The information and statistics set out in this section were extracted from official government publications, public market research and the independent industry report prepared by Frost & Sullivan (the "Frost & Sullivan Report"). We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [**REDACTED**]. *Except as otherwise noted, all of the information contained in this section is derived from the Frost & Sullivan Report. We believe that the sources of the information set forth in this section 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 from official government sources has not been independently verified by us, the Joint Sponsors,* [**REDACTED**], *any of the* [**REDACTED**], *any of their respective affiliates and advisors, or any other persons or parties involved in the* [**REDACTED**], *and no representation is given as to its accuracy.*

SOURCE OF INFORMATION

In connection with the [**REDACTED**], we engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report about China's cosmetics industry. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies, and provides growth consulting and corporate training. In connection with the market research services provided, we have paid a fee of RMB1.8 million to Frost & Sullivan, which we believe to be consistent with market rates.

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

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan adopted the following assumptions: (i) global social, economic and political environment is likely to remain stable in the five years from 2024-2029, (ii) purchasing power is expected to continue to rise rapidly, and (iii) related industry drivers, future trends and entry barriers to describe the market condition.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Frost & Sullivan has prepared the Frost & Sullivan Report based on detailed primary research which involved discussing the status of the cosmetics industry with certain leading industry participants and secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

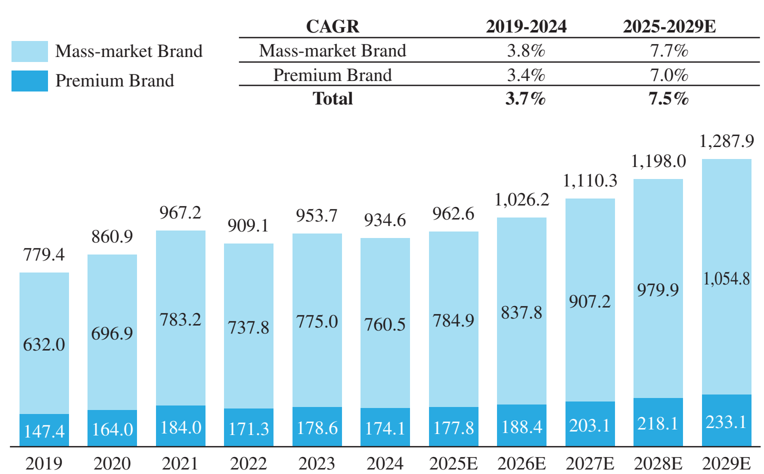
OVERVIEW OF THE COSMETICS INDUSTRY IN CHINA

China has the second largest cosmetics industry in the world, with a market share of approximately 11.4% by retail sales in 2024 within the global cosmetics industry. The market size of China's cosmetics industry grew from RMB779.4 billion in 2019 to RMB934.6 billion in 2024 by retail sales, representing a CAGR of 3.7%. The global public health event resulted in a decline in the cosmetics industry in 2022. With the resumption of social activities, consumer demand for cosmetics increased, leading to a rebound and growth of cosmetics sales in 2023. Due to the uncertainty of the current economic environment, consumers tend to make rational purchasing decision, and cosmetics brands are paying more attention to deliver products with value for money. Consequently, the market size has experienced slight contraction in 2024. As the social economy continues to develop and living standards improve, people are increasingly concentrated on the satisfaction of self-pleasure and the pursuit of beauty. Cosmetics can maintain skin health, improve facial condition and bring emotional satisfaction to consumers. With the advancement of science and technology, more scientific components and formulation have been developed, and consumers are willing to pay for significant functional effects. Therefore, consumers' willingness to consume cosmetics is constantly increasing. The cosmetics industry in China is expected to maintain stable growth in the future. The market is expected to grow at a CAGR of 7.5% from 2025 to 2029, which is approximately twice of that of the global cosmetics market over the same period.

OVERVIEW OF CHINA'S MASS-MARKET COSMETICS BRAND INDUSTRY

The mass-market cosmetics brand industry in China encompasses brands offering products predominantly with a retail price of under RMB300.0, which is a fast-growing subset of the cosmetics industry. This industry has seen a steady growth over the past few years driven by a transition in consumer spending habits towards more cautious and pragmatic expenditures. From 2019 to 2024, Chinese residents' per capita disposable income grew at a CAGR of 6.1%, with projections of a slight deceleration to 4.8% from 2025 to 2029. The size of the market for cosmetics products with a retail price below RMB300.0, predominantly mass-market brands, reached RMB760.5 billion in 2024 with a market share of 81.4%, and is expected to continue growing at a CAGR of 7.7% from 2025 to 2029, reaching RMB1,054.8 billion with a market share of 81.9% in 2029.

