

China's cosmetics market

April 2014

Fung Business Intelligence Centre



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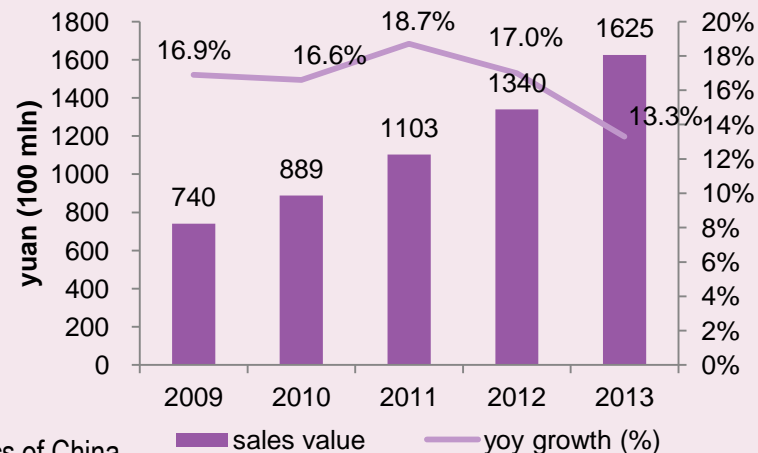
I. Industry Overview



Retail sales growth moderated in 2013, with slower growth against 2012

- China's cosmetics market has delivered sustained growth over the past few years. According to the National Bureau of Statistics of China (NBS), retail sales of cosmetics of enterprises above designated size** reached 162.5 billion yuan, up by 13.3% year-on-year (yoy) in 2013.
- However, China's cosmetics market has demonstrated slightly weakened growth as opposed to 17% yoy in 2012.

Exhibit 1: Retail value of cosmetics by wholesale and retail enterprises above designated size*: 2009-2013



Source: National Bureau of Statistics of China

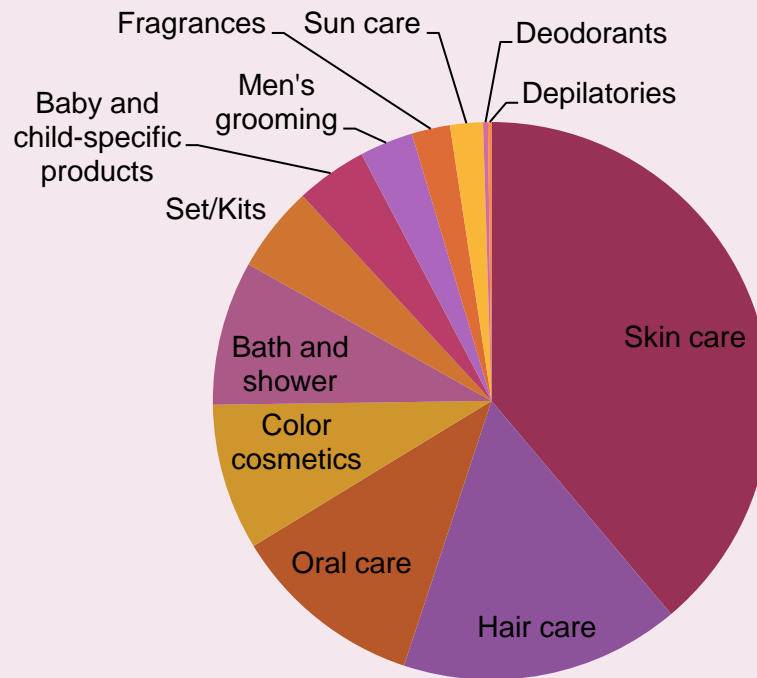
* Xinhuanet (新華網) http://news.xinhuanet.com/fortune/2013-12/07/c_118462342.htm

** Designated size: with annual sales of 5 million yuan or above and with an employment of or over 60.

Skin care and hair care products take up over half of the market share

- According to Euromonitor, skin care and hair care products accounted for more than half of the market share in 2012.

Exhibit 2: Sales of beauty and personal care by category, 2012



Source: Euromonitor International – “Beauty and Personal Care in China”, April 2013

Grocery retailers and department stores are signaling dwindling market share; while health and beauty stores and Internet retailing are booming

- According to Euromonitor*, hypermarkets, department stores and health and beauty retailers were the three most popular sales channels for beauty and personal care products in 2012.
- However, the market share of grocery retailers and department stores has been dwindling, while Internet retailing witnessed an upsurge in market share against 2011.

Exhibit 3: Market Share (Retail Sales) by Distribution Channels for Beauty and Personal Care in China, 2011 and 2012

% retail value rsp	2011	2012
Store-Based Retailing	77.1	71.1
-Grocery Retailers	38.1	36.1
--Small Grocery Retailers	3.1	1.8
--Convenience Stores	1.5	1.4
--Hypermarkets	25.8	25.8
--Supermarkets	7.7	7.1
-Non-Grocery Retailers	39	35
--Health and Beauty Retailers	13.8	15.6
---Beauty Specialist Retailers	6.2	6.6
---Chemists/Pharmacies	1.5	1.6
---Parapharmacies/Drugstores	6.1	7.4
--Department stores	24.2	18.3
--Other Non-Grocery Retailers	1.0	1.1
Non-Store Retailing	22.9	29
-Direct Selling	15.3	14.9
-Internet Retailing	6.6	13.1
-Other Non-Store Retailing	1.0	1.0
Total	100	100

* Euromonitor International – “Beauty and Personal Care in China”, April 2013

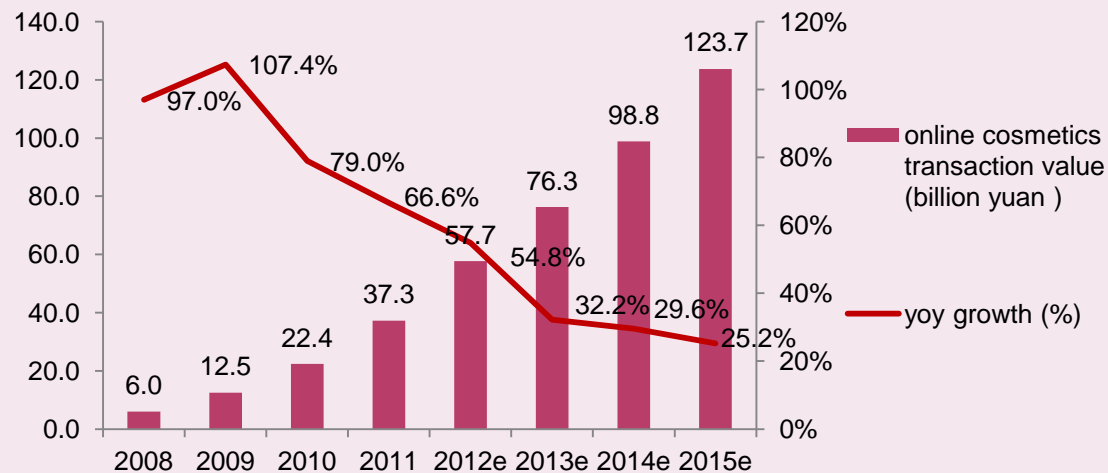
Source: Euromonitor International

Grocery retailers and department stores are signaling dwindling market share; while health and beauty stores and Internet retailing are booming (cont'd)

Internet retailing

- A study by Nielsen* shows that the majority of online cosmetic shoppers are generally young and affluent. In particular, over 80% of the online customers are aged between 20 and 39, of which, over 90% are female, suggesting the ample potential in the online cosmetic market.
- According to iResearch**, online cosmetics transaction value in China hit 57.7 billion yuan in 2012, up by 54.8% yoy from 2011 of 37.3 billion yuan. The online sales for cosmetics in China is expected to grow rapidly in the coming years, with online cosmetics transaction value estimated to top 120 billion yuan in 2015.

