

## INDUSTRY OVERVIEW

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The information contained in this section and elsewhere in this document have been derived from various official government and other publications generally believed to be reliable and the Frost & Sullivan Report which we commissioned. We believe that the sources of such information and statistics 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the [REDACTED] and any of the Relevant Persons (which, for the purpose of this paragraph, excludes Frost & Sullivan) has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this document.

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting firm, to conduct an analysis of, and to prepare a report on the global and the PRC pigment, pearlescent pigment and mica markets. The report prepared by Frost & Sullivan for us is referred to in this document as the Frost & Sullivan Report. We have agreed to pay Frost & Sullivan a fee of RMB0.5 million which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan’s services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the Frost & Sullivan Report in this document because we believe this information facilitates an understanding of the global and the PRC pigment, pearlescent pigment and mica markets for the prospective investors. Frost & Sullivan’s independent research consists of both primary and secondary research obtained from various sources in respect of the global and the PRC pigment, pearlescent pigment and mica markets. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan’s own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

In compiling and preparing the research, Frost & Sullivan assumes that the social, economic and political environments in the relevant markets are likely to remain stable in the period during which Frost & Sullivan has made estimates, which ensures stable and healthy development of the global and the PRC pigment, pearlescent pigment and mica markets.

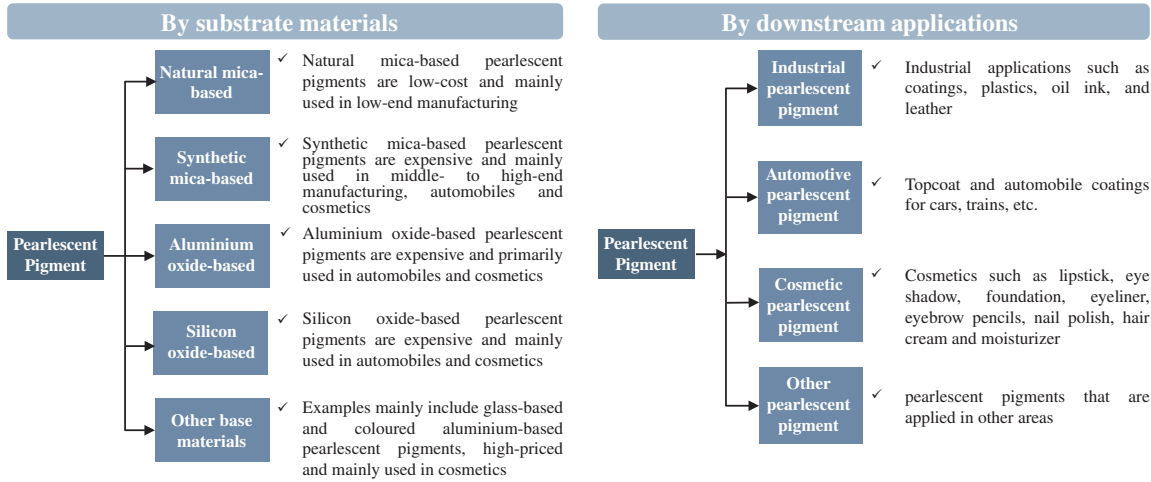
Our Directors are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information therein.

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OVERVIEW OF THE GLOBAL PEARLESCENT PIGMENT MARKET

Classification of pearlescent pigment products

The diagram below illustrates different types of pigment in terms of their composition, properties and applications:



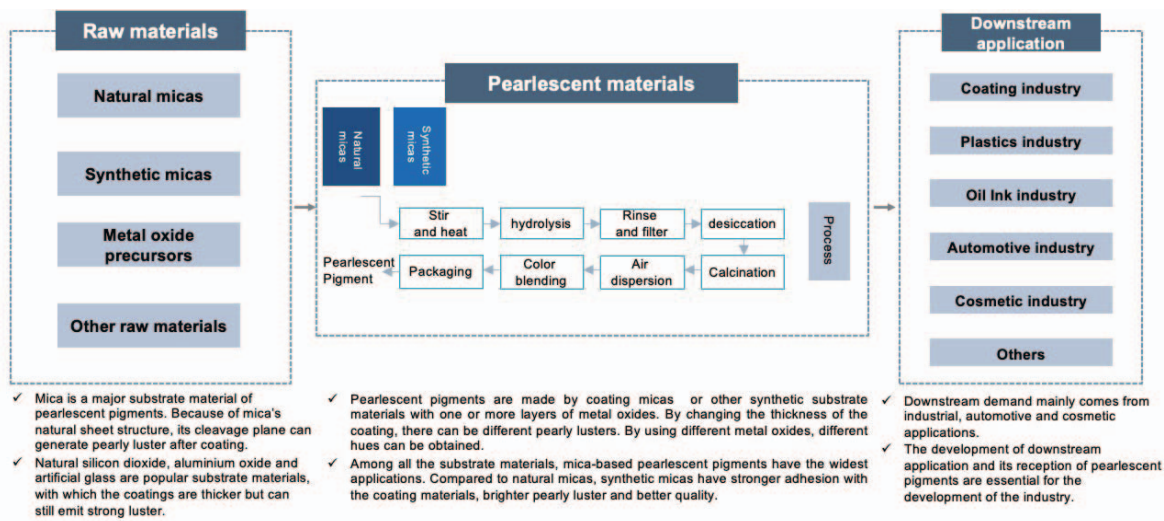
Source: Frost & Sullivan

Pearlescent pigment is an optical pigment. Based on how pearls generate lustre, pearlescent pigments are made by coating micas with one or more layers of metal oxide through special techniques.

Substrate materials of pearlescent pigments include natural micas, synthetic micas, aluminum oxides, silicon oxides and glass. Pearlescent pigments are widely applied in manufacturing, automobile and cosmetics.

Value Chain of Pearlescent Pigments Industry

The pearlescent pigment producers are the major participants in the industry. At present, downstream customers in the pearlescent pigments industry mainly include direct customers (such as cosmetics manufacturers, automotive paint manufacturers, etc.) and pearlescent pigments trading companies. Pearlescent pigments trading companies are more inclined to cooperate with larger pearlescent pigments manufacturers due to its rich product variety and better cost price control.