Market Size of Cosmetic Industry in China by Retail Sales, Breakdown by Brand Positioning Billion RMB, 2019-2029E



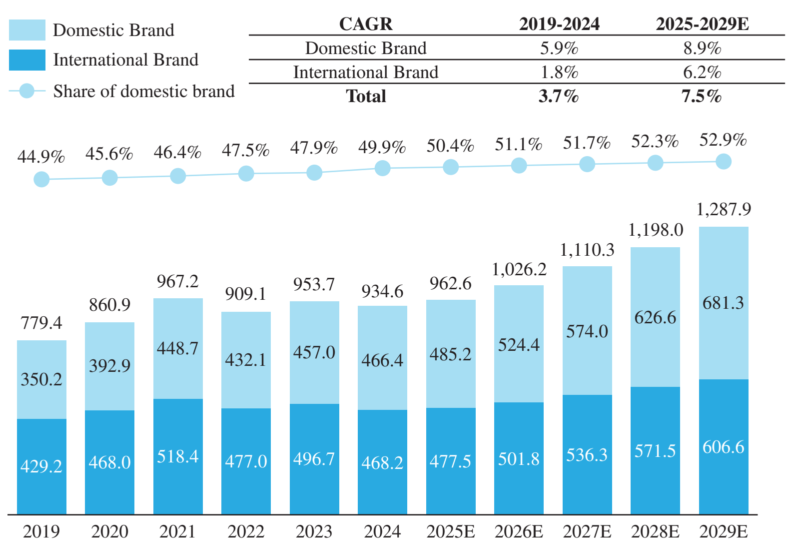
Source: National Bureau of Statistics, Frost & Sullivan Report

OVERVIEW OF CHINA'S COSMETICS INDUSTRY BY BRAND TERRITORY

China's cosmetics industry can be divided into two sub-segments by brand territory, namely, the domestic and international cosmetics brands. Domestic cosmetics brands refer to brands owned by companies headquartered in China, while international cosmetics brands refer to brands owned by companies headquartered outside of China.

The market size of the domestic cosmetics industry in China by retail sales increased from RMB350.2 billion in 2019 to RMB466.4 billion in 2024, representing a CAGR of 5.9% that outperformed the international cosmetics industry. Domestic cosmetics companies have the flexibility to adopt various emerging marketing models, enabling them to swiftly enhance brand awareness. By independently developing products, domestic cosmetics brands can effectively respond to shifts in market demand and gain consumer favor. This market is expected to continue growing at a CAGR of 8.9% from 2025 to 2029, reaching RMB681.3 billion in 2029 that captures a market share that surpasses international cosmetics brands. As consumers tend to consume rationally, cosmetic brands are committed to providing consumers with products that offer better value for money. The following chart presents the historical and projected market size of China's cosmetics industry by domestic and international brands in terms of retail sales from 2019 to 2029:

Market Size of Cosmetics Industry in China by Retail Sales, Breakdown by Domestic and International Brands RMB in Billion, 2019-2029E



Source: National Bureau of Statistics, Frost & Sullivan Report

The expansion of the domestic cosmetics industry over the past few years was primarily driven by the following factors: (i) domestic cosmetics brands' profound understanding of local culture and deeply-penetrated local supply chain and sales networks, which allows them to quickly adapt to consumer needs and offer products with enhanced cost-efficiency and suitability for local consumers; (ii) the rise of China Chic fashion that bolstered consumer sentiment towards domestic cosmetics brands; (iii) the strengthened R&D efforts and enhanced R&D capabilities of domestic cosmetics brands, which lead to continuous product optimization with improved efficacies; and (iv) the increased exposure and broadened reach of domestic cosmetics brands, attributable to the proliferation of online platforms that diversified consumers' purchasing channels and enabled targeted marketing.