Exhibit 4: Online Transaction Value for China's Cosmetics, 2008-2015e



Source: iResearch

* Nielsen-"ComRatings Author Joint Whitepaper on the Chinese Online Cosmetics Shopper", January 2014

**iResearch - "Two Key Players Dominate the Vertical Cosmetic B2C Market", March 2013

Features and characteristics of selected distribution channels

Exhibit 5: Selected distribution channels and their respective features and characteristics

Retail format	Features and characteristics
Department stores	<ul style="list-style-type: none">❑ Department stores offer a wide range of merchandises and provide one-stop shopping experiences to consumers.❑ Play an important role in brand building.❑ Competition for counter spaces is fierce, brands with lackluster sales are forced to phase out.
Supermarkets/ hypermarkets	<ul style="list-style-type: none">❑ Supermarkets/ hypermarkets are important channels particularly for low-to mid-range cosmetics products or products with lower unit prices (e.g. shampoo, facial cleanser).
Professional stores	<ul style="list-style-type: none">❑ Consumers can buy cosmetics and accessories at different quality and price tiers in the same store.❑ Examples:<ul style="list-style-type: none">• Hong Kong-based Watsons and Sasa;• France-based Sephora;• China-based Gialen (嬌蘭佳人) and Cosmart (歌詩瑪).❑ Some professional chains have explored opportunities online.<ul style="list-style-type: none">• Watsons launched its website http://www.watsons.com.cn in March 2013.

Features and characteristics of selected distribution channels (cont'd)

Exhibit 5: Selected distribution channels and their respective features and characteristics (cont'd)

Retail format	Features and characteristics
Specialty stores	<ul style="list-style-type: none"> ❑ Cosmetics brand owners can achieve autonomy over store operation through opening specialty stores. Specialty stores help promote brand image, ensure standardized prices and services. ❑ In recent years, many Korean cosmetics brands such as Etude House, Missha and Innisfree are especially interested in distributing their products through specialty stores, in addition to other distribution channels. ❑ An increasingly popular distribution channel for cosmetics products.
Internet retailing	<ul style="list-style-type: none"> ❑ There are three major online retailing platforms for cosmetic products in China, which are: <ul style="list-style-type: none"> • Self-operating online platforms; • Online stores on integrated online retail platforms such as Tmall; JD.com and Amazon • Third-parties cosmetic online platforms which provide a wide range of cosmetic brands, for example <ul style="list-style-type: none"> - Watsons (http://www.watsons.com.cn) - Sephora (http://www.sephora.cn) - SaSa (http://www.sasa.com) - Jumei (http://www.jumei.com)

II. Competitive landscape



(1) Foreign cosmetics companies

(2) Domestic cosmetics companies

Foreign cosmetics remain the mainstream in China's cosmetic market

- According to Euromonitor*, multinational players continue to dominate the cosmetic market in China, with nine out of the top 10 players being foreign companies. The top three players, Procter & Gamble (P&G), L'Oreal and Shiseido, took up more than 30% of the overall value sales in 2012.

Exhibit 6: Beauty and personal care NBO company shares by value in 2012

Company	Share by value (%)	Country of origin
Procter & Gamble	15.1	U.S.
L'Oreal	11.1	France
Shiseido	5.4	Japan
Unilever	4.6	U.K.
Amway	3.5	U.S.
Mary Kay	3.3	U.S.
Estee Lauder	2.1	U.S.
Colgate	2.0	U.S.
Johnson & Johnson	1.8	U.S.
Shanghai Jahwa	1.7	China
Others	49.4	--

Note: "NBO" refers to "National brand owner", ie producer (company's own brand or under license) or distributor of brand.

Source: Euromonitor

*Euromonitor – "Beauty and Personal Care in China", April 2013

Recently some major players pulled out some of their cosmetic brands from China

- ❑ Facing fierce competition, some foreign players have pulled out some of their cosmetic brands from China in a bid to restructure their struggling businesses and focus on their core brands.
 - In January 2014, L'Oreal announced that it would stop selling its mass beauty brand Garnier in China and focus on its two leading brands L'Oréal Paris and Maybelline in the country*.
 - Revlon also announced to cease its operation and eliminate about 1,100 position in China in January 2014. According to Revlon, the withdrawal was part of the company's restructuring process that would save about 11 million USD annually**.
 - Episteme, a premium cosmetic brand under Rohto, stopped its operation in China starting from late March 2014***.

* Online WSJ - <http://online.wsj.com/news/articles/SB10001424052702303848104579307972875758120>

**CNBC.com – <http://www.cnbc.com/id/101303103>

*** Episteme China's official website - <http://www.epistemechina.com/>

Foreign cosmetics groups and their major brands

- The table below shows some of the foreign cosmetics groups and their major brands in China

Exhibit 7 Selected foreign cosmetics groups and their major brands in China

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
L'Oréal 歐萊雅	Biotherm 碧歐泉	^	^							
	Giorgio Armani 喬治阿瑪尼	^	^			^				^
	Helena Rubinstein HR 赫蓮娜	^	^							
	Kérastase 卡詩							^		^
	Kiehl's 科顏氏	^		^	^	^	^	^		^
	L'Oréal Paris 巴黎歐萊雅	^	^					^		^
	L'Oréal Professional 巴黎歐萊雅沙龍專屬							^		
	LA ROCHE-POSAY 理膚泉	^		^			^			
	Lancôme 蘭蔻	^	^			^				^
	Matrix 美奇絲									
	Maybelline New York 美寶蓮紐約	^	^							
	shu uemura 植村秀	^	^							
	Skinceuticals 修麗可	^		^						
	Vichy 薇姿	^	^	^			^			^
	Magic 美即	^								
	Yue Sai 羽西	^	^		^		^			

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
P&G 寶潔	Camay 卡玫爾						^			
	Clairol Herbal Essences 伊卡璐							^		
	Clairol Professional 伊卡璐絲煥							^		
	Gillette 吉列									^
	Head & Shoulders 海飛絲							^		^
	Oceana 海肌源	^	^				^			
	Olay Bodywash 玉蘭油沐浴						^			
	Olay 玉蘭油	^	^							^
	Pantene 潘婷							^		
	Rejoice Proferies 飄柔倍瑞絲							^		
	Rejoice 飄柔							^		
	Safeguard 舒膚佳						^			
	Sebastian 塞巴斯汀							^		
	SK-II	^								^
	Vidal Sasson 沙宣							^		^
	Wella 威娜							^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Shiseido 資生堂	Anessa 安熱沙	^								
	Aqua Label 水之印	^								
	Aquair 水之密語	^					^	^		
	Aupres 歐珀萊	^	^							^
	Be 彼嘉	^	^							
	Clé de peau beauté 珂麗柏蒂	^	^							
	Dicila 蒂思嵐	^	^							
	DQ 蒂珂	^	^	^	^					
	Elixir Supérieur 怡麗絲爾優悅活顏	^	^							
	Elixir White 怡麗絲爾 純肌淨白	^								
	Hand Cream 美潤護手霜	^								
	Handasui 肌水	^								
	IPSA 茵芙莎	^	^							
	Joico 嘉珂							^		
	Kuyura 可悠然						^			
	Melanreduce 臻白無瑕	^								
	Perfect 洗顏專科	^								
	PF-COVER 無瑕修顏		^							
	Pure & Mild 泊美	^	^		^					
	Pure & Mild Soi 泊美舒亞	^					^			
	Shiseido Eudermine 紅色蜜露	^								
	Shiseido Professional 資生堂專業美髮							^		^
	Shiseido 資生堂	^	^				^			^
	Super Mild 惠潤						^	^		
	Tsubaki 絲蓓綺							^		
	UNO 吾諾									^
	Urara 悠萊	^	^					^		
	Za 姬芮	^	^							

