



Deloitte-Meituan
China Aesthetic Medicine
Market Outlook

Preface

In China, underpinned by the steady growth of consumer disposable income, consumer acceptance of aesthetic medicine consumption has gradually been boosted under the dual influence of consumption-upgrading phenomenon and increased consumer awareness due to novel digital media marketing advancements. Strong consumer demand for aesthetic medicine industry has been unleashed, propelling China's aesthetic medicine market to experience significant growth in the past years.

As the overall scale of aesthetic medicine market continues to expand, the government has constantly introduced policies to support the standardization of the aesthetic medicine industry. The regulation of the aesthetic medicine industry has been gradually tightened, accelerating the reshuffle of the industry. After experiencing the peak period of investment and equity financing, capital markets has further accelerated industry consolidation.

The main observations are as follows:

- China's aesthetic medicine market growth rate is higher than that of the global market. Although the growth rate has slowed down lately, the relatively low market penetration still present enormous room for future growth in Chinese market.
- Aesthetic medicine segmental consumer groups are dispersed across different dimensions, by means of region, age, gender, consumption capacity, etc. Categories and products of consumption varies, of which non-surgical items are the most popular options due to their high consumer stickiness and strong consumer inertia to repurchase.
- Although during the first quarter of 2020, due to the general disruptions caused by COVID-19 outbreak, aesthetic medicine has seen a temporary decline in popularity, with many offline medical aesthetic institutions being forced to close for business. However, with the gradual resumption of normal activities in the second quarter of 2020, the consumption enthusiasm has rebounded significantly. At the same time, the experience

of COVID-19 outbreak also accelerated the process of digitalisation of the aesthetic medicine industry, and is expected to reshape the industrial chain.

- Aesthetic medicine institutions are becoming more rational in the selection of access-to-market channels and delivery platforms, whilst increasing adopting high precision and more refined marketing methods to value-maximise the input-output effect. In general, growth in advertising spend were seen on all kinds of vertical aesthetic medicine apps, self-media and comprehensive integrated e-commerce platforms.
- After the rapid development during the past few years, the middle and lower streams of the aesthetic medicine industrial chain have entered an integration period, and the strengths of the top industry players are gradually becoming clearer. 2019-2020 has seen several leading aesthetic medicine companies successfully achieving capital market listing across upstream, midstream and downstream value chain segments.

With the gradual easing of the COVID-19 pandemic situation in China, the Chinese aesthetic medicine industry has displayed stable recovery across both its supply and demand chains in 2020. Looking ahead into 2021 and beyond, it is anticipated that China's aesthetic medicine consumer market will increase in sophistication and enter into a maturity phase of industry development, characterised with highly rational and smart consumers, widely diversified product supply choices, established regulatory environment, high precision marketing channels, and increasing profiles of leading professional institutions with high-quality doctors, offering more premium products and services better tailored to end-market customer needs to aid prospects of price differentiation. In conjunction with this, the growing market demand for aesthetic medicine and general aspirations for well-being and beauty aestheticism will act as the key cornerstones to stimulate further long-term development opportunities for relative fields of the industry eco-system, such as the suppliers of medical beauty materials and end-consumer products, new technological innovations, and proliferation of professional doctor education to alleviate labour shortage, etc.

Under the context of industry concentration, regulatory policy improvement as well as the remodelling of internet and new media channel platforms, we anticipate that Chinese aesthetic medicine industry will display the following key emerging development trends:

- **Industry reform and reshuffling will reshape the aesthetic medicine industry landscape pushing it to gravitate towards higher quality and practice standards** – With the roll-out of a series of aesthetic medicine industry policies, regulation in the industry has become stricter, with regulators making significant efforts to stamp out illegal businesses and move towards a long-term regulatory model. Such large-scale nationwide shake-out of illegal aesthetic medicine businesses will pave way for critical industry transformation, eliminate fierce lowballing price competition, and re-generate market room for legitimate aesthetic medicine players to penetrate and tap into;
- **Most aesthetic medicine institutions will further develop through adopting standardized and reproducible store operation model** – Most Chinese aesthetic medicine institutions will strategically develop towards light aesthetic medicine due to low risk, short recovery periods and relatively low price. Aesthetic medicine chain brand institutions will simplify their categories of light aesthetic medicine products, create standardized SKUs and service processes, and facilitate the replication and expansion of chain stores and online marketing to achieve higher economies of scale and integration synergies to yield better margins. Thus, medical aesthetics industry consolidation is expected to further intensify in this particular market segment;
- **Other aesthetic medicine institutions will further develop through adopting high specialisation model** - Some aesthetic medicine institutions will continue to concentrate on cutting-edge plastic surgery and high-end light aesthetic medicine categories to maintain a leading position in the industry and improve their profit margin. When expanding into high-end light aesthetic medicine products, they have the advantage of access to quality doctors and a strong reputation. Such firms will continue to concentrate on heavy-duty and cutting-edge surgical

projects with high profit margins, and improve their technology standards. The barriers to entry formed on this basis allows such institutions to enjoy higher bargaining power and strong profit margins;

