

## INDUSTRY OVERVIEW

*The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from 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]. The information from official government sources has not been independently verified by us, the Sole Sponsor, [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and no representation is given as to its accuracy.*

### SOURCES OF INFORMATION

We commissioned Frost & Sullivan to analyse and prepare a report regarding Hong Kong’s health supplements market and the cosmetics and skincare products market. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York that offers industry research and market strategies and provides growth consulting and corporate training. We agreed to pay a commission fee of HK\$500,000 to Frost & Sullivan pursuant to a service agreement reached by arm’s length negotiation. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. We have also referred to certain information in “Summary”, “Risk Factors”, “Business” and “Financial Information” in this document to provide a more comprehensive presentation of the industry in which we operate.

In preparing the report, Frost & Sullivan conducted both primary and secondary research and relied on various sources. The primary research was conducted via interviews with key industry experts and leading industry participants. The secondary research involved analysis of market data obtained from several publicly available data sources, such as the Census and Statistics Department of Hong Kong and other industrial associations. The market projections in the Frost & Sullivan Report are based on the following key assumptions: (i) the overall social, economic, and political environment in Hong Kong is expected to remain stable during the forecast period; (ii) Hong Kong’s economic and industrial development is likely to maintain a steady growth in the forecast period; (iii) related industry key drivers are likely to drive the growth of Hong Kong’s health supplements market as well as Hong Kong’s cosmetics and skincare products market in the forecast period; and (iv) there is no extreme force majeure or industry regulation which may affect the market dramatically or fundamentally.

Our Directors confirm that, to the best of their knowledge, after making reasonable inquiries and exercising reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

### OVERVIEW OF HONG KONG’S HEALTH SUPPLEMENTS MARKET

#### Definition and Classification

According to the Hong Kong Health Food Association, health supplements refer to products taken orally in recommended dosing regimen, such as pills, capsules, tablets, granules, powders, liquids or semi-solids with health claims. They are neither conventional food nor products classified as pharmaceutical products (drugs) or proprietary Chinese medicine.

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Health supplements contain nutrients or other health-enhancing substances whose purpose to supplement the normal diet or adjust physiological functions of human body, but not for therapeutic uses in treatment or diseases. According to product functionality, health supplements can be classified into immune system, anti-ageing, anti-four-highs, cardiovascular care, liver and kidney care, skeletal care, weight control, etc.. According to target end-customers, health supplements can be classified into men’s health supplements, women’s health supplements and general health supplements.

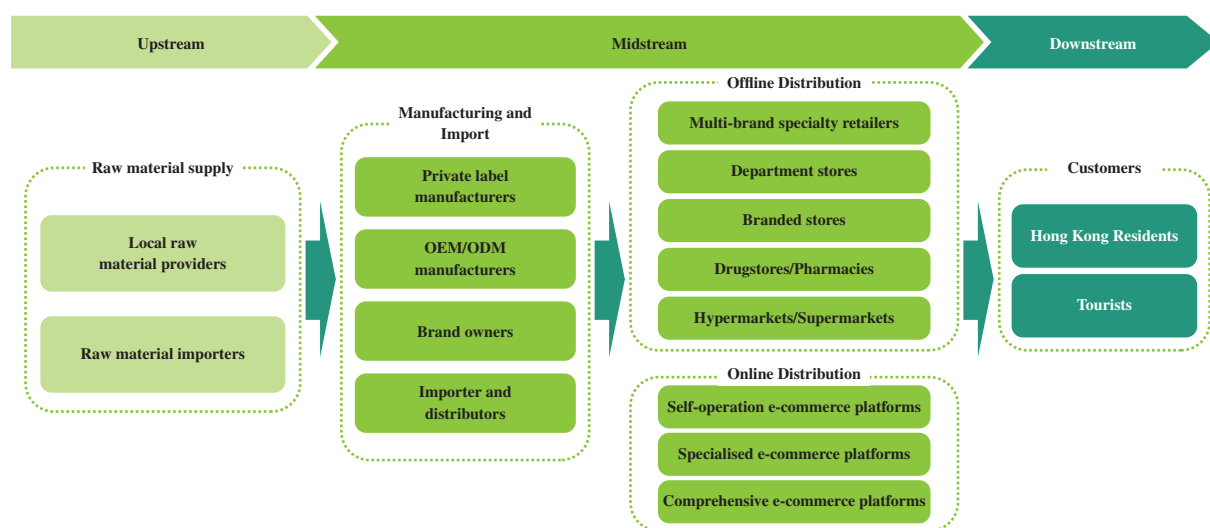
### Value Chain of Hong Kong’s Health Supplements Market

The value chain of health supplements market in Hong Kong includes upstream raw material supply, midstream manufacturing, import and distribution, and downstream customers.

