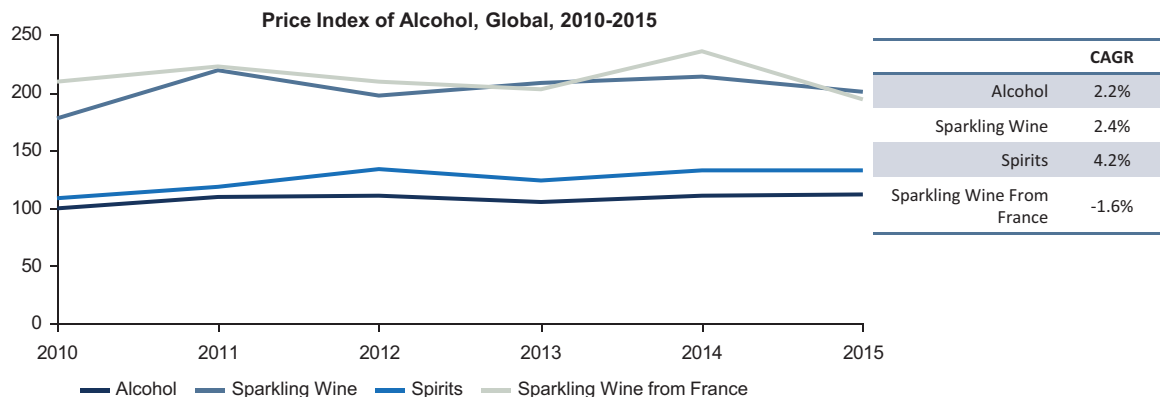
The market size of the clubbing market in terms of total revenue in Hong Kong increased steadily with a moderate growth from approximately HK\$571.5 million in 2010 to approximately HK\$667.0 million in 2015 registering a CAGR of 3.1%. This is primarily stimulated by the rising popularity of the night entertainment activities, especially for clubbing with an increasing number of expatriates in Hong Kong.

It is anticipated that the clubbing market is going to reach HK\$804.7 million in 2020 with a stable CAGR of 3.9% from 2016 to 2020 which is mainly driven by the increased number of expatriates and students pursuing or who have pursued education overseas and acquiring the foreign culture and lifestyle and also the popularity of the social networking platform for better marketing and advertisement.



### Costs of alcoholic drink

The global price index of alcohol increased from 100.0 in 2010 to 111.3 in 2015 representing a CAGR of 2.2% with spirits achieving the highest growth at a CAGR of 4.2%. The global price index is referenced by the import prices of the beverages from various countries to Hong Kong. The price index of sparkling wine from France, which includes Champagne, recorded a decrease of CAGR of -1.6% from 210.0 in 2010 to 194.1 in 2015.



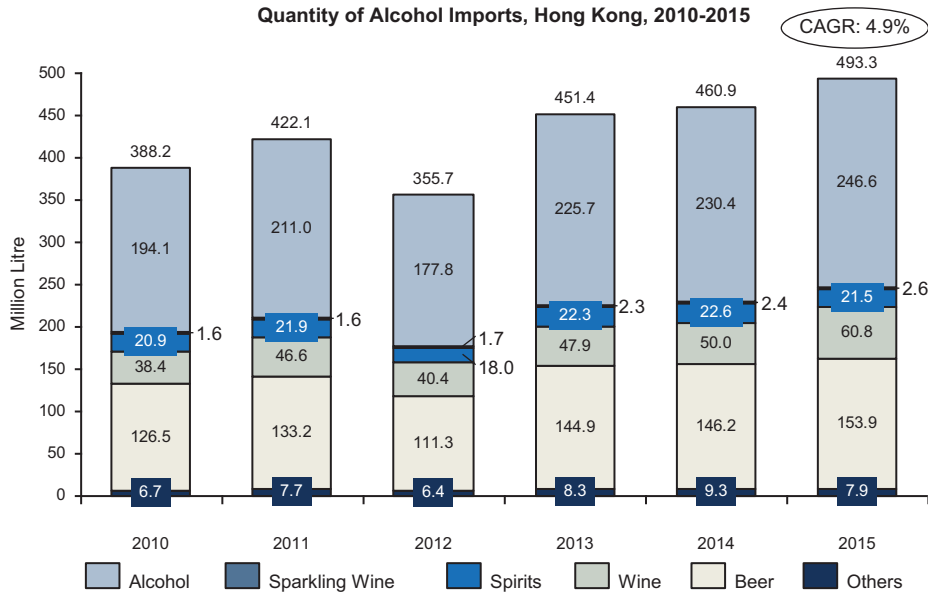
Note: Average alcohol price (HKD per litre) at 2010 = 100

*Source: Census and Statistics Department of HK Government and Frost & Sullivan*

The overall alcohol imports in Hong Kong increased from 388.2 million litres in 2010 to 493.3 million litres in 2015 representing a CAGR of 4.9%. The import quantity is a good representation of the sales volume of alcohol as over 90% of the alcoholic beverages in Hong Kong are imported. The robust development of clubbing