- **Proliferation of innovative digitalisation tools will improve industry transparency and information quality for aesthetic medicine consumers** – Chinese aesthetic medicine industry has seen a fundamental shift of marketing approach, migrating away from web-based advertising and traditional offline promotions towards the utilization of O2O APPs (e.g. MeiTuan Aesthetic Medicine, So-Young, Tmall Aesthetic Medicine, GengMei etc.), short-term videos and social media networking platforms to connect with consumers. In addition, the emergence of the internet influencers industry also further drove the efficient delivery of information to the end-market consumers, creating higher transparency and better information quality, which ultimately result in rest-assured and easier consumer decision-making. Aesthetic medicine institutions and suppliers are recommended to rapidly embrace digital innovations within its core marketing strategy and adapt swiftly to new ways to connect with end-market customers in order to achieve higher precision marketing and to remain "current" in the eyes of highly informed and increasingly rational consumers;
- **Sustained level of interests in M&A opportunities will continue in the aesthetic medicine industry with institutional investors of leading companies seeking to achieve capital market exits** – From 2016 through 2020, both the primary and secondary fund raising markets of China have seen sustained waves of successful equity financings in the forms of both pre-IPO M&A transactions by PE/VCs and A-share market listings. It is expected that high market valuation multiples and relatively positive and robust post-listing secondary market performance will continue to stimulate interests in pre-IPO M&A activities as well as strategic acquisitions to create integration synergies and maximise shareholders' wealth in the aesthetic medicine industry.

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Part 1: Overview of aesthetic medicine industry, market size and growth rate



1.1 Aesthetic medicine industry overview

Beauty Cosmetology falls into two categories: life cosmetology and aesthetic medicine. Life cosmetology refers to non-invasive beauty care aiming to nurture the body via non-medical means, such as skin care and massages; it includes cosmetics, health products, and non-medical devices. Aesthetic medicine aims to “repair and reshape the human appearance and body parts by invasive medical techniques such as surgery, drugs, and medical devices”.

Aesthetic medicine can be further divided into cosmetic surgery, cosmetic dentistry, cosmetic dermatology and cosmetic Traditional Chinese Medicine (TCM). Cosmetic dermatology enjoys the greatest demand and most rapid development. It can also be divided into surgical and non-surgical intervention, where surgical intervention mainly involves altering the appearance of breasts, faces and other body parts, and non-surgical intervention (also known as light aesthetic medicine) mainly includes injection products and

skin products. Non-surgical products have become widely regarded and respected, as they have low trauma impacts, quick recovery times and are low risk. In general, aesthetic medicine institutions established with the approval of the Department of Health can carry out either of the above two types of services.

Classification of aesthetic medicine products

Category	Subdivision	Products
Surgical	Plastic surgery	Eye surgery (blepharoplasty, lacrimar sulcus filling, frown line removal, palpebra inferior filling)
		Rhinoplasty (augmentation rhinoplasty, nasal deviation correction, nostril correction, nose reconstruction, nose reshape, aquiline nose correction)
		Breast surgery (breast enhancement, breast prolapse correction, and nipple and areola plastic surgery)
		Liposuction (abdominal liposuction, hip liposuction, arm and leg liposuction)
		Facial reshaping (mandibular plastic, face modification, face thinning, and facial depression filling)
		Others (repair of harelip and cleft palate, and hair transplant)
Non-surgical	Injections	Aqua lifting, Botox, hyaluronic acid filling, whitening, microneedles, and lipodissolve
	Skin cosmetology	Non-invasive rejuvenation (radiofrequency, thermo lift, thermage, ultrasound knife, and photorejuvenation)
		Laser (picosecond, lattice laser, laser mole removal, and laser hair removal)
		Other (line engraving, glycolic peeling, and acne treatment)
	Other	Tattoos (eyebrow tattooing, lip moisturizing, and eyeline tattooing)
Aromatherapy spas (mineral springs, milk baths, flower baths, Chinese herb baths)		
Skin care (deep cleansing, anti-wrinkling, skin whitening, removing acne and moles, etc.)		
		Body care (body whitening, scrapping, massage, lymphatic drainage, eye care, etc.)
		Slimming (bodybuilding, postpartum slimming, breast enhancement, leg slimming, breast beautification, meridian dredging, and body care)