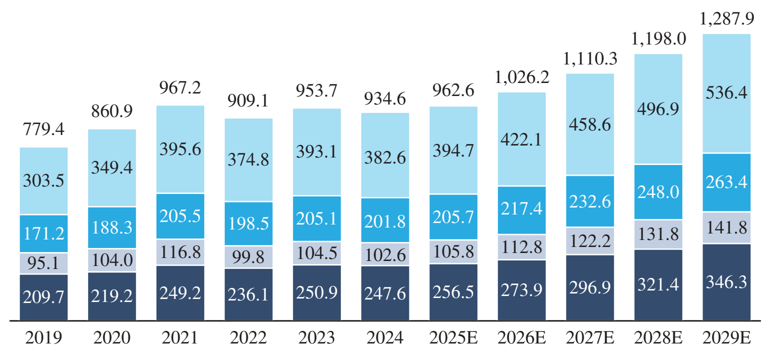
OVERVIEW OF CHINA'S COSMETICS INDUSTRY BY PRODUCT CATEGORY

In terms of product category, the cosmetics industry in China can be divided into four sectors, namely, skincare, personal care, color cosmetics and others. The following chart presents the historical and projected market size of China's cosmetics industry by product category in terms of retail sales from 2019 to 2029:

Market Size of Cosmetics Industry in China by Retail Sales, Breakdown by Product Categories RMB in Billion, 2019-2029E

Skincare
Personal Care
Color Cosmetics
Others

CAGR	2019-2024	2025-2029E
Skincare	4.7%	8.0%
Personal Care	3.3%	6.4%
Color Cosmetics	1.5%	7.6%
Others	3.4%	7.8%
Total	**3.7%**	**7.5%**



Note: Skincare, personal care and color cosmetics refer to products that act on any part of the human body, serving functions such as cleansing, protecting, beautifying, and modifying, and maternal and child- and male-specific products are excluded. Others include maternity and childcare, men's care, fragrances, deodorants, depilatory and other cosmetics products.

Source: National Bureau of Statistics, Frost & Sullivan Report

Skincare is the largest sector within the cosmetics market in China, with a market share of 40.9% in terms of retail sales in 2024 within the cosmetics market. The market size for skincare by retail sales in China grew from RMB303.5 billion in 2019 to RMB382.6 billion in 2024 at a CAGR of 4.7%, and is expected to continue growing at a CAGR of 8.0% from 2025 to 2029, reaching RMB536.4 billion in 2029. The Chinese skincare market is anticipated to continue growing, propelled by a surge in daily skincare product usage, rising demand for beauty and health, a shift towards scientifically validated products offering benefits such as hydration, anti-aging and whitening, and a preference for natural ingredients known for their safety and mildness.

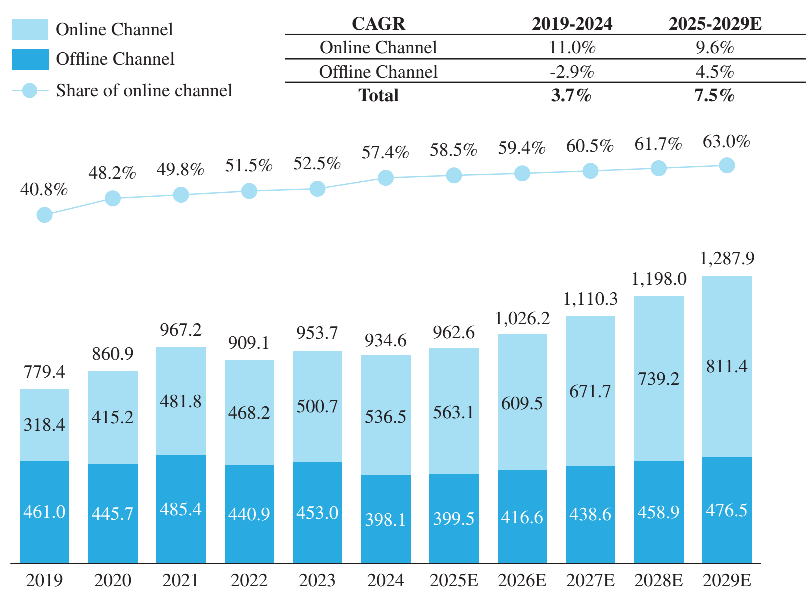
OVERVIEW OF CHINA'S COSMETICS INDUSTRY BY SALES CHANNELS

Cosmetics products in China are distributed through both online and offline channels. Online channels, including major e-commerce platforms such as Tmall, Douyin and JD.com, have rapidly expanded attributed to their convenience and the ability to rapidly compare offerings from diverse providers. Benefiting from the development of e-commerce platforms in China, the retail sales of cosmetics products through online channels have grown at a fast pace, with a CAGR of 11.0% from 2019 to 2024, outperforming the CAGR of -2.9% for offline channels during the same period. In 2024, the online retail sales of cosmetics products accounted for 57.4% of the total retail sales in China's cosmetics industry, surpassing offline retail sales.

