

INDUSTRY OVERVIEW

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OVERVIEW OF CHINA’S HOUSEHOLD CARE INDUSTRY

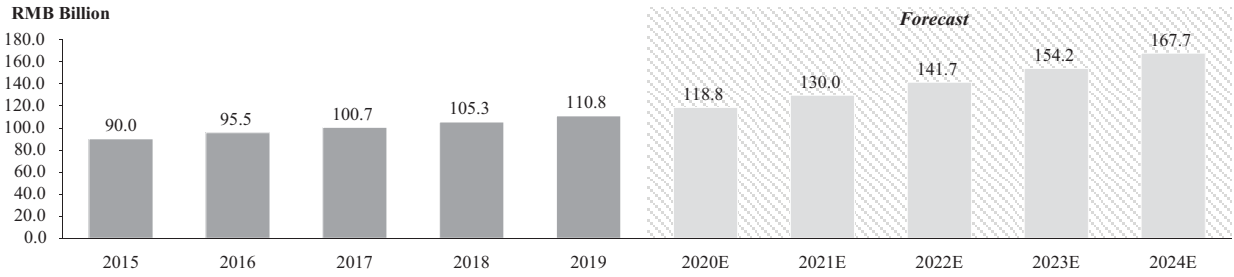
The household care industry encompasses a wide range of segments from fabric care and personal hygiene to home care.

Fast growing household care market with the largest potential among major economies: According to the Frost & Sullivan Report, total retail sales value of China’s household care industry grew at a CAGR of 5.3% from RMB90.0 billion in 2015 to RMB110.8 billion in 2019, representing a faster growth than that of the global household care industry which grew at a CAGR of 2.5% in the corresponding period. From 2019 to 2024, the total retail sales value of China’s household care industry is expected to continue to grow at a CAGR of 8.7% and reach RMB167.7 billion in 2024, accounting for over one third of the growth in the global household care industry during the same period, according to the Frost & Sullivan Report. Frost & Sullivan anticipates that growth of China’s household care industry will exceed the estimated growth of the global household care industry and the household care industries of other economies, enabling China to expand its market share of the global household care industry. According to the Frost & Sullivan Report, China’s market share of the global household care industry in terms of total retail sales value is expected to increase from 11.8% in 2019 to 15.2% in 2024. The growth is expected to be driven by consumers in China becoming increasingly aware of health and hygiene and rising living standards, which in turn will lead to greater demand for household care products amongst Chinese consumers. Moreover, as household care products have become daily necessities of Chinese consumers, the household care industry tends to be more resilient than other industries in economic downturns. According to the Frost & Sullivan Report, notwithstanding the decrease in China’s total retail sales of consumer goods by 19% in the first quarter of 2020, the COVID-19 outbreak had a relatively modest negative impact on the household care industry, and instead resulted in an increase in demand for household care products as consumers were changing their household routines and cleaning habits, including washing hands and clothes more frequently and disinfecting their homes regularly. The following charts set forth the historical and expected total retail sales value of China’s household care industry from 2015 to 2024 and its market share of the global household care industry in 2015, 2019 and 2024.

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Market Size of Household Care Industry (China), 2015-2024E

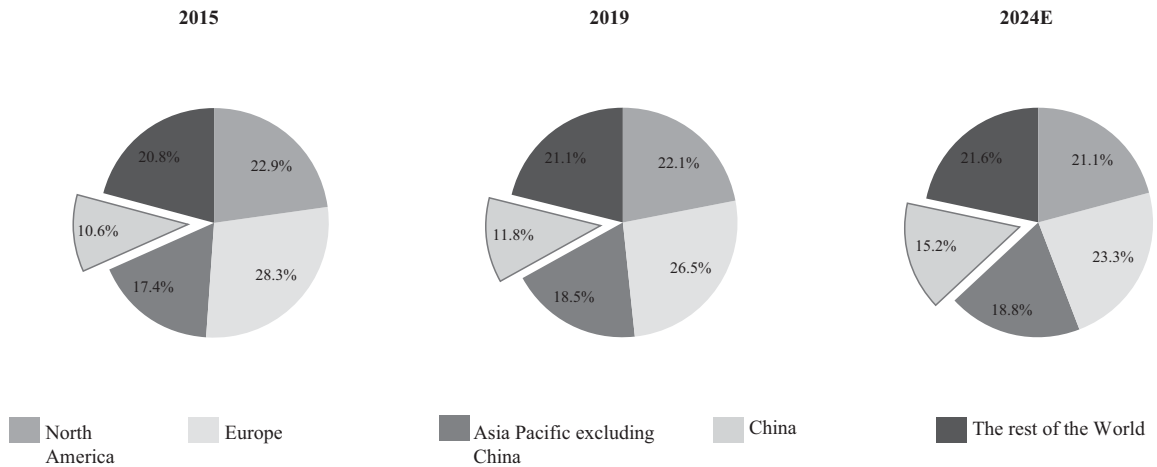
CAGR	2015-2019	2019-2024E
Household Care	5.3%	8.7%



Source: Frost & Sullivan Report

Market Size Breakdown of Household Care Industry by Region (Global), 2015&2019&2024E

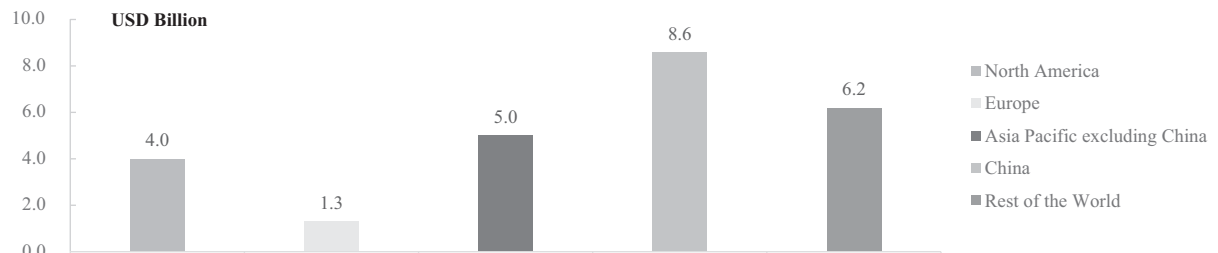
CAGR	2015-2019	2019-2024E
North America	1.6%	2.4%
Europe	0.9%	0.7%
Asia Pacific excluding China	4.1%	3.6%
China	5.3%	8.7%
Rest of the World	2.9%	3.8%



Source: Frost & Sullivan Report

The following chart sets forth the incremental market size in terms of total retail sales value of the global household care industry by region from 2019 to 2024.

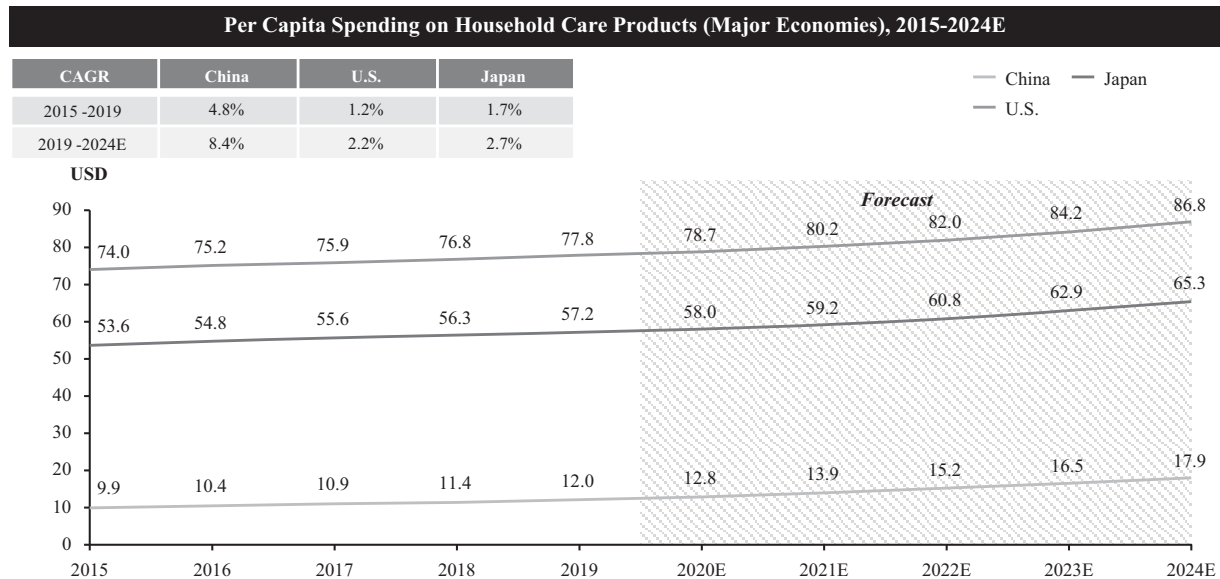
Market Size Incremental Comparison of Household Care Industry (Major Regions), 2019-2024E