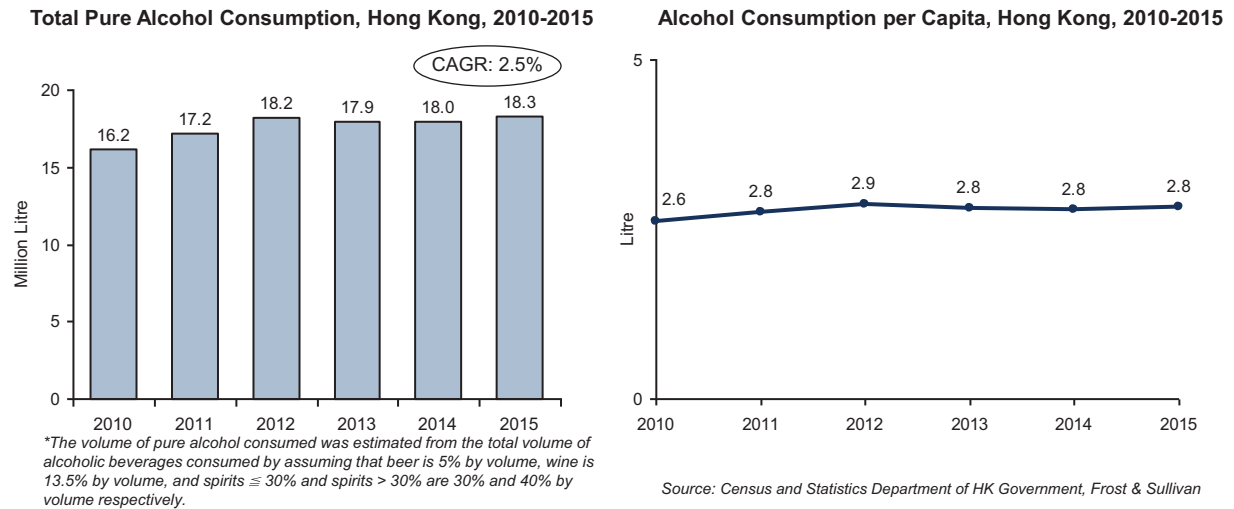
## INDUSTRY OVERVIEW

industry in recent years has stimulated the import volume of sparkling wine including Champagne, realising a strong increase.



### Consumption of alcohol

The total pure alcohol consumption in Hong Kong has recorded a moderate increase from 16.2 million litres in 2010 to 18.3 million litres in 2015 at a CAGR of 2.5%. The alcohol consumption per capita rose from 2.6 litres in 2010 to 2.8 litre in 2015 at a CAGR of 1.6%. The rising alcohol consumption indicates the surging demand of alcoholic beverages in Hong Kong which is mainly driven by the booming development of drinking establishments and increasing popularity for night entertainment in bars and clubs.

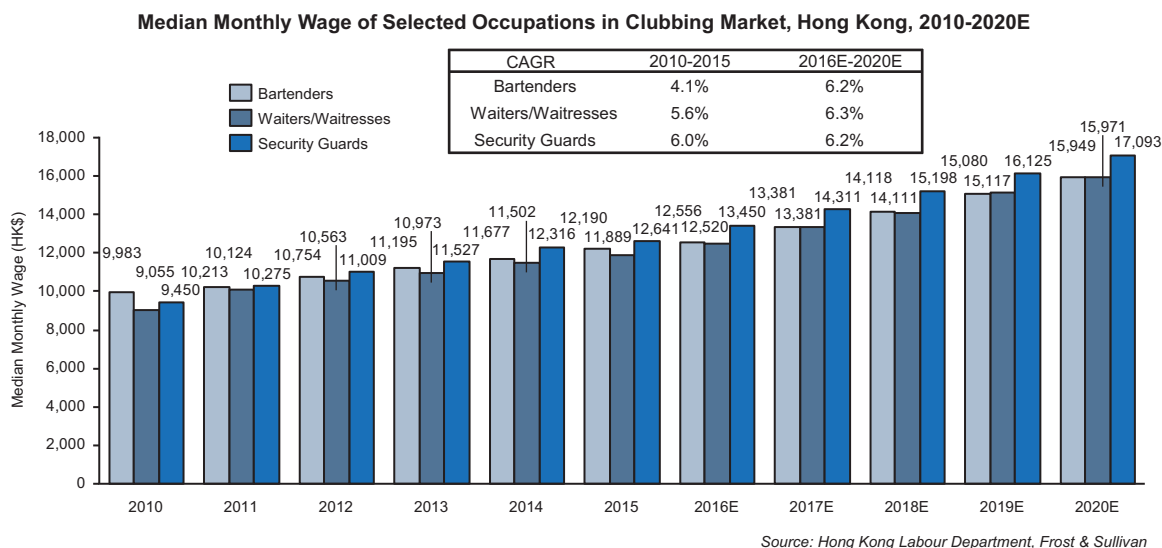


### Costs of labour

Overall, the median monthly wage of selected occupations in the clubbing market including bartenders, waiters and waitresses and security guards have seen a steady growth from 2010 to 2015, mainly attributable to

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inflation and the introduction of the statutory minimum wage. The growth is expected to continue from 2016 to 2020 due to high demand for labour and the development of clubbing market in Hong Kong.