Despite the rapid expansion of online channels, physical stores in offline channels remain a popular choice for Chinese consumers when purchasing cosmetics products due to the availability of product samples for on-site trial, the immediate gratification of products, and the detailed product explanations, personalized services and product recommendations provided by beauty advisors. As consumers increasingly prioritize shopping experiences, it is expected that offline channels will grow at a CAGR of 4.5% from 2025 to 2029.

The following chart presents the historical and projected market size of China's cosmetics industry by sales channel in terms of retail sales from 2019 to 2029:

Market Size of Cosmetics Industry in China by Retail Sales, Breakdown by Sales Channel RMB in Billion, 2019-2029E



Source: National Bureau of Statistics, Frost & Sullivan Report

COMPETITIVE LANDSCAPE

The current landscape of China's cosmetics industry is fragmented, with the top five cosmetics groups and top five cosmetics brands collectively holding a market share of 21.3% and 8.9% respectively, in terms of retail sales in 2024. We were the tenth-largest cosmetics group in terms of retail sales in 2024.

Ranking of Cosmetics Groups in China, By Retail Sales (2024)

Ranking	Group Name	Market Share
1	Group E	8.4%
2	Group F	5.6%
3	Group G	3.8%
4	Group H	1.8%
5	Group A	1.7%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note:

Group E is a cosmetics group listed on the Paris Stock Exchange and founded in 1909. The company mainly engages in sales of skincare, color cosmetics, and personal care products.

Group F is a cosmetics group listed on the New York Stock Exchange and founded in 1837. The company mainly engages in sales of skincare and personal care products.

Group G is a cosmetics group listed on the New York Stock Exchange and founded in 1946. The company mainly engages in sales of skincare and color cosmetics products.

Group H is a cosmetics group listed on the Tokyo Stock Exchange and founded in 1872. The company mainly engages in sales of skincare, color cosmetics, and personal care products.

Ranking of Cosmetics Brands in China, By Retail Sales (2024)

Ranking	Brand Name	Market Share
1	Brand E	2.6%
2	Brand F	2.2%
3	Brand G	1.7%
4	Brand A	1.3%
5	Brand H	1.1%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note:

Brand E is a cosmetics brand launched in 1909. The brand mainly provides skincare, color cosmetics, and personal care products.

Brand F is a cosmetics brand launched in 1935. The brand mainly provides skincare, color cosmetics, and fragrance products.

Brand G is a cosmetics brand launched in 1946. The brand mainly provides skincare, color cosmetics, and fragrance products.

Brand H is a cosmetics brand launched in 1946. The brand mainly provides skincare and color cosmetics products.

The domestic cosmetics industry in China is fragmented, with the top five domestic cosmetics groups collectively holding approximately a market share of 10.1% in terms of retail sales in 2024. We were China's third-largest domestic cosmetics group by retail sales in 2024. The following chart presents the market share of the top five domestic cosmetics groups in China by retail sales in 2024:

Ranking of Domestic Cosmetics Group in China, by Retail Sales (2024)

Ranking	Group Name	Market Share
1	Group A	3.3%
2	Group B	1.9%
3	**Our Group**	**1.7%**
4	Group C	1.6%
5	Group D	1.6%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note:

Group A is a cosmetics group listed on Shanghai Stock Exchange and founded in 2003. The company mainly engages in sales of skincare, color cosmetics and personal care products.

Group B is a cosmetics group listed on Hong Kong Stock Exchange and founded in 2004. The company mainly engages in sales of skincare and maternity and childcare products.

Group C is a private cosmetics group founded in 1931. The company mainly engages in sales of skincare and personal care products.

Group D is a cosmetics group listed on Shenzhen Stock Exchange and founded in 2010. The company mainly engages in sales of skincare products and skincare-related medical devices.

The following chart presents the market share of the top five domestic cosmetics brands in China by retail sales in 2024:

Ranking of Domestic Cosmetics Brand in China, by Retail Sales (2024)

Ranking	Brand Name	Market Share
1	Brand A	2.6%
2	**CHANDO**	**1.6%**
3	Brand B	1.6%
4	Brand C	1.5%
5	Brand D	1.4%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note:

Brand A is a cosmetics brand launched in 2003. The brand mainly provides skincare products.

Brand B is a cosmetics brand launched in 2003. The brand mainly provides skincare products.

Brand C is a cosmetics brand launched in 1902. The brand mainly provides personal care products.

