

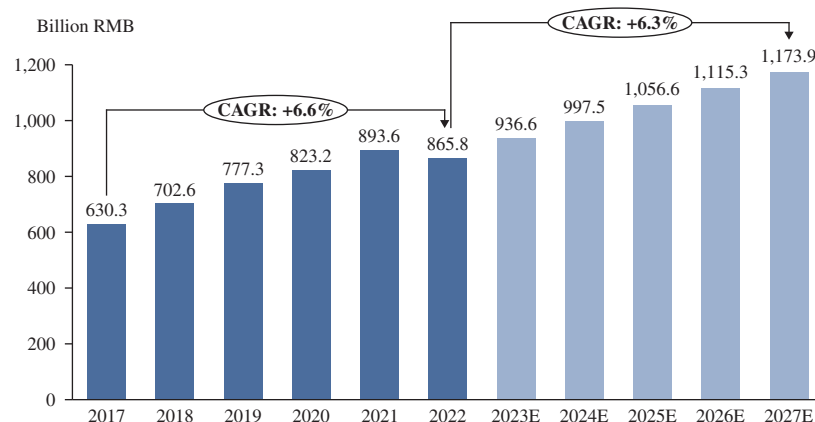
## INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this document were extracted from the F&S Report, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the F&S Report, an independent industry report, in connection with the [REDACTED]. The information from official government sources has not been independently verified by us, the Joint Sponsors, the [REDACTED], any of their respective directors and advisors, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.

### CHINA’S BEAUTY AND WELLNESS PRODUCT MARKET

The beauty and wellness product market encompasses a wide range of products designed to enhance consumers’ appearance, promote their health, and contribute to their overall wellness. These products include, among others, nutritious foods, skincare products, hair care products and cosmetics. Driven by the growing awareness of beauty and wellness, the rising per-capita disposable income, and the rapid development of social media in China, China’s beauty and wellness product market, in terms of retail value, increased from RMB630.3 billion in 2017 to RMB865.8 billion in 2022, at a CAGR of 6.6%, and is expected to reach RMB1,173.9 billion in 2027, at a CAGR of 6.3% from 2022 to 2027. The following chart sets forth China’s beauty and wellness product market, in terms of retail value, from 2017 to 2027.

**Market Size of China’s Beauty and Wellness Product Market (Retail Value), 2017-2027E**



Source: Frost & Sullivan

### GLOBAL AND CHINA’S EBN MARKET

#### Overview

Driven by consumers’ pursuit of beauty and wellness, China’s EBN market has become a fast-growing sector of China’s beauty and wellness market. EBN products are made from raw nests created by swiftlets with their saliva, which are primarily sourced from Southeast Asian countries. Indonesia is the largest raw nest production country in the world, as its lowland rainforests are ideal habitats for swiftlets. EBN is highly valued in Chinese culture as a renowned delicacy in Chinese cuisine for over 400 years. EBN is known for its nutritional profile, which includes, among others, sialic acid, amino acid, collagen, glycoprotein, antioxidants, calcium, potassium, iron, magnesium and hormones. Traditional Chinese medicine attributes various health benefits to EBN, such as promoting overall wellness, boosting the immune system, enhancing focus, increasing energy and metabolism, and regulating circulation.