## MARKET DRIVERS OF THE CLUBBING MARKET

### Internationally renowned night entertainment in Hong Kong

The vibrant nightlife in Hong Kong is internationally renowned. Lan Kwai Fong is one of the few places in the world with a concentrated selection of bars and clubs in a relatively small area when compared to other major cities in the world. A number of premium clubs in Central have gained worldwide recognition with internationally renowned DJs and frequent visits from celebrities which further attracts expatriates, returning overseas Chinese, university students and graduates as well as tourists. Some of the DJs engaged by Volar are internationally renowned and named in online and printed media such as foreign music magazines as ones of the “Top 100 DJs”. These DJs have their proven track record of discography and recognition in music production and editing. For example, some of the tracks produced by these DJs have been included in popular computer and console games and played in private events, while there was a DJ working in an international radio broadcast channel.

### Increasing popularity of clubbing in Hong Kong

The increased popularity of clubbing in Hong Kong is mainly driven by the higher living standard, frequent social activities and change of consumer consumption patterns. With the rising disposable income per capita in Hong Kong in recent years, people have been paying more attention to their entertainment options and social activities especially for white collar professionals after long hours of work. As a result, clubbing, especially for those situated in prime locations such as Lan Kwai Fong area, has become a popular entertainment event socialising and networking with friends and business associates. According to statistics on behavioural risk factors released by Centre for Health Protection of HK Government, the percentage of adults who drank alcoholic beverage has reached to 62.4% in 2014. Meanwhile, according to Census and Statistics Department of HK Government, the total pure alcohol consumption volume has demonstrated a general increase from 16.2 million litre in 2010 to 18.3 million litre in 2015 at CAGR of 2.5%, representing the increasing consumption levels of alcoholic beverages. Further, with the growth of the number of expatriates, returning overseas Chinese, university students and graduates, the market is driven by the increasing demand for night entertainment in Hong Kong as they are usually more affluent and willing to spend when they party in the clubs. According to the Immigration Department of HK Government, the number of employment visas under “General Employment Policy” has surged from 26,881 in 2010 to 34,403 in 2015 at a CAGR of 5.1%.

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### **Online social platform as a sophisticated marketing tool**

Reputation and customer loyalty are key to success in the clubbing business. Marketing is one of the most prominent tools to raise the brand awareness. The growing importance of online marketing measures such as apps and social media platforms provide crucial ways for the club to build relationships with customers.

### **OPPORTUNITIES AND CHALLENGES OF THE CLUBBING MARKET**

#### **Opportunities**

##### *Expansion into new and diversified locations*

The market in the prime districts such as Central is well-established and weaker players are being eliminated with stronger players consolidating their lead and gaining their market share. The HK Government has put vigorous effort into the development of the New Territories areas to cope with the booming population, stimulating the future growth of night entertainment business in the developing regions in Hong Kong.

##### *Rising number of students studying abroad*

With more students who grow up in Hong Kong studying in different universities over the world and acquiring the foreign culture and living style, it is likely to increase the demand for clubbing with a growing number of student unions from universities around the world organising clubbing events for their members.

#### **Challenges**

##### *Increasing alternative night entertainment options*

People can choose from a wide variety of entertainment activities such as bars, pubs, cafes, karaoke bars in Hong Kong, especially in night entertainment, since a lot of venues open till late. Increasing choices of night entertainment create fierce competition and pose threats.

##### *Sustainable profits on off-peak nights*

The clubbing industry in Hong Kong is hugely affected by the crowd, ambience and vibes of the area and other seasonal factors such as holidays and festivals. Clubs would usually achieve peak capacities on Friday and Saturday nights during the week or on festival occasions. This poses challenges to clubs to maximise their profits during peak nights and gain sustainable profits during the off-peak nights.

##### *Intense market competition*

Competition among night entertainment venues which target the same or similar group of customers is intense. There are numerous night entertainment venues in Hong Kong that serve alcoholic beverages in venues that open at night and restaurants in Hong Kong offering Japanese-style cuisine. These establishments compete in terms of, among other things, taste, quality, price, customer service, ambience, and the overall entertainment and dining experience.

##### *Performance is closely related to the macro-economic situation in Hong Kong*

The performance of the clubbing market in Hong Kong is closely related to the economic conditions of Hong Kong. In the event of an economic downturn and increase in inflation, consumers will tend to become more budget conscious and sensitive to the amounts they spend on entertainment and dining out.

### **OVERVIEW AND DEVELOPMENT OF SPORTS-THEMED BARS**

Sports-themed bar is defined as a bar decorated with a number of large-screen televisions broadcasting a variety of sports events.