Brand D is a cosmetics brand launched in 2010. The brand mainly provides skincare products.

MARKET DRIVERS IN CHINA'S COSMETICS INDUSTRY

Increasing willingness and capabilities to purchase. Compared to developed nations such as Japan and South Korea, China's per capita cosmetics expenditure remains relatively modest. In 2024, China's per capita expenditure on cosmetics was RMB664, compared to approximately RMB4,000 in Japan and South Korea, respectively. An increasing number of consumers perceive the purchase of cosmetics as a long-term investment in their personal image, health, and self-confidence. As cosmetic companies enhance their investments in product research and development, the efficacy of products continue to improve significantly, leading to a strong willingness among consumers to pay for these advancements. China's per capita expenditure on cosmetics is expected to grow at a CAGR of 7.6% from 2025 to 2029.

Rise of Consumption Power of Millennials and Generation-Z. Millennials and Generation-Z who possess distinct consumption perspectives featured with East Asian elements of the China Chic fashion, have emerged as one of the primary consumer groups in China. Their greater acceptance and engagement with emerging media and live streaming platforms have promoted beauty and skincare education and heightened consumer interest in cosmetics products. This new generation exhibits a high propensity to consume beauty and personal care products. Additionally, young parents' growing awareness and acceptance of skincare for children have led to increased purchases of cosmetics products specialized in child and infant care.

Functionality-oriented consumption with increased purchase frequency. The heightened consumer focus on product safety and efficacy has inspired innovation among cosmetics companies. This has led to the introduction of cosmetics products with improved efficacy and diverse functionalities, including anti-aging, sensitive skin repair, whitening, oil and acne control, anti-wrinkle, and hydrating properties. This diversification has enriched the product category, increasing consumer purchasing frequency, and driving overall industry growth.

INDUSTRY TRENDS IN CHINA'S COSMETICS INDUSTRY

Rise of domestic cosmetics companies. With profound understanding of consumer needs and deeply-penetrated local sales network, domestic cosmetics companies can swiftly respond to shifts in consumer demands and behaviors. These brands' well-developed local market supply chain systems can further reduce production costs, allowing them to provide value-for-money products catering to consumers' pursuit of cost-effectiveness. While domestic cosmetics companies are actively engaged in product research and development. This strategic focus has enabled these companies to gain a deeper understanding of cosmetic science, gradually equipping them with the capability to not only catch up with but also surpass the technological advancements of international companies, potentially leading industry trends.

Increasing R&D on technologies and core ingredients. Cosmetics companies are prioritizing R&D of technologies and core ingredients and establish independent intellectual property rights to secure distinct market positions and competitive advances. In particular, cosmetics companies are strengthening investments in basic scientific research and development, such as in the field of cells and microbial fermentation, starting from basic cells to understand consumers' demands. Based on research in the fields of dermatology and raw material science, leading cosmetics companies can launch unique high-functional products and build brand barriers. As a result, the development of proprietary technologies and core ingredients with independent intellectual property rights will form the core competitiveness of leading cosmetics companies, driving the rapid development of the cosmetics industry.

Self-production transformation. The pandemic over the past few years has necessitated a heightened responsiveness and iterative capacity from cosmetics companies due to the industry's strong reliance on supply chains. Leading cosmetics companies, equipped with advanced facilities and stringent standards, tend to establish their in-house production facilities to ensure consistent product quality. Emerging cosmetics companies, on the other hand, tend to shift their focus from marketing towards R&D and production, in order to strengthen the control of products and to reduce dependence on third-party OEM and ODM suppliers. Self-production is thus expected to be one of the major trends in the cosmetics industry for cosmetics companies to achieve cost efficiency and profitability.

ENTRY BARRIERS IN CHINA'S COSMETICS INDUSTRY

R&D. The creation of innovative products that meet the rapidly-evolving market needs has been a persistent challenge in the cosmetics industry. The R&D of cosmetic products necessitates expertise in various fields such as life science, fine chemistry, dermatology and botanical science, as well as understanding of consumer needs. This interdisciplinary application and research demand a comprehensive R&D process, spanning from foundational research to engineering application, to satisfy the need for coordination and systemic completeness. The accumulation of knowledge and technology in related disciplines or the data accumulation of consumers' consumption behavior and preferences all requires a long time. Consequently, leading cosmetics companies with substantial capital, talent, and resources and extensive R&D accumulation, can expedite the market introduction of newly developed technologies. This creates significant R&D barriers for new entrants in the industry.