In the manufacturing process, OEM (Original Equipment Manufacturer) and ODM (Original Design Manufacturer) modes are commonly used for health supplements. Brand owners may outsource production to selected third-party manufacturers under OEM and ODM arrangements, allowing providers to focus their resources on research and development, product planning and design, branding and marketing, and sales and distribution. Developing their own formula is crucial for health supplement providers as it ensures quality, efficacy, and differentiation in a crowded market, ultimately fostering trust and satisfaction among end-customers. Importers and distributors also play a role as agents in importing health supplements into the local Hong Kong market.

Offline distribution channels include multi-brand specialty retailers, department stores, branded stores, drugstores, pharmacies, hypermarkets and supermarkets, etc. Meanwhile, online distribution channels include self-operated e-commerce platforms, specialised e-commerce platforms, and comprehensive e-commerce platforms. These channels comprise both chain retailers and non-chain retailers. Customer A and Consignee A are among the largest chain retailers of health supplements in Hong Kong, with approximately 300 and 170 stores located in Hong Kong as at 31 December 2023, respectively.

### Value Chain of Hong Kong’s Health Supplements Market



Source: Frost & Sullivan

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### Market Size and Growth of Hong Kong’s Health Supplements Market

Despite the challenges posed by the outbreak of COVID-19, the retail sales value of health supplements market in Hong Kong continued to rise, from HK\$9.0 billion in 2019 to HK\$10.0 billion in 2023, representing a CAGR of 2.7%. This growth underscores the continued demand for health products even amid pandemic disruptions to the overall retail market. Several factors have contributed to this growth, including increased consumer health awareness, growing concerns about immune system support, and a shift towards preventive healthcare practices.

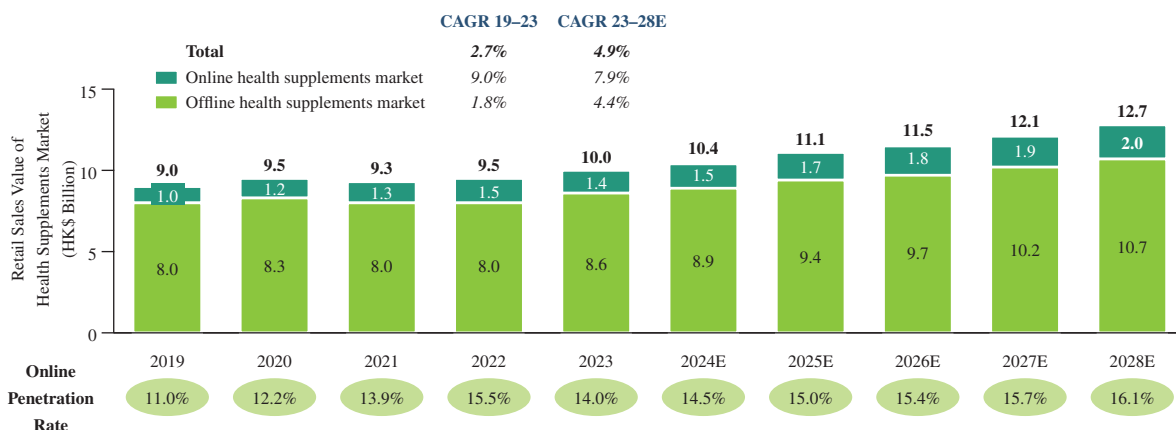
Frost & Sullivan estimates that total retail sales is expected to reach HK\$12.7 billion by 2028, representing a CAGR of 4.9% from 2023. As end-customers prioritise their well-being and seek proactive measures to maintain their health, the demand for health supplements is expected to continue on an upward trend.

The online health supplements market in Hong Kong has experienced significant growth over the past few years. From 2019 to 2023, the market size increased from HK\$1.0 billion to HK\$1.4 billion, representing a CAGR of 9.0%. It is expected to reach HK\$2.0 billion by 2028, with a CAGR of 7.9% from 2023.