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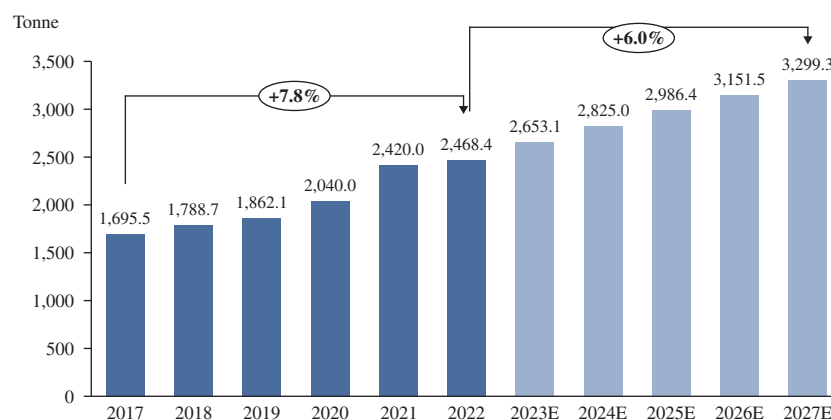
Modern scientific studies published in authoritative sources have further validated the health benefits of EBN products. For example, *A Comprehensive Review of Edible Bird’s Nest* published in *Food Research International* indicates that edible bird’s nests have been shown to have a variety of pharmacological effects that may benefit human health, including improving the skin quality (such as skin whitening and dermal thickness improvement), regulating the immune system, enhancing cognitive function and memory, and exhibiting certain anti-aging, anti-viral, and antioxidant properties; *Anti-aging, Anti-Inflammatory, and Wound-Healing Activities of Edible Bird’s Nest in Human Skin Keratinocytes and Fibroblasts* published in *Pharmacognosy Magazine* indicates that edible bird’s nests exhibit certain anti-aging, anti-inflammatory, and wound healing effects in human skin; *Edible Bird’s Nest, an Asian Health Food Supplement, Possesses Skin Lightening Activities: Identification of N-Acetylneuraminic Acid as Active Ingredient* published in *Journal of Cosmetics, Dermatological Sciences and Applications* suggests that consuming bird’s nest has skin whitening effect; *Effect of Maternal Administration of Edible Bird’s Nest on the Learning and Memory Abilities of Suckling Offspring in Mice* published in *Neural Plasticity* suggests that sialic acid can promote brain and intellectual development; *Edible Bird’s Nest Extract Inhibits Influenza Virus Infection* published in *Antiviral Research* shows that consuming edible bird’s nests can prevent infection by influenza virus; and *Complete Digestion of Edible Bird’s Nest Releases Free N-acetylneuraminic Acid and Small Peptides: An Efficient Method to Improve Functional Properties* published in *Food & Function* suggests that EBN peptides have significant effects on improving the skin tone and can be applied to make healthy foods, beverages and skincare products.

Raw nests were harvested traditionally from caves, principally large limestone caves. Since the late-1990s, due to the increasing demand for EBN, these sources have been supplemented by purpose-built nesting houses by swiftlet farmers. These houses are created by converting human-centric buildings into structures designed to mimic the cave environments to attract swiftlets to breed and nest within them. These purpose-built nesting houses protect swiftlets from their predators and enemies and provide them with a safe living environment to propagate and thrive, ensuring the preservation of their population. As swiftlets construct new nests for each breeding season, swiftlet farming would not be detrimental to the growth of swiftlets. During the entire swiftlet farming process, swiftlet farmers do not feed or interfere with any natural behavior of swiftlets.

### Global EBN Market

The global production volume of EBN products has experienced stable growth and is expected to continue to grow. In particular, the global production volume of EBN products increased from 1,695.5 tonnes in 2017 to 2,468.4 tonnes in 2022, at a CAGR of 7.8%, and is expected to reach 3,299.3 tonnes in 2027, at a CAGR of 6.0% from 2022 to 2027, primarily attributable to the increasing demand for EBN products in China and favorable government policies in major raw nest production countries. The following chart sets forth the global EBN market, in terms of production volume, from 2017 to 2027.

**Global EBN Market, 2017-2027E**



Source: Royal Malaysian Customs Department, Statistics Indonesia, Frost & Sullivan