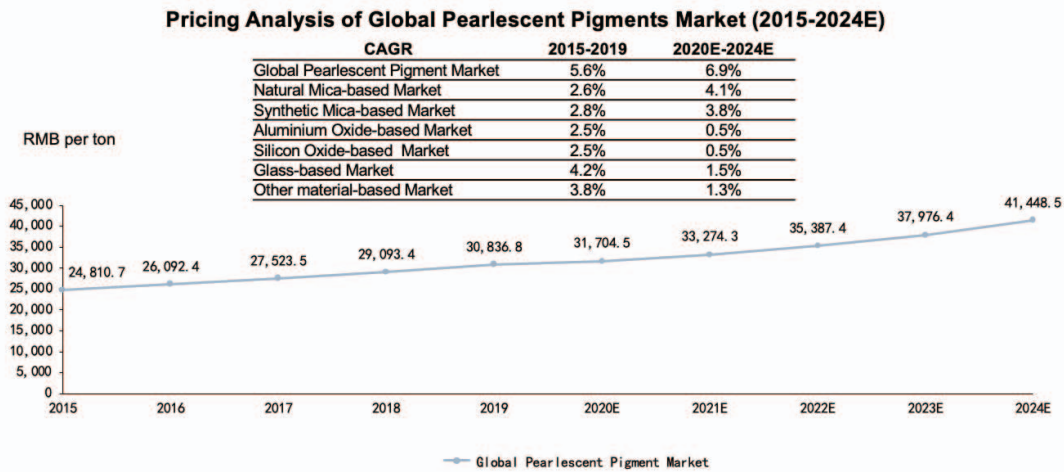


Source: Frost & Sullivan

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Average selling prices of pearlescent pigment products

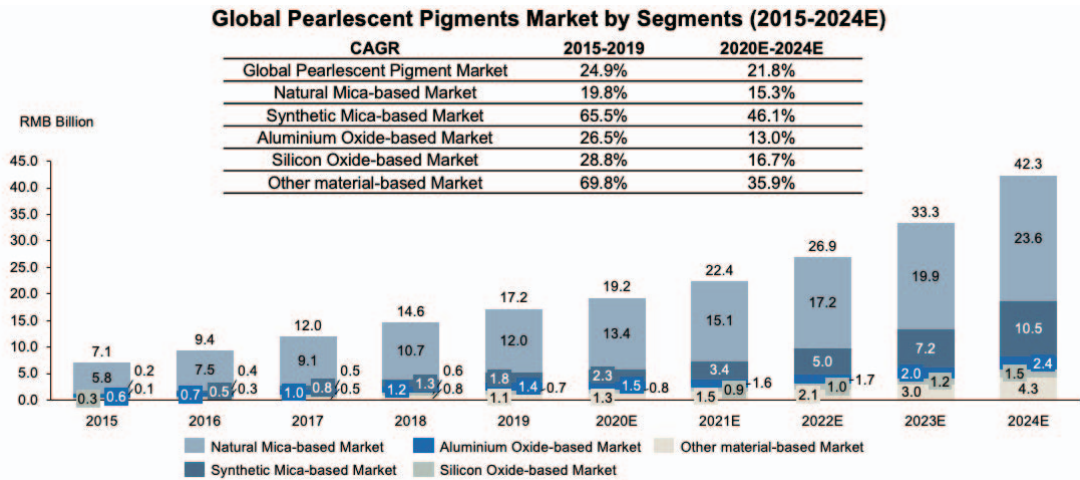
Recently, owing to progress in pearlescent pigments technology and growing market demand for pigments products of better quality, the price of pearlescent pigments are rising. The product and pricing structure continuously optimise, leading to increasing profitability. From 2015 to 2019, the price of global pearlescent pigments increased from RMB24,810.7 per tonne to RMB30,836.8 per tonne, representing a CAGR of 5.6%. With future advancements of production techniques in pearlescent pigments and raw material (such as synthetic micas), the global pearlescent pigments will improve in quality, profitability and penetration rate in various application scenarios. It is estimated that the price of global pearlescent pigments will rise to RMB41,448.5 per tonne with a CAGR of 6.9% from 2020 to 2024.



Source: Frost & Sullivan

Market size of the global pearlescent pigment market

The global pearlescent pigments market showed stable growth in the last few years, reaching RMB17.2 billion in 2019 with a CAGR of 24.9% from 2015 to 2019. With consumption upgrade and pearlescent pigments gradually replace other pigments, Frost & Sullivan estimates that the global pearlescent pigments market will grow at a CAGR of 21.8% from 2020 to 2024 and reach RMB42.3 billion in 2024. For synthetic mica-based pearlescent materials, as people’s recognition and acceptance of synthetic mica-based pearlescent materials will increase in the future, and people’s consumption levels will gradually increase, synthetic mica-based pearlescent materials will be used in various application fields and hence its market share will realise a sustainable growth.



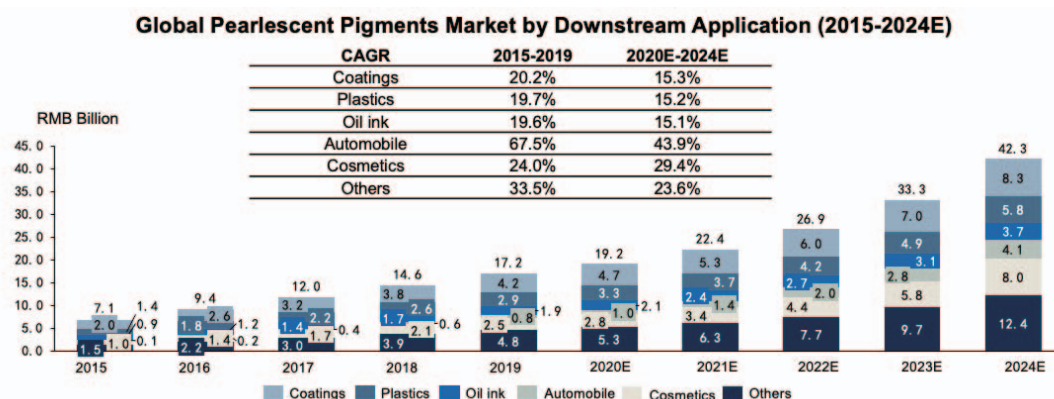
Source: Frost & Sullivan

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### Downstream applications of pearlescent pigment products

In 2019, within the industrial pearlescent pigments market, coatings, plastics and oil ink markets reached RMB4.2 billion, RMB2.9 billion and RMB1.9 billion respectively.