In addition, there has been a significant increase in the penetration rate of online sales. From 2019 to 2023, the penetration rate increased from 11.0% to 14.0%, indicating a growing acceptance and adoption of online channels among end-customers for health supplements. This trend is expected to continue, with penetration reaching 16.1% by 2028.

The surge in online health supplements sales can be attributed to several factors, including the convenience and accessibility offered by online platforms, especially in light of the outbreak of COVID-19 pandemic. In addition, end-customers increasingly value the wide range of products available online, along with the ability to easily compare prices and read reviews from other users. As the habituation and reinforcement of end-customers’ online shopping behaviors continue to strengthen, the online health supplements market in Hong Kong is poised for sustained expansion in the coming years.

**Retail Sales Value of Health Supplements Market  
by Sales Channels (Hong Kong), 2019–2028E**



*Note:* Online penetration rate is calculated as a percentage of online retail sales out of total retail sales.

*Source:* Census and Statistics Department of Hong Kong, Frost & Sullivan

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### Key Drivers of Hong Kong’s Health Supplements Market

**Rising Health Consciousness:** Growing consumer awareness of health and wellness reflects a proactive approach to health maintenance and disease prevention, spurring interest in health supplements to enhance overall well-being. In addition, the onset of the COVID-19 pandemic has accelerated this trajectory of health consciousness, especially among younger demographics. This increased awareness and proactive approach to preventive care has ignited a surge in demand for health supplements and immune-boosting products, transcending age barriers. As a result, health supplement companies are presented with a strategic opportunity to expand their market presence and cater to the growing appetite for wellness-centric offerings. With a strong focus on long-term health and preventive measures, Hong Kong’s health supplements market is positioned for sustained growth, driven by informed and health-conscious generations.

**Ageing Population:** Hong Kong’s ageing population has steadily increased in recent years, with the number of individuals aged 65 or above being more vulnerable to health problems, rising from 1.4 million in 2019 to 1.7 million in 2023, at a CAGR of 5.4%. Projections indicate that this population will increase to 2.1 million by 2028. This demographic shift towards an older population is a primary catalyst driving Hong Kong’s health supplements market. The growing number of senior citizens is fueling demand for health supplements tailored to address age-related health needs, particularly those related to bone health, joint support, and cognitive function.

**Rebound of Tourism:** The rebound of Hong Kong’s tourism industry is one of the key drivers to the growth of the local health supplements market. After facing downturns due to the pandemic, the sector has seen a significant resurgence. The total visitor arrival has increased from only 0.6 million in 2022 to 34.0 million in 2023. This sharp rise, especially among tourists from mainland China, has boosted the demand for health supplements. Hong Kong’s health supplements are noted for their variety, quality, and competitive prices, appealing to visitors in search of health and wellness solutions.

### Future Trends of Hong Kong’s Health Supplements Market

**Diversified Product Offerings:** A future trend in Hong Kong’s health supplements market will revolve around diversified product offerings. As the market rapidly evolves, it transcends generic, one-size-fits-all solutions, embracing a spectrum of tailored supplements to meet individual needs and lifestyles. From sport-specific formulations to age-specific nutraceuticals, the industry is poised to cater to a variety of consumer preferences with precision. This trend towards personalisation reflects a deeper understanding of the multifaceted nature of health and wellness, positioning Hong Kong’s health supplement market at the forefront of innovation, delivering holistic, customised health solutions.

**Growing Online Penetration:** In the future, the health supplements market in Hong Kong is expected to increasingly move towards digitalisation and e-commerce. With widespread Internet use and changing consumer shopping habits, the online purchase of health supplements will grow in popularity. The online penetration rate of the market is expected to increase from 14.0% in 2023 to 16.1% in 2028. This shift will provide end-customers with a more convenient shopping experience, allowing them to purchase the necessary supplements at any time and from any location. In addition, e-commerce platforms will become key channels for health supplement brands to market and sell their products.

**Expanding Pet Health Supplements Market:** The field of health supplements in Hong Kong is on the verge of significant expansion, as health concerns now encompass not only humans but also the well-being of pets. Recognising the vital role of furry companions, owners are increasingly committed to safeguarding their health with specialised supplements and products. This emerging trend indicates untapped potential and heralds a diversified market landscape for companies capable of delivering safe and effective solutions tailored to this segment. As demand for pet health solutions grows, there is expected to be a market evolution in which the health supplement industry adapts to meet the diverse needs of every valued member of the household.