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Unilever 聯合利華	Clear 清揚							^		^
	Dove 多芬	^					^	^		^
	Hazeline 夏士蓮						^	^		
	Lux 力士						^			
	LYNX 凌仕									^
	Pond's 旁氏	^								^
	Rexona 舒耐	^								^
	Vaseline 凡士林	^								
Johnson & Johnson 強生	Clean & Clear 可伶可俐	^								
	Dabao 大寶	^					^			
	Elsker 愛呵	^					^		^	
	Johnson's Baby 強生嬰兒						^		^	
	Johnson's Body Care 強生美肌						^			
	Neutrogena 露得清	^								^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Estée Lauder 雅詩蘭黛	Aramis 雅男士					^				
	Bobbi Brown 芭比波朗	^	^							
	Clinique 倩碧	^	^			^				^
	Donna Karan Cosmetics 唐娜凱倫					^				
	Estée Lauder 雅詩蘭黛	^	^			^				^
	Good Skin Labs	^	^							
	Jo Malone London 祖瑪瓏					^				
	La Mer 海藍之謎	^	^				^			
	M.A.C. 魅可	^	^			^				
	Origins 悅木之源	^	^				^			
	Osiao	^								
	Tommy Hilfiger 唐美希緋格					^				
	Costyle 珂絲美							^		
	Eucerin 優色林	^		^			^		^	
Beiersdorf 拜爾斯道夫	Hairsong 順爽				^			^		
	Herbexpert 草本優萃				^			^		
	iSPA Home 悅美芳達							^		
	La Prairie 萊珀妮	^								
	Maestro 美濤							^		^
	NIVEA Body						^			
	Nivea for men					^				^
	NIVEA Visage	^								
	NIVEA 妮維雅	^				^				
	Sdew 風影							^		^
	Slek 舒雷							^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Kanebo 佳麗寶	Aqua Lunash 潤希	^	^							
	Aqua Sprina 雅呵雅絲睿	^	^							
	Aqua 雅呵雅	^	^							
	Blanchir Superior 馥蘭哲兒極致系列	^								
	Dew Superior 潤活極致系列	^								
	Freeplus 美麗芳絲	^	^							
	Impress 印象之美	^	^							
	Kate		^							
	Lunasol 日月晶采	^	^							
Coty Inc. 科蒂集團	Sui sai 水之璨	^								
Kao 花王	TJOY for men 丁家宜男士									^
	TJOY 丁家宜	^	^		^		^			
	Asience 亞羨姿							^		
	Bioré 碧柔	^								
	Curél 珂潤	^					^	^	^	
	Feather 花王飛逸							^		
	Kao 花王						^			
	Liese 莉婕							^		
	Men's Bioré 碧柔男士									^
	Sifoné 詩芬							^		
	Sofina 蘇菲娜	^	^							

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Kosé 高絲	Astalution	^								
	Avenir 艾文莉	^	^							
	Bizenist 美膳媛	^	^		^					
	Cosme Decorte 黛珂	^	^							
	Esprique 綺絲碧		^							
	Happy Bath Day					^	^	^		
	Precious Rose									
	Infinity	^								
	Junkisei 潤肌精	^								
	Junkisui 純肌粹	^								
	Moisture Skin Repair	^								
	Nature & Co 娜蔻	^	^				^			
	Prédia 貝締雅	^	^							
	Recipe-O 蘭哲歐	^								
	Refine 萊菲	^	^							
	Seikisho 清肌晶	^								
	Sekkisei Supreme 雪肌精純怡	^	^							
	Sekkisei 雪肌精	^	^							
	Shirosumi 白澄	^								
	White St妍哲	^								
Avon Products, Inc. 美國雅芳產品有限公司	Avon									
		^	^			^	^			^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Amore Pacific Corp 愛茉莉太平洋集團	Etude House 伊蒂之屋	^	^							
	Innisfree 悅詩風吟	^	^				^			^
	Laneige 蘭芝	^	^							^
	Lirikos 儷瑞恩	^	^				^			^
	Mamonde 夢妝	^	^							^
LG Corp 樂金集團	Primera 芙莉美娜	^			^		^			^
	Sulwhasoo 雪花秀	^	^		^					^
	Carezone 蔻瑞哲	^								
	Hercyna 海皙藍	^	^							^
	Lacvert 拉格貝爾	^	^							
	Minerva Silky 曼麗妃絲柔	^								
	O Hui 歐蕙	^	^							^
	Reen 睿嫣							^		
	Sooryehan 秀雅韓	^	^							^
	The Face Shop 菲詩小舖	^	^				^			^
Able C&C Nu Skin Enterprise Inc. 如新集團	Whoo 后	^	^							^
	Missha 謎尚	^	^							^
	Nu Skin 如新									
		^	^				^	^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
LVMH Group	Benefit 貝玲妃	^	^			^				
	Fresh 馥蕾詩	^				^	^			^
	Guerlain 嬌蘭	^	^			^				
	Make Up For Ever		^							
	L'occitane 歐舒丹	^				^	^		^	^
The L'OCCITANE Group 歐舒丹集團	Melvita 蜜薇特	^					^	^	^	^
	H2O plus 水芝澳	^					^	^		
Pola Orbis Holdings Inc. 寶娜奧蜜思控股公司	Jurlique	^			^		^	^	^	
	Orbis 奧蜜思	^	^				^	^		^
	Orlane Paris 法國幽蘭	^				^	^			
Rohto 樂敦	Beauty Workshop 美活工房	^								
	Body Ice 樂碧	^								^
	Hada Labo 肌研	^								
	Hand Therapy 花語舒緩手霜	^								
	Hand Viel	^								
	Lip Pure 天然植物潤唇膏	^	^						^	^
	Mentholatum Acnes 曼秀雷敦樂膚潔	^								
	Mentholatum Botanics 曼秀雷敦天然植物潔面系列	^								
	Mentholatum Body Veil	^								
	Mentholatum Oc Hy Po 曼秀雷敦男士									^
	Oxy 歐治									^
	Sunplay Skin Aqua 新碧日用防曬	^							^	

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Foreign cosmetics groups and their major brands (Cont'd)

Exhibit 7 Selected foreign cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Nippon Menard Cosmetic Co.,Ltd. 日本美伊娜多化粧品 MTM Group	Menard 美伊娜多	^	^							
	MTM	^	^							
DHC Corp	DHC	^	^				^	^		^
Fancl Corp	Fancl	^					^	^		
Skin Food 思親膚	Skin Food 思親膚	^	^				^	^	^	^
F&F	Banila 芭妮蘭	^	^							
Charmzone 嬋真	Deage Fresh 美菁青葡萄系列	^								
	Deage Mela-white 美菁美白系列	^								
	Deage Red Wine 美菁紅酒系列	^								
	Ginkgo Natural 天然銀杏系列	^								
	Skyman 藍天紳士	^								

Source: Respective company websites, compiled by Fung Business Intelligence Centre

II. Competitive landscape



- (1) Foreign cosmetics companies
- (2) **Domestics cosmetics companies**

Domestic cosmetics enterprises continue their stellar performance in lower tier cities

□ Domestic cosmetics brands perform better in lower tier cities

- As a case in point, Croco Baby (鱷魚寶寶) achieved 50% growth in 2012 with its successful expansion into third- and fourth-tier cities, according to Euromonitor*.
- In 2012, Shanghai Jahwa was the only domestic company among the top 10 players in beauty and personal care by share value in China. Thanks to the remarkable performance of its several key brands namely Liushen, gf and Herborist, the company managed to grasp share gains amid fierce competition in 2012. Nevertheless, in general, domestic players have been relatively weak when it comes to branding, new product development, marketing and generous funds*.

*Euromonitor – “Beauty and Personal Care in China”, April 2013

Domestic cosmetics groups and their major brands

❑ The table below shows some of the domestic cosmetics groups and their major brands in China

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Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Shanghai Jahwa Co., Ltd. 上海家化集團	Dr. Yu 玉澤	^		^						
	Gf 高夫									^
	Giving 啟初								^	
	Herborist 佰草集	^	^			^	^	^		
	Liushen 六神					^	^		^	
	Maxam 美加淨	^					^	^		
	ShanghaiVive 雙妹	^	^			^	^			
	Soft Sense 恆妍	^	^							
	Tea Beauty 茶顏	^			^					

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Sichuan Jahwa Cortry Cosmetics Co. Ltd 四川家化可采化妝品股份有限公司	LiveliCutee 伶采	^								
	Evergreen 雅璦	^	^							^
Jiangsu Longliqi Group Co., Ltd. 江蘇隆力奇集團	Longliqi 隆力奇	^	^			^	^	^	^	^
	Longrich	^					^	^		
	Ariar 清逸							^		
Arche Cosmetics Co., Ltd 廣東雅倩化妝品有限公司	BNS 繽麗							^		
	Cathy 佳雪	^								^
	Effi 玉麗	^	^							
	Eveae 維鮮	^				^		^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Zhuohai Sunrana Cosmetics Co., Ltd. 珠海珊拉娜化妝品有限公司	Sunrana 珊拉娜	^			^		^		^	
	Bawang 霸王							^		^
	Herborn 本草堂	^								
	Litao 麗濤						^	^		
	Royal Wind 追風						^	^		^
	Smerry 雪美人	^	^							
	Bee & Flower 蜂花				^		^	^		
Shanghai Huayin Commodity Co., Ltd. 上海華銀日用品有限公司										