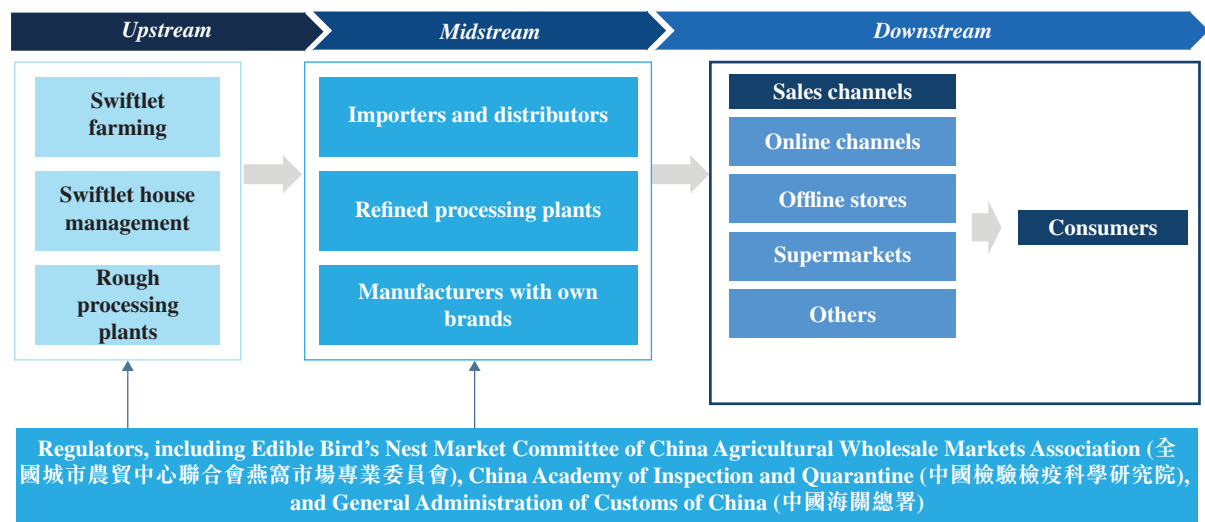
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### Value Chain of Global EBN Industry

The value chain of the global EBN industry can be divided into three key segments:

- the upstream, which involves swiftlet farmers, swiftlet house management and rough processing plants. Major upstream participants are located in Southeast Asian countries, such as Indonesia and Malaysia, and engage in activities, such as building and managing nesting houses, harvesting raw nests, and carrying out initial processing of raw nests;
- the midstream, which involves EBN product importers and manufacturers. They source the raw nests from the upstream participants mostly in Southeast Asian countries. The midstream participants play a crucial role in processing the raw nests into various EBN products. They may import the raw nests and conduct further refining, cleaning, and manufacturing processes to create a wide range of EBN-based products; and
- the downstream, which involves various sales channels, including, among others, online channels, offline stores and supermarkets. While online sales channels have gained popularity among EBN product companies, traditional offline channels remain the primary sales channels for EBN products. These channels are responsible for distributing EBN products to consumers.

### Value Chain of Global Edible Bird’s Nest Industry



Source: Frost & Sullivan

### Total Addressable Market of China’s EBN Industry

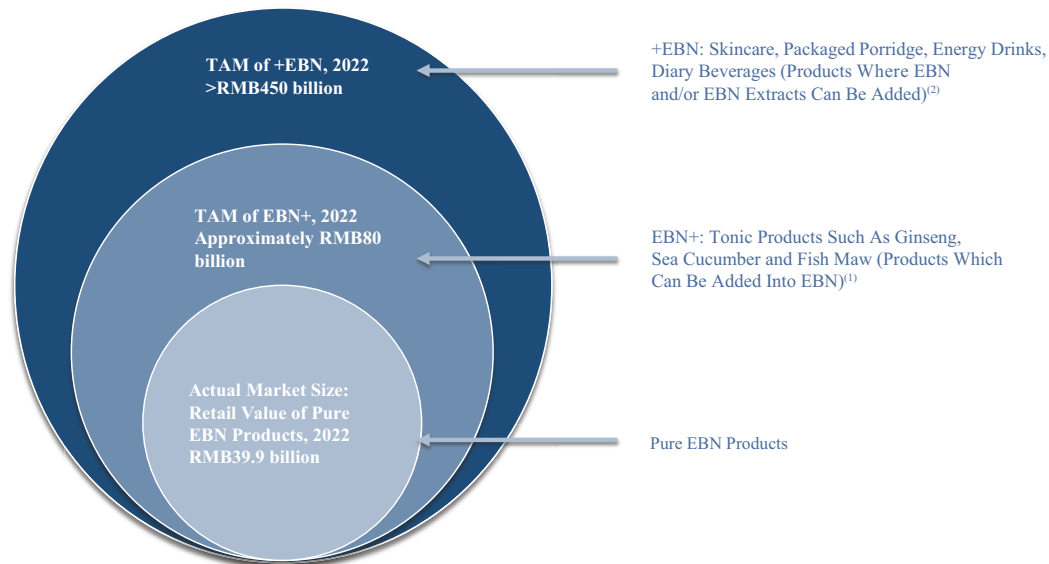
Traditionally, raw nests were primarily utilized for the production of pure EBN products, which include dried EBN and products made from EBN and water, with or without crystal sugar or sugar substitutes. Pure EBN products accounted for a market size of RMB39.9 billion in China in 2022. However, in recent years, there have been significant advancements and transformations in production techniques and processes, leading to a significant evolution in product variety. As a result, these products have gained popularity among customers, driving the rapid development of the EBN+ and +EBN markets, both of which have substantial potential for future growth.