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### COMPETITIVE LANDSCAPE OF HONG KONG’S HEALTH SUPPLEMENTS MARKET

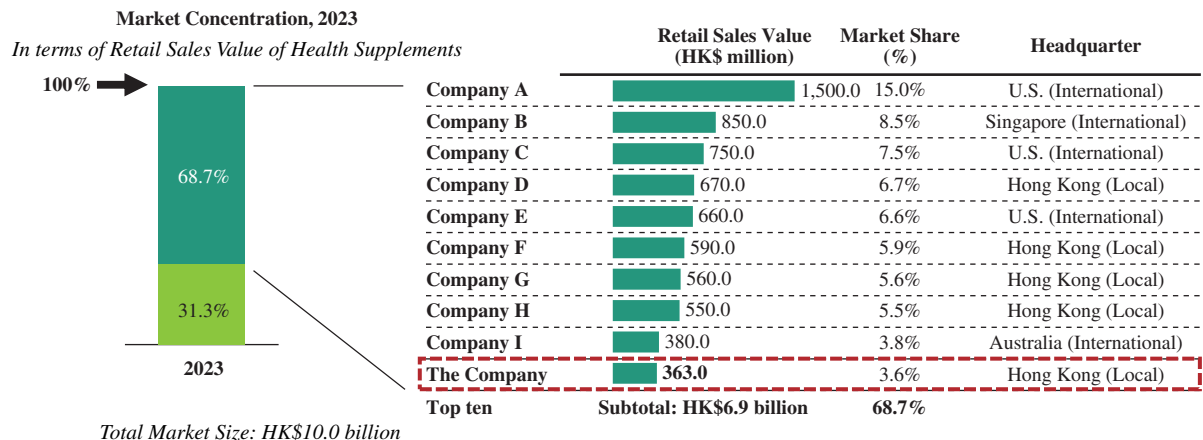
#### Ranking and Market Share of Hong Kong’s Health Supplements Providers

The health supplements market in Hong Kong is a dynamic and competitive sector characterised by the presence of international and local players. Local health supplement providers have their headquarters in the PRC, Hong Kong, and Macau Special Administrative Region. With approximately 200 to 300 participants, the market thrives on its wide array of products and brands tailored to Hong Kong’s health conscious end-customers.

The health supplements market in Hong Kong was relatively concentrated, with the top ten health supplements providers accounting for an aggregate market share of 68.7% in terms of retail sales value in 2023. Local providers have become deeply embedded in the Hong Kong market, tailoring their products to cater to the specific health needs and preferences of the local population. This approach has significantly enhanced their reputation locally over time, distinguishing them significantly from their international competitors.

In 2023, the Company ranked tenth among total health supplements providers and fifth among local health supplements providers in terms of retail sales value of health supplements in Hong Kong, with a market share of 3.6%. All of the Group’s products falling under the “health supplements” category are considered as “health supplements” in this section.

#### Ranking and Market Share of Top Ten Health Supplements Providers in terms of Retail Sales Value (Hong Kong), 2023



#### Notes:

1. Retail sales value represents the revenues of the Company and its industry peers, adjusted for channel margins. Channel margins are markups referencing to the distribution channels of comparable companies.
2. Company A is a New York Stock Exchange listed company, founded in 1984 and headquartered in the U.S. It primarily provides beauty products and wellness products, including health supplements.
3. Company B is a private company, founded in 1879 and headquartered in Singapore. It primarily provides traditional Chinese medicinal ingredients, proprietary Chinese medicines and health supplements.
4. Company C is a New York Stock Exchange listed company, founded in 1980 and headquartered in the U.S. It primarily provides health supplements and personal care products.
5. Company D is subsidiary of a Hong Kong Exchange listed company, founded in 1897 and headquartered in Hong Kong. It primarily provides Chinese and western pharmaceutical products and Chinese medicine out-patient clinic services, including health supplements.
6. Company E is a private company, founded in 1935 and headquartered in the U.S. It primarily provides health supplements.