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Lafang Group 拉芳集團	Bétrue 繽純	^	^		^					
	Duo Zi 多姿						^			^
	Lafang 拉芳						^	^		
	Mese 美多絲						^	^		
	Raclen 雨潔							^		^
Guangzhou Tobaby Cosmetics Co., Ltd. 廣州露純化妝品有限公司 Huaya Group Co., Ltd. 環亞化妝品科技有限公司	Tobaby 丹芭碧	^					^	^	^	^
	Franic 法蘭琳卡	^				^				
	Meifubao 美膚寶	^	^							
	See Young 滋源							^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Guangzhou Houdy Cosmetics Co., Ltd. 廣州市好迪化妝品有限公司	Herbrisk 本草清						^			
	Houdy 好迪							^		
	Tongle 童樂								^	
Decolor Cosmetics Co., Ltd. 廣州市迪彩化妝品有限公司	Crystal 晶彩						^	^		
	Decolor 迪彩						^	^		
	Enevous 伊儂華	^								
	Flowery 花露詩雨	^					^			
	Lotuses 千蓮薈						^	^		
	Luxe-Lotus 蓮尚							^		
	Nenuph 藍蓮花							^		
	Shancaoji 善草紀	^					^	^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Jala (Group) Co., Ltd. 伽藍 (集團)股份有限公司	Aglaia 雅格麗白	^	^		^					
	Chcedo 自然堂	^	^							^
	Insea 醫婷	^		^						
	Maysu 美素	^	^							
Proya Cosmetics Co., Ltd. 杭州珀萊雅化妝品有限公司	Proya 珀萊雅	^	^							
Shanghai Inoherb Cosmetics Co., Ltd. 上海相宜本草化妝品股份有限公司	Inoherb 相宜本草	^	^		^					^
Softto Co., Ltd. 索芙特股份有限公司	Softto 索芙特	^	^				^	^		^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Foshan Shunde Modern Health Care Products Co., Ltd. 佛山市順德現代保健用品有限公司 Shanghai Savol Health & Cosmetics Co., Ltd. 浙江章華保健美髮實業有限公司	Syqu 思青							^		
	Xian Dai 現代	^						^		^
	Color Easy 輕鬆染							^		
	Deep Sea 深海植物派							^		
	Herb Extract 百草晶							^		
	Savol Ecologic 章華生態							^		
	Savol Hair Care Exper 章華護髮專家							^		
	Savol Herb 章華漢草						^	^		
	Sikin 絲精							^		
	Tianfeng 天峰橄欖							^		
	Yimo 一抹							^		

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Youngrace Cosmetic International Group Limited 溫雅化妝品國際集團有限公司	Youngrace 溫雅							^		
Shanghai Kans Cosmetic Co.,Ltd. 上海韓束化妝品有限公司	Kans 韓束	^	^							^
Pechoin 百雀羚	Pechoin 百雀羚	^								^
Marubi 丸美	Marubi 丸美	^	^							^
上海悅目化妝品有限公司	Mask Family 膜法世家1908	^								

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Domestic cosmetics groups and their major brands

Exhibit 8 Selected domestic cosmetics groups and their major brands in China (Cont'd)

Group	Brand	Skin care	Color cosmetics	Cosmeceutical cosmetics	Green cosmetics	Fragrance	Bath and shower	Hair Care	Baby and child-specific products	Men's grooming
Danz 丹姿集團	Carde 卡迪那							^		
	Carefor Star 呵護星						^		^	
	Tenor 他能量									^
	Wetcode 水密碼	^								
	悅植粹	^								
Osmun Group 歐詩曼集團	Inshe 櫻尚	^	^							
	Osmun 歐詩曼	^	^							^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

III. Latest developments



Product premiumisation and trading up remain a major trend

- Rising disposable incomes increasing consumers' awareness of better quality products underpin the growth premium cosmetics sales growth.
 - According to Euromonitor*, retail sales of premium cosmetics products increased from 30.9 billion yuan in 2011 to 34.9 billion yuan in 2012, up 13.2% yoy; in particular, sales of premium baby and child-specific products during the same period even surged over 20% yoy to 975.3 million yuan.
 - Premium cosmetics market is expected to post a 17.3% compound annual growth rate between 2012 and 2017, higher than overall beauty and personal care market's annual average growth of 11%.

* Euromonitor International – “Beauty and Personal Care in China”, April 2013

Product premiumisation and trading up remain a major trend (cont'd)

- ❑ To satisfy the growing demand for higher-end cosmetics products, a number of international and domestic brands have expedited their penetration in the high-end segment.
 - Swiss premium brand La Prairie rolled out a new product White Caviar Illuminating Clarifying Lotion in China during early 2013**.
 - French luxury skin care brand Sisley had a new launch of its Phyto-Blanc Intensive Whiting Serum in February 2013**.

*Euromonitor International – “Super Premium Beauty and Personal Care in China”, February 2014

M&A and private equity activities are active in the cosmetic market

- ❑ The vast potential of the online cosmetics market has accelerated the consolidation and prompted capital investment activities among B2C online retailers. Some examples include:
 - In February 2014, Vipshop (唯品會), a domestic B2C online retailer that sell branded products at discount, announced the acquisition of a 75% share in local B2C online cosmetic retailer Lefeng.com (樂蜂網), an online retail website specialized in selling cosmetics and fashion products in China, at 132.5 million USD**.
 - Vipshop also announced the takeover of a 23% share in Ovation Entertainment (東方風行) for 55.8 million USD in February 2014**.
 - Jumei (聚美優品), the largest cosmetics online retailer in China, filed for an IPO in the U.S. in April 2014, which is expected to raise 400 million***.
 - L'Oreal announced the transaction of its takeover of Magic Holding International Ltd.(美即), China's leading skincare company specialized in producing facial masks, became effective in April 2014****.
 - L Capital Asia, a LVMH-backed private equity firm, acquired a majority of stake in Chinese domestic cosmetics brand Marubi in July 2013. The firm has become Marubi's second largest owner and has planned to initiate strategic cooperation with Marubi in product development, design, advertising, public relations, marketing, retail management, team building, global marketing, and M&A*****.

* VIP's official website - <http://ir.vipshop.com/phoenix.zhtml?c=250900&p=irol-newsArticle&ID=1900197&highlight>

** VIP's official website - <http://ir.vip.com/phoenix.zhtml?c=250900&p=irol-newsArticle&ID=1902230&highlight>

***Reuters - <http://www.reuters.com/article/2014/04/11/us-jumeiinternational-ipo-idUSBREA3A1YX20140411>

****L'Oreal China's official website- <http://www.loreal-finance.com/eng/news-release/loreal-acquisition-of-magic-holdings-marks-firms-biggest-investment-in-chinese-beauty-market-961.htm>

*****Marubi's official website- http://www.marubi.cn/news_detail.jsp?catid=4&docid=12

O2O initiatives: online players are marching into brick and mortar retailing

- While many cosmetics brands have been expanding into online retailing in recent years, some brands that originally sold only through online platforms are starting to break into store-based retailing to grab more market share.
 - Jumei opened its first brick and mortar flagship store in Beijing in December 2013*.
 - Lefeng is planning to open offline stores, aiming to deliver customers an integrated shopping experience with its online and offline channels**.

* Guosen – “Research Report on China’s Cosmetics Industry III”, 25 April 2014

**Tech. huanqiu.com (環球科技網) <http://tech.huanqiu.com/per/2013-11/4615889.html>

Increasing popularity of South Korean brands in China

- ❑ South Korean brands are demonstrating increasing sophistication in terms of product development and marketing. In general, South Korea brands are able to react better to local customers' needs. Moreover, their product offerings are often more targeted*. In addition, South Korean pop culture is very popular in China, which also gives South Korean brands an extra edge. They often appoint famous artists as brand ambassadors to represent their products, thus enabling them to better connect with customers.



* Euromonitor International – “The Shifting Balance in China’s Beauty Competitive Landscape.”, February 2014

Professional stores step up expansion in China

- ❑ To expedite market penetration, many professional stores are looking ways to expand their presence in China. Some examples include:
 - Chained professional store Watsons, which owns over 1,600 retail stores across 290 cities of China, has announced plans to expand its retail footprints to a total of 3,000 stores by 2016, with particular focus on lower-tier cities*.
 - Cosmetics retailer Sephora, which operates 155 retail stores across 51 cities of China, opened its world's largest flagship store in Nanjing, Shanghai in 2013**.