Brand recognition. As living standards rise and consumption patterns transform, the significance of brand recognition and loyalty in consumer decision-making within the cosmetics industry has escalated. Brand recognition embodies a holistic representation of product quality, brand culture, production expertise, management and service, marketing network and public recognition, necessitating substantial investment in capital, resources and time. Leading cosmetics companies have undergone extensive development and accumulation in all facets, resulting in deeply ingrained brand images among consumers, thereby establishing their brand identity and market recognition. In contrast, new market entrants may encounter hurdles when competing with existing brands within a relatively brief timeframe.

Independent production capacity. In the context of the ongoing transformation within cosmetics companies from a "marketing-driven" to a "technology-driven" model, companies possessing independent production capabilities can better control product quality and reduce costs. Furthermore, they can respond swiftly to market demands and establish differentiated competitive advantages. The development of autonomous production capacity enables cosmetic companies to achieve independence in core ingredient research and development technologies, thereby reinforcing their product's competitive barriers and facilitating comprehensive integration across the entire supply chain from raw materials to finished products. By implementing flexible production lines, these companies gain the ability to adjust their offerings dynamically, allowing for rapid adaptation to market fluctuations.

CHALLENGES IN CHINA'S COSMETICS INDUSTRY

Channel fragmentation and profitability pressures. The cosmetics industry is characterized by a wide variety of channels, each with differences in target audience, product offerings, and operational models. As a result, channel management capabilities are crucial for brands. Brands need thoroughly understand the unique features of each channel and adjust their strategies to align with specific consumer profiles, commission structures, and the corresponding return on investment. In order to enhance profitability, brands need to strategically leverage the strengths of multiple channels, integrating them to create a cohesive and effective approach to both growth and revenue generation.

Product homogenization challenges. Cosmetic industry faces intense homogenization, which intensifies market competition, as brands struggle to differentiate their offerings in an increasingly competitive market. Product homogenization will also lead to price competition, eroding profit margins and diminishing brand value. In addition, the lack of distinctive features may result in consumer disengagement, as the perceived value of products becomes indistinguishable. Without strong differentiation, brands may find it difficult to foster brand loyalty or cultivate a loyal customer base.

Talent shortages and organizational gaps. The industry faces structural human resource challenges, including intense competition for digital marketing talent driving up operational costs, while the decline of traditional retail channels has led to a shortage of experienced beauty consultants. Additionally, cosmetics R&D requires professionals with multidisciplinary expertise in chemistry, biology, dermatology, and other fields. However, the current domestic talent pool in these areas is insufficient, and the talent development system remains inadequate. This has resulted in enterprises facing considerable talent shortages during the R&D phase. The gap limits the expansion of innovative channels and undermines organizational adaptability in a rapidly evolving market.

OVERVIEW OF CHINA'S SKINCARE INDUSTRY

Skincare products refer to products that can protect and improve the condition of the skin. In terms of retail sales, the market size of skincare industry in China increased from RMB303.5 billion in 2019 to RMB382.6 billion in 2024 at a CAGR of 4.7%. As consumers increasingly prioritize skin health, the ingredients and efficacy of skincare products have emerged as primary considerations. Cosmetics brands are more focused on the research and development of product ingredients and efficacy, promoting ingredient-driven and efficacy-focused trend. The skincare industry in China is expected to continue to grow at a CAGR of 8.0% to reach RMB536.4 billion in 2029.

COMPETITIVE LANDSCAPE

China's skincare industry is fragmented, with the top five skincare brands collectively holding approximately a market share of 17.3% in terms of retail sales in 2024.

CHANDO was China's eighth-largest skincare brand and the third-largest domestic skincare brand in terms of retail sales in 2024.

Ranking of Skincare Brands in China, By Retail Sales (2024)

Ranking	Brand Name	Market Share
1	Brand E	4.1%
2	Brand F	4.0%
3	Brand G	3.7%
4	Brand A	3.1%
5	Brand H	2.4%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note: Male-specific skincare products are excluded

Ranking of Domestic Skincare Brands in China, By Retail Sales (2024)

Ranking	Brand Name	Market Share
1	Brand A	5.8%
2	Brand B	3.5%
3	**CHANDO**	3.5%
4	Brand D	3.0%
5	Brand I	2.7%

Source: Frost & Sullivan Report, public information or filings of respective companies

Note: Male-specific skincare products are excluded

Brand I is a cosmetics brand launched in 1931. The brand mainly provides skincare, color cosmetics, and personal care products.