Source: ISAPS, Aesthetic Medicine Classification Management Directory, 36Kr, Frost & Sullivan, Essence Securities Research Center

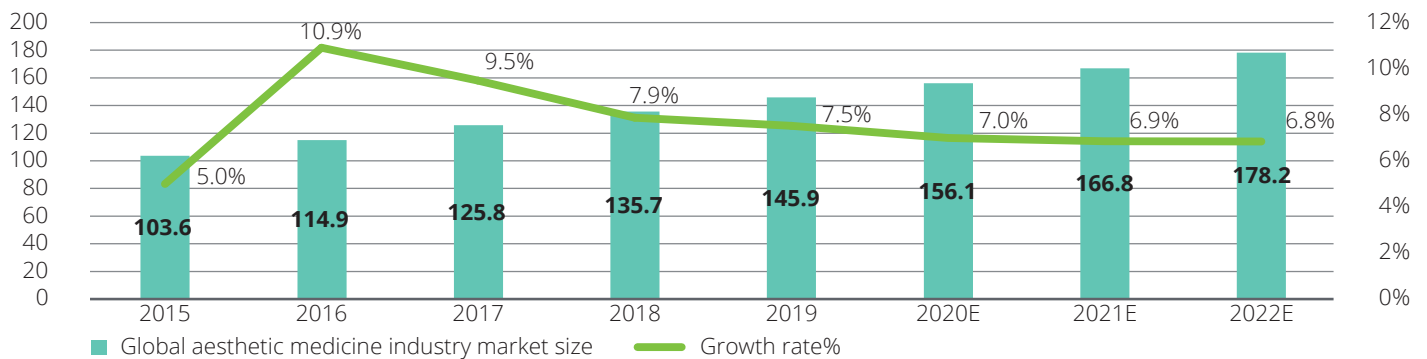
1.2 The scale and changing trends of the global and Chinese aesthetic medicine markets

1.2.1 The global aesthetic medicine market is expected to maintain a growth rate of about 7% in the future.

From 2015 to 2019, the global aesthetic medicine market grew steadily, with a compound annual growth rate (CAGR) of around 8.2%. In 2019, the global market was worth US\$145.9 billion, up 7.5% from the previous year. In the future, the global aesthetic medicine

industry is expected to maintain a growth rate of around 7%, and the market size will reach US\$178.2 billion by 2022 (without considering the impact of COVID-19).

Global aesthetic medicine industry market size from 2015 to 2022 (billion US dollars)



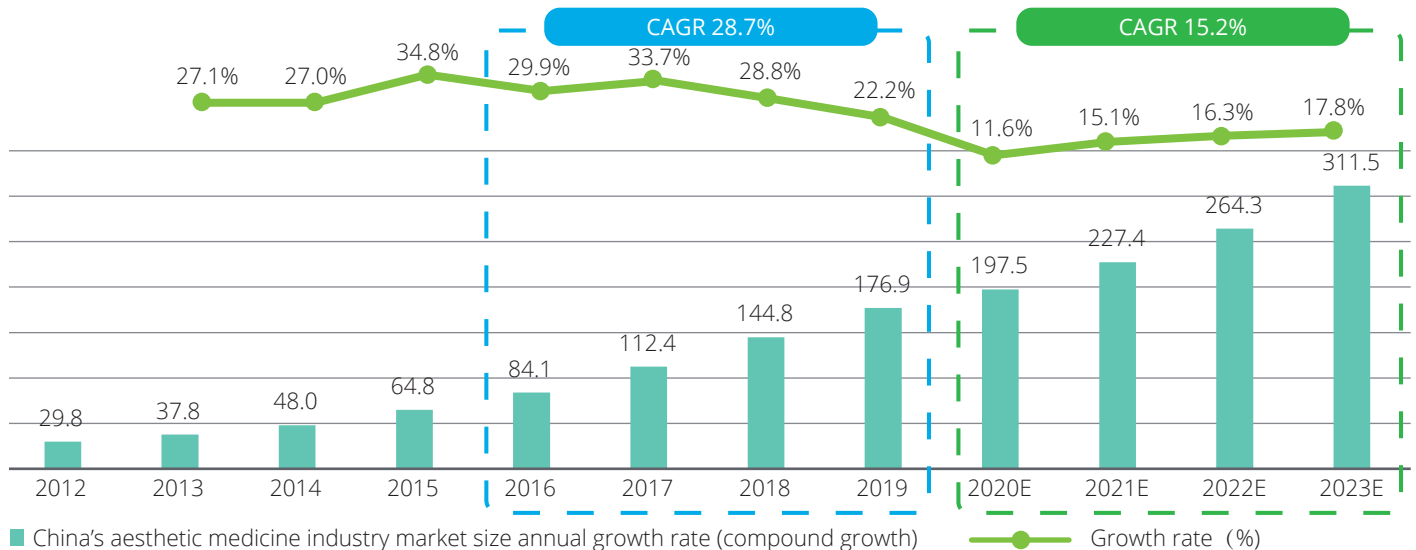
Source: ISAPS, Frost & Sullivan, Essence Securities Research Center

1.2.2 In the past decade or so, China's aesthetic medicine market has outpaced the global market, though growth has slowed in recent years. However, in terms of market penetration, there is still vast room for improvement in the market.