*Watson China's official website - http://www.watsons.com.cn/about_pressArticle_14022703

**Sephora China's official website - <http://www.sephora.cn/content/sephorahistory/>

Social media becomes an indispensable tool

- ❑ With the rapid growth of online shopping and accelerating penetration of mobile devices, social media have become an important marketing tool for cosmetic brands to promote their products and interact with their customers.
- ❑ To stay connected with Chinese customers, a number of foreign and domestic cosmetic brands have established services accounts in Wechat and/or Weibo. Exhibit 9 shows some of the cosmetic brands that have set up Wechat and/or Weibo accounts to engage their customers in China.

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo

Group	Brand	Wechat	Weibo
L'Oréal 歐萊雅	Biotherm 碧歐泉	^	^
	Giorgio Armani 喬治 阿瑪尼		^
	Helena Rubinstein HR 赫蓮娜		^
	Kérastase 卡詩	^	^
	Kiehl's 科顏氏		^
	L'Oréal Paris 巴黎歐萊雅	^	^
	L'Oréal Professional 巴黎歐萊雅沙龍專屬		^
	LA ROCHE-POSAY理膚泉	^	^
	Lancôme 蘭蔻	^	^
	Matrix 美奇絲		^
	Maybelline New York 美寶蓮紐約	^	^
	shu uemura 植村秀		^
	Skinceuticals修麗可		^
	Vichy 薇姿		^
	Magic 美即		^
	Yue Sai 羽西		^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
P&G 寶潔	Camay 卡玫爾		^
	Clairol Herbal Essences 伊卡璐	^	^
	Clairol Professional 伊卡璐絲煥		^
	Gillette 吉列		^
	Head & Shoulders 海飛絲		^
	Oceana 海肌源		^
	Olay 玉蘭油	^	^
	Pantene 潘婷		^
	Rejoice Proferies 飄柔倍瑞絲	^	^
	Rejoice 飄柔	^	^
	Safeguard 舒膚佳		^
	Sebastian 塞巴斯汀	^	^
	SK-II		^
	Vidal Sasson 沙宣		^
	Wella 威娜	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Shiseido 資生堂	Aqua Label 水之印		^
	Aquair 水之密語		^
	Aupres 歐珀萊	^	^
	IPSA 茵美莎		^
	Perfect 洗顏專科		^
	Pure & Mild 泊美		^
	Pure & Mild Soi 泊美舒亞		^
	Shiseido 資生堂		^
	Tsubaki 絲蓓綺		^
	UNO 吾諾		^
	Urara 悠萊	^	^
	Za 姬芮	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Unilever 聯合利華	Clear 清揚		^
	Dove 多芬		^
	Hazeline 夏士蓮		^
	Lux 力士		^
	LYNX 凌仕		^
	Pond's 旁氏	^	^
	Rexona 舒耐	^	^
Johnson & Johnson 強生	Clean & Clear 可伶可俐		^
	Dabao 大寶		^
	Elsker 愛呵		^
	Johnson's Baby 強生嬰兒	^	^
	Johnson's Body Care 強生美肌		^
	Neutrogena 露得清	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Estée Lauder 雅詩蘭黛	Bobbi Brown 芭比波朗	^	^
	Clinique 倩碧	^	^
	Estée Lauder 雅詩蘭黛	^	^
	Good Skin Labs		^
	Jo Malone London 祖瑪瓏		^
	La Mer 海藍之謎	^	^
	M.A.C. 魅可		^
	Origins 悅木之源	^	^
Beiersdorf 拜爾斯道夫	Herbexpert 草本優萃		^
	La Prairie 萊珀妮	^	^
	Maestro 美濤		^
	Nivea for men	^	^
	NIVEA 妮維雅	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Kanebo 佳麗寶	Aqua Sprina 雅呵雅絲睿		^
	Freeplus 美麗芳絲		^
	Impress 印象之美		^
	Kate	^	^
	Lunasol 日月晶采		^
Coty Inc. 科蒂集團	TJOY 丁家宜		^
Kao 花王	Asience 亞羨姿		^
	Bioré 碧柔		^
	Curél 珂潤	^	^
	Liese 莉婕	^	^
	Sofina 蘇菲娜	^	^
Kosé 高絲	Avenir 艾文莉		^
	Bizenist 美膳媛	^	^
	Esprique 綺絲碧		^
	Junkisei 潤肌精	^	^
	Nature & Co 娜蔻		^
	Prédia 貝締雅	^	^
	Sekkisei 雪肌精	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Avon Products, Inc. 美國雅芳產品有限公司 Amore Pacific Corp 愛茉莉太平洋集團	Avon	^	^
	Etude House 伊蒂之屋	^	^
	Innisfree 悅詩風吟	^	^
	Laneige 蘭芝	^	^
	Lirikos 儷瑞恩		^
	Mamode 夢妝	^	^
	Primera 芙莉美娜	^	^
	Sulwhasoo 雪花秀		^
LG Corp 樂金集團	O Hui 歐蕙		^
	Sooryehan 秀雅韓	^	^
	The Face Shop 菲詩小舖	^	^
	Whoo 后	^	^
Able C&C	Missha 謎尚	^	^
Nu Skin Enterprise Inc. 如新集團	Nu Skin 如新		^
LVMH Group	Benefit 貝玲妃		^
	Fresh 馥蕾詩		^
	Guerlain 嬌蘭		^
	Make Up For Ever	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
The L'OCCITANE Group 歐舒丹集團	L'occitane 歐舒丹		^
	Melvita 蜜葳特		^
Pola Orbis Holdings Inc. 寶娜奧蜜思控股公司	H2O plus 水芝澳		^
	Jurlique	^	^
	Orbis 奧蜜思	^	^
	Orlane Paris 法國幽蘭	^	^
	Lip Pure 天然植物潤唇膏	^	^
Rohto 樂敦	Mentholatum Acnes 曼秀雷敦樂膚潔	^	^
	Mentholatum Botanics 曼秀雷敦天然植物潔面系列	^	^
	Mentholatum Oc Hy Po 曼秀雷敦男士	^	^
	Sunplay Skin Aqua 新碧日用防曬	^	^
	Menard 美伊娜多	^	^
Nippon Menard Cosmetic Co.,Ltd. 日本美伊娜多化粧品	MTM	^	^
	DHC	^	^
Skin Food 思親膚	Skin Food 思親膚		^
F&F	Banila 芭妮蘭		^
Charmzone 嬋真	Deage Fresh 美菁青葡萄系列		^
	Deage Mela-white 美菁美白系列		^
	Deage Red Wine 美菁紅酒系列		^
	Ginkgo Natural 天然銀杏系列		^
	Skyman 藍天紳士		^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Shanghai Jahwa Co., Ltd. 上海家化集團	Gf 高夫		^
	Giving 啟初		^
	Herborist 佰草集	^	^
	Liushen 六神		^
	Maxam 美加淨	^	^
	ShanghaiVive 雙妹	^	^
	Soft Sense 恆妍		^
	Tea Beauty 茶顏		^
Jiangsu Longliqi Group Co., Ltd. 江蘇隆力奇集團	Longliqi 隆力奇	^	^
Arche Cosmetics Co., Ltd 廣東雅倩化妝品有限公司	BNS 繽麗		^
	Cathy 佳雪		^
	Effi 玉麗		^
Zhuhai Sunrana Cosmetics Co., Ltd. 珠海嫵拉娜化妝品有限公司	Sunrana 嫵拉娜		^
Bawang International 霸王國際集團	Bawang 霸王	^	^
	Herborn 本草堂		^
	Litao 麗濤	^	^
	Royal Wind 追風	^	^
	Smerry 雪美人		^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Decolor Cosmetics Co., Ltd. 廣州市迪彩化妝品有限公司	Decolor 迪彩	^	^
	Flowery 花露詩雨		^
	Shancaoji 善草紀		^
Lafang Group 拉芳集團	Lafang 拉芳		^
	Raclen 雨潔	^	^
Huaya Group Co., Ltd. 環亞化妝品科技有限公司	Franic 法蘭琳卡	^	^
	Meifubao 美膚寶	^	^
	See Young 滋源	^	^
Jala (Group) Co., Ltd. 伽藍(集團)股份有限公司	Aglaia 雅格麗白	^	^
	Chcedo 自然堂	^	^
	Insea 醫婷		^
	Maysu 美素		^
Proya Cosmetics Co., Ltd. 杭州珀萊雅化妝品有限公司	Proya 珀萊雅	^	^
Shanghai Inoherb Cosmetics Co., Ltd. 上海相宜本草化妝品股份有限公司	Inoherb 相宜本草	^	^
Softto Co., Ltd. 索芙特股份有限公司	Softto 索芙特	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Social media becomes an indispensable tool (Cont'd)