MARKET DRIVERS IN CHINA'S SKINCARE INDUSTRY

Insight of domestic brands into local consumer needs. Domestic brands demonstrate profound insights into the needs of local consumers, enabling them to swiftly identify shifts in consumer preferences. By leveraging localized R&D capabilities and flexible supply chains systems, they can efficiently deliver consumer-driven innovations to market in a relatively short period. This responsiveness not only accelerates product availability but also drives progressive development within the skincare industry.

Refined demand segmentation fuels product evolution. As consumers place increasing emphasis on product usability and efficacy, brands have innovated by developing products tailored to specific functions, application areas, and demographic segments. Examples include anti-aging eye creams designed for younger consumers seeking early prevention, firming and wrinkle-reducing treatments for mature skin, and gentle, stabilizing formulations for sensitive skin. The diversification of product functionalities and target applications has allowed brands to expand their portfolios, increase purchase frequency, and contribute to overall industry growth.

Intensified efforts in product and technological R&D. Domestic companies have increasingly prioritized proprietary ingredients and core formulations. This strategic focus has gradually established technological advantages and accelerated the rise of domestic brands. Leading domestic companies continue to innovate new raw materials, technologies, and products that address market trends and unmet needs, thereby fostering sustained growth for both brands and the industry at large.

INDUSTRY TRENDS IN CHINA'S SKINCARE INDUSTRY

Enhanced brand building. Brand recognition and consumer perception are crucial to long-term success. Leading skincare brands establish differentiated advantages through in-house product development, creating star product lines and reinforcing them with targeted marketing campaigns and consumer education. By collaborating with celebrities and KOLs, as well as partnering with well-known IPs, brands expand their influence and strengthen their image among consumers. These efforts help cultivate brand loyalty and support sustainable growth.

Increased investment in R&D. The skincare industry is currently undergoing a strategic shift centered on ingredient innovation, with brands increasingly investing in independent R&D and focusing on differentiated ingredient development to establish technological barriers. Leading enterprises are intensifying their efforts in active ingredient development, using patented compounds to create product differentiation; simultaneously, the market has formed a clear specialization in ingredient categories, such as collagen for anti-aging and repair, peptides for precise wrinkle reduction, and hyaluronic acid for advancing moisture retention. As consumer awareness of ingredients deepens, technology-driven innovation has become a key driver of industry development.

Diversification of sales channels. The growth of e-commerce platforms has become a major driver of expansion in China's skincare market. Integrated e-commerce platforms provide a foundation for brand development, while emerging e-commerce platforms such as Xiaohongshu and Douyin offer new models for growth. Brands utilize these channels for content-led marketing, engaging users with entertainment-based material while stimulating purchase intent through brand self-streaming and influencer live commerce.

ENTRY BARRIERS IN CHINA'S SKINCARE INDUSTRY

Regulatory Hurdles and Compliance Costs. Skincare products sold in China have to undergo a rigorous registration or filing process with the National Medical Products Administration. Skincare products with specific efficacy require full registration, a process that is time-consuming and expensive, involving extensive safety and efficacy testing. The National Medical Products Administration maintains strict lists of approved ingredients. Any new ingredient requires a separate, lengthy approval process. Furthermore, all product claims such as anti-wrinkle and repair must be substantiated by scientific evidence, and exaggerated marketing is heavily penalized.

Intense Market Competition. China's cosmetics market is filled with multinational corporations and domestic enterprises with robust R&D capabilities, substantial marketing budgets, and deeply entrenched distribution networks. As numerous brands compete for consumer attention on digital platforms, the cost of online advertising such as on Douyin and Xiaohongshu has risen to high levels. Breaking through the competition to build brand awareness and loyalty demands substantial and sustained financial investment.

High R&D costs and scarcity of scientific talent. R&D constitutes a significant entry barrier in China's skincare sector, primarily due to the imperative for science-backed innovation. Consumer demands for evidence-based efficacy, coupled with stringent regulatory frameworks, compel companies to continuously invest heavily in proprietary formula development, advanced testing, and patented ingredient research. The high costs of establishing specialized laboratories, the difficulty in attracting talent, and the lengthy approval processes for novel ingredients collectively form formidable barriers to entry. These barriers effectively protect established enterprises with mature R&D capabilities and substantial financial resources.