According to data from iResearch, from 2015 to 2019, the growth rate of Chinese aesthetic medicine demand was among the highest in the world. The market grew from RMB 64.8 billion in 2015 to RMB 176.9 billion in 2019 – an impressive 28.7% CAGR. However, due to the impact of COVID-19 and oversupply in the market, industry

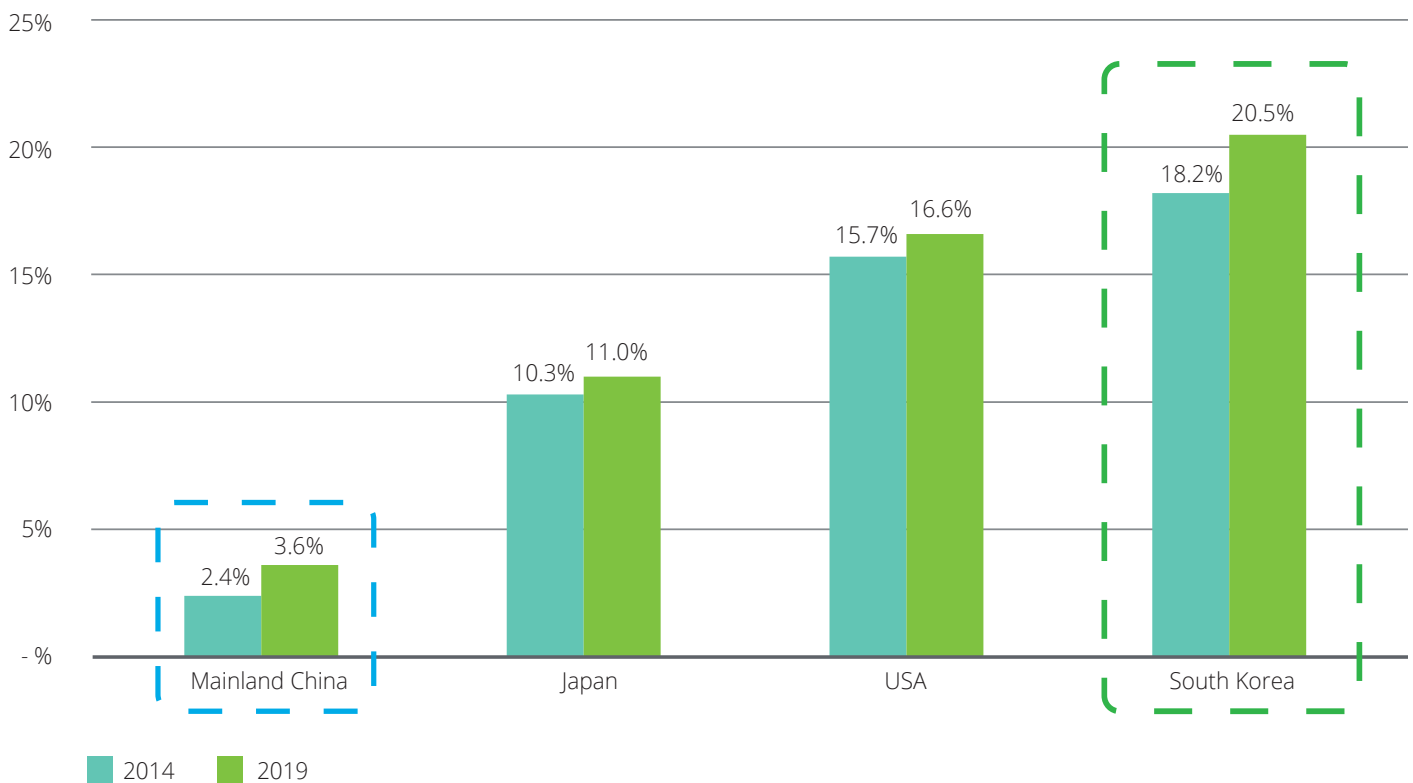
growth began to slow in 2018. The CAGR between 2020 and 2023 is projected to fall to 15.2%. Nevertheless, iResearch predicts that the market will gradually recover after 3-5 years, bolstered by industry self-adjustment and reform. By 2023, China's aesthetic medicine market will reach RMB 311.5 billion in revenue.