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Sports-themed bars gained popularity in Hong Kong in the 1990s when football was one of the most widely broadcasted sports in Hong Kong. Major football leagues such as Premier League, UEFA Champions League were usually broadcasted in the sports-themed bars, drawing sizeable crowds at night. From the 2000s, with an increasing variety of sports gaining popularity in Hong Kong, sports-themed bars nowadays offer more broadcasting options from ice hockey to Formula One car racing. Some new sports-themed bars provide a wide array of entertainment options such as pool, darts and beer pong to enhance customer enjoyment in the bar. The average spending in an upmarket sports-themed bar is estimated to be around HK\$200 to HK\$400 depending on the price, scale and entertainment options offered. In general, the average investment payback period for sports-themed bars is 12 to 24 months.

According to Frost & Sullivan, the average daily seat turnover rate (which is calculated by dividing guest flow by capacity) of sports bars on weekdays is approximately 101% whereas the average daily seat turnover rate on weekends is approximately 131%.

In addition, patrons of the sports bars tend to first occupy the seats near the bar's entertainment facilities such as big screen TV, beer pong and pool table. As such, the seat turnover rate in respect of the seats proximate to entertainment facilities in sports bar is substantially higher which suggests that entertainment options provided has a positive correlation to the seat turnover rate.

### **OPPORTUNITIES AND CHALLENGES OF THE HONG KONG SPORTS-THEMED BARS MARKET**

#### **Market drivers**

##### *Enthusiasm with major international sports activities in Hong Kong*

With the enthusiasm for major global sports events in Hong Kong, many of the world famous sports events such as Premier League, Olympics Games, National Basketball Association etc. are often broadcasted through subscription televisions. Watching the live sports with friends in a bar or pub with large screen TVs broadcasting sports events has been one of the most common activities for friends gathering in Hong Kong which has provided growth momentum for the Hong Kong sports bars market.

##### *Demand for casual drinking from white collars*

Influenced by the western drinking cultural, white collars in Hong Kong enjoy drinking casually at happy hours on weekdays or after dinner at weekends. Sports bars have provided a great platform for the customers to socialise with alcoholic beverages and light snack. The entertainment options provided such as darts, pool and beer pong etc. increase the time customers spend in the bars and thus drive the growth of revenue of sports bars.

##### *Increase entertainment options in sports bars*

Conventionally, sports bars offer big screen television for customers to enjoy a drink while watching sports. In recent years, there is an increasing number of sports bars which has brought in entertainment equipment such as electronic dart machines, pool table, beer pong table, table football, table tennis table and so forth as a marketing strategy in order to attract and retain loyal customers. This move has also driven the revenue of the sports bars in terms of the alcohol spending as well as the entertainment spending in the bars.

#### **Market constraints**

##### *Weak tourism growth*

According to the statistics from The Hong Kong Tourism Board, the number of inbound tourists has declined in recent years by 2.5% from 2014 to 2015 which is mainly due to mainland Chinese tourists visiting other hot holiday destinations in Asian such as Japan, Korea, Taiwan etc. The downturn of inbound tourism has hindered the growth of the sports bars in Hong Kong in recent years, especially those located in popular nightlife district such as Central and Tsim Sha Tsui.



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### *Rising labour cost*

The Hong Kong statutory minimum wage is HK\$32.5 per hour in 2015 raised from HK\$30.0 per hour. The minimum wage adjustment has a huge impact on pay hierarchies in the sports bars industry with climbing wage levels of the sports bars employees, especially catering staff and cleaners. Hence, the increasing operation cost would have a negative effect on the profit margin of sports bars.

### *Rising beverage cost*

The rising costs of alcoholic drinks add stress to the operating costs of sports-themed bars. The cost price of beer was increased from HK\$5.5 per litre in 2010 to HK\$6.2 per litre in 2015, representing a CAGR of 2.4% while the cost price of Whisky was increased from HK\$80.0 per litre in 2010 to HK\$137.5 per litre in 2015 representing a CAGR of 11.4%

### **Import Price of Alcoholic Drinks (Price per Litre in HKD) from 2010 to 2015**

<u>HKD/ Litre</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>CAGR 2010- 2015</u>
Beer	5.5	5.6	5.9	6.1	6.3	6.2	2.4%
Sparkling Wine	172.0	211.9	190.5	201.2	207.2	193.8	2.4%
Whisky	80.0	91.3	105.8	104.2	126.1	137.5	11.4%
Rum	34.2	36.2	36.6	47.4	38.6	38.5	2.4%
Gin	30.1	30.1	29.8	40.9	36.5	41.5	6.6%
Other spirits	166.4	184.5	217.6	187.3	195.8	191.6	2.9%