CHALLENGES IN CHINA'S SKINCARE INDUSTRY

Consumer demands change rapidly. Content dissemination on social media, particularly Douyin and Xiaohongshu, accelerates consumer awareness of ingredients and efficacy, significantly shortening the market lifecycle of hit products. Brands need to continuously invest heavily in ingredient innovation and formula upgrades while facing the risk that R&D achievements may quickly become marginalized in the market.

Intensifying price competition and margin squeeze. The success of affordable yet high-quality domestic brands places downward pressure on pricing, forcing even premium brands to justify their value proposition more convincingly. Major shopping festivals such as Double Eleven sales events have conditioned consumers to expect deep discounts. The constant cycle of promotions erodes brand value and squeezes profit margins for all players.

Counterfeiting and Intellectual Property Protection. The high demand for popular skincare products fuels a vast market for counterfeits, which damages brand reputation and results in lost revenue. Protecting intellectual property and combating fakes across numerous e-commerce platforms remains a persistent and costly challenge.

PRICE TRENDS AND RAW MATERIALS

The cost of raw materials for cosmetic products, constituting approximately 60% to 75% of total cost of cosmetic products, encompasses both production and packaging materials. The type of raw materials used depends on the product's purpose and may include oil, emulsifiers, sunscreen, humectants, active ingredients, coloring agents, vitamins, pharmaceutical agents and botanical extracts. Predominantly, skincare products utilize moisturizers and grease ingredients as basic raw materials, primarily including glycerinum, butanediol, neopentyl glycol and olive oil and other functional raw materials.

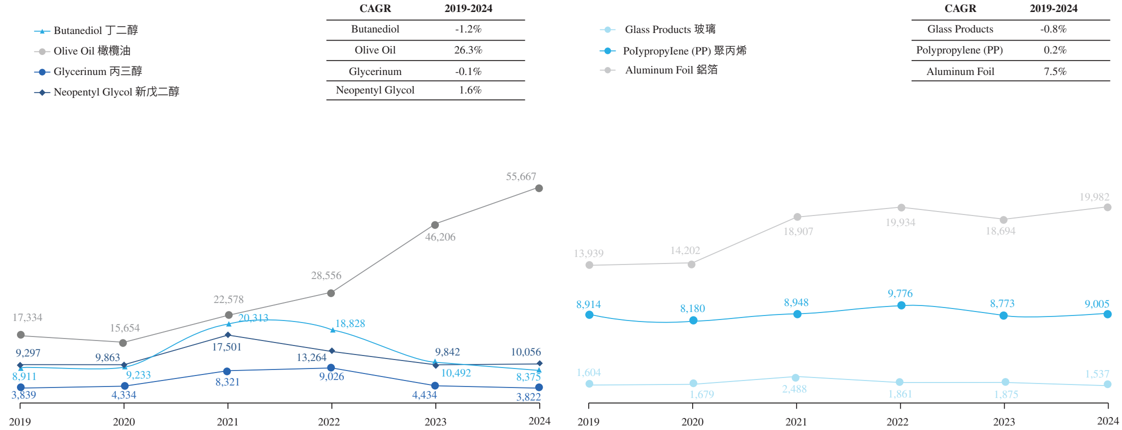
The following charts set forth the historical changes in the prices of key raw materials and packaging raw materials of cosmetic products from 2019 to 2024:

Key Production Raw Material Price and Packaging Raw Material Price

RMB/Tonne, 2019-2024

CAGR	2019-2024
Butanediol	-1.2%
Olive Oil	26.3%
Glycerinum	-0.1%
Neopentyl Glycol	1.6%

CAGR	2019-2024
Glass Products	-0.8%
Polypropylene (PP)	0.2%
Aluminum Foil	7.5%



Source: Frost & Sullivan Report

From 2019 to 2024, the per-tonne cost of glycerinum, neopentyl glycol, and butanediol had experienced at a CAGR of -0.1%, 1.6%, and -1.2%, respectively. In 2021, the combination of factors such as the continuation of monetary easing policies in major global economies, supply and logistics disruptions due to overseas pandemic prevention and control, and other factors, indirectly contributed to the increase in the prices of these important basic chemicals. Although the pandemic eased in 2022, prices of most raw materials still remain at high levels, and it was not until 2023 that they began recovering at normalized levels. Olive oil prices have been more volatile due to heavy reliance on imports, with a consistent uptrend since 2020 attributed to climate change which leads to a decline of production in major producing regions. Aside from the key raw materials, the cost of packaging material has remained relatively stable over the past few years, except that the price of aluminum foil has escalated after 2020, primarily influenced by the increase in transportation costs.