Source: Frost & Sullivan Report

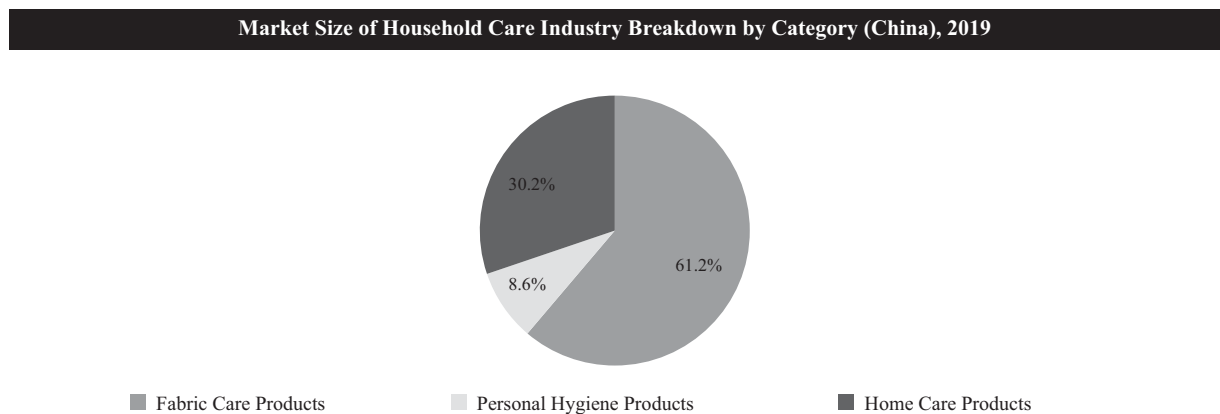
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Large potential for growth in per capita spending on household care products: According to the Frost & Sullivan Report, per capita spending on household care products in China increased from US\$9.9 in 2015 to US\$12.0 in 2019, representing a CAGR of 4.8%. Although China's per capita spending on household care products has historically been, and is expected to continue to be, lower than that of other major economies, including the U.S. and Japan, it has grown at a faster rate than such economies. As consumers in China have an increasing demand for high-quality household care products, the per capita spending on household care products in China is expected to reach US\$17.9 by 2024. The following chart sets forth the per capita spending on household care products of major economies from 2015 to 2024.



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, in 2019, the retail sales value of fabric care products, personal hygiene products and home care products in China amounted to RMB67.8 billion, RMB9.5 billion and RMB33.5 billion, respectively, contributing to 61.2%, 8.6% and 30.2% of the total retail sales value of household care products in China, respectively.



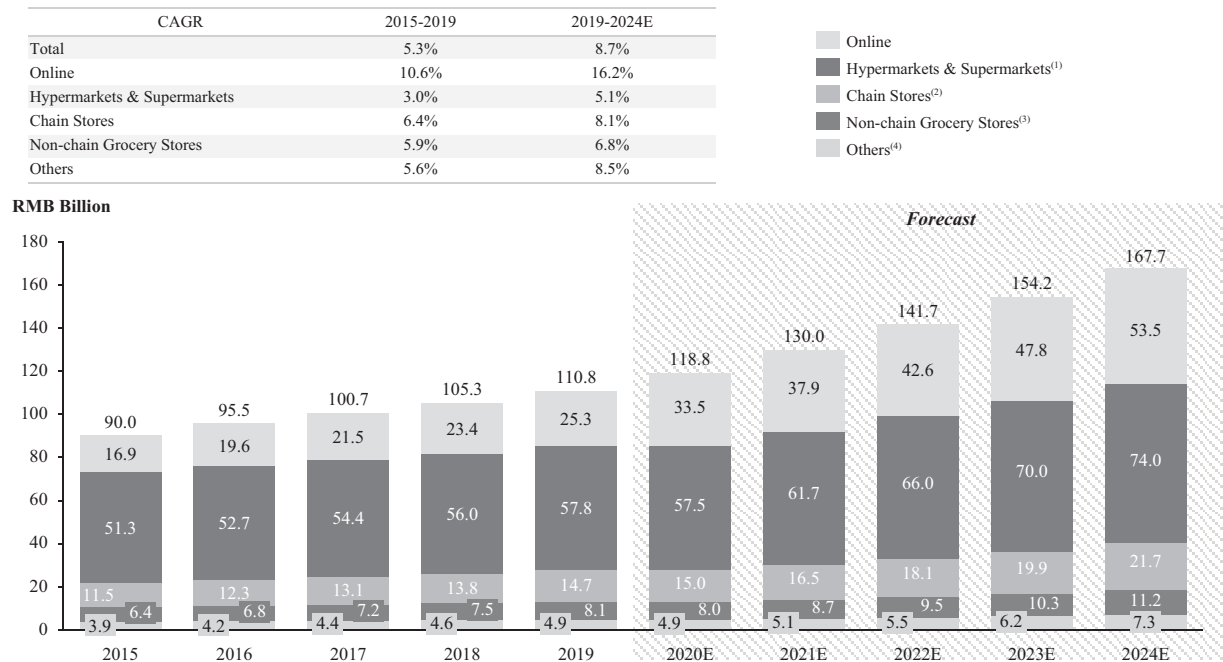
Source: Frost & Sullivan Report

Benefitting from the development of e-commerce platforms in China, the online retail channel has become the fastest growing retail channel in China's household care industry, with a CAGR of 10.6% from 2015 to 2019,

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and is expected to continue to grow at a CAGR of 16.2% from 2019 to 2024 based on data from the Frost & Sullivan Report. By 2024, the total retail sales value of household care products generated from online retail channel in China is expected to reach RMB53.5 billion, accounting for 31.9% of China's overall household care market, according to the Frost & Sullivan Report. The following chart provides a breakdown of total retail sales value of China's household care industry by retail channel from 2015 to 2024.

Market Size of Household Care Industry by Retail Channel (China), 2015-2024E



Notes:

- (1) Hypermarkets & supermarkets are self-service stores where the prices of goods are marked on the goods themselves or on shelves with an operation area of more than 1,000 sq.m. or an operation area of between 800 sq.m. to 1,000 sq.m. and more than three cashier stands.
- (2) Chain stores are self-service stores where prices of goods are marked on the goods themselves or on shelves with an operation area of less than 800 sq.m. or an operation area of between 800 sq.m. to 1,000 sq.m. and fewer than three cashier stands.
- (3) Non-chain grocery stores are stores that sell cigarettes, alcohol, soft drinks and/or more than one type of food.
- (4) Others includes gas stations, self-operated stores and cosmetics stores.

Source: Frost & Sullivan Report

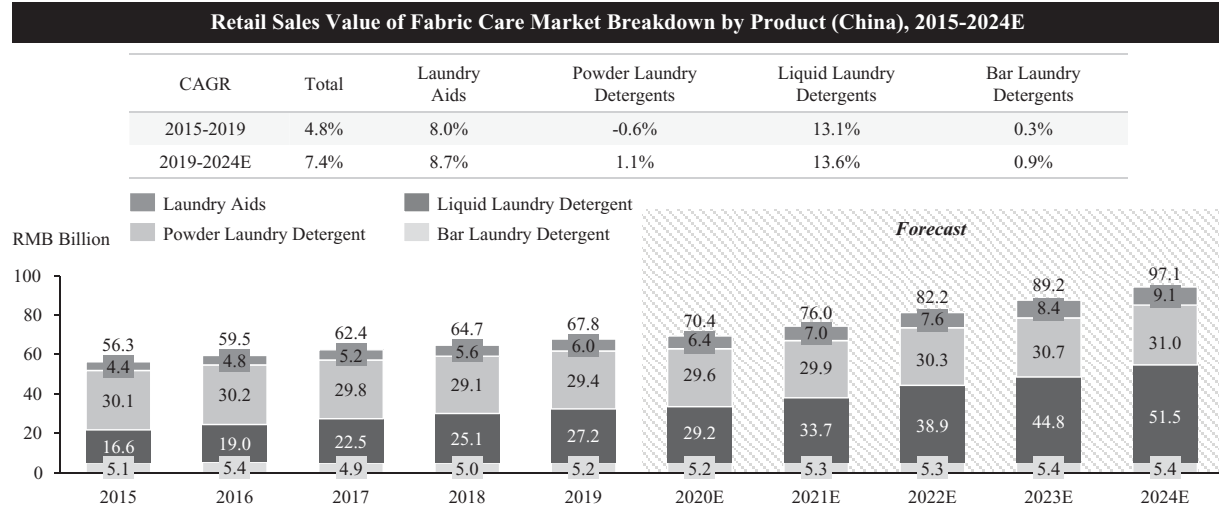
OVERVIEW OF CHINA'S FABRIC CARE AND LIQUID LAUNDRY DETERGENT MARKET

According to the Frost & Sullivan Report, fabric care products consist of two main categories, namely laundry detergent products and laundry aids, based on the products' function. Laundry detergent products are cleaning agents suitable for fabric washing, typically in the form of liquid laundry detergent, powder laundry detergent and bar laundry detergent. Laundry aids are laundry products which facilitate the cleaning process, including fabric softener, fabric conditioner and fabric brightener.

Steady growth in China's fabric care market: According to the Frost & Sullivan Report, the fabric care market represents the largest segment of the household care market in China, with a retail sales value of RMB67.8 billion in 2019, accounting for 61.2% of the overall market share of the household care market in

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2019. According to the Frost & Sullivan Report, the market size of China's fabric care market by retail sales value increased from RMB56.3 billion in 2015 to RMB67.8 billion in 2019, representing a CAGR of 4.8% from 2015, and is expected to continue to grow at a CAGR of 7.4% from 2019 to reach RMB97.1 billion in 2024. The following chart sets forth the breakdown of retail sales value of the fabric care market by product from 2015 to 2024.