*Source: Census and Statistics Department of HK Government, Frost & Sullivan*

### **Forecasted Import Price of Alcoholic Drinks (Price per Litre in HKD) from 2016 to 2020**

<u>HKD/ Litre</u>	<u>2016E</u>	<u>2017E</u>	<u>2018E</u>	<u>2019E</u>	<u>2020E</u>	<u>CAGR 2016- 2020</u>
Beer	6.4	6.6	6.7	7.0	7.1	2.8%
Sparkling Wine	200.5	207.0	220.4	227.0	230.3	3.5%
Whisky	145.4	156.2	166.1	188.7	202.3	8.6%
Rum	39.8	41.5	41.8	42.9	44.3	2.7%
Gin	43.9	45.8	49.1	51.8	55.3	5.9%
Other spirits	196.9	205.5	207.9	209.1	214.3	2.1%

*Source: Census and Statistics Department of HK Government, Frost & Sullivan*

### **Future trend and outlook**

#### *Integration of technology to enhance customer experience*

Apart from provision of a variety of ordinary entertainment, sports bar operators in Hong Kong has been putting effort to enrich the entertainment options in order to increase the customer experience. For instances, some sports bars had introduced electronic dart machines with internet connection, allowing customers to have dart competition with peers and even players in other bars and the real time update of game results. Hence a growing adoption of technology in entertainment are recognised as a key trend in sports bar market.

#### *A mix of place for social activities and restaurants*

Sports bars are usually seen as a place for social gathering as it offers a range of entertainment including broadcasting of sports events and games, in particular in some special occasions such as weekends when there is

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live broadcasting for popular sports events such as English Premier League. Some sports bars are available for booking and host of private events such as football watching events. On the other hand, to further expand the business, some sports bars may extend their opening hours in daytime as restaurants to serve brunch and lunch.

### *Promotion through social media and mobile applications*

The high penetration of smartphone and mobile applications serve as a good channel for promotion. Meanwhile, some sports bars operators had set up their own websites and pages in social media platform, highlighting the latest news, activities, discounts and special offerings as well as events to be hosted. In addition, mobile applications for restaurant and bars are also trending and offer a good opportunity for sports bar to gain business.

### COMPETITIVE LANDSCAPE OF THE HONG KONG SPORTS-THEMED BARS

The market of sports-themed bars is highly fragmented, based on (i) sports-themed bars are not strictly defined against ordinary bars; (ii) the relatively lower entry barrier for the sports-themed bar industry (especially for the low-end sports-themed bars with less entertainment options); (iii) no sports-themed bar is taking up a significant amount of the market share at the moment; and (iv) there exists no sports-themed bar chain at the moment although there is a large number of sports-themed bars in Hong Kong. Some large sports-themed bars in prime locations (e.g. Central, Tsim Sha Tsui and Causeway Bay etc.) usually have a Happy Hour starting from 6:00 p.m. and the peak hours are around 10:00 p.m. to 1:00 a.m.. In addition, these bars usually offer reservation service for a table in form of prepaid beverage package.

Relevant track records such as experience in operating clubs, bars and pubs as well as marketing innovation are considered as key success factors in the sports-themed bars market. The overall operation of sports-themed bars is similar to conventional bars in Hong Kong, although sports-themed bars usually offer multiple entertainment options with sports event broadcasting. Some large scale sports-themed bars are operated under the groups of established clubs, bars and pubs. Thus, those players could leverage the established branding and reputation in the sports-themed bars market. Moreover, with the competitive environment of the sports-themed bars market, adopting innovative marketing strategy is the key to establish brand identity and draw public attention. For instances, some sports-themed bars organise special events like beer pong and darts tournament, promotion events in form of free drinks. In addition, those operators who are able to take advantage of various promotion channels such as social media (e.g. Facebook) and taking innovative marketing initiatives are more likely to capture larger market share, especially for those market entrants who are new to the customers.

### OVERVIEW OF THE RESTAURANT MARKET

A restaurant is defined as a commercial establishment where a variety of food and beverages are provided with consumption sites and facilities offered to customers. Below illustrates the categories of restaurants.

<u>Type of restaurant</u>	<u>Specific characteristics</u>
Full-service restaurant	Full-service restaurants are traditional sit-down restaurants with full service offered and usually have set meal offered in regular period of time like morning, lunch and dinner instead of whole day.
Casual dining restaurants	Casual dining restaurants may serve cuisine at a moderate price with a more casual environment for dining. Generally, casual dining restaurants offer some table services and have a longer opening time compared with the full-service one.
Quick service restaurants	Quick service restaurants deliver standardised food items with emphasis on quick and efficient food preparation and does not offer table service. Quick service restaurants usually open for long hours or even 24 hours. Quick service restaurants include all food court restaurants.
Others	Other catering service providers include hawker stalls and roadside vendors.

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There were approximately 14,000 restaurant establishments in Hong Kong in December 2015.