China's aesthetic medicine market from 2012 to 2023 (unit: RMB billion)



Source: iResearch Consulting, Guangfa Securities Development Research Center

Market penetration of aesthetic medicine in different countries



Source: Founder Securities, Essence Securities, Tou Bao Research Institute

In terms of market penetration, there is still large room for improvement in the categories of Chinese aesthetic medicine. In 2019, the market penetration rate in Mainland China was 3.6%, which is significantly lower than that of Japan, the United States and South Korea markets. Thus in the future, there is broad room for growth in the penetration rate of Chinese aesthetic medicine industry.

1.3 Legal compliance amongst Chinese aesthetic medicine institutions is relatively low

China's aesthetic medicine industry is dominated by private hospitals. According to China's Health Statistics

Yearbook, in 2018, there were 451 plastic surgery hospitals and aesthetic medicine hospitals in the nation, having grown 11.9% over the previous year. iResearch furthermore estimates that in 2019 there were 13,000 aesthetic medicine institutions (e.g. hospitals, out-patient department and clinics).

However, online rumours suggest that the number of black market clinic could be up to four times the number of authorised clinics, which is indicative of the chaos the industry has experienced under its years of breakneck growth. Against this background, the Chinese Association of Plastics and Aesthetics launched its institution rating system in

2016. In 2018, about 180 institutions from nine provinces participated in the rating system, expanding to 12 provinces the next year. However, compared to the country's more than 10,000 medical institutions, there are less than 100 A-level institutions. Reviews of institution in the industry is thus progressing slowly.

Part 2: Aesthetic medicine user profile and consumption trends



2.1 Shanghai and Beijing lead the country in the consumption of aesthetic medicine. In general, the industry is more popular in southern cities compared to northern cities

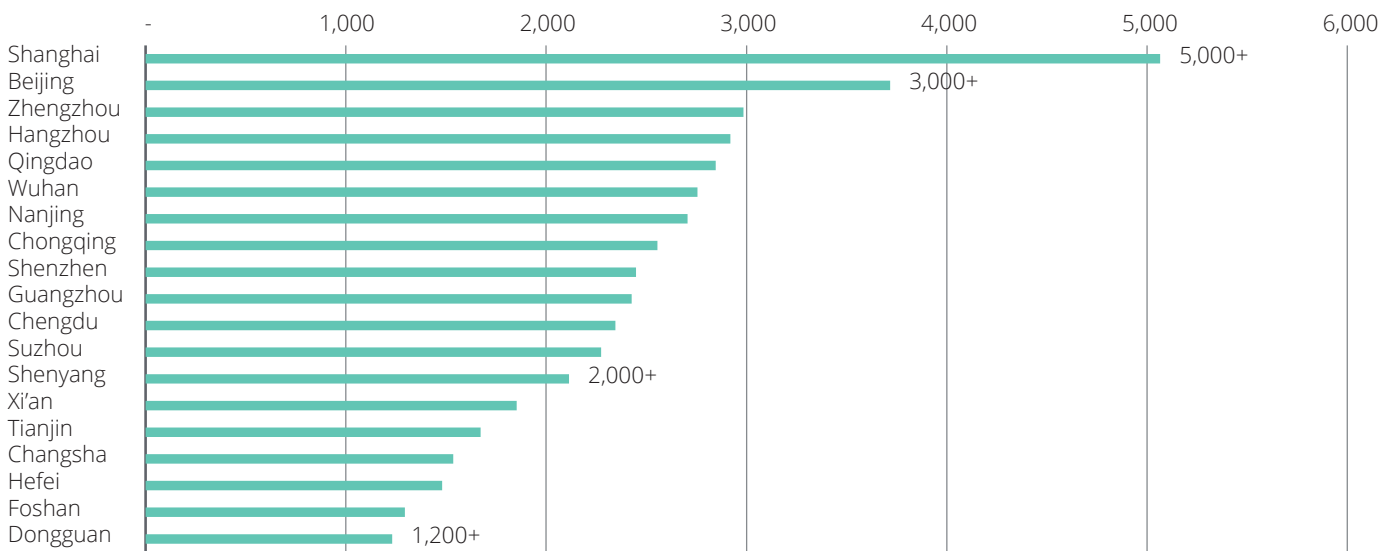
In terms of spending per customer, Shanghai leads the pack. In 2019, Shanghai aesthetic medicine consumption per customer transaction was RMB 5,067 – 1.36 times that of the next best city, Beijing. Shanghai and Beijing, two "super" first-tier cities, have higher per customer revenue

than other areas. Other first-tier or newly first-tier cities, such as Shenzhen, Guangzhou, Chengdu and Hangzhou, have relatively smaller differences in per customer revenue. Looking at the trend across cities, overall consumption levels in the south of China are higher than the north.