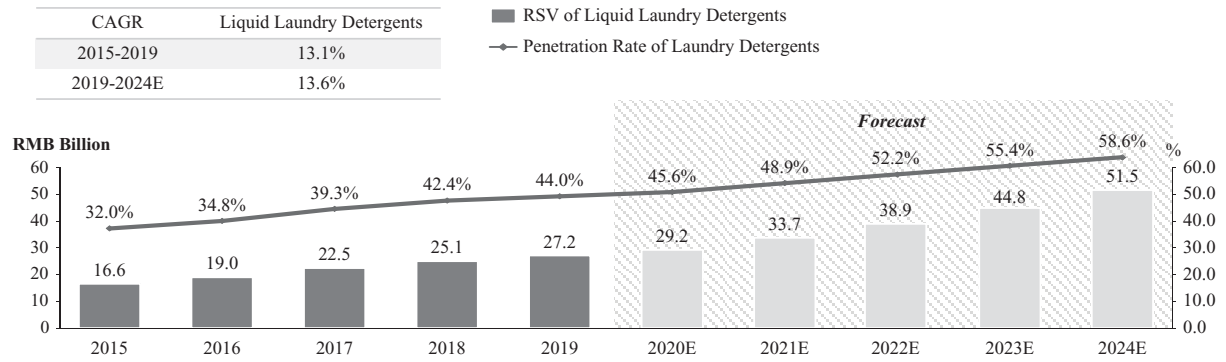


Source: Frost & Sullivan Report

Shift from powder to liquid laundry detergents: According to the Frost & Sullivan Report, consumers in China have gradually shifted from relying on powder laundry detergents to increasingly preferring liquid laundry detergents due to their enhanced convenience and reduced after-wash issues. Retail sales value of liquid laundry detergents grew rapidly at a CAGR of 13.1% from 2015 to 2019, reaching RMB27.2 billion in 2019, while retail sales value of powder laundry detergents decreased at a compound annual rate of 0.6% during that period, according to the Frost & Sullivan Report. In addition, China's liquid laundry detergent market has a large potential for future growth. According to the Frost & Sullivan Report, the penetration rate of liquid laundry detergents, representing the retail sales value of liquid laundry detergents as a percentage of total retail sales value of laundry detergents, was 44.0% in China as of 2019, which was significantly lower than that of other major economies such as Japan (79.5%) and the U.S. (91.4%), indicating that there would be headroom for the further substitution of powder laundry detergents by liquid laundry detergents in China's laundry detergent market. As a result, the penetration rate of liquid laundry detergents is expected to continue to increase and reach 58.6% in 2024, and the total retail sales value of liquid laundry detergents is projected to continue to grow at a CAGR of 13.6% from 2019 to reach RMB51.5 billion in 2024, accordingly to the Frost & Sullivan Report. The following charts set forth the breakdown of retail sales value of liquid laundry detergents from 2015 to 2024 and the penetration rate of liquid laundry detergents in China, the U.S. and Japan in 2019.

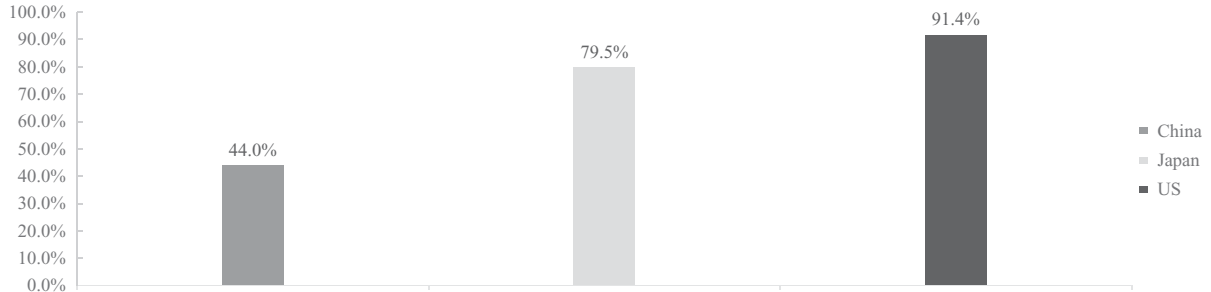
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Retail Sales Value of Liquid Laundry Detergent Market (China), 2015-2024E



Source: Frost & Sullivan Report

Penetration Rate of Liquid Laundry Detergents (Major Economies)⁽¹⁾, 2019



Note:

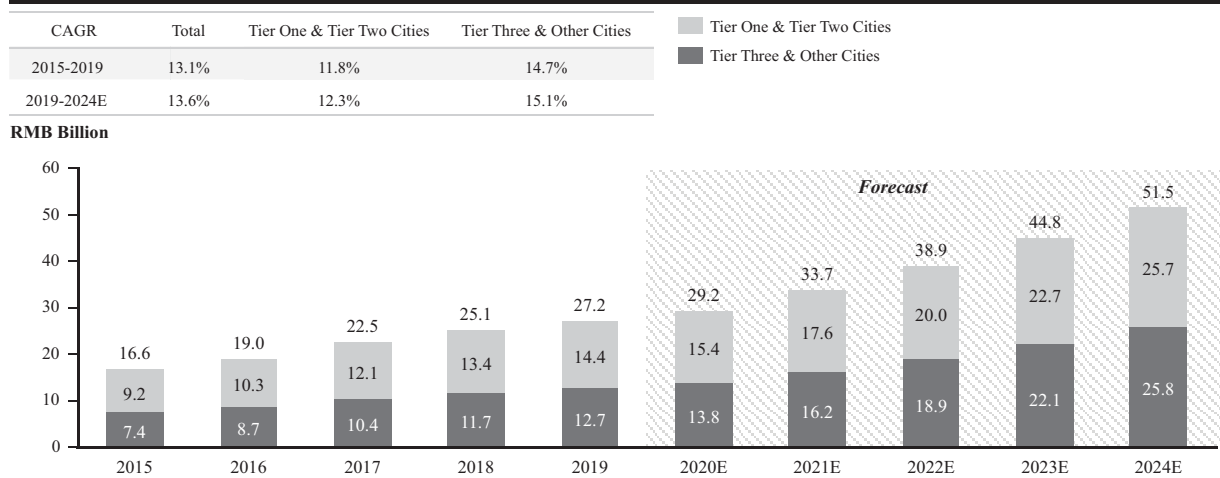
(1) Penetration rate refers to the retail sales value of liquid laundry detergents as a percentage of total retail sales value of laundry detergents.

Source: Frost & Sullivan Report

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Large growth potential for all tiers of cities: In recent years, consumers in all tiers of cities in China have showed a growing willingness to try liquid laundry detergents. According to the Frost & Sullivan Report, the retail sales value of liquid laundry detergents in tier one and tier two cities grew at a CAGR of 11.8% from 2015 to 2019, while the same in tier three and other lower tier cities grew at a CAGR of 14.7% from 2015 to 2019. Sales of liquid laundry detergents in tier one and tier two cities are expected to further increase at a CAGR of 12.3% from 2019 to 2024, serving as a driving force for further expansion of the market for liquid laundry detergents, according to the Frost & Sullivan Report. As the living standards in tier three and other lower tier cities continue to improve, sales of liquid laundry detergents in tier three and other lower tier cities have significant growth potential and are expected to increase at a CAGR of 15.1% from 2019 to 2024, according to the Frost & Sullivan Report. The following chart sets forth the retail sales value of the liquid laundry detergent market by city tier in China from 2015 to 2024.