While the automotive pearlescent pigments market enjoys stable growth thanks to increasing penetration, volumes of production and car ownership as well as the new product development which leads to increase applications in automotive and cosmetics products. In cosmetics, due to increasing plausible income, consumption upgrade and rising awareness of appearance, the global cosmetics market has witnessed robust growth, driving along the growth of cosmetic pearlescent pigments market with a CAGR of 24.0% from 2015 to 2019.

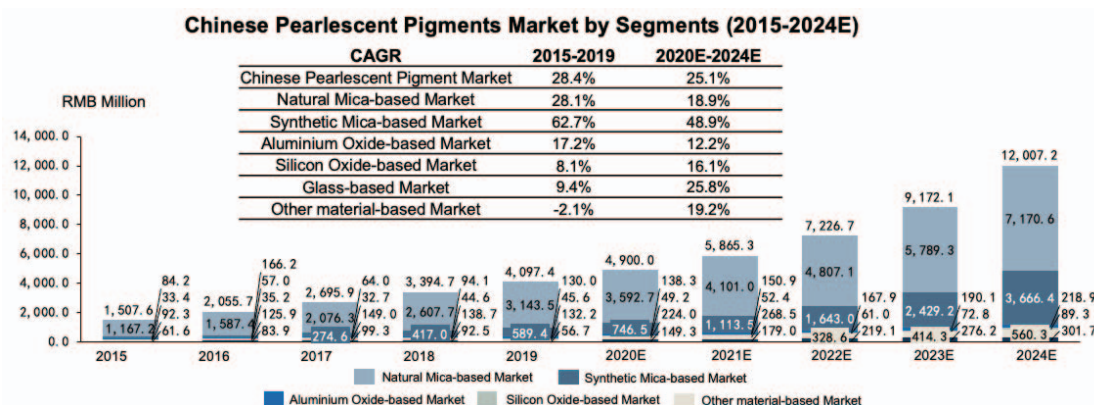


Source: Frost & Sullivan

## OVERVIEW OF THE PRC PEARLESCENT PIGMENT MARKET

### Market size of the PRC pearlescent pigment market

Recently, the Chinese pearlescent pigment market has stably grown its market size and proportion at the global market. In 2019, the market reaches RMB 4,097.4 million by rising at a CAGR of 28.4% from 2015 to 2019, among which the natural mica-based, synthetic mica-based, aluminium oxide-based, and silicon oxide-based pearlescent pigments markets took up a market share of 76.7%, 14.4%, 3.2% and 1.1% respectively.



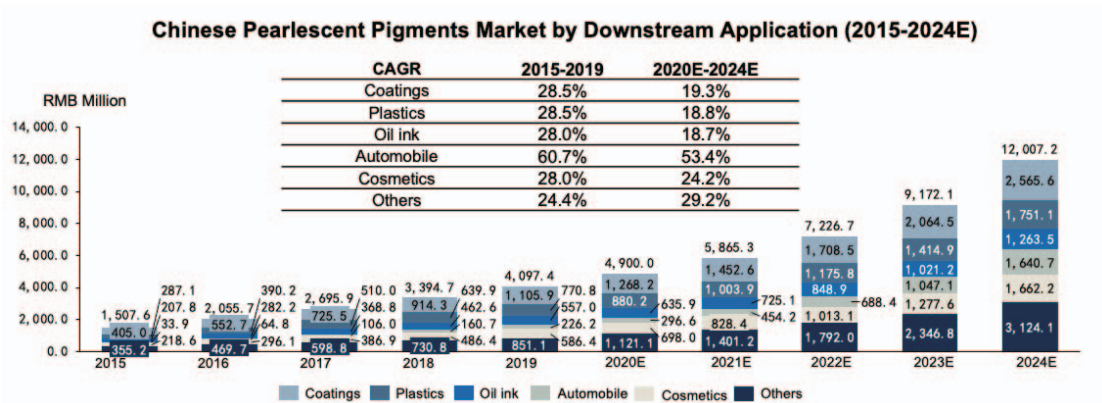
Source: Frost & Sullivan

Thanks to improvement of synthetic mica technology and pearlescent pigments related production techniques, the automotive pearlescent pigments market witnesses the fastest growth among all downstream applications, growing at a CAGR of 60.7% from 2015 to 2019 and amounted to RMB226.2 million in 2019. It is predicted that with improvements of living standards, consumption upgrade, and growth of vehicles per capita, the Chinese automotive pearlescent pigments market will reach RMB1,640.7 million in 2024, with a CAGR of 53.4%.



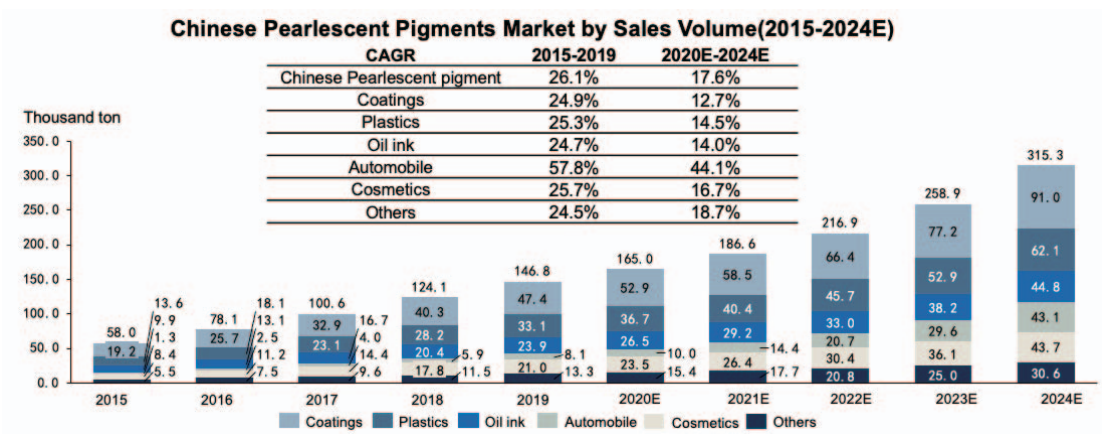
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The cosmetic pearlescent pigments market has also grown at a high speed, rising at a CAGR of 28.0% and reached RMB586.4 million in 2019. It is anticipated that with rising living standards, disposable income and awareness of appearance, the demand for cosmetics will be boosted, promoting the cosmetic pearlescent pigments market to grow at a CAGR of 24.2% from 2020 to 2024 and hit RMB1,662.2 million in 2024.