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7. Company F is a private company, founded in 1993 and headquartered in Hong Kong. It primarily provides health supplements and beauty products.
8. Company G is a private company, founded in 2011 and headquartered in Hong Kong. It primarily provides health supplements and proprietary Chinese medicine.
9. Company H is a private company, founded in 1988 and headquartered in Hong Kong. It primarily provides health supplements.
10. Company I is a subsidiary of a Hong Kong Stock Exchange listed company, founded in 1969 and headquartered in Australia. It primarily provides baby health supplements, adult health supplements and pet health supplements.

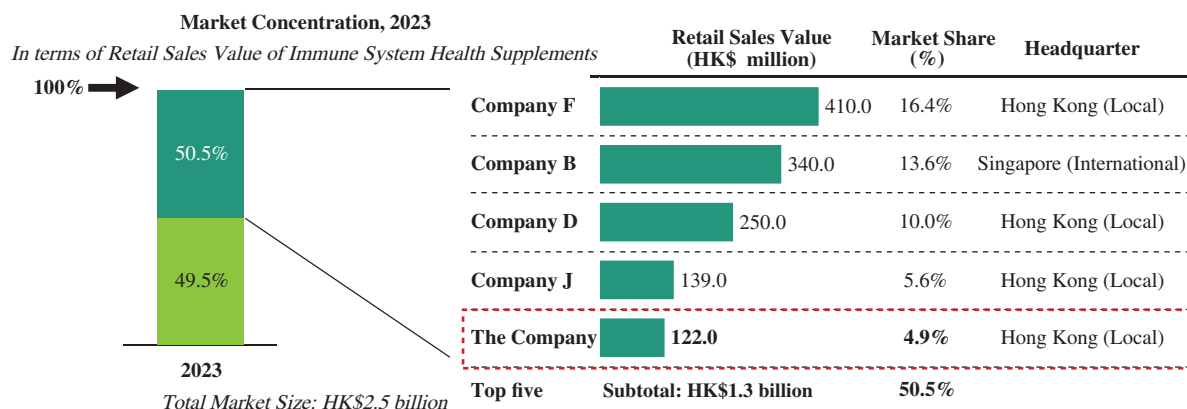
Source: Frost & Sullivan

Immune system health supplements are specifically formulated products to fortify or improve the body’s innate defence mechanisms against disease and infection. They typically include health supplements which use ingredients derived from traditional herbal medicine to enhance the immune response or promote overall immune health, such as ganoderma (靈芝), cordyceps (蟲草), coriolus (雲芝), ginseng (人參), etc., but do not include daily health products such as vitamins or probiotics.

The immune system health supplements market in Hong Kong was relatively concentrated, with the top five local health supplements providers accounting for an aggregate market share of 50.5% in terms of retail sales value in 2023. There were approximately 50 to 100 brands offering immune system health supplements in Hong Kong, with a majority being local players.

In 2023, the Company ranked fifth among total health supplements providers and fourth among local health supplements providers in terms of retail sales value of immune system health supplements in Hong Kong, with a market share of 4.9%. Only the Group’s products falling under the “immune system and post-Covid care” category are considered as “immune system health supplements” in this section.

### Ranking and Market Share of Top Five Health Supplements Providers in terms of Retail Sales Value of Immune System Health Supplements (Hong Kong), 2023



Note:

1. Company J is subsidiary of a Hong Kong Exchange listed company, founded in 2002 and headquartered in Hong Kong. It primarily provides health supplements and proprietary Chinese medicine.

Source: Frost & Sullivan



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### Entry Barriers of Hong Kong’s Health Supplements Market

**Sales Network:** In Hong Kong’s health supplements market, establishing a strong sales network is crucial. Market leaders benefit from established relationships with key retailers such as specialty retailers, pharmacies, branded stores, online platforms, etc.. New entrants may find it difficult to approach and become one of the suppliers of large chain retailers, as they generally have strict selection criteria for suppliers and expect their suppliers to have a proven track record and demonstrated ability to provide high quality products. This effectively creates an entry barrier for new entrants to establish long-term business relationships with major chain retailers.

**Branding and Reputation:** In Hong Kong’s health supplements market, brand image and reputation are pivotal in influencing end-customer choices, affecting both customer acquisition and retention. Established brands dominate with their well-known quality and strong customer loyalty, posing a significant challenge for new entrants. To compete, newcomers must offer unique or superior products and invest in effective promotions and marketing to build a compelling brand image. Building trust and a strong brand identity is crucial for new companies to successfully enter and thrive in this competitive market.