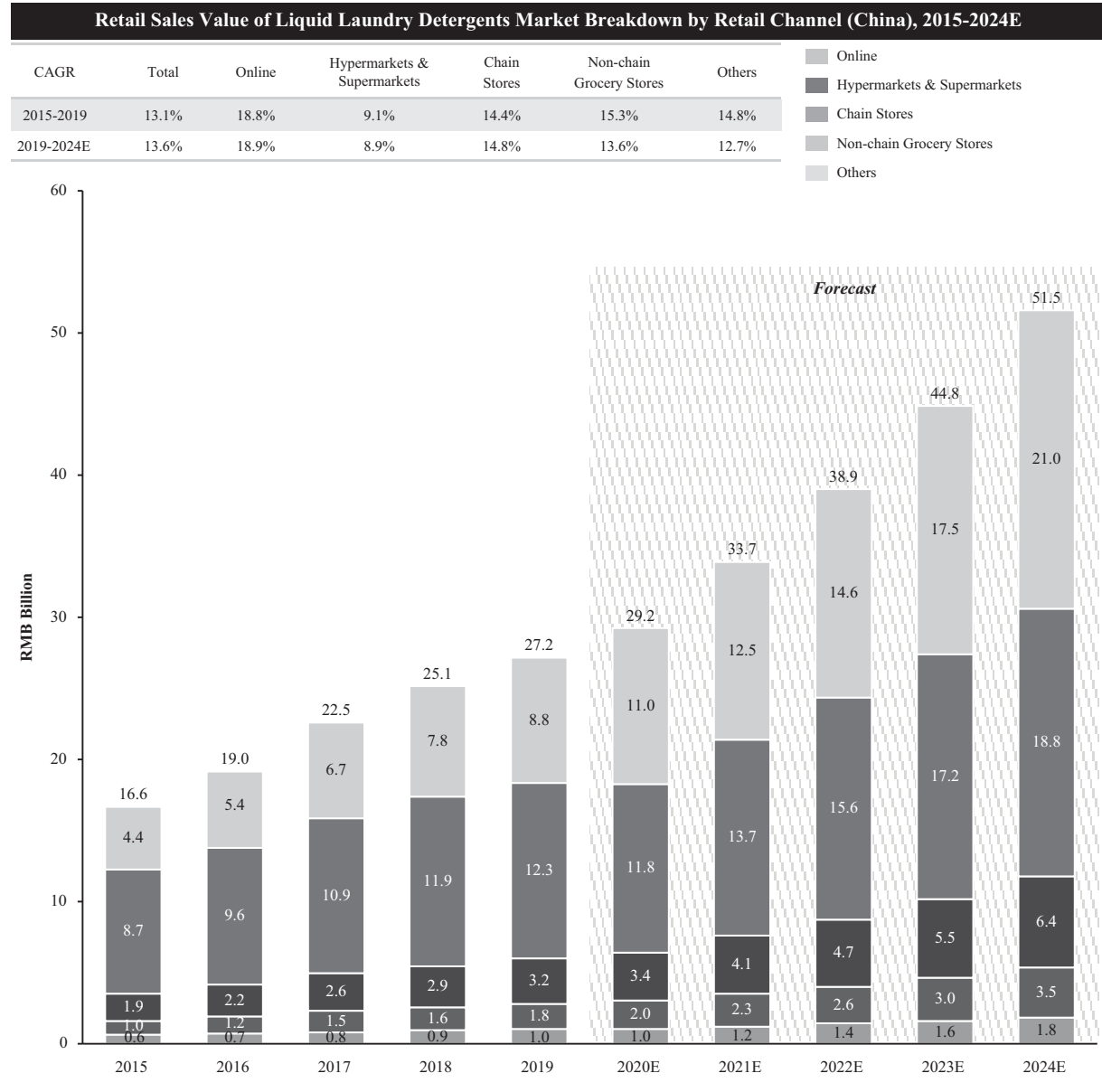
Retail Sales Value of Liquid Laundry Detergent Breakdown by City Tier (China), 2015-2024E



Source: Frost & Sullivan Report

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Large growth potential for online retail channel: According to the Frost & Sullivan Report, the retail sales value of liquid laundry detergents generated from online retail channel in China grew at a CAGR of 18.8% from 2015 to 2019, representing the fastest growth among all retail channels of the liquid laundry detergent market in China, and is expected to continue to grow at a CAGR of 18.9% from 2019 to 2024. The following chart sets forth the retail sales value of the liquid laundry detergent market by retail channel in China from 2015 to 2024.

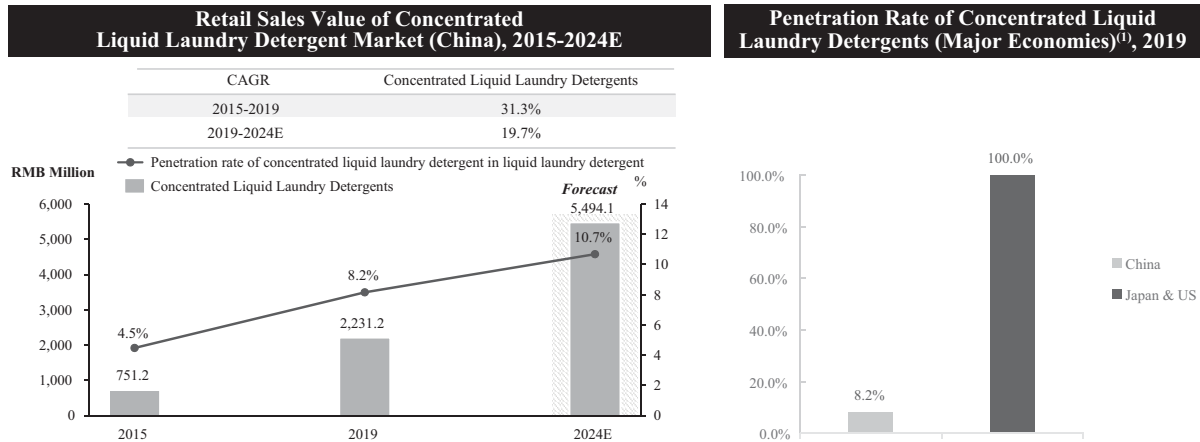


Source: Frost & Sullivan Report

Increasing prevalence of concentrated liquid laundry detergents: Concentrated liquid laundry detergents feature high surfactant level above 25% as compared to standard liquid laundry detergents. According to the Frost & Sullivan Report, consumers in China have a growing interest in concentrated liquid laundry detergents due to their better cleaning results and enhanced convenience. The retail sales value of concentrated liquid laundry detergents grew at a CAGR of 31.3% from RMB751.2 million in 2015 to RMB2,231.2 million in 2019, and it is anticipated that the use of concentrated liquid laundry detergents will become increasingly prevalent

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amongst Chinese households in the long term according to the Frost & Sullivan Report. In 2019, the penetration rate of concentrated liquid laundry detergents in China, representing the retail sales value of concentrated liquid laundry detergents as a percentage of total retail sales value of liquid laundry detergents, was 8.2%, trailing behind the penetration rate of concentrated liquid laundry detergents in major economies, such as the U.S. and Japan, where penetration rates reached 100.0%. Although the market for concentrated liquid laundry detergents in China is still in its early stages, it has grown and is expected to grow more rapidly than the markets for such products in other major economies. According to the Frost & Sullivan Report, the retail sales value of concentrated liquid laundry detergents is expected to grow at a CAGR of 19.7% from 2019 to reach RMB5,494.1 million in 2024. The following charts set forth the retail sales value of the concentrated liquid laundry detergent market in China from 2015 to 2024 and the penetration rate of concentrated liquid laundry detergents of China, the U.S. and Japan in 2019.



Note:

- (1) Penetration rate refers to the retail sales value of concentrated liquid laundry detergents as a percentage of total retail sales value of liquid laundry detergents.

Source: Frost & Sullivan Report

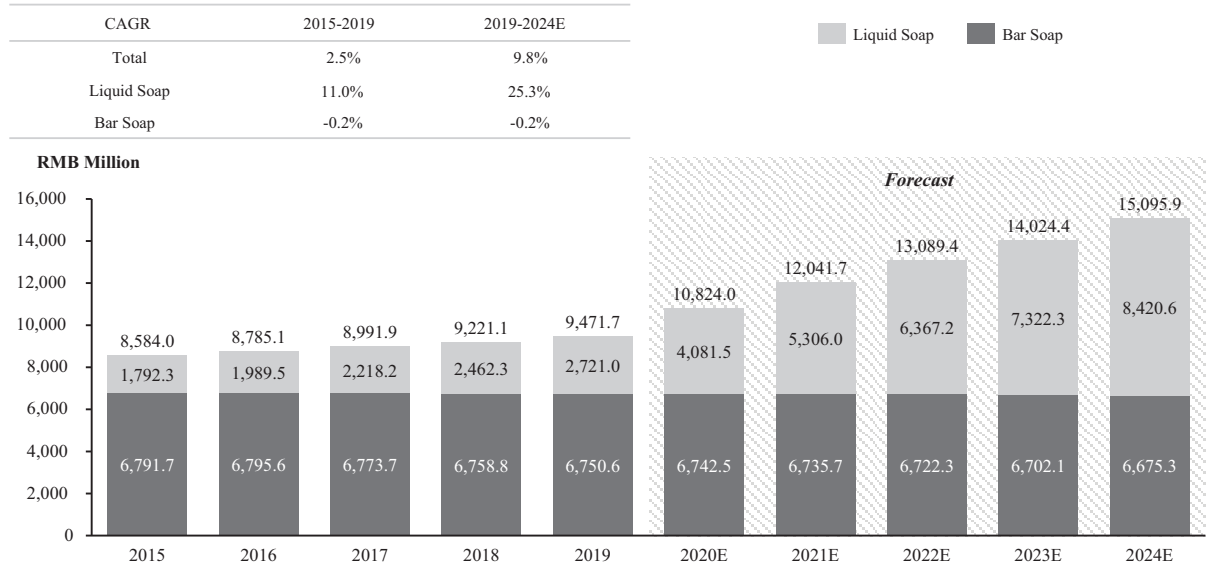
OVERVIEW OF CHINA'S PERSONAL HYGIENE MARKET AND LIQUID SOAP MARKET

According to the Frost & Sullivan Report, personal hygiene products can be divided into two main categories, namely bar soap and liquid soap, based on the form of the products.