Source: Frost & Sullivan

The sales volume in Chinese cosmetic pearlescent pigments market grew from 2015 to 2019 at a CAGR of 25.7%, reaching 21.0 thousand tons in 2019. With its good luster and high durability, pearlescent pigments are replacing other colorants. In addition, because colorants take only a small proportion of cosmetic production cost, the cosmetic industry is relatively unsensitive to price changes, which is helpful for increasing penetration of pearlescent pigments in cosmetics. It is estimates that the sales volume in Chinese cosmetic pearlescent pigments market will reach 43.7 thousand tons in 2024.



Source: Frost & Sullivan

FUTURE DEVELOPMENT OF THE PEARLESCENT PIGMENT MARKET

Opportunities

- **National government policy support:** Pearlescent pigment is one of the most potential and widely applications. They are listed in the PRC’s *Advanced Materials High Technology Export Catalogue* (《新材料高新技术产品出口目录》) and enjoy export tax benefits. According to the PRC’s ‘The Catalogue of Industries for *Encouraged Foreign Investment* (2019 Edition)’ (《鼓励外商投资产业目录 (2019年版)》), pearlescent pigments production (particle size of 3-150µm) is listed as an encouraged industry.

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- **Extending downstream applications:** With its unique lustre and widespread colour spectrum, pearlescent pigments have broad downstream applications, from automotive topcoats to home furnishings. Meanwhile, more cosmetics manufacturers are using pearlescent pigments as colorants.
- **Breakthroughs in substrate material related technologies:** Technological breakthroughs in synthetic mica-based pearlescent pigments give producers more choices of substrate materials. Synthetic micas products work better with coating and therefore create better pearly lustre and qualities, breaking the scale constraints brought by natural micas shortage.

### Market drivers of the pearlescent pigments market

#### *Technological capabilities in production*

The principles of producing pearlescent pigments are easy but difficult to implement. Technological breakthroughs can provide a strong impetus to the industry development. The global leading companies in pearlescent pigments have accumulated abundant R&D experience and a series of patents for invention, establishing their competitive advantage in the industry. Technological breakthroughs are also one of the major drivers of the rapid development of pearlescent pigments industry. For example, the globally prominent pearlescent pigment company Chesir invented self-developed synthetic mica production method, such as: a wet synthesis method for preparing  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a method for preparing conductive sericite powder. With these technologies, the pearlescent material products produced by Chesir are widely used in high-end areas such as automobiles and cosmetics markets.

#### *Extending downstream applications*

In the global market, automotive and cosmetic pearlescent pigments experienced stable growth as their penetration increases. They are likely to benefit from expanding markets of downstream applications as well as extension into more downstream applications. For instance, thanks to steady growth in volume of production and car ownership, the penetration of automotive pearlescent pigments continuously climb. Frost & Sullivan estimates that with future vehicle popularization and upgrading demand, the automotive pearlescent pigments market could further expand. Besides, with consumption upgrade and increasing awareness of appearance, the cosmetics industry could have larger market potential, leading to the rapid development of cosmetic pearlescent pigments industry.

#### *Support of favourable policies*

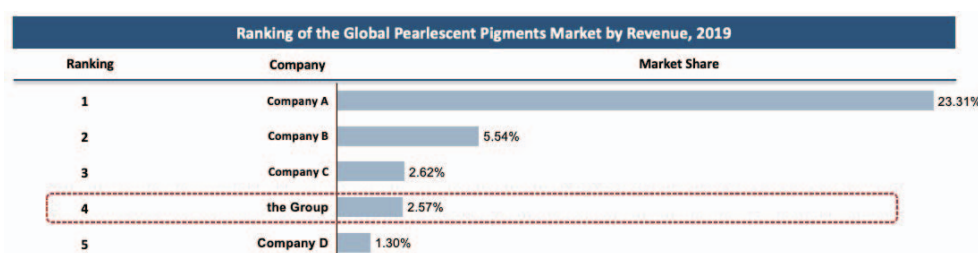
Supported by favourable policies from the state, the pearlescent material industry witnessed a fast growth. In the global market, according to the amendment to the Federal Regulations Act (21CFR73.350) (《聯邦規則法案》(21CFR73.350)修正案) promulgated in April 2019, the safe use of mica pearlescent pigments prepared from titanium dioxide and mica in beverages such as sweet wines has further broadened the application of pearlescent pigments, which served as strong support for upstream manufacturers to expand production capacity.

In the Chinese market, according to the Industrial Structure Adjustment Guidance Catalogue (2019 Edition) (revised in 2019) (《產業結構調整指導目錄(2019年本)》(2019年修訂)) promulgated in November 2019, pearlescent pigments belong to the nationally encouraged high-tech industry and enjoy the corresponding encouragement policy support.

## OUR RANKING IN THE GLOBAL PEARLESCENT PIGMENT MARKET

With the presence of a few major players, the global pearlescent pigments market is moderately concentrated. The total market size by revenue of pearlescent pigments reached RMB17,156.3 million in 2019. The aggregate market share of the top five players in global pearlescent pigments market in terms of revenue from pearlescent pigments was 35.3% in 2019. Among all the players, the Group ranked the fourth with the market share of 2.6%.

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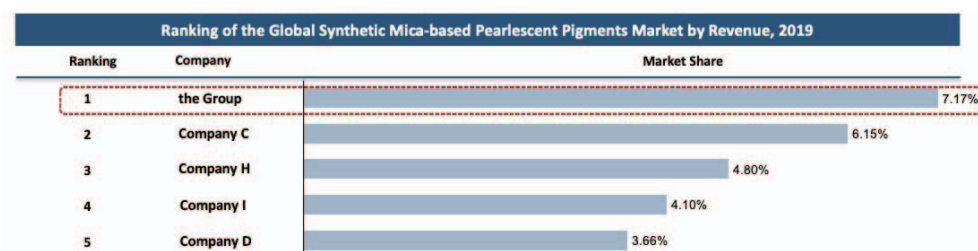


*Note:* The ranking is based on the sales value of pearlescent pigments generated by the pearlescent pigments providers in 2019.