Exhibit 9 Selected cosmetic brands with service accounts in Wechat and/ or Weibo (Cont'd)

Group	Brand	Wechat	Weibo
Shanghai Savol Health & Cosmetics Co., Ltd. 浙江章華保健美髮實業有限公司	Color Easy 輕鬆染		^
	Deep Sea 深海植物派		^
	Herb Extract 百草晶		^
	Savol Ecologic 章華生態		^
	Savol Hair Care Exper 章華護髮專家		^
	Savol Herb 章華漢草		^
	Sikin 絲精		^
	Tianfeng 天峰橄欖		^
	Yimo 一抹		^
Youngrace Cosmetic International Group Limited 溫雅化妝品國際集團有限公司	Youngrace 溫雅		^
Shanghai Kans Cosmetic Co., Ltd. 上海韓束化妝品有限公司	Kans 韓束	^	^
	Pechoin 百雀羚	^	^
Pechoin 百雀羚			
Marubi 丸美	Marubi 丸美	^	^
上海悅目化妝品有限公司	Mask Family 膜法世家1908	^	^
Danz 丹姿集團	Wetcode 水密碼	^	^
Osmun Group 歐詩曼集團	Inshe 櫻尚	^	^
	Osmun 歐詩曼	^	^

Source: Respective company websites, compiled by Fung Business Intelligence Centre

Men's grooming market posts remarkable growth

- According to Euromonitor*, men's grooming market delivered a 17% yoy sales growth to 6.4 billion yuan in 2012; in particular, men's skin care witnessed the highest sales growth of 25.4% yoy, while men's toiletries registered retail sales growth of 20.5% yoy.
- China is expected to overtake South Korea as the biggest market globally for men's skin care sales in 2013**.
- To penetrate the lucrative market, many cosmetics brands have introduced men's grooming products in China. For instance, Kiehl's rolled out Facial Fuel UV Guard SPF 30+ PA+++ in March 2014; Nivea also had a new launch, Nivea Men Hydrating Essense, in December 2013. For details, please refer to Exhibit 7 and 8.



*Euromonitor International – “Men's Grooming in China”, April 2013

** Euromonitor International 's blog: <http://blog.euromonitor.com/2013/06/south-korea-largest-market-for-mens-skin-care-globally.html>

Children and baby care products continue to see robust growth

- ❑ With growing consumer sophistication, consumers are more willing to purchase specific personal care products for their children and baby. According to Euromonitor*, retail sales of China's children and baby care products registered notable growth in 2012, up by 16.7% yoy to 8.6 billion.
- ❑ The relaxation of the one-child policy starting late 2013 is expected to bring a near-term baby boom in China, giving momentum to the development of baby and children care industry. It is estimated that retail sales of China's children and baby care products will hit 16.4 billion yuan by 2017.
- ❑ Recently, some domestic brands have experienced robust growth in market share, for instance, the market share of leading domestic brand Frog Prince surged from 7% in 2007 to 16% in 2012, becoming the brand with the second largest market share in the market.

* Euromonitor International – “Beauty and Personal Care in China”, April 2013

Children and baby care products continue to see robust growth (cont'd)

- Thanks to the growing demand for children and baby care products, the number of retail stores selling mom and baby products has grown rapidly in recent years. Retailers such as Redbaby (北京紅孩子), Lijiababy (麗家寶貝) and Leyou (樂友) have set up a number of retail stores offering skincare products for expectant mothers and babies.
- A number of cosmetics brands have also rolled out children and baby care products. For details, please refer to Exhibit 7 and Exhibit 8.

Green and natural cosmetics products, and functional products are growing in prevalence

- Nowadays, an increasing number of consumers in China are looking for green and eco-friendly cosmetics products, driven by the rising pursuit of personal wellbeing among consumers.
- To satisfy consumer demand for green products, a number of foreign and domestic players have focused more on green formulations and launched eco-friendly product lines. Some examples include: Jurlique, L'Occitane, Origins, Inoherbs, Herborn and Herborist. For details, please refer to Exhibit 7 and Exhibit 8.
- Moreover, some cosmetics brands have restyled the packaging for their eco-friendly product lines. For instance, in June 2013, French premium brand La Mer restyled the packaging for its limited edition eco-friendly classic repair cream in aquatic colors just before the World Ocean Day*.



* Euromonitor International – “Super Premium Beauty and Personal Care in China”, February 2014

Green and natural cosmetics products, and functional products are growing in prevalence (Cont'd)

- ❑ Air pollution has long been a severe problem in China. The concentration of PM2.5 — a form of particulate matter that reduces visibility and cause the air to appear hazy — in some major cities are hitting high levels. Some cosmetics brands, especially local brands selling online, have launched products featuring "Anti-PM2.5" in their product claims, slogans or marketing campaigns*.
- ❑ However, many experts said that there is no national standard for this kind of products. Many products which claim to have the function are actually daily protective base. Consumers have to be more careful when choosing the products**.



*Cosmetics Design Asia.com - <http://www.cosmeticsdesign-asia.com/Regions/China/Cosmetic-brands-develop-anti-pollution-products-for-China>

**China News (中國新聞網) - <http://finance.chinanews.com/life/2013/12-17/5627249.shtml>

Heightened public awareness to product safety

- ❑ Product safety is a major concern in China's cosmetics market.
 - In the past years, even famous foreign brands were embroiled in scandal of defective cosmetics products. For instance, Wenzhou Industrial and Commercial Administration stated in its Annual Quality Test Report that some Lancome and Sisley products failed the quality test three times since 2006 due to excessive mercury found in the products*.
 - According to China e-Business Research Centre's Whitepaper on the Chinese Online Cosmetic Shopper, 84% of complaints from online cosmetic shoppers were about quality issues of cosmetics, significantly denting consumers' confidence in online shopping**.
- ❑ Fake products are prevalent, particularly in online platforms.
 - Dangdang and Amazon have been accused of selling fake products of major cosmetics brands***.
 - The China Authentic Cosmetics Alliance published its first ever Cosmetics Security Index Report, which was co-announced by more than 100 domestic and foreign cosmetics companies, revealing that more than 20% of cosmetics products sold online are counterfeit products****.
- ❑ As Chinese consumers are now more discerning, product safety is expected to gain more attention in the future. More regulations are expected to be launched by the government to better regulate the cosmetics industry.
- ❑ Exhibit 10 shows some latest government policies related to China's cosmetics sector.

*Euromonitor International – “Beauty and Personal Care in China”, April 2013

** 6ec.cn (全民電商網訊) - <http://home.6ec.cn/viewnews-316789.html>

*** Shanghai Daily (上海日報) - <http://www.shanghaidaily.com/national/Dangdang-Amazon-caught-selling-fake-cosmetics/shdaily.shtml>

****Xinhuanet (新華網) - http://news.xinhuanet.com/fortune/2014-03/01/c_119563117.htm

Major government policies related to China's cosmetics sector (cont'd)

Exhibit 10: Major government policies related to China's cosmetics sector, 2013-2014

Publication Date	Name of government policy	Launched by	Details
11 April 2014	Announcement on Specifying the Implementation of the Registration and Record Filing of Cosmetics* 《關於進一步明確化妝品註冊備案有關執行問題的函》	The China Food and Drug Administration	The Note aims to address issues related to the implementation and management work on the registration and record-keeping of special-use cosmetics.
23 January 2014	Draft Seeking Public Opinion on Issue Regarding the Restructuring of the Registration Management of New Raw Materials for Cosmetics** 《關於調整化妝品新原料註冊管理有關事宜的通告（徵求意見稿）》	The China Food and Drug Administration	The CFDA aims to optimize the administrative licensing of new raw materials for cosmetics so as to safeguard consumers' health and encourage innovation in cosmetic industry.
12 May 2013	Announcement on Issues concerning the Restructuring of the Registration and Record Filing Management of Cosmetics*** 《關於調整化妝品註冊備案管理有關事宜的通告》	The China Food and Drug Administration	The Announcement specifies beginning 30 June 2014, the online record filing will substitute for the licensing system for domestic non-special use cosmetics, while the licensing system are still applicable to the manufacturing and import of special use cosmetics such as skin whitening and skin pigmentation reduction cosmetics.