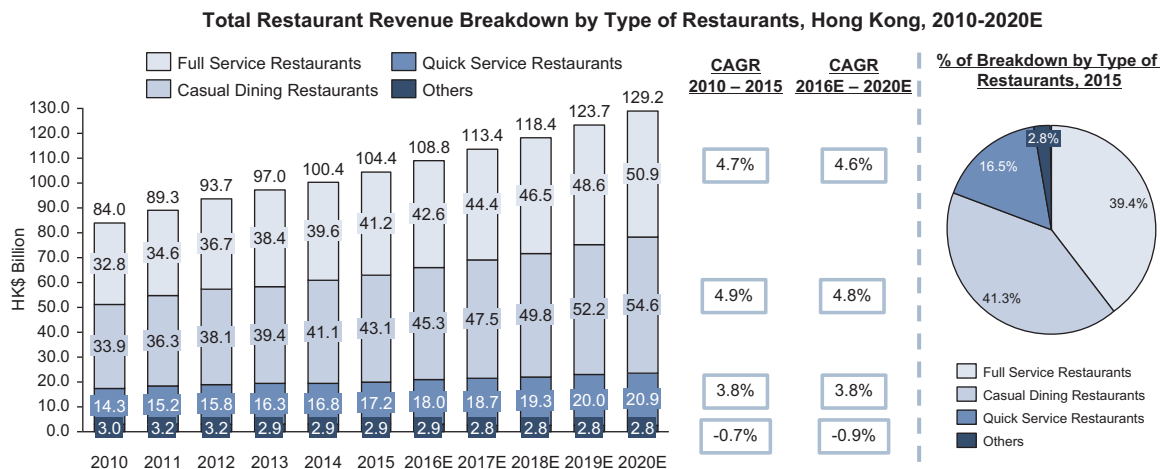
In general, the average investment payback period of restaurants is 12 to 48 months. When calculating the investment payback period, some industry players take into account of depreciation charge while some do not take this approach.

### OVERVIEW OF THE CASUAL DINING RESTAURANT MARKET

#### Market size

Casual dining is the largest segment of restaurants which accounted for 41.3% of total revenue of all types of restaurants in 2015, which is followed by full-service restaurants (39.4%), quick service restaurants (16.5%) and others (2.8%).

Casual dining restaurants recorded a higher growth in terms of revenue from 2010 to 2015 at a CAGR of 4.9% and the trend is projected to continue at a CAGR of 4.8% from 2016 to 2020. Meanwhile, quick service restaurants had also maintained the growing trend during 2010 to 2015 and is expected to grow further from 2016 to 2020, which is attributable to growing demand for quick dining due to fast pace of work and lifestyle in Hong Kong and optimum price offered compared with other segments.



Source: Frost & Sullivan

#### Costs of major raw materials

The price index of selected raw materials for restaurants had recorded growth from 2010 to 2015, which was mainly attributable to growing demand for these materials.

**Composite Consumer Price Index for Selected Items, Hong Kong, 2010-2015**

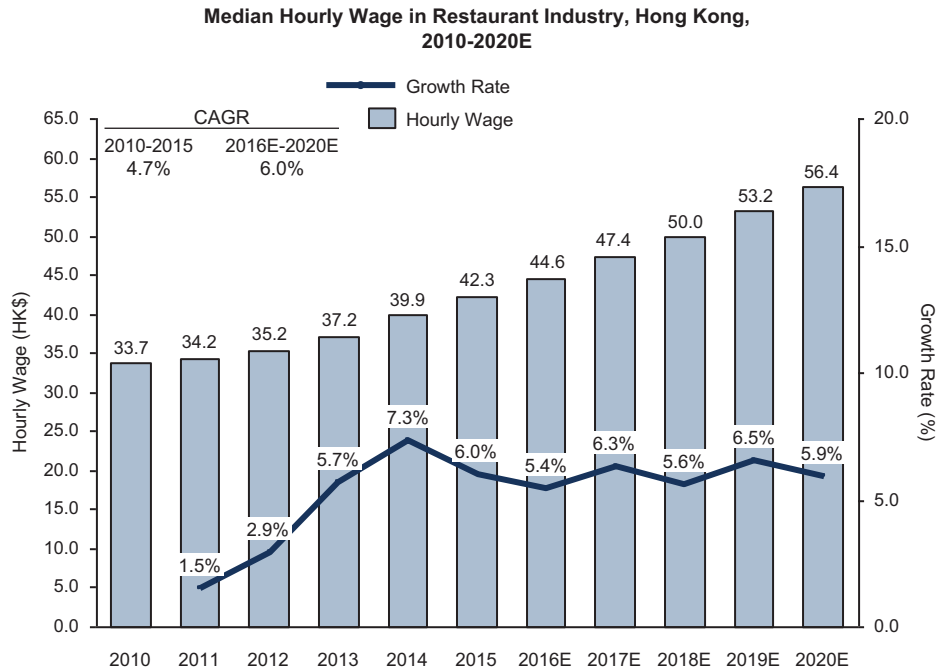
Price Index	2010	2011	2012	2013	2014	2015	CAGR (2010-2015)
Salt-water fish	103.2	124.3	146.0	147.5	156.0	168.0	10.2%
Fresh-water fish	101.1	115.4	128.6	130.7	134.6	139.3	6.6%
Other fresh sea products	103.3	127.1	148.3	170.0	186.8	200.8	14.2%
Pork	100.4	119.0	123.4	125.0	123.1	127.5	4.9%
Beef	100.8	112.4	133.8	161.3	163.3	165.2	10.4%
Poultry	101.0	109.8	116.2	122.5	133.0	151.2	8.4%
Frozen Meat	101.2	108.8	114.8	117.2	119.0	120.3	3.5%
Fresh vegetables	102.5	104.2	109.8	121.8	123.5	123.4	3.8%