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Large potential for growth of China’s personal hygiene market: According to the Frost & Sullivan Report, awareness about personal health and hygiene amongst Chinese consumers has significantly increased since the outbreaks of the severe acute respirations syndrome (“SARS”) and H1N1, which prompted a surge in demand for personal hygiene products. According to the Frost & Sullivan Report, the market size of China’s personal hygiene market by retail sales value increased from RMB8.6 billion in 2015 to RMB9.5 billion in 2019, representing a CAGR of 2.5% from 2015, and is expected to continue to grow at a CAGR of 9.8% from 2019 to reach RMB15.1 billion in 2024. The following chart provides a breakdown of retail sales value of the personal hygiene market by product type in China from 2015 to 2024.

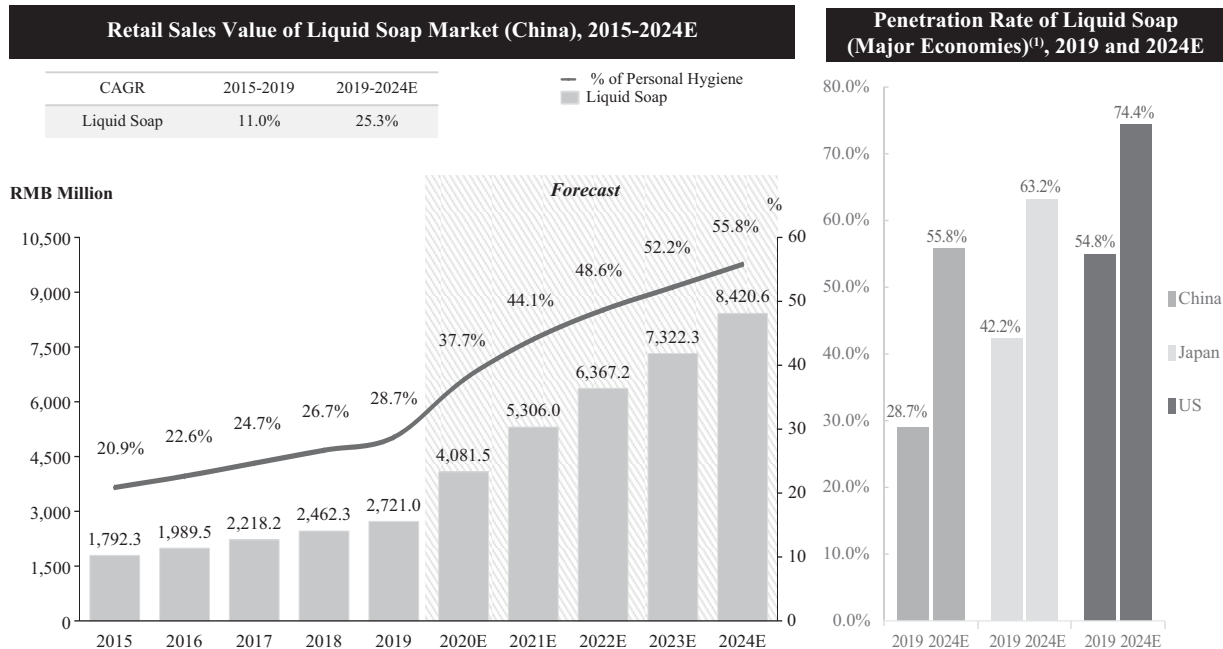
Retail Sales Value of Personal Hygiene Market Breakdown by Product Type (China), 2015-2024E



Source: Frost & Sullivan Report

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Shift from bar soap to liquid soap: The use of bar soap has declined as consumers in China increasingly shift to using liquid soap, which causes less skin irritation and has lower risk of infection than bar soap. This market shift was driven by rising awareness of personal hygiene and the ongoing trend of consumption upgrade across China, whereby consumers with greater disposable income increasingly traded up for premium goods and products. According to the Frost & Sullivan Report, the market size of China's liquid soap market by retail sales value increased from RMB1.8 billion in 2015 to RMB2.7 billion in 2019, representing a CAGR of 11.0%, while the market size of China's bar soap market by retail sales value decreased at a compound annual rate of 0.2% during that period. In addition, Frost & Sullivan anticipates that the use of liquid soap will become increasingly prevalent amongst Chinese households. In 2019, the penetration rate of liquid soap, representing the retail sales value of liquid soap as a percentage of total retail sales value personal hygiene products, is 28.7% in China, which is significantly lower than that of other major economies, such as Japan (42.2%) and the U.S. (54.8%), indicating the potential for further substitution of bar soap by liquid soap in China. As the penetration rates of liquid soap in Japan and the U.S. are expected to continue to grow, it is expected that the penetration rate of liquid soap in China would reach 55.8% in 2024, and the market size of China's liquid soap market by retail sales value is expected to continue to grow at a CAGR of 25.3% from 2019 to reach RMB8.4 billion in 2024 according to the Frost & Sullivan Report. The following charts set forth the retail sales value of liquid soap sold in China from 2015 to 2024 and the penetration rate of liquid soap sold in major economies in 2019 and 2024.



Note:

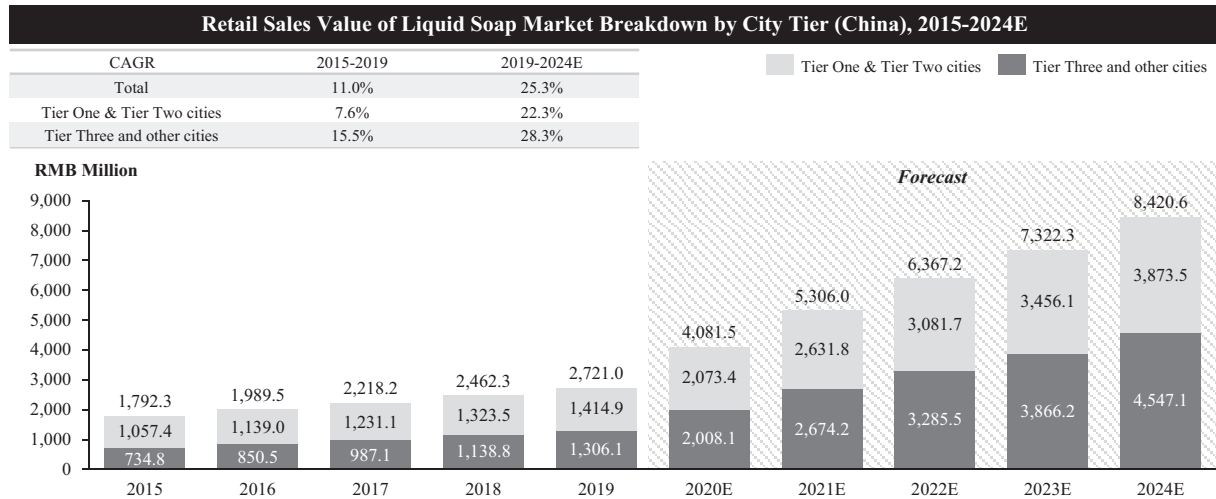
(1) Penetration rate refers to the retail sales value of liquid soap as a percentage of total retail sales value personal hygiene products.

Source: Frost & Sullivan Report

Large growth potential for all tiers of cities: With an increasing prevalence of liquid soap in all tiers of cities in China, the retail sales value of liquid soap in tier one and tier two cities grew at a CAGR of 7.6% from 2015 to 2019, while the same in tier three and other lower tier cities grew at a higher CAGR of 15.5% from 2015 to 2019 due to a relatively low penetration rate at the beginning of the period, according to the Frost & Sullivan Report. Sales of liquid soap in tier one and tier two are expected to increase at a CAGR of 22.3% from 2019 to 2024, and such sales in tier three and other lower tier cities are expected to further increase at a CAGR of 28.3% over the same period, partially due to the increasing health and hygiene awareness, according to the Frost &

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Sullivan Report. The following chart sets forth the retail sales value of the liquid soap market by city tier in China from 2015 to 2024.

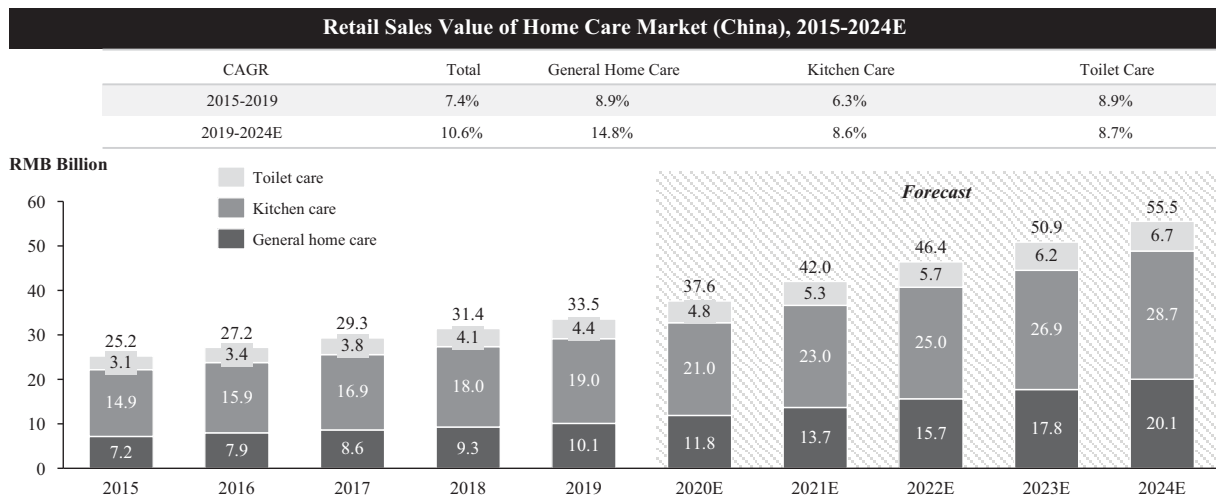


Source: Frost & Sullivan Report

OVERVIEW OF CHINA'S HOME CARE MARKET

According to the Frost & Sullivan Report, home care products are products that assist consumers in performing a variety of daily household cleaning tasks. Based on how they are applied, home care products can be categorised into three main types, namely general home care, kitchen care and toilet care products, according to the Frost & Sullivan Report.