**Research and Development Capabilities and Quality Control:** In Hong Kong’s health supplements market, evolving consumer demands for quality and efficacy highlight the importance of research and development capabilities. Established companies leverage their strong regional presence and successful track record to innovate and secure distribution from reputable suppliers worldwide. New entrants, lacking such influence, face significant challenges. They should invest heavily in research and development to develop products that meet high standards of safety, quality, and scientific validation, posing a substantial barrier to entry.

**Supply Chain Management:** Strong supply chain management is essential for health supplements companies to ensure product quality, safety, and cost efficiency. An integrated supply chain from raw material procurement to distribution boosts operational efficiency and product stability. However, developing such a system demands considerable time, capital, and expertise. New entrants face significant challenges in establishing a robust supply chain, a key barrier that affects their market competitiveness and customer satisfaction.

**Capital Requirement:** Establishing a strong brand requires substantial marketing investment, while developing an efficient supply chain and effective sales channels requires considerable financial resources, technological infrastructure, and expertise. Ensuring food safety and retaining top talent also demand strict quality controls and competitive compensation. These factors collectively require large upfront investments, creating high barriers to entry and challenging new entrants in their efforts to compete effectively.

## OVERVIEW OF HONG KONG’S COSMETICS AND SKINCARE PRODUCTS MARKET

### Definition and Classification

Cosmetics and skincare market consists of skincare products, make-ups and fragrances, but excludes personal care products, hair products, beauty equipment, etc. Skincare products are products used to enhance the appearance and condition of the skin. Skincare products can be mainly divided into products for facial care, body care, hand care and sun care, etc. Cosmetics refers to colouring products intended to alter one’s appearance. Cosmetics can be mainly divided into facial cosmetics, eye cosmetics, lip products, nail products, etc.

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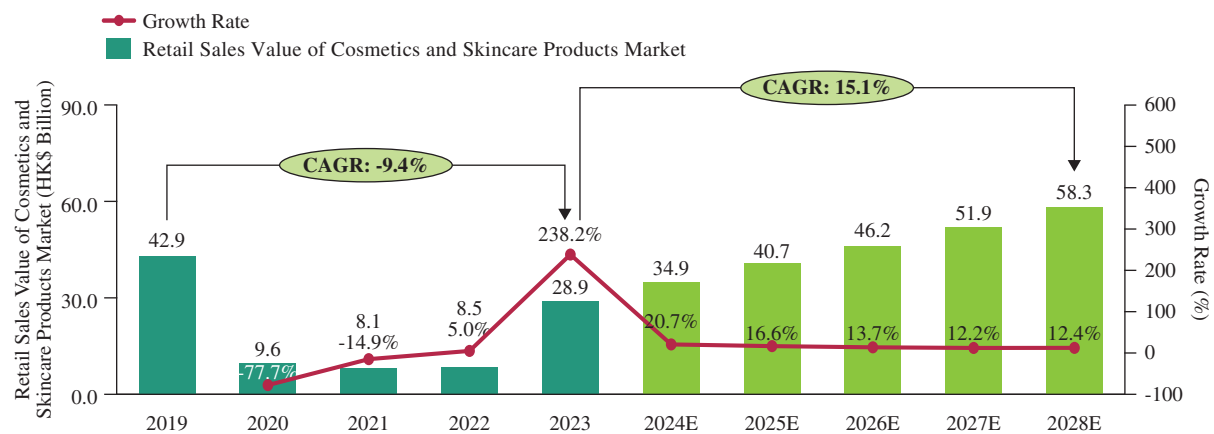
### Market Size and Growth of Hong Kong’s Cosmetics and Skincare Products Market

In Hong Kong’s cosmetics and skincare products market, visitors form a crucial consumer base. The industry witnessed a sharp decline in retail sales from HK\$42.9 billion in 2019 to HK\$8.1 billion in 2021, influenced significantly by reduced tourist arrivals due to the COVID-19 pandemic. However, as the market began to fully reopen, sales showed signs of recovery, rising to HK\$28.9 billion by 2023.