Source: Census and Statistics Department of HK Government, Frost & Sullivan

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### Costs of labour

As driven by the introduction of statutory minimum wage in 2011 and inflation, the median hourly wage in Hong Kong restaurant industry has recorded a growth from HK\$33.7 in 2010 to HK\$42.3 in 2015, representing a CAGR of 4.7%. The growth rate was more significant from 2013 onwards due to the first and second review of statutory minimum wage conducted in 2013 and 2015 respectively. The median hourly wage in restaurant industry is expected to continue to rise at a CAGR of 6.0% from 2016 to 2020 and reach HK\$56.4 in 2020, which would be attributable to the economic growth and inflation.



*Source: Census and Statistics Department of HK Government, Frost & Sullivan*

### OVERVIEW OF THE QUICK SERVICE RESTAURANTS MARKET

The quick service restaurants market in Hong Kong is fragmented with approximately 4,000 operators. Majority of the quick service restaurants are established by individual operators while some brands of quick service restaurants are under some large catering service groups.

Market participants of quick service restaurants face keen competition as most of them target customers from mass market, which is therefore associated with customer preference including restaurants location, types of dishes and cuisines, dining environment and atmosphere, services etc.

Some chain operators of quick service restaurants, especially those under some catering groups, are active to take various marketing initiatives including discounts, marketing campaigns and promotions, innovation on dishes and cuisines in order to distinguish themselves from competitors.

### MARKET DRIVERS OF THE RESTAURANT MARKET IN HONG KONG

#### Higher food expenditure

According to Census and Statistics Department of HK Government, the average monthly household expenditure on meals bought away from home has increased from HK\$3,695 in 2009/10 to HK\$4,948 in 2014/15. Meanwhile, the proportion of spending on meals bought away from home has also recorded a growth from 63.1% to 65.5% during the same period. The higher spending on out-dining serves as a key driver to the restaurant market and the trend is expected to continue along with economic growth and strong demand for food as a necessity.

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## INDUSTRY OVERVIEW

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### **Change of lifestyle**

Over the past years, the cultural change, rapid development and dynamic environment in Hong Kong has made an impact to the lifestyle of residents. For example, some employees undertaking shift work or those with long working hours may have irregular meal times and restaurants become a good option for dining. In addition, the traditional concept on restaurants solely as dining place has gradually changed and more people see restaurants as a place for social gathering, networking or even business development. As a result, potential growth of the restaurant market is expected.

### **Innovation in marketing and dishes**

The restaurant market in Hong Kong is diversified and fragmented in terms of cuisines, price, customer groups and location of establishment. Some restaurants adopted different marketing strategies for promotion including discount and free coupons. High mobile penetration and development of online platform with restaurant-specific applications has become a key channel for virtual promotion of restaurants. In the aspect of food, some restaurants have offered customised food menus and fusion dishes. It is expected that innovation will be important to achieve customer satisfaction and therefore the overall growth of restaurant market.

## **OPPORTUNITIES AND CHALLENGES OF THE RESTAURANT MARKET**

### **Opportunities**

#### *Improved technology for business operations*

Many newly established restaurants have already incorporated POS system in their operations and it is on the trend of advancement with a variety of functions such as inventory management, connection to social media, analysis on customer spending and food choice, which may help improve operational efficiency and offer insight for business development. Electronic and online ordering services are highly preferred by customers due to convenience. As a result, technology can promote the growth of restaurant market through improving the service level of restaurant.

#### *New development areas in Hong Kong*

As highlighted in 2016 Policy Address, the HK Government will proceed with development of new areas and extension of new towns, which include Kwun Tung North, Fanling North, Tung Chung etc. and assess the potential development of Tseung Kwan O Area 137 for residential, commercial and other purposes. Moreover, Kowloon East has been featured in the Policy Address for development of quality business district. The successful implementation of the said development plan would likely boost demand for restaurants in these areas.

### **Challenges**

#### *Rising labour and raw materials costs*

The restaurant market has seen soaring expenses on operations especially for labour and raw materials. The implementation of the statutory minimum wage in 2011 with the subsequent bi-annual review in 2013 and 2015 has driven up the labour cost for restaurant operators. It is expected that the rising operating cost will serve as a key constraint to restaurant operators. Moreover, the composite price index of key raw materials such as meat and vegetables is on a rising trend in Hong Kong. Hence it is expected that the rising cost on labour and raw materials will be a key constraint to restaurant operators and some restaurants have been forced to close in recent years.