EBN+ products are characterized by their use of EBN as a core ingredient or component, with an EBN feed rate of 1% or higher. These products incorporate other ingredients and/or nutritional components, such as ginseng, sea cucumber, and fish maw. The market size of these ingredients in China was RMB80 billion in 2022, indicative of the considerable potential for the EBN+ market.

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EBN and its extracts may also be applied to other food, beverage, and skincare products, known as +EBN products. These products have an EBN feed rate of less than 1%. Notable examples include skincare products, such as facial masks, lotions and essences, as well as food and beverage products, such as dairy beverages, packaged porridge, and energy drinks. The total market size of these food, beverage and skincare products exceeded RMB450 billion in 2022.

### Total Addressable Market of China’s EBN Products



(1) TAM of EBN+: market size of products which can be added into EBN

(2) TAM of +EBN: market size of products where EBN and/or EBN extracts can be added

Source: Frost & Sullivan

### Market Size of China’s EBN Industry

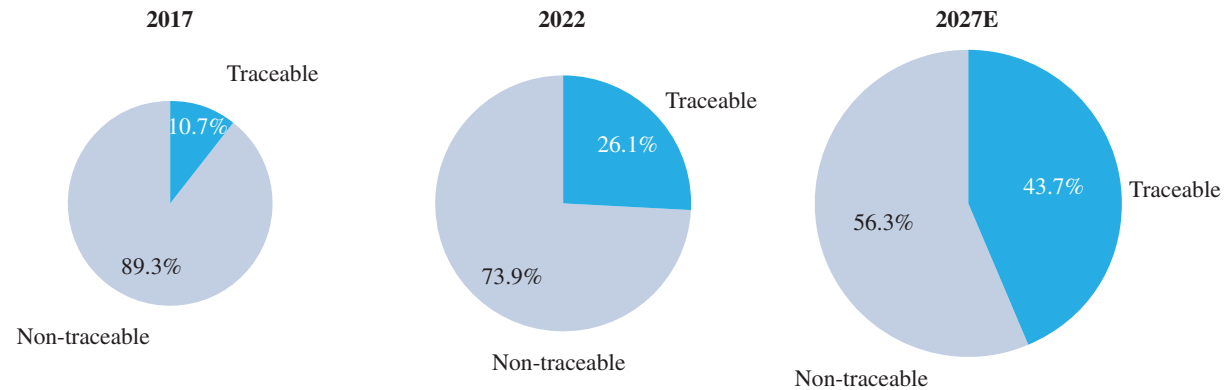
China is a major consumer of EBN as a traditional Chinese delicacy. However, the production of raw nests is predominantly located in Southeast Asian countries. In 2022, China alone accounted for 70.0% of the global EBN consumption in terms of consumption volume, making it the largest consumer of EBN worldwide. With the improvement in living standards and an increased awareness of beauty and wellness, EBN products have become a symbol of beauty and wellness among Chinese consumers, driving the expansion of China’s EBN market.

In terms of traceability, EBN in China can be categorized into two types: traceable and non-traceable. Traceable EBN refers to EBN produced by companies that adhere to the traceability standards established by the CAIQ. For traceable EBN, each unit of EBN product is affixed with a CAIQ product traceability label containing unique codes and features, similar to a digital security certificate. This label allows consumers to access information and registration details about the specific EBN product.