In response to the outbreak of COVID-19 pandemic, the Hong Kong government has implemented strategic measures to stimulate visitor arrivals and consumer spending. For example, to attract tourists, the Hong Kong government launched the “Hello Hong Kong” global promotional campaign in February 2023. The campaign invited tourists worldwide to visit, distributed consumer coupons, and the Hong Kong Tourism Board worked with social platforms in mainland China to increase Hong Kong’s tourism exposure.

These initiatives are expected to play a pivotal role in revitalising the retail landscape, including the cosmetics and skincare products sector. Anticipated results of these efforts include a projected increase in retail sales value of cosmetics and skincare products market from HK\$28.9 billion in 2023 to HK\$58.3 billion by 2028, with a CAGR of 15.1%.

#### Retail Sales Value of Cosmetics and Skincare Products Market (Hong Kong), 2019–2028E



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

### Key Drivers of Hong Kong’s Cosmetics and Skincare Products Market

**Recovery of Tourism:** The revival of tourism in Hong Kong has revitalised its cosmetics and skincare products market. Renowned for its status as a global shopping destination, Hong Kong benefits from increased international tourist traffic, particularly from mainland China, facilitated by enhanced transport links such as high-speed rail and the Hong Kong-Zhuhai-Macau Bridge. As travel restrictions ease and tourist numbers rebound, the demand for internationally acclaimed local brands in duty-free and boutique stores continues to surge, thereby stimulating market growth.



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***Rise of Diversified E-commerce Channels:*** The evolution of e-commerce has significantly altered the retail landscape for cosmetics and skincare products market in Hong Kong. The proliferation of international and regional platform giants has broadened access to these products. Innovations such as live-streaming sales and social commerce further enrich the consumer experience and expand market reach. Such online expansion not only diversifies shopping options, but also enhances product discovery and engagement, becoming a central growth driver in the market.

***Technological Advances and Innovation:*** The cosmetics and skincare products market is dynamically driven by innovation in product formulation and technological integration. Brands delivering advanced skincare solutions, including anti-ageing treatments, rejuvenation serums, and personalised products tailored through genetic testing or AI diagnostics, are gaining traction. Such innovations meet consumer demands for sophisticated, cutting-edge skincare solutions, enhancing market appeal and growth.

***Generation Z Consumption:*** The influence of Generation Z (individuals born from 1995 to 2009) on Hong Kong’s cosmetics and skincare products market is profound due to their early exposure to the industry, digital fluency, and strong ethical and environmental values. This demographic prioritises products that are sustainable, cruelty-free, and consistent with inclusive beauty standards. Their refined preferences for product ingredients and performance, coupled with a focus on visually appealing packaging, drive brands to innovate and adapt their offerings. Engaging this cohort through targeted social media campaigns and influencer partnerships is critical to tapping into their considerable purchasing power and shaping future market trends.

### Future Trends of Hong Kong’s Cosmetics and Skincare Products Market

***Beauty and Wellness convergence:*** The integration of beauty and wellness continues to accelerate as products increasingly offer holistic benefits that enhance both external beauty and overall well-being. This trend includes the rise of skin health supplements and stress-relieving skincare products that cater to a more health-conscious consumer base.

***Digital and Augmented Reality (“AR”) Experience:*** Digital innovations and AR are transforming the customer journey in the cosmetics and skincare products industry. These technologies provide virtual try-ons, detailed skin analyses, and personalised product recommendations, enabling a tailored and informed shopping experience that minimises the need for physical product sampling.

***Scientific, Targeted, and Specialised Products:*** The Hong Kong cosmetics and skincare products market is increasingly driven by scientific advances and consumer demand for personalised and specialised products. Dermatological research has catalysed the development of formulations that address specific skin concerns and types, leveraging technologies such as AI and genetic testing to tailor skincare regimens. At the same time, increased consumer awareness is promoting the creation of products designed for specific environmental conditions and lifestyle factors, including pollution protection and blue light protection. This trend towards specialisation is further reflected in the rise of multifunctional cosmetics and precision tools, enhancing both efficacy and user experience in skincare applications.

***Expansion of Cosmetics and Skincare for Men, Infants, and Children:*** The cosmetics and skincare products market is diversifying to include a broader demographic, including men, infants, and children. For example, the male grooming sector is expanding rapidly, supported by products that specifically cater to male skin characteristics and marketed with masculine branding, reflecting a shift in social norms and increasing self-image awareness across all genders and ages.