*Source:* Frost & Sullivan

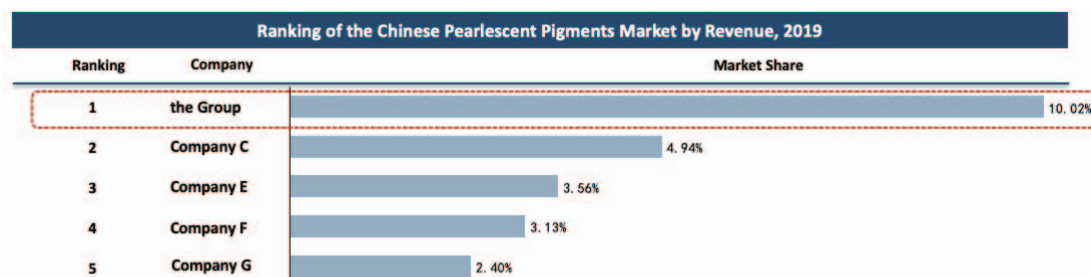
Among the global pearlescent pigments providers, the role of synthetic mica-based pearlescent pigments providers is increasingly important. The synthetic mica-based pearlescent pigments have the characteristics of temperature resistance, wear resistance, light resistance, water resistance, and colour fastness. Compared with pearlescent pigments with other base, the synthetic mica-based pearlescent pigments are environmentally friendly, clean, and free of heavy metals. As a result, synthetic mica-based pearlescent pigments providers are well positioned to catch the high growth of the pearlescent pigments market.

### OUR RANKING IN THE GLOBAL SYNTHETIC MICA-BASED PEARLESCENT PIGMENTS MARKET



*Note:* The ranking is based on the sales value of synthetic mica based pearlescent pigments generated by the synthetic mica-based pearlescent pigments providers in 2019. Synthetic mica-based pearlescent pigments providers focus on providing synthetic mica-based pearlescent pigments.

The global synthetic pearlescent pigments market is moderately fragmented with the total market size by revenue of synthetic mica-based pearlescent pigments reached RMB1,828.7 million in 2019. The aggregate market share of the top five players in global synthetic mica-based pearlescent pigments market in terms of revenue from synthetic mica-based pearlescent pigments was 25.9% in 2019. Among all the players, the Group ranked the first with the market share of 7.2%.

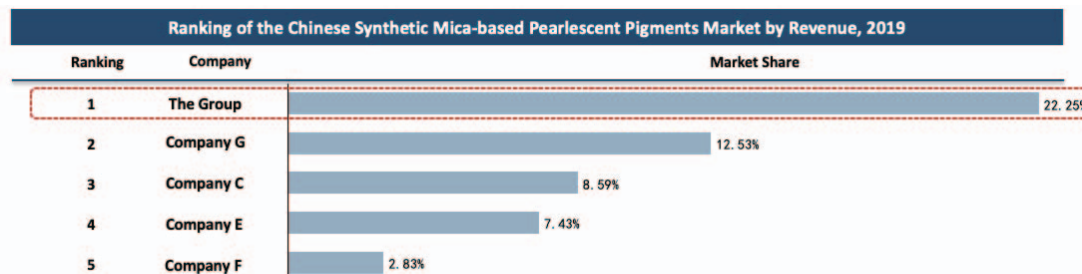


*Note:* The ranking is based on the sales value of pearlescent pigments generated by the Chinese pearlescent pigments providers in China in 2019.

*Source:* Frost & Sullivan

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In 2019, the market size of China’s pearlescent pigments (based on the revenue of pearlescent materials) reached RMB4,097.4 billion. In terms of amount, the total market share of the top five in China’s pearlescent material market accounts for 24.1% of the total market size. Among all companies, the Group ranks first with a market share of 10.0%.



*Note:* The ranking is based on the sales value of synthetic mica-based pearlescent pigments generated by the Chinese pearlescent pigments providers in China in 2019.

*Source:* Frost & Sullivan

In 2019, the market scale of China’s synthetic mica base pearlescent materials (divided according to the revenue of synthetic mica base pearlescent materials) reached RMB 589.4 million. In terms of amount, the total market share of the top five synthetic mica base pearlescent materials in China accounted for 53.63% of the total market size. Among all companies, the Group ranks first with a market share of 22.3%.

### Entry Barriers of Pearlescent Pigments Industry

#### *Financial Capacity*

For newcomers in the pearlescent pigment market, an amount of financial capital is needed to invest in production bases, precise equipment, raw material importation, R&D personnel and product R&D, etc. In addition, a huge amount of early investment and cash flow would be needed to support the long periods of construction and R&D. Leading companies in the industry have accumulated expertise in R&D and extensive resources. When the product is rolled out to the market, brand development, marketing and storage could also financially challenge the pearlescent pigment producers. Therefore, having a sizable financial capacity forms an entry barrier to newcomers.

#### *Innovative Technology*

The pearlescent pigment industry is a technology-intensive industry. Newcomers can produce non-patented products but may not stand out from the intense homogeneous competition, while established players possess a range of patents for their new products. Different production technologies would be required to produce pearlescent pigments catering to different downstream sectors.

Synthetic mica technology is a key technology for producers to break in the high-end market, but only a few leading producers have this technology. Solid R&D capabilities determines the competitiveness of a pearlescent pigment producer in an increasingly demanding marketplace.

#### *Stable Client Network*

As an export-oriented industry, a stable client network connecting domestic and international clients would be key for pearlescent pigment producers. However, building stable relationship with international clients or distributors requires continuous investment and improvements in products and procedure. Certification of a new pigment supplier is long and stringent. For example, it takes 5 to 8 years to become an automotive pearlescent pigment supplier.



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Brand is also an important factor clients consider when choosing suppliers, while brand establishment requires long-term technological support, robust product quality and services. Downstream clients also don't frequently change suppliers when a relationship is established due to the high cost of substituting a supplier.

### Raw Materials

Cheap and abundant access to raw materials has become a significant entry barrier since regulations tighten and downstream requirements rise. Natural micas are an important raw material for pearlescent pigments but there is a high dependence of Chinese producers on importation. Long-term relationship and economies of scale would give producers an essential edge in price negotiation with foreign mica suppliers.