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In China, traceable EBN has experienced substantial growth over the past five years, driven by multiple factors, such as stringent regulatory requirements and increasing recognition among consumers. Leading players in the EBN industry have actively advocated traceability for transparent supply chains and verifiable sourcing. As a result, the proportion of traceable EBN within the overall EBN market, in terms of volume, grew from 10.7% in 2017 to 26.1% in 2022 and it is expected to reach 43.7% in 2027.

### Market Size of China’s EBN Market (Volume), Breakdown by Traceability, 2017, 2022, 2027E

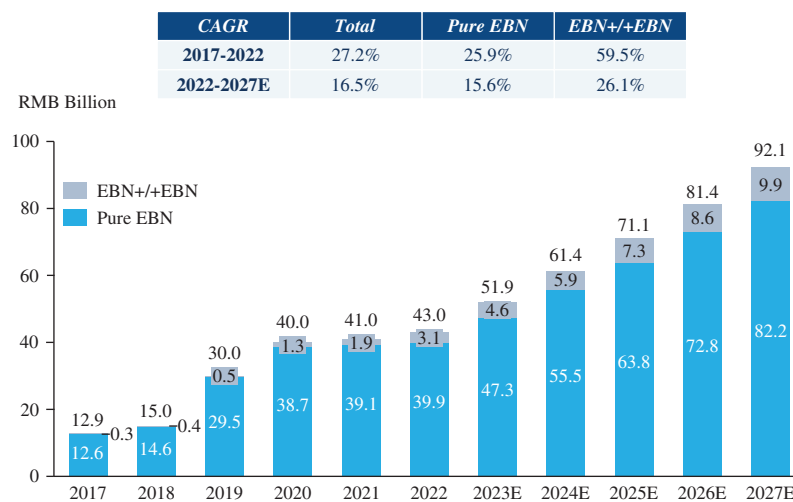


Source: CAIQ; Frost & Sullivan

In terms of product type, EBN can also be classified into pure EBN and EBN+/-EBN. Pure EBN products currently dominate the market. In 2022, China’s EBN market was RMB43.0 billion, in terms of retail value, with pure EBN accounting for 92.8% of the total EBN market. The contribution of pure EBN to the market is expected to gradually decrease in the future, primarily attributable to the promotion of EBN+/-EBN products by leading EBN brands. As these brands raise awareness and introduce the benefits of EBN combined with other ingredients or nutritional components, the market share of EBN+/-EBN products is expected to grow.

The market size of EBN industry, in terms of retail value, grew from RMB12.9 billion in 2017 to RMB43.0 billion in 2022, at a CAGR of 27.2%, and is expected to reach RMB92.1 billion in 2027, at a CAGR of 16.5% from 2022 to 2027.

### Market Size of China EBN Market (Retail Value), Breakdown by Pure EBN, EBN+/-EBN, 2017-2027E



Source: Frost & Sullivan

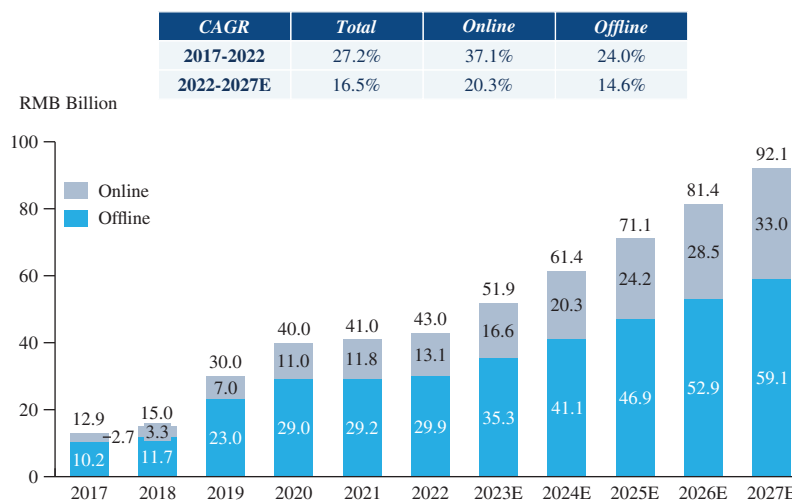
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Traditionally, EBN products have been predominantly sold through offline channels, including specialty EBN stores, supermarkets, and pharmacies. However, with the rapid growth of the e-commerce industry, online channels have been gaining momentum, especially with the emergence of products that are well-suited for online sales, such as freshly stewed EBN.