Fast growth in China's home care market: Driven by the growth in consumerism and increased purchasing power amongst Chinese consumers, the market size of China's home care market by retail sales value increased from RMB25.2 billion in 2015 to RMB33.5 billion in 2019, representing a CAGR of 7.4%, and is expected to continue to grow at a CAGR of 10.6% from 2019 to reach RMB55.5 billion in 2024, according to the Frost & Sullivan Report. In the future, it is expected that market participants will further invest in quality products and expand their product portfolio to meet the demands of different consumer groups, which will further boost market growth. The following chart sets forth the retail sales value of the home care market in China from 2015 to 2024.



Source: Frost & Sullivan Report

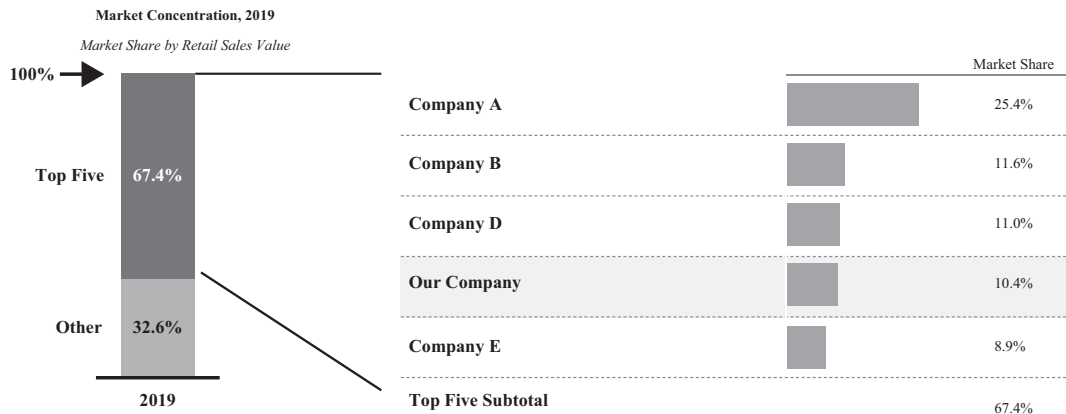
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COMPETITIVE LANDSCAPE

Fabric Care

According to the Frost & Sullivan Report, in 2019, the top five fabric care companies accounted for 67.4% of the market share by retail sales value in the fabric care market in China. According to the Frost & Sullivan Report, we had the fourth largest market share among over 800 market players in China's fabric care market in 2019. The following chart sets forth the details of market concentration and market shares of the top five fabric care companies by retail sales value in China in 2019.

Market Concentration of Fabric Care Market by Retail Sales Value (China), 2019

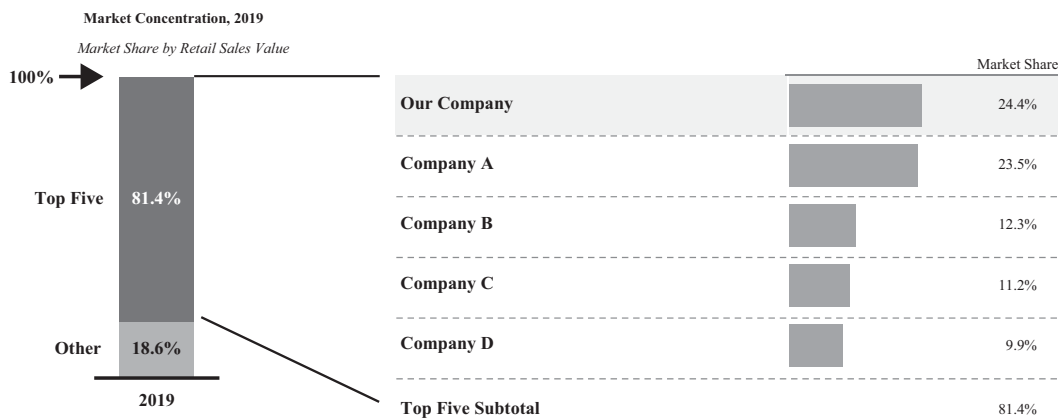


Source: Frost & Sullivan Report

Liquid Laundry Detergent

According to the Frost & Sullivan Report, in 2019, the top five liquid laundry detergent companies accounted for 81.4% of the market share by retail sales value in the liquid laundry detergent segment in China. According to the Frost & Sullivan Report, we had the largest market share in China's liquid laundry detergent market for 11 consecutive years from 2009 to 2019. In 2019, our liquid laundry detergents generated a retail sales value of RMB6.6 billion, representing 24.4% of the overall market share of the liquid laundry detergents segment in China. The following chart sets forth the details of market concentration and market shares of the top five liquid laundry detergent companies by retail sales value in China in 2019.

Market Concentration of Liquid Laundry Detergent Market by Retail Sales Value (China), 2019

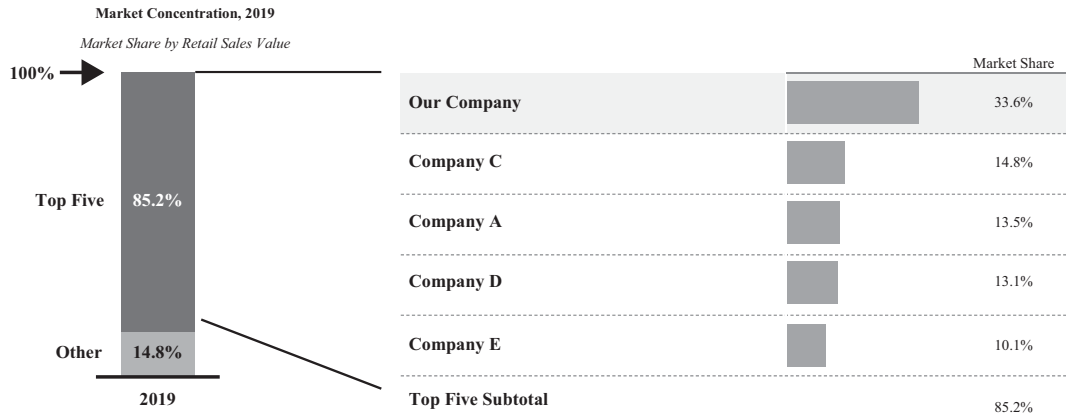


Source: Frost & Sullivan Report

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According to the Frost & Sullivan Report, we ranked first out of all liquid laundry detergent companies in China for three consecutive years from 2017 to 2019 with a market share of 33.6% of total online retail sales value of liquid laundry detergents in 2019. The following chart sets forth the details of market concentration and market shares of the top five liquid laundry detergent companies by online retail sales value in China in 2019.

Market Concentration of Liquid Laundry Detergent Market by Online Retail Sales Value (China), 2019



Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, we ranked first out of all concentrated liquid laundry detergent companies in China for three consecutive years from 2017 to 2019 with a market share of 27.9% of total retail sales value of concentrated liquid laundry detergents in 2019. The following chart sets forth the details of market concentration and market shares of the top five concentrated liquid laundry detergent companies by retail sales value in China in 2019.

Market Concentration of Concentrated Liquid Laundry Detergent Market by Retail Sales Value (China), 2019



Source: Frost & Sullivan Report

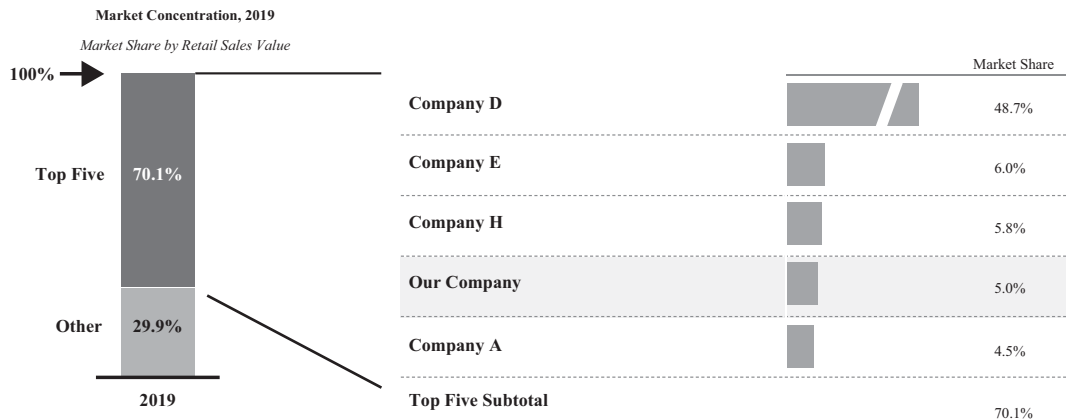
Personal Hygiene

According to the Frost & Sullivan Report, in 2019, the top five personal hygiene companies accounted for 70.1% of the personal hygiene market in China by retail sales value. According to the Frost & Sullivan Report, we had the fourth largest market share among over 100 market players in China's personal hygiene market in 2019. The following chart sets forth certain information regarding market concentration in the personal hygiene

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market in China and the market share of the top five personal hygiene companies by retail sales value in China in 2019.