#### *Changing customer lifestyle and requirements*

With the changing lifestyle and working time, such as overtime working, shift work, flexible working hours, restaurants may need to review the dishes offered on a regular basis to cater the need of customers. In addition, some restaurants have extended their opening hours to serve more customers, which may facilitate the growth of business but meanwhile lead to higher operating expenses and additional burden on staff.

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE OF THE CLUBBING AND RESTAURANT MARKETS

There were a total of 47 clubs in Hong Kong in 2015, with 21 located in Central. The clubs in Lan Kwai Fong and Central are usually more premium clubs compared with those in other regions. Although a high percentage of the clubs are geographically concentrated in Central, the clubbing market in Hong Kong is fragmented with a number of smaller clubs present. Our Group was one of the leading market players in the clubbing market in Hong Kong in terms of revenue for the year ended 31 May 2016 with a market share of approximately 10.6%.

The table below sets forth the comparison between the business and operation scale of key players in terms of reputation, entrance fee and queuing time in the Hong Kong clubbing industry.

Club	Maximum Capacity	Opening Hours	Customer Base <sup>(Note)</sup>
<b>Volar</b>	293	18:00-01:00 (Tues) 18:00-05:30 (Wed to Thurs) 22:00-06:30 (Fri to Sat)	Premium
<b>Club A</b>	441	23:00-05:00 (off Sun and Mon)	Premium
<b>Club B</b>	357	12:15-04:00 (off Sun)	Premium
<b>Club C</b>	401	18:00-05:00 (off Sun)	High-end
<b>Fly</b>	200	17:00-23:00 (Tues) 17:00-04:30 (Wed to Thurs) 20:00-04:30 (Fri to Sat)	High-end

*Note:* Customer base is determined by the estimated average spending of a customer. Premium refers to an estimated average spending of a customer of around HK\$500 and high-end refers to an estimated average spending of a customer of around HK\$300.

The restaurant market in Hong Kong is highly fragmented with high number of operators. There were approximately 14,000 restaurant establishments in Hong Kong in December 2015. As at 31 December 2015, there were approximately 5,500 and 4,000 casual dining and quick service restaurants in Hong Kong. Majority of restaurants are set up by individual operators while some catering service group are operating chains and different brands of restaurants, especially in quick service and casual dining sectors.

Volar is an internationally recognised club with high media coverage in local and foreign press, involvement of renowned DJs and frequent visits by celebrities from foreign countries. In 2016, Volar was awarded “Asia’s Best Club” and “The Country’s Best Club” by the Asian Club and Bar Association (According to its website, Asian Club and Bar Association is an international industry association with a number of renowned clubs as the members, including Altitude, Magnum, Bungalow, etc. and the panel of judges for the Asian Club & Bar Awards includes entrepreneurs and veterans in marketing, event management, hospitality, design, exhibition and night life) and was recognised by Hotels.com as ranked the first club in the “10 Best Nightclubs in Hong Kong 2016”.

### ENTRY BARRIERS OF THE CLUBBING, RESTAURANT AND SPORTS-THEMED BAR MARKETS

#### High initial capital requirements and operating costs

Clubs, casual dining restaurants and sports-themed bar require high initial capital investment. The initial costs include but is not limited to rentals, equipment, serving ware as well as interior fit-out or renovation (both at commencement and at the end of the lease period where the tenant is typically required to reinstate the condition of the leased premises). On top of the initial investment, clubbing, restaurant and bar operators are likely to offer continuous financial support in order to sustain the business. In general, the average investment payback period is 12 to 36 months for clubs, 12 to 48 months for restaurants and 12 to 24 months for sports-themed bars.

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## INDUSTRY OVERVIEW

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### **Stringent licensing system**

To start up a club, the owner is required to obtain liquor licence with a dancing endorsement. To start a restaurant, the owner is required to obtain a general restaurant licence and other licences such as water pollution control licence, liquor licence or food factory licence where applicable. To start a sports-themed bar, the owner is required to obtain liquor licence and other licence such as the licences under the Amusement Game Centres Ordinance. The application and approval process for these licences is complicated and involves investigation and approvals by many different governmental departments. For the liquor licence, notification and consultation periods are required as part of the application process. The licensing process is often time-consuming and is seen as another barrier to starting up a restaurant business in Hong Kong. Further, the licences granted are renewals and the success of any renewals could depend on the historical compliant record of the relevant club, restaurant or sports-themed bar business.

### **Recruiting and retaining labour**

Recruiting and retaining suitable labour have become a barrier to entry into club, restaurant or sports-themed bar business. Given the long working hours and low rates, more labour are attracted by other competitors in club, restaurant or sports-themed bar industry offering higher rates or by other industries such as property management and security. Hence, it is difficult for club, restaurant or sports-themed bar business to retain and recruit stable labour with good industry know-how.