Furthermore, while synthetic mica becomes an important raw material, the difficulty of developing synthetic micas technology poses another challenge for industry newcomers and existing small players. Therefore, industry newcomers may struggle to obtain low-cost and quality raw materials.

### OVERVIEW OF THE GLOBAL MICA MARKET

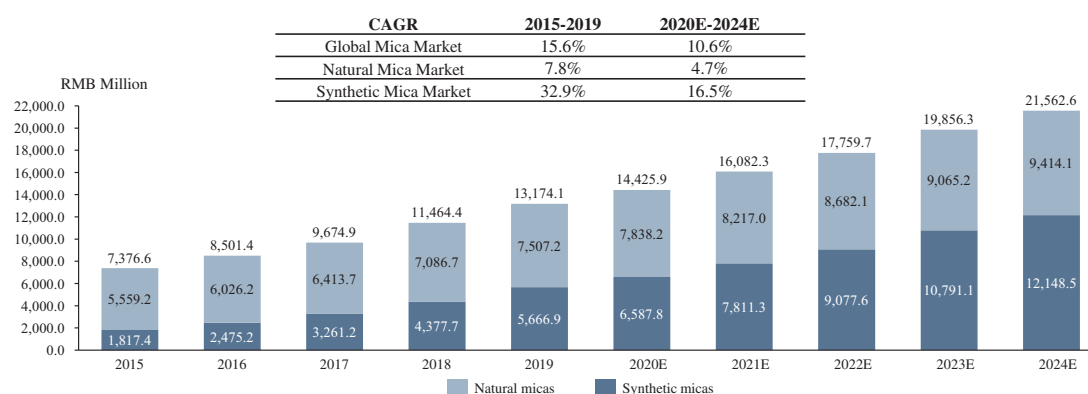
Mica products may be categorised into natural micas and synthetic micas. With characteristics such as insulation, high temperature resistance, and lustre, heat insulation, micas have wide industrial applications and are thus named as industrial flavour enhancer. Their end user industries include automobile, cosmetics, electricity, pyrometallurgy and home appliances. As the research capabilities of global mica industry improve, micas' downstream applications continually expand.

#### Market size of the global mica market

The global mica market has experienced a stable growth from 2015 to 2019, growing at a CAGR of 15.6% and reaching RMB13.2 billion. Within the mica market, the demand for natural mica represented a market share of 56.8%, while synthetic mica represented a market share of 43.2%. Frost & Sullivan estimates that the global mica market will reach RMB21.6 billion in 2024 with a CAGR of 10.6%, among which synthetic mica market will grow to RMB12.1 billion and take up a market share of 56.4%. The bar chart below illustrates the development of the global mica market in terms of sales revenue by natural mica and synthetic mica for the period from 2015 to 2024 (estimated):

Compared to natural micas, synthetic mica-based pearlescent pigments make significant progress in glossiness, clarity and high temperature resistance. Besides, free of heavy metals in synthetic micas make it popular in cosmetics industry. The penetration of synthetic mica in global pearlescent pigment market is therefore expected to rise.

**Global Mica Market by Segments (2015-2024E)**



Source: Frost & Sullivan

### Applications of mica products

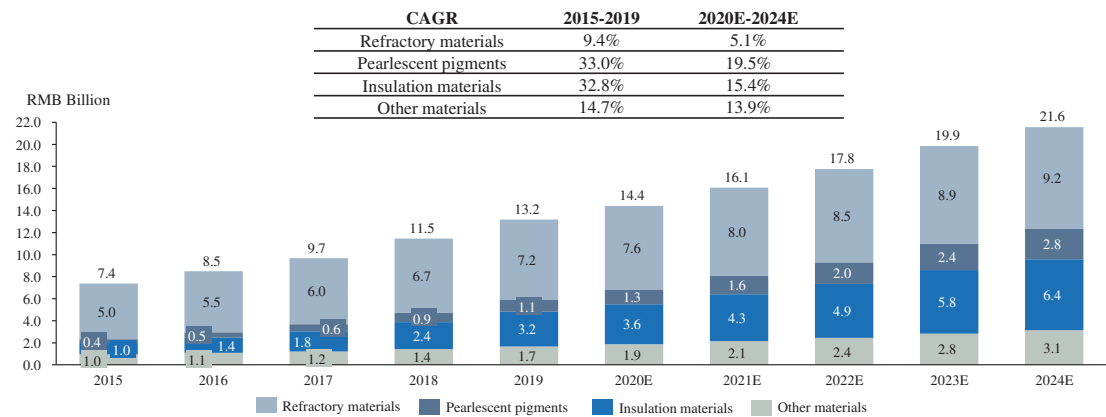
Pearlescent pigments, refractory materials and insulation materials are the major downstream applications of mica products and are widely used in end user industries such as automobile, cosmetics, electricity, pyrometallurgy and home appliances. In 2019, pearlescent pigments mica

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market reached RMB1.1 billion, refractory materials mica market reached RMB7.2 billion, and insulation materials mica market reached RMB3.16 billion. Insulation materials are also applied in the area of advanced materials such as semiconductors.

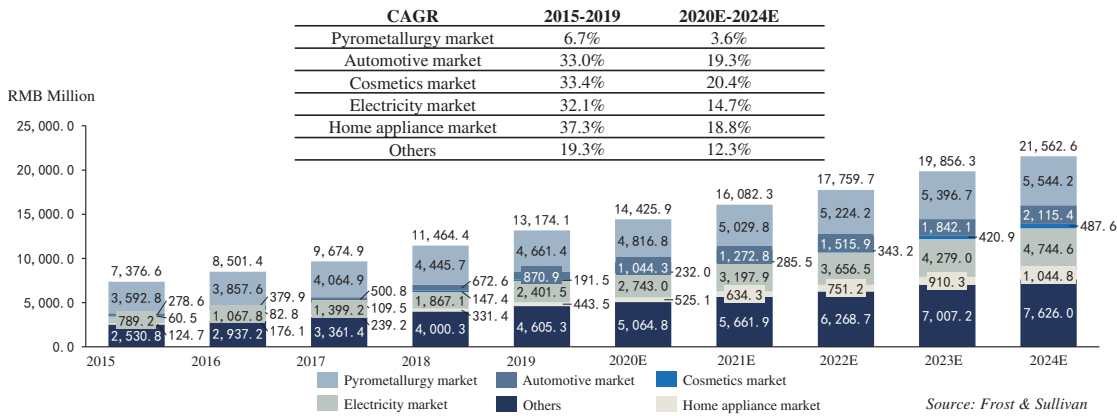
As the R&D capabilities of synthetic mica industry improve, synthetic micas will enter into more downstream applications such as thermal insulation materials and experience growth in pearlescent pigments mica market. Compared to natural micas, synthetic mica-based pearlescent pigments make significant progress in glossiness, clarity and high temperature resistance.