* The China Food and Drug Administration - <http://www.sda.gov.cn/WS01/CL0846/98111.html>

**The China Food and Drug Administration - <http://www.sfda.gov.cn/WS01/CL0781/96377.html>

*** The China Food and Drug Administration - <http://www.sda.gov.cn/WS01/CL1434/95194.html>

IV. Snapshots of sub-sector performance



Background

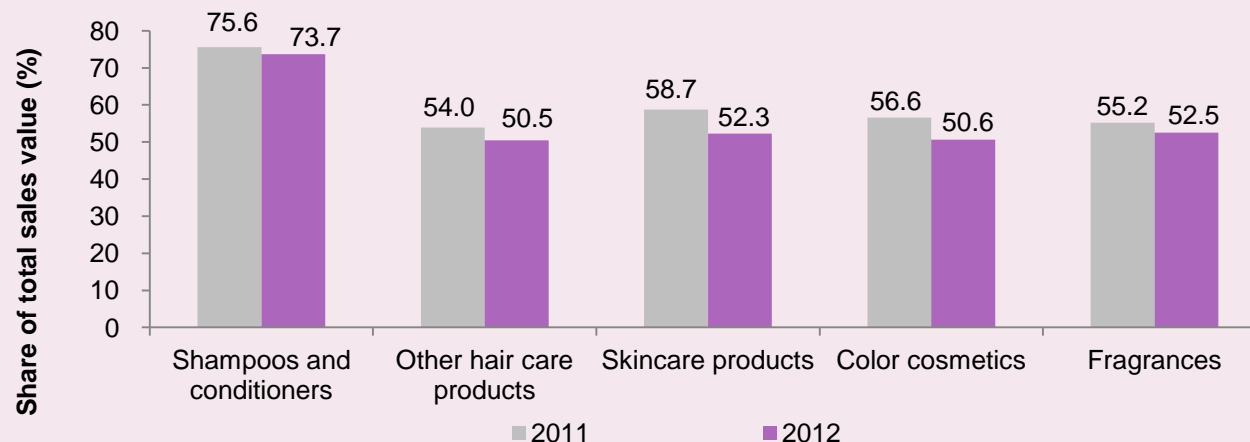
- ❑ The China National Commercial Information Centre (CNCIC) conducts monthly survey to around 200 major department stores* in China to study the performance of different cosmetics sub-sectors.
- ❑ In this newsletter, performance of 5 sub-sectors is examined:
 - Shampoos and conditioners
 - Other hair care products
 - Skincare products
 - Color cosmetics
 - Fragrances

**Note: It is noteworthy that the CNCIC data covers sales in major department stores only. Retailers of other formats such as professional and specialty stores are growing in popularity. The actual overall market share of cosmetics brands may deviate from the CNCIC data.*

China's cosmetics market in 2012 was generally less concentrated than the previous year

- ❑ The top 10 players in the 5 major sub-sectors achieved over 50% of the market share* in major department stores in 2012.
- ❑ The top 10 players in the shampoos and conditioners sub-sector had the highest market share among other sub-sectors, reaching 73.7% in 2012. The top 10 players in the skincare products sector had a share of 52.3% in 2012.

Exhibit 11: Market share of the Top 10 Brands of Selected Sectors, 2011-2012



Source: China National Commercial Information Centre (CNCIC)

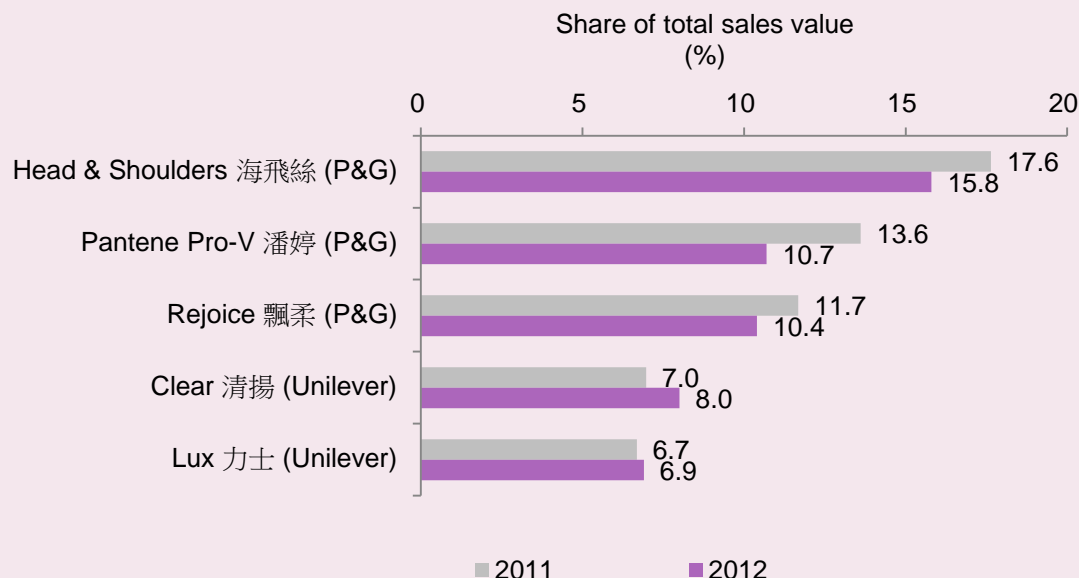
Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.

*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

Performance of selected product sectors (Cont'd)

- Exhibits 12-16 show the performance of the top 5 players in selected sub-sectors, including Shampoos, conditioners and 2-in-1 conditioning shampoos, other hair care products (colorants, hair mask & styling agents), skincare products, color cosmetics and fragrances.

Exhibit 12: Shampoos, Conditioners and 2-in-1 Conditioning Shampoo: Share of Total Sales Value 2011-2012

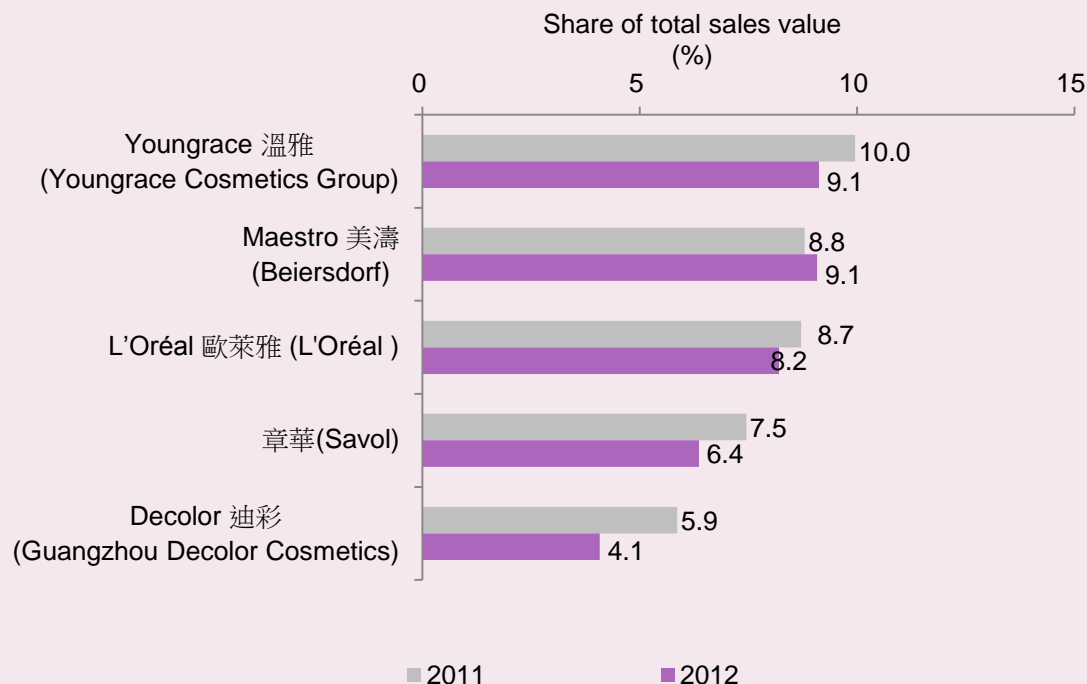


Source: CNCIC

Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.
*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