The sales of EBN products through online channels experienced significant growth from RMB2.7 billion in 2017 to RMB13.1 billion in 2022, at a CAGR of 37.1%. Driven by the further advancements in China’s e-commerce industry and logistics network, the sales of EBN products sold through online channels is expected to reach RMB33.0 billion in 2027, at a CAGR of 20.3% from 2022 to 2027.

In 2022, the offline channel contributed 69.5% to China’s EBN market. However, the contribution from offline channel has gradually decreased over time and is expected to reach 64.2% by 2027. In terms of absolute retail value, the sales of EBN products through offline channels grew from RMB10.2 billion in 2017 to RMB29.9 billion in 2022, at a CAGR of 24.0%, and is expected to reach RMB59.1 billion in 2027, at a CAGR of 14.6% from 2022 to 2027.

### Market Size of China’s EBN Market (Retail Value), Breakdown by Channel, 2017-2027E



Source: Frost & Sullivan

### MARKET DRIVERS OF CHINA’S EBN MARKET

The following factors are considered the major market drivers of China’s EBN market:

- Growing awareness of the health benefits of EBN products.* The advancement of science and technology has provided scientific evidence supporting the functional benefits of EBN. Research studies have highlighted the potential health benefits of EBN, such as promoting brain and cognitive development, enhancing immunity, regulating blood pressure, and having skin whitening effects. This scientific validation has increased consumer awareness and interest in EBN products. Additionally, in the post-pandemic era and with the continuous growth of per capita GDP in China, consumers are placing greater emphasis on health and wellness, leading to increased demand for natural and nutritious food products like EBN. The target audience for EBN products has expanded to include pregnant women, the elderly, and young individuals, among others.
- Pursuit of beauty and wellness.* As individuals become more conscious of their appearance and overall well-being, there has been a surge in demand for products that offer natural benefits. EBN, renowned for its potential to enhance beauty and promote wellness, has gained popularity as a sought-after product. Consumers recognize the nutritional value and potential skincare advantages associated with consuming EBN, leading to increased demand for EBN food and skincare products.

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- Regulatory standardization promotes industry development.* The EBN industry has gained importance in China’s consumer goods market, resulting in the promulgation of management policies by relevant national regulatory authorities. These policies aim to standardize the industry’s development. Measures include specifying origin, export, inspection, and quarantine requirements for imported raw materials, as well as promoting compliance with relevant food production and processing standards. Stricter management measures regarding product marketing and consumer rights protection have also been adopted, ensuring higher quality and safety of EBN products. This regulatory standardization instills confidence in consumers and encourages their willingness to consume EBN products.
- Evolving business model.* The EBN industry has embraced innovative business models that have driven its growth. The diversification of shopping forms has enriched sales channels. The emergence and proliferation of online retail platforms and live-streaming e-commerce has made it more convenient for consumers to purchase EBN products. Moreover, these channels have facilitated the introduction of new types of EBN products that are better suited for e-commerce platforms. Additionally, technological advancements and innovation have led to the development of new products, such as ready-to-serve EBN products, which can reach a larger consumer base. Improved production methods, such as bowl-shaped canned EBN and freshly stewed EBN, have made it easier for consumers to consume EBN products, thereby expanding the consumer base.

## COMPETITIVE LANDSCAPE OF GLOBAL AND CHINA’S EBN MARKET

In 2022, the market size of China’s EBN market accounted for 70.0% of the global EBN market. We are the largest EBN product company globally for three consecutive years in terms of retail value from 2020 to 2022, with a global market share of 4.1% in 2022. We also ranked the first in China’s EBN market with a market share of 5.8%, in terms of retail value, in 2022, and the top five EBN companies in China accounted for a combined market share of 11.9%.