In terms of order volume, the order volumes in Beijing, Shenzhen, Shanghai, Chengdu and Guangzhou are significantly higher than those of second- and third-tier cities. Beijing

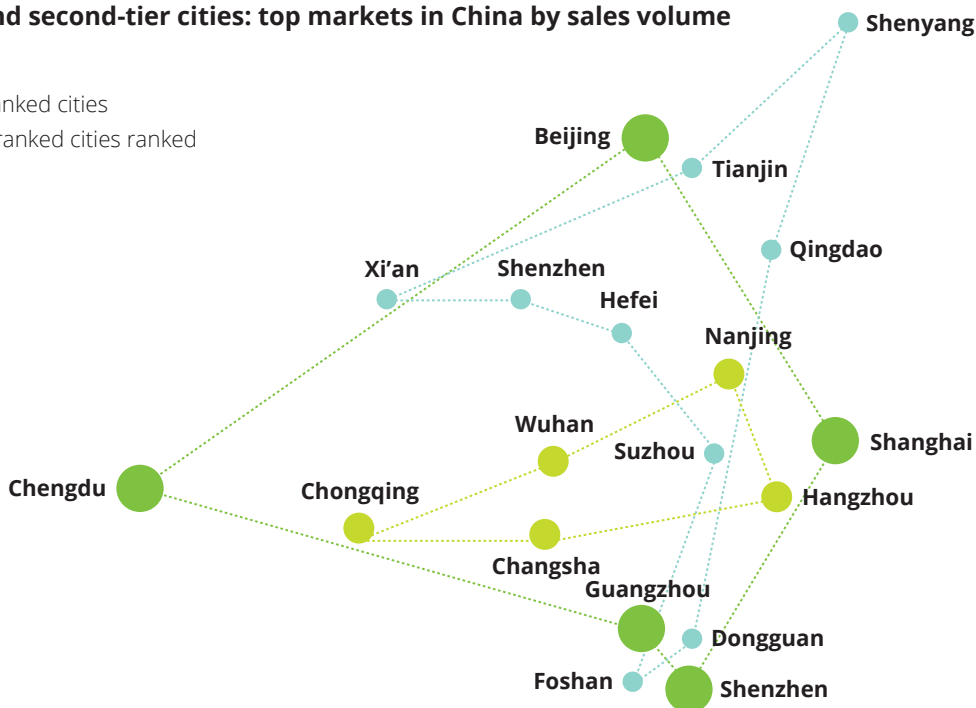
has 36% higher order volume than Shenzhen, followed by Chengdu then Guangzhou. Among the second-tier cities, overall order volume in southern city is around 2.5 times that of the northern cities, showing significant differences in spending patterns. Combined with the spending per customer analysis, in Beijing, Shenzhen, Chengdu and Guangzhou, compared to Shanghai, Hangzhou, Chongqing, consumption structure is more concentrated in relatively low priced products.

2019 First- and second-tier cities: Average spending per customer (unit: RMB)



2019 First- and second-tier cities: top markets in China by sales volume

- Top five cities
- 6th to 10th ranked cities
- 11th to 19th ranked cities ranked



Source: Meituan

Note: The selection criteria of first- and second-tier cities is based on the selection criteria used by China Business Weekly in 2019

2.2 Women aged 20-35 are the main driver of consumption, but mature female consumers have higher average spending levels

Female consumers aged 20 to 35 years old are the main driver of overall consumption; however, the proportion of male consumers has increased slightly in recent years.

In general, the majority of aesthetic medicine consumers are female (89% in 2018 and 87% in 2019). Women aged 20 and 35 years old account for about three quarters of consumers.