The diagram below illustrates the development of the global mica market in terms of the end-market applications for the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

The diagram below illustrates the development of the global mica market in terms of the end user industries for the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

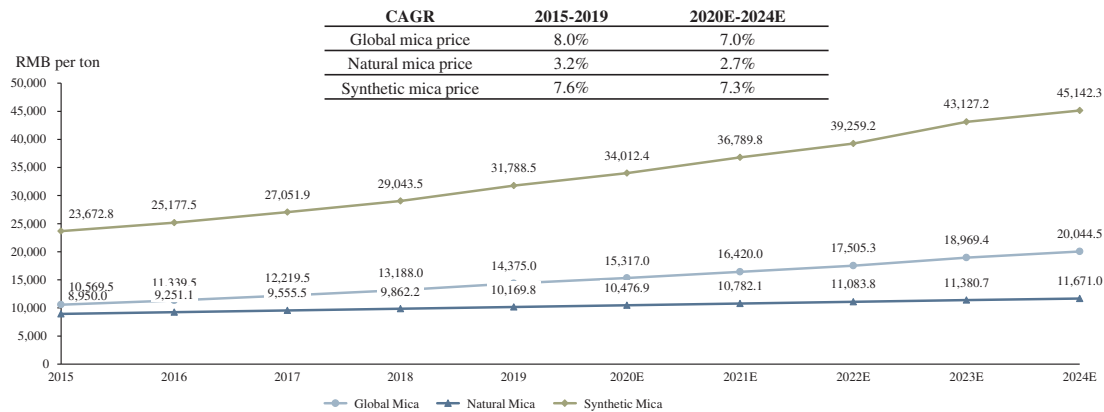
Source: Frost & Sullivan

In 2019, the market size of pyrometallurgical mica products was RMB 4.7 billion, representing a market share of 35.4%. Because of superior insulation and high temperature resistance, mica products normally appear as insulation materials or refractory materials in pyrometallurgy market, wide applications and high industry linkage, serving an essential role in economic development and infrastructure upgrading, in the form of electrode bars in electrometallurgical furnaces or lead-out bushing. Pyrometallurgy industry is a globally important basic raw material industry with a variety of products.

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Average selling prices and average cost of mica products

During the period from 2015 to 2024 (estimated), Frost & Sullivan estimates that the average selling prices of mica products would continue to increase, and the diagram below illustrates the price movements of mica products during the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

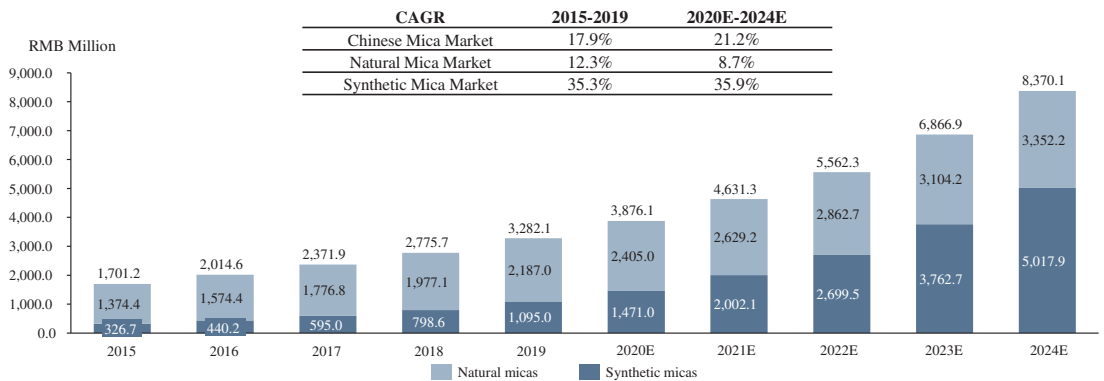
OVERVIEW OF THE PRC MICA PRODUCT MARKET

Market size of the PRC mica product market

The PRC mica market may be divided into natural mica market and synthetic mica market. With improving research and development capability of synthetic mica technology and exhausting natural mica resources, synthetic mica products are replacing natural mica products.

The PRC mica market recently has experienced steady development. In 2019, the market grew to RMB 3.28 billion with a CAGR of 17.9% from 2015 to 2019. Within the overall market, Chinese natural mica market reached RMB 2.19 billion, a market share of 66.6%. Chinese synthetic mica market reached RMB 1.1 billion, occupying a market share of 33.4%. With the future policy support such as the Catalogue for the Guidance of Industrial Structure Adjustment (《產業結構調整指導目錄 (2019年本)》), Frost & Sullivan estimates that the PRC mica market will reach RMB8.37 billion in 2024 with a CAGR of 21.2% from 2020 to 2024, within which the synthetic mica market will reach RMB5.02 billion, occupying a market share of 60.0%.

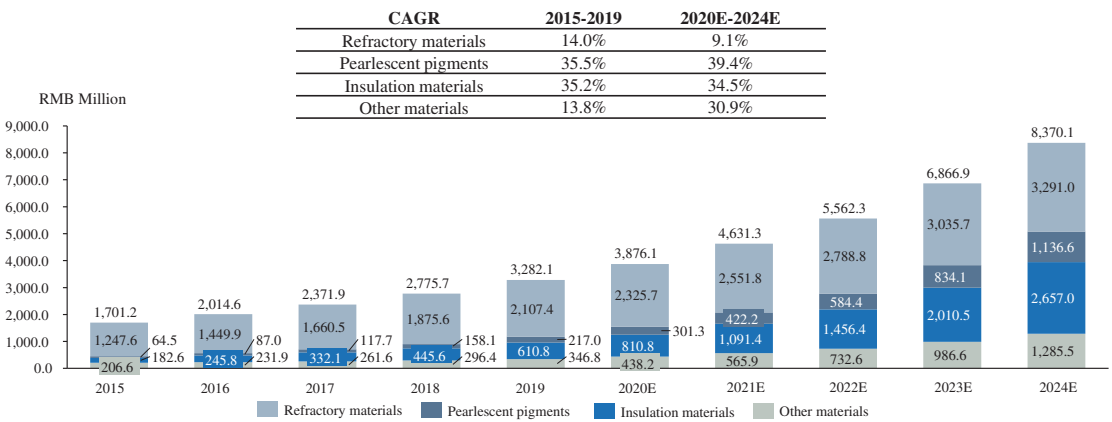
The diagram below illustrates that the percentage of natural mica and synthetic mica in terms of sales revenue generated in the PRC during the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