Performance of selected product sectors (cont'd)

Exhibit 13: Other Hair Care Products (Colorants, Hair Mask & Styling Agents): Share of Total Sales Value 2011-2012

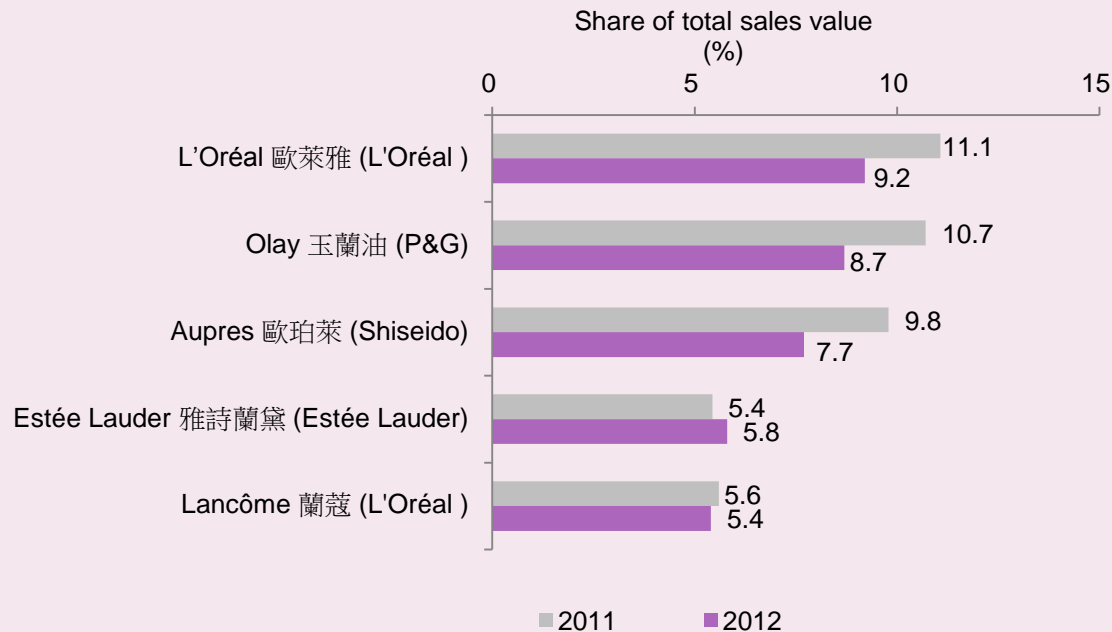


Source: CNCIC

Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.
*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

Performance of selected product sectors (cont'd)

Exhibit 14: Skin Care Products: Share of Total Sales Value 2011-2012

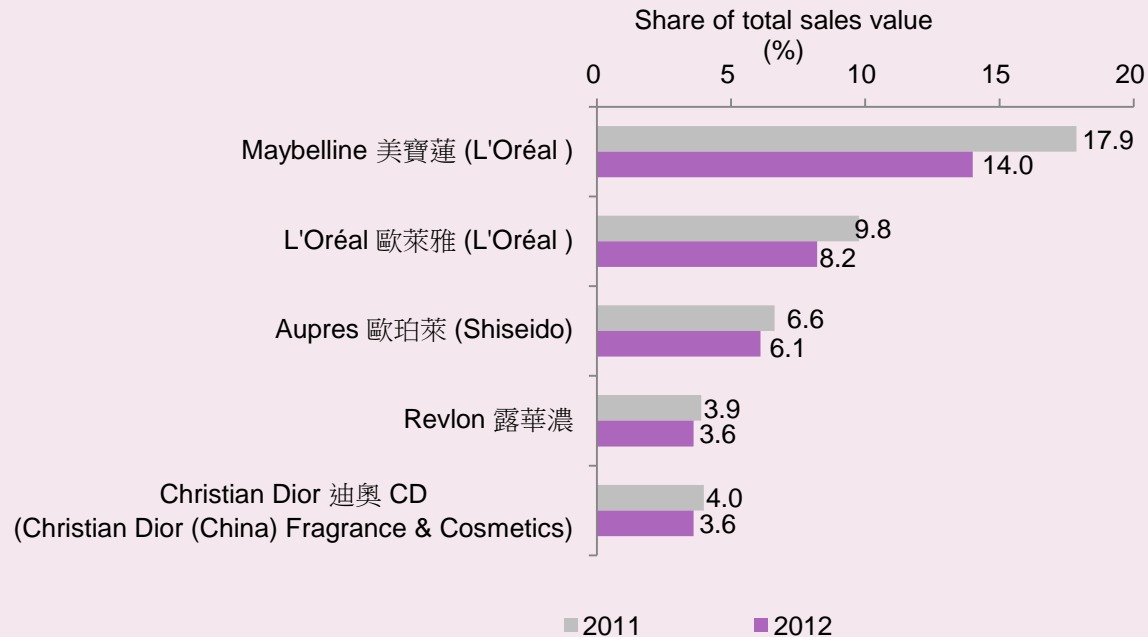


Source: CNCIC

Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.
*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

Performance of selected product sectors (cont'd)

Exhibit 15: Color Cosmetics: Share of Total Sales Value 2011-2012

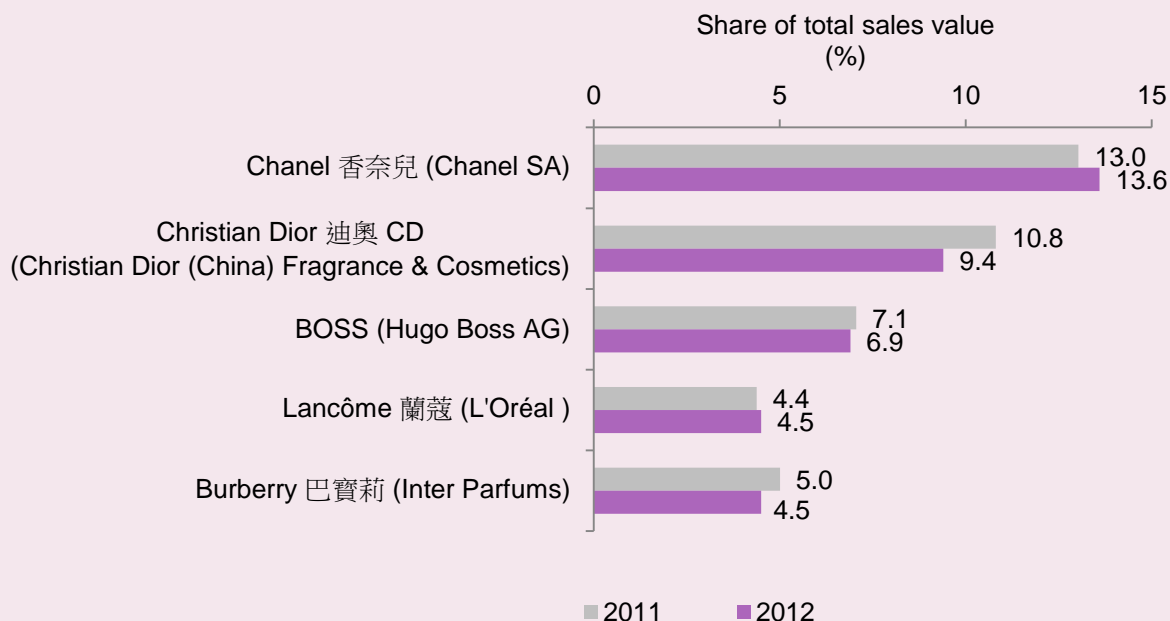


Source: CNCIC

Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.
*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

Performance of selected product sectors (cont'd)

Exhibit 16: Fragrances: Share of Total Sales Value 2011-2012



Source: CNCIC

Note: It is noteworthy that the CNCIC data covers sales in major department stores only. The actual overall market share of cosmetics brands may deviate from the CNCIC data.
*The market share is obtained based on the weighted mean of the market share and the market coverage, indicating the overall market share of cosmetics brands in China with regard to varying weights in different regions.

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