Among the top five EBN companies in both global and China’s EBN markets, we had been growing at the highest CAGR of over 12.0% from 2020 to 2022. We had also been ranked first for three consecutive years in terms of retail value in these two markets. We ranked first by the volume of CAIQ imports in the EBN product market in China in 2022.

### Ranking of Top Five EBN Companies in Terms of Retail Value (China), 2020-2022

Rank	Company	Market Share (%)			CAGR(%) 2020-2022
		2020	2021	2022	
1	The Company	5.0%	5.6%	5.8%	>12.0%
2	Company A <sup>(1)</sup>	2.4%	2.4%	2.6%	~8.0%
3	Company B <sup>(2)</sup>	3.3%	2.7%	2.3%	~10.0%
4	Company C <sup>(3)</sup>	0.8%	1.0%	0.9%	~9.0%
5	Company D <sup>(4)</sup>	0.3%	0.2%	0.3%	~10.0%

Source: Company data; Frost & Sullivan

- Established in 1997, Company A is a listed company on Shanghai Stock Exchange. Headquartered in Beijing, Company A has approximately 3,800 employees and primarily focuses on producing traditional Chinese medicine and tonic products including EBN.
- Established in 2014, Company B is a private company. Headquartered in Beijing, it is specialized in producing and selling EBN products, and the majority of its products are freshly stewed EBN products sold via online channels.
- Established in 2004, Company C is a private company. Headquartered in Xiamen, it mainly engages in producing and selling EBN products via offline channels.
- Established in 2010, Company D is a private company. Headquartered in Qingdao, it is an EBN corporation with integrated EBN production, research and development and sales capabilities.

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### OPPORTUNITIES AND TRENDS OF CHINA’S EBN INDUSTRY

The main opportunities and trends of China’s EBN industry include:

- *Standardization of products.* Leading players in the industry are increasingly focusing on standardizing EBN products. The introduction of ready-to-serve EBN products presents customers with a more convenient way to consume EBN as compared to traditional dried EBN products, which is expected to expand the consumer base of EBN products and achieve steady growth of the EBN market.
- *Innovative products.* EBN product manufacturers are continuously adjusting and diversifying their product portfolios to align with the evolving preferences of consumers, especially among the younger generations. Innovative EBN products, such as those designed for breakfast and skincare, are introduced to the market to cater to the evolving consumer demand. Growing awareness of beauty and wellness also drives up research and development investment in EBN peptides, paving the way for more EBN peptide skincare products.
- *New customers and new consumption scenarios.* The consumer base for China’s EBN industry is expanding, and there is a growing demand for specialized EBN products designed to meet the specific needs of pregnant women and the elderly. The industry is also venturing into new consumption scenarios. Products are developed catering to various life scenarios, such as afternoon tea and business travel. By adapting to the evolving lifestyles and consumer preferences, the industry is able to reach new segments of consumers and expand its market presence.
- *Increasing demand for products from premium brands.* Chinese consumers are placing a greater emphasis on product quality, resulting in a rising preference for high-quality EBN products from well-established brands. This shift in consumer behavior has prompted the industry to concentrate on the production and distribution of premium EBN products that meet stringent standards for safety, reliability, and quality assurance. To meet these consumer expectations, industry players are investing in research and development, product design and branding initiatives and collaborating with regulatory authorities. The demand for traceable EBN products, which are known for their product safety and quality, is anticipated to drive accelerated growth in the industry.

### ENTRY BARRIERS ANALYSIS OF CHINA’S EBN MARKET

The entry barrier of China’s EBN market mainly include:

- *Distribution network.* Established companies in China’s EBN industry have already built strong distribution networks. Their large customer base, fostered through marketing campaigns and sales promotion activities over the years, poses a challenge for new entrants attempting to develop a stable distribution network and establish a loyal customer base.
- *Brand awareness.* Brand recognition and awareness are closely tied to previous experiences and established client relationships. Established companies with a history of market presence find it easier to gain a larger market share, while new entrants face challenges in establishing relationships, brand recognition, and awareness within a short period of time.