Market Concentration of Personal Hygiene Market by Retail Sales Value (China), 2019

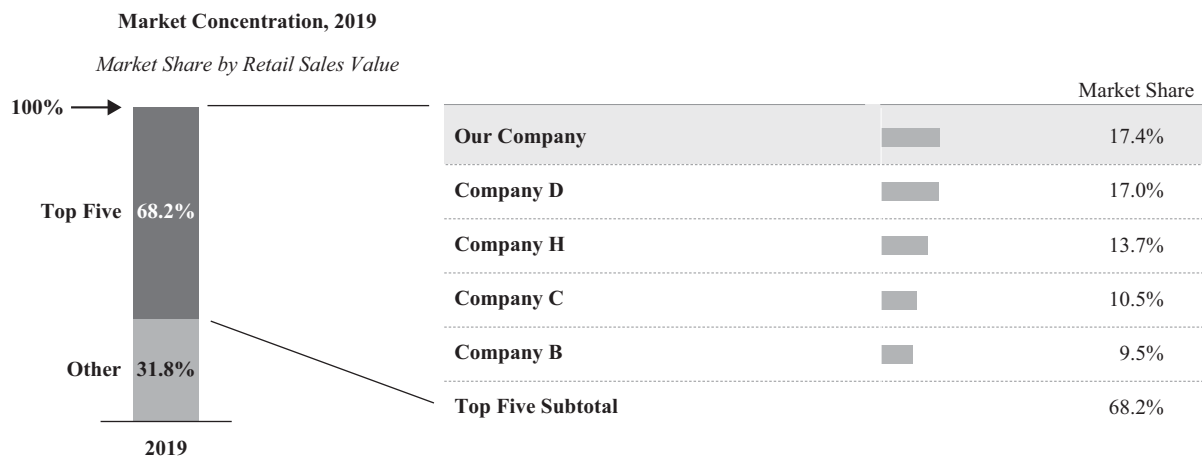


Source: Frost & Sullivan Report

Liquid Soap

According to the Frost & Sullivan Report, in 2019, the top five companies accounted for 68.2% of the market share by retail sales value in the liquid soap market in China. According to the Frost & Sullivan Report, we had the largest market share in China's liquid soap market for eight consecutive years from 2012 to 2019. Our liquid soap generated a retail sales value of RMB474.3 million with a market share of 17.4% of the overall liquid soap market in 2019, according to the Frost & Sullivan Report. The following chart sets forth the details of market concentration and market shares of the top five liquid soap companies by retail sales value in China in 2019.

Market Concentration of Liquid Soap Market by Retail Sales Value (China), 2019



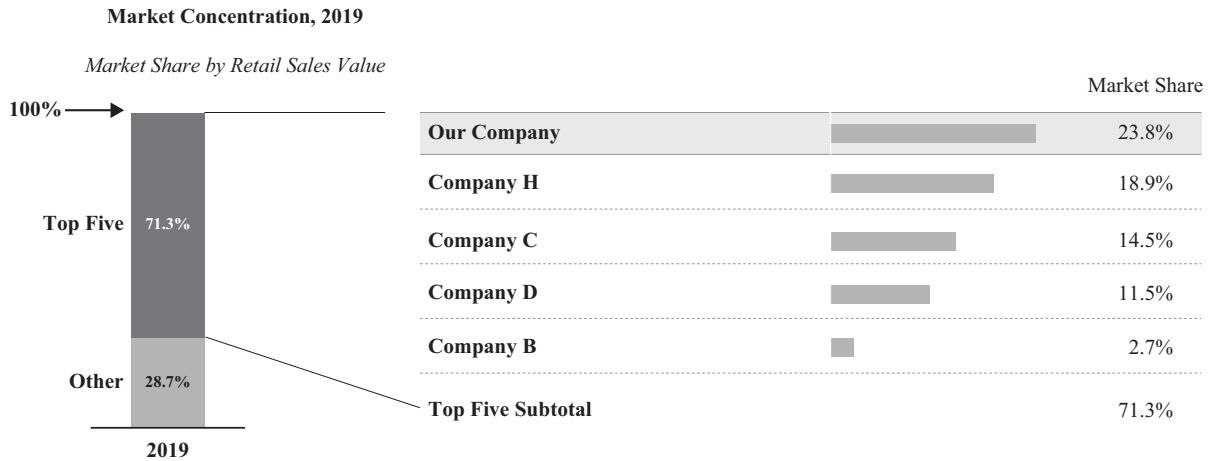
Source: Frost & Sullivan Report

According to the Frost & Sullivan Report, we ranked first out of all liquid soap companies in China for three consecutive years from 2017 to 2019 with a market share of 23.8% of total online retail sales value of

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liquid soap in 2019. The following chart sets forth the details of market concentration and market shares of the top five liquid soap companies by online retail sales value in China in 2019.

Market Concentration of Liquid Soap Market by Online Retail Sales Value (China), 2019

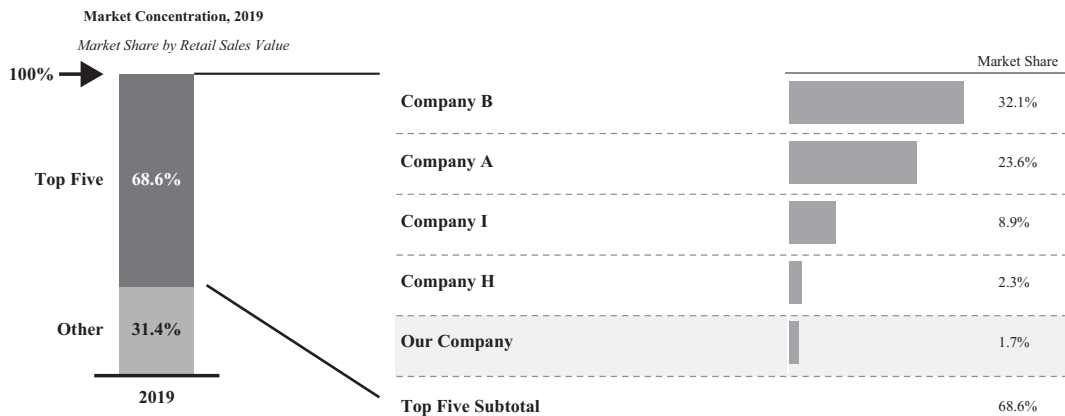


Source: Frost & Sullivan Report

Home Care

According to the Frost & Sullivan Report, in 2019, the top five home care companies accounted for 68.6% of the home care market in China by retail sales value. According to the Frost & Sullivan Report, we had the fifth largest market share among over 400 market players in China's home care market in 2019. The following chart sets forth certain information regarding market concentration in the home care market in China and the market share of the top five home care companies by retail sales value in China in 2019.

Market Concentration of Home Care Market by Retail Sales Value (China), 2019



Source: Frost & Sullivan Report

IMPACT OF THE COVID-19 OUTBREAK ON CHINA'S HOUSEHOLD CARE INDUSTRY

- Consumer behaviour:* As evidence indicates that the coronavirus that causes the COVID-19 outbreak can be transferred from one surface to another by contaminated hands, consumers tend to clean and disinfect their hands, clothes and home more frequently in an effort to prevent contact transmission of the COVID-19 outbreak.

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- *Product sales:* Traditional sales channels, such as offline non-chain grocery stores and chain stores were temporarily closed, while online channels became consumers' first choice of shopping as a result of the COVID-19 outbreak. Demand for disinfectant products experienced significant growth during the COVID-19 outbreak, such as hand sanitiser, home disinfectant and fabric care with disinfectant function. These products were out of stock or had limited availability in both offline and online sales channels. Due to the outbreak and the resulting rising health and hygiene awareness, demand for these products is expected to remain high, bolstering product sales both in terms of sales volume and sales revenue.
- *Logistics:* Due to the limited number of logistics workers and drivers available during the outbreak and various transportation restrictions implemented by the Chinese government to contain the COVID-19 outbreak, there was a temporary shortage in logistics resources for transporting raw materials to factories and transporting products to consumers.