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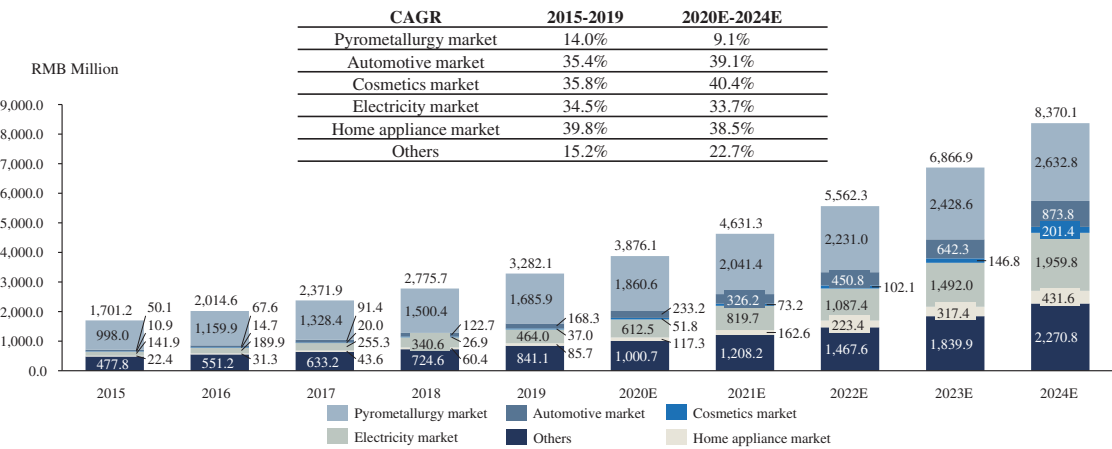
The diagram below illustrates the development of the PRC mica pigment market by downstream applications for the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

In the PRC, the pearlescent pigments mica market grew at a CAGR of 35.3% from 2015 to 2019 and reached RMB2,170.0 million in 2019. Over the same period, the refractory materials mica market grew at a CAGR of 14.0% and reached RMB2,107.4 million, the insulation materials mica market grew at a CAGR of 35.2% and reached RMB610.8 million in 2019.

The diagram below illustrates the development of the PRC mica pigment market by end user industries for the period from 2015 to 2024 (estimated):



Source: Frost & Sullivan

The PRC is one of the most important synthetic mica markets in the world. There is a trend of replacing natural micas with synthetic micas in end user industries, such as pyrometallurgy, automobile, cosmetics and electricity, as synthetic micas possess superior characteristics and continuously make breakthroughs in downstream applications.

FUTURE DEVELOPMENT OF THE MICA MARKET

Opportunities

- **Expanding downstream sectors bring increasing demand for micas products:** Mica downstream sectors are sectors that use mica products as raw materials, including coatings, pigments, welding electrode, rubber, plastics and new building materials. The development of those downstream sectors will bring robust demand and immense market for micas, promoting mics producers to transform from planned production to sales-based production



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- **Vertical integration from downstream sectors will improve industry efficiencies:** Due to factors such as environmental protection and mine exploitation costs in the PRC, most downstream firms choose to import micas. To implement import substitution and reinforce control on supply chain, some large downstream firms extend upstream which is helpful for integrating dispersed production capabilities in mica industry and creating an effective cluster of mica exploitation, production and downstream processing.
- **Key technological breakthroughs in mica lithium extraction bring new market opportunities:** lithium is important raw material of new energy batteries. The PRC's lithium storage ranks the 4th globally but 80% of usage relies on imports, because the recovery rate is low. But with recent breakthroughs, there can likely be a mica lithium industrial chain, reducing dependence on imports

## OUR COMPETITIVE ADVANTAGES

Having considered the competitive landscape of the pearlescent pigment and synthetic mica industries, our Directors consider that we have the following competitive advantages:

### Global leading research and development capability

Chesir Pearl has world-leading research and development capability, which has been the foundation for it to achieve rapid growth and become an industry leader. In the past few years, Chesir Pearl has overcome many industry bottlenecks with its strong research and development capability. Currently, the company has three synthetic mica patents of invention: a preparation method of conductive silk mica powder, wet synthesis of  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a 3D-effect magnetic pearlescent pigment and its preparation method, winning gold and silver awards of Guangxi Inventions Exhibition and Trade Fair.

### Resistance against financial depression

Considering the financial depression caused by the COVID-19 lockdown, many markets are suffering from business loss. However, the pearlescent pigment market is less sensitive to the economic downturn many for the two reasons. First, pearlescent pigments are widely applied to various industries such as cosmetic, automotive, coatings, etc., which may enable the pearlescent market to mitigate the risk in the economic downturn. Second, the demand for pearlescent pigments are rapidly growing driven by the resumption of work and production, considering its superiority in chemical stability, uniform dispersion in water and glycerin, and good lustre. As a leading player in pearlescent pigment industry, Chesir Pearl has great resistance against financial depression and hence may witness a sustainable growth in the near future.

### Superiority value chain

Chesir has strong bargaining power in the value chain due to its advantage in the production of raw materials, such as synthetic mica. Due to the ease to find substitute suppliers, its upstream suppliers are likely to face stiff competition for its business, providing it with strong bargaining power against its upstream raw material suppliers.

Also, the use of technology enable Chesir Pearl to remain dominant in the value chain. For example, it invented self-developed synthetic mica production method, such as: a wet synthesis method for preparing  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a method for preparing conductive sericite powder. With these technologies, Chesir Pearl's pearlescent pigments are widely used in various downstream areas and have sustainable advantage in the value chain.