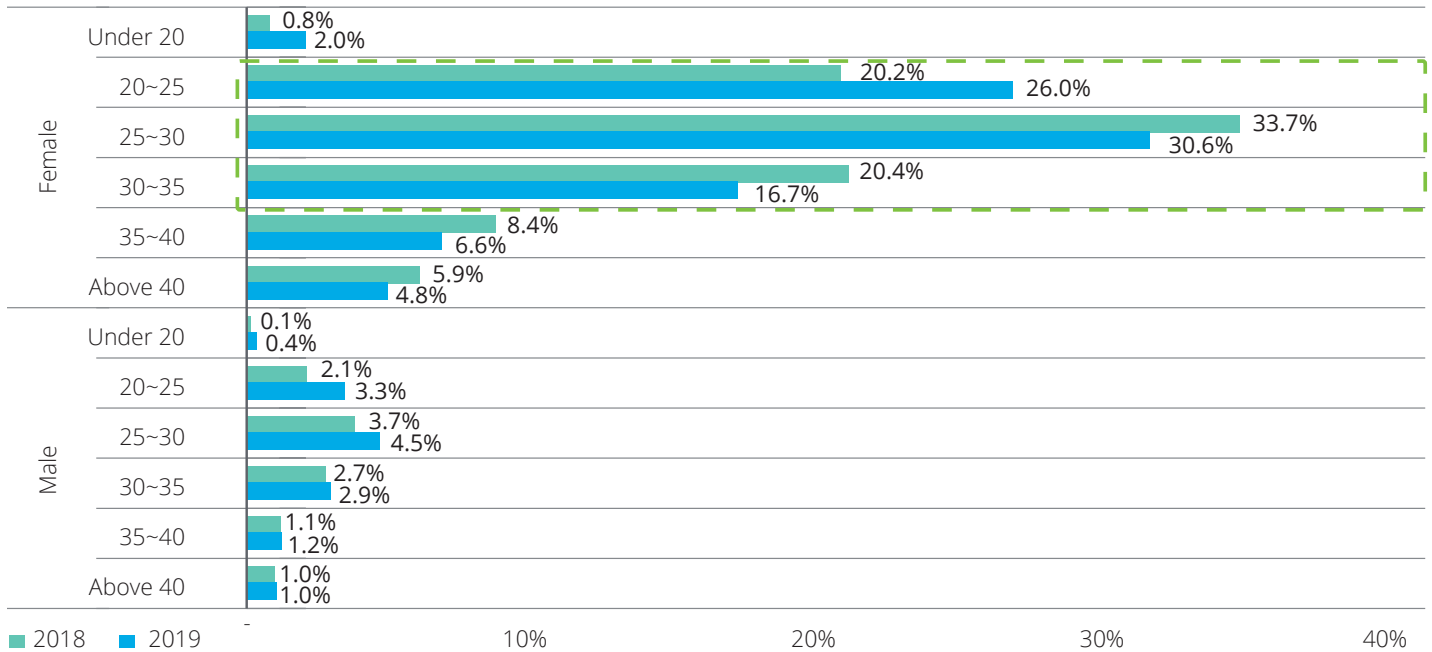
The proportion of female consumers under 20 is increasing and the proportion of female consumers over 35 is decreasing. The average age of consumers is thus becoming younger. In recent years, the proportion of male consumers has increased slightly (from 10.6% in 2018 and to 13.3% in 2019). Their age distribution largely mirrors that of female consumers.

Average consumption per customer gradually increases with age, with average consumption levels

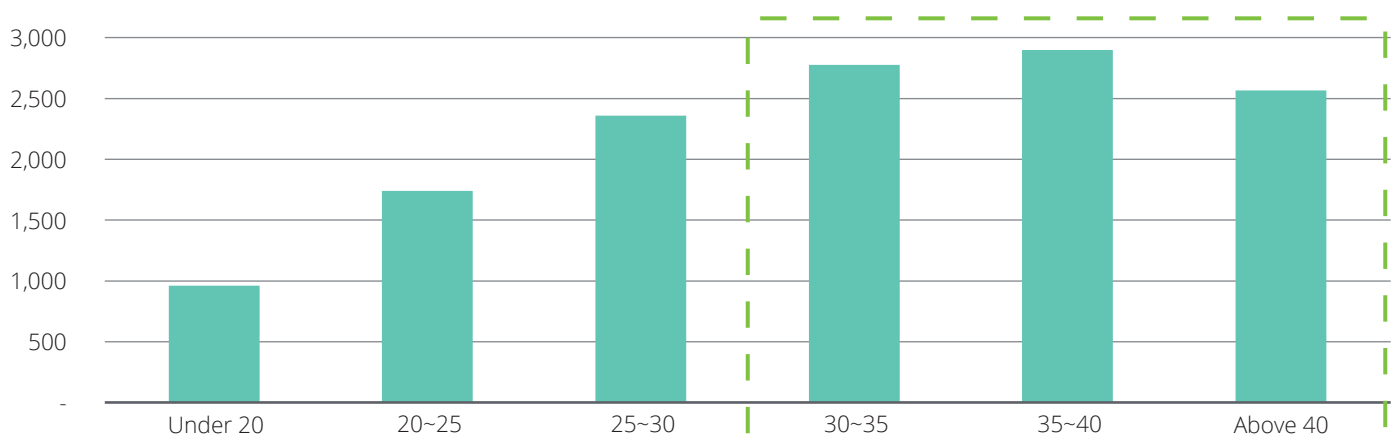
highest for customers aged 30 to 40.