MARKET DRIVERS AND FUTURE TRENDS

- *Increasing awareness of public and personal health and hygiene:* In line with the increasing awareness of public and personal health and hygiene, household care products have gradually become a necessity for consumers in their daily lives. As a result, consumers have been more willing to spend on household care products to maintain health hygiene, which will drive market growth. In particular, demand for disinfectant products will continue to grow due to the increasing public awareness of infectious diseases and the important role that disinfectant products play in the fight against infectious diseases.
- *Consumption upgrade:* Driven by the growth in per capita disposable income and purchasing power during the past decade, the ongoing consumption upgrade has fuelled the market expansion for the household care industry. In particular, opportunities arising from the shifts in consumer preferences to premium products, such as concentrated liquid laundry detergents and liquid soap, have boosted and will continue to boost the market growth.
- *Demand for convenient cleaning solutions:* Consumers seeking fast-paced modern lifestyles are looking for convenient cleaning solutions such as self-cleaning products which could reduce the time that consumers spend on household cleaning.
- *Channel expansion:* The diversification of sales channels has significantly boosted the growth of the household care industry in the past decade. Market participants will continue to focus on optimising their online and offline channels to deliver products to end-consumers in a timely and convenient manner.
- *Focus on young generations and lower-tier cities:* Market participants will continue to focus on creative marketing campaigns to attract young generations through engaging celebrities and KOLs. In addition, consumers from lower-tier cities have become a key target group of market participants due to their growing willingness to try new products and rising purchasing power.
- *Product development and portfolio diversification:* In response to the constant shifts in consumer demands and preferences and high levels of competition, market participants have focused on

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product development and portfolio extension to launch new product lines or update existing products. New household care products with features such as concentrated formulas and eco-friendly solutions will gain increasing popularity among consumers. In addition, as the household care industry continues to evolve, there has been a shift towards diversification and specialisation of household care products. To capitalise on the market opportunities associated with specialty household care products, market participants will continue to focus on the development of niche household care products that can serve particular purposes.

- *Operational efficiency:* Due to increasingly intense competition in the household care industry, market participants face greater tension between the goals of (i) delivering high-quality products to consumers in a timely and convenient manner and (ii) minimising operational costs and maximising profit margins. Many market participants are looking for solutions for such challenges, including investing in technologies to lower operational costs and boost productivity and profitability.

According to the Frost & Sullivan Report, the market size of the relevant product segments is expected to grow beyond 2024 for the following reasons:

- due to China's economic growth, the household care industry is expected to continue to grow in the next decade, and the per capita spending on household care products is also expected to increase alongside the growth of Chinese residents' disposable income in the next decade;
- there remains significant potential for growth in the per capita spending on household care products in China as compared to more developed markets. By way of comparison, by 2024, the annual per capita spending on household care products in more developed markets such as the U.S. and Japan are expected to reach approximately US\$86.8 and approximately US\$65.3, respectively, as compared to approximately US\$17.9 for China. Meanwhile, China's per capita spending on household care products is expected to grow at a CAGR of 8.4% from 2019 to 2024, which is significantly faster than the CAGR of 2.2% and 2.7% in the U.S. and Japan, respectively, over the same period; and
- as compared to the more developed markets, the relevant product segments are still in the growth phase in China and are expected to sustain robust growth at least in the next decade. In particular, by 2024, the penetration rate of liquid laundry detergents in China is expected to reach approximately 58.6%, while that in the U.S. and Japan are estimated to reach approximately 96.3% and 86.5%, respectively; the penetration rate of liquid soap in China is expected to reach approximately 55.8%, while that in the U.S. and Japan are estimated to reach approximately 74.4% and 63.2%, respectively.

According to the Frost & Sullivan Report, since more developed markets such as the U.S. and Japan have continued to experience steady growth in recent years and are expected to attain an even faster CAGR in the next five years, China's household care industry alongside with its relevant product segments (fabric care market, personal hygiene market, and home care market) are reasonably expected to continue to sustain robust growth in the next decade given the significant gap between China and more developed markets such as the U.S. and Japan in terms of the annual per capita spending on household care products, the penetration rate of certain key products together with Chinese residents' increasing disposable income and consumption expenditure.

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ENTRY BARRIERS

- *Economy of scale:* The household care industry in China is characterised by economies of scale. New entrants face challenges, including limited channel expansion opportunities and rising costs for raw material and labour, while established household care companies enjoy economies of scale and grow faster than emerging new entrants.
- *Retail channel:* The retail channel is crucial for market participants in the household care industry. Existing market participants have accumulated years of experience in integrating offline and online resources and realising synergies among different retail channels, which are difficult for new entrants to achieve.
- *Brand awareness:* Consumers in China tend to choose household care products of well-known brands. The household care industry in China already has a number of market participants with long histories and well-established brands. It is not easy to win customers' trust and to persuade them to try new brands of household care products.
- *R&D capabilities:* In order to cater to ever-changing consumer demands and preferences, household care companies need strong R&D capabilities. Technical knowhow of designing household care products that can attract consumers and compete with well-established existing products in the market impose significant entry barriers for new entrants.
- *Management capability:* Management of leading household care companies requires substantial industry experience and insight into the household care market. It is difficult for new entrants to build a management team with extensive industry experience.

PRICE TRENDS OF RAW MATERIALS AND PRODUCTS

The cost of raw materials represents a major cost item for a typical household care company in China. The raw materials used in household care product production primarily consist of chemicals and packaging materials. In particular, the cost of packaging materials accounts for a large proportion of the cost of raw materials for a company that operates in China's household care industry. Household care products generally use chemicals that are derived from palm oil as their most critical raw material. LDPE is one of the main packaging materials used in household care product production.

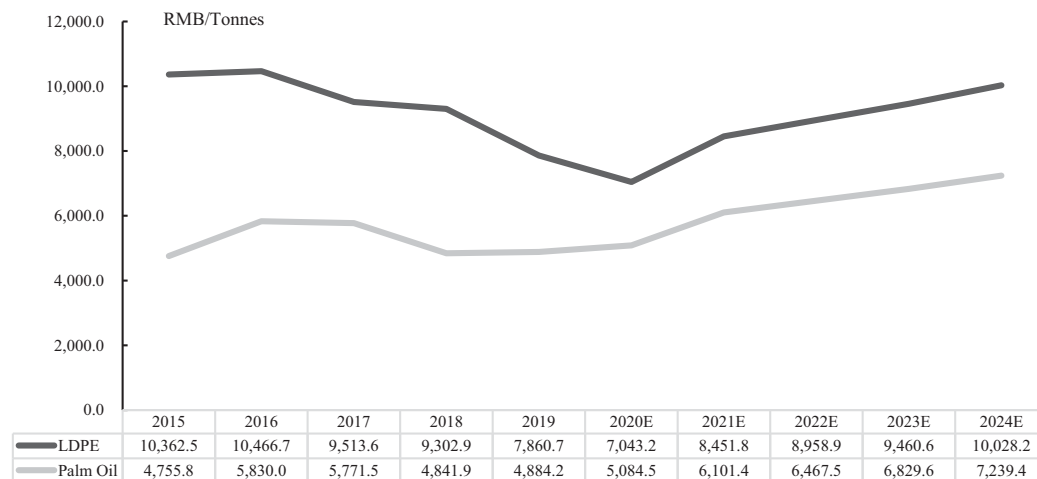
Due to a shortage in supply, the price of palm oil increased from 2015 to 2016. The price of palm oil then decreased in 2017 and 2018 due to a production expansion in Southeast Asia, especially in Malaysia and Indonesia. The price of palm oil remained relatively stable in 2019 and is expected to have a slight upward trend due to limited capacity for further production expansion. However, the fluctuations in the market price of the chemicals may not strictly correlate with the market price of palm oil because the transformation from palm oil into these chemicals involves a series of complicated chemical reactions and processes, during which other chemicals are also added.

Due to a production cut of crude oil, one of the main raw materials for LDPE, initiated by the Organization of the Petroleum Exporting Countries (the "OPEC") in 2016, the price of LDPE increased slightly and reached RMB10,466.7 per tonne. With a decreasing price in crude oil, the price of LDPE has decreased since

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2017. Going forward, according to the World Bank, the price of crude oil is expected to reverse its downward trend and increase gradually between 2021 and 2024. Since the price of LDPE is highly correlated to the price of crude oil, it is expected to increase steadily in line with the expected increase of crude oil price in the future.

Price Trend of Major Raw Materials



Source: Wind, Frost & Sullivan Report

From 2015 to 2019, the average retail sales price of household care products maintained a stable increase, representing a CAGR from 3% to 5%, according to the Frost & Sullivan Report. As the competitive landscape of the household care industry is relatively stable and consumers have relatively lower price sensitivity to household care products, the average retail sales price of most household care products are expected to continue to increase at the same level from 3% to 5%.

SOURCE OF INFORMATION

In connection with the Global Offering, we engaged Frost & Sullivan, an independent market research consultant, to conduct an analysis of, and to prepare a report about, global household care industry and China's household care industry. Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. In connection with the market research services provided, we have paid a fee of RMB650,000 to Frost & Sullivan, which we believe to be consistent with market rates.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan adopted the following assumptions: (i) global social, economic and political environment is likely to remain stable in the five years from 2020 to 2024 (the "**Forecast Period**"), (ii) purchasing power is expected to continue to rise rapidly in emerging regions and to grow steadily in developed regions, and (iii) related industry drivers such as increasing health and hygiene awareness, growing purchasing power and other key drivers are likely to drive the household care industry in the Forecast Period.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Frost & Sullivan has prepared the Frost & Sullivan Report based on detailed primary research which involved discussing the status of the household care industry with certain leading industry participants and secondary research which involved reviewing company reports, independent research reports

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and data based on its own research database. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.