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- *Technical barrier.* Technology presents a fundamental barrier for players seeking to enter China’s EBN industry. Leading players, with their years of experience, have acquired patented technologies in product development and processing, access to research institutes, and a strong first-mover advantage in industry know-how. New entrants without these technical capabilities face significant challenges in developing efficient or competitive products, making it extremely difficult to enter or compete in the industry.
- *Talent shortage.* Although the EBN industry in China has experienced steady and robust growth, there remains an insufficient number of skilled professionals in the market. Players are engaged in a competitive search for talent with market experience and deep industry knowledge. The scarcity of talent poses a significant threat to industry players, particularly smaller ones.
- *Supply chain management.* Effective supply chain management is crucial in the EBN industry due to the high-quality raw materials required. With the expectation of stricter supervision in the future, traceable EBN products are likely to be preferred by more players. Established companies in China’s EBN industry have already established their own supply chain management teams or partnered with raw material suppliers to strengthen their position, enhance competitiveness and ensure product quality. This puts new entrants at a disadvantage as acquiring efficient supply chain management skills within a short period of time.

### COST ANALYSIS OF EBN INDUSTRY

Due to limited domestic production capacity caused by climatic conditions, China primarily relies on imports from Southeast Asian countries to meet its domestic demand for EBN. According to data from the General Administration of Customs, the import price of raw nests decreased from RMB12.6/g in 2017 to RMB8.6/g in 2022. The price of raw nests is mainly influenced by market demand, grades of raw nests, quality of raw nests, climate conditions, natural habitat preservation, logistics costs and international trade policies. Non-traceable raw nests, in general, have a lower price compared to traceable raw nests. The unit price of non-traceable raw nests is typically around 60% to 70% of that of the same-grade traceable raw nests.

### CONSUMER SURVEY

In May 2023, we commissioned Frost & Sullivan to conduct online questionnaire surveys with 1,200 participants randomly selected across different cities in China to better understand product preferences and the market from a consumer’s perspective. The details of the survey conducted by Frost & Sullivan are set forth below.

#### Brand Awareness

Yan Palace (燕之屋) ranked No. 1 in terms of top-of-mind awareness among all EBN brands in China.

#### Consumer Satisfaction

- Over 99% of consumers who have purchased Yan Palace’s products expressed satisfaction with their experience.
- Over 99% of consumers who have purchased Yan Palace’s products indicated that they would purchase our EBN products again.

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According to the F&S Report, the survey was conducted through online questionnaire surveys, and participants were randomly selected to ensure fair and extensive coverage. Such process is closely monitored to ensure the collection of sufficient effective samples. According to the F&S Report, all of the 1,200 participants are effective samples, which are sufficient to better understand product preferences and the EBN market from a consumer's perspective.

### SOURCE OF INFORMATION

This section includes information from the F&S Report commissioned by us, as we believe information imparts a better understanding of the EBN product market in China and globally. We believe that Frost & Sullivan has specialized research capabilities and experience in this industry in China. Frost & Sullivan is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including the EBN product market in China and globally. We have agreed to pay a commission fee of RMB700,000 for the F&S Report. We are of the view that the payment of such fee does not impair the fairness of the conclusions drawn in the F&S Report. Figures and statistics provided in this document and attributed to Frost & Sullivan or the F&S Report have been extracted from the F&S Report and published with the consent of Frost & Sullivan.

In preparing the F&S Report, Frost & Sullivan conducted detailed research which involved primary research that involved expert interviews and company interviews, and secondary research analyzing information and statistics published by government departments, industry associations, publications and studies by industry experts, public company annual and quarterly reports, Frost & Sullivan's other research reports, online resources and data from Frost & Sullivan's research database. Frost & Sullivan also assumes that (1) the social, economic and political environments of China will remain stable during the forecast period, (2) the data quoted from authoritative agencies remains unchanged, (3) related market drivers are expected to continue to drive the growth of the relevant markets in the forecast period, and (4) there is no extreme force majeure events or new industry regulation which would dramatically or fundamentally affect the relevant markets.

### DIRECTORS' CONFIRMATION

After making reasonable inquiries, our Directors confirm that, to the best of their knowledge, there has been no adverse change in the market information presented in the F&S Report since the date of the report which may qualify, contradict or have an impact on the information in this document.