Initially, the average level of consumption increase as customers move up their age groups. It reaches its peak with the 35-40 years old age group, then declines slightly for consumers over 40. Although the proportion of people aged between 20 and 25 years old is increasing, their average spending power is relatively low.

Age and gender distribution of aesthetic medicine consumers from 2018 to 2019



Distribution of average aesthetic medicine revenue per customer by age group in 2019 (unit: RMB)



Source: Meituan

2.3 "Light" aesthetic medicine projects have become a favourite of consumers, enjoying high customer stickiness

Skin beauty, hair removal and botox are the most popular products among consumers, far surpassing the popularity of any other products.

Skin beauty is undisputedly the most popular category of products. This is followed by hair removal, which boasts about 57% of the sales volume the former, then botox (with around 27%).

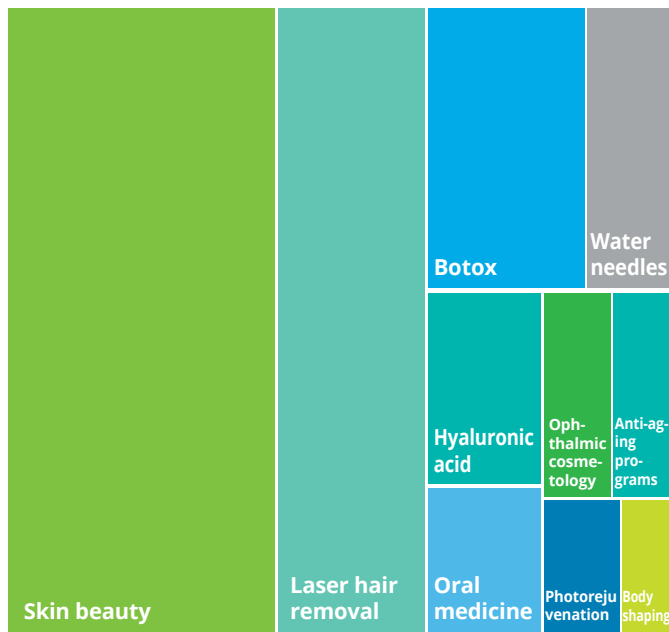
The sales volumes of the top three items are far greater than that of other product type. The top 10 products are mainly non-invasive "light" aesthetic medicine products, such as injections, which are relatively low risk and are therefore popular with consumers.

Non-surgical products are generally safer and less expensive and enjoy high consumer stickiness.

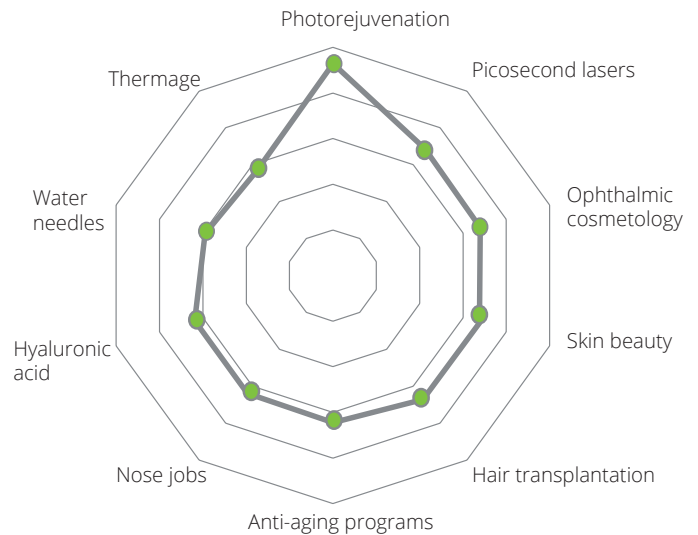
Non-surgical items are favored by consumers due to their relative safeness and low average price. Such

products generally do not require high levels of maintenance. They enjoy high consumer stickiness with strong re-purchase rates. Of all the products, photorejuvenation boasts the the highest re-purchase rate. Eye and nose plastic surgery are the most popular surgical products with high customer demand for restoration or improvement.

Top 10 aesthetic medicine products by sales volume in 2019



Top 10 re-purchased products in 2019



Source: Meituan net

2.4 In the second quarter of 2020, focus on aesthetic medicine increased, and consumption is gradually picking up

Due to the impact of the COVID-19, in the first quarter of 2020, customers did not focus heavily on medical aesthetics; however, in the second quarter, demand recovered significantly.

From January to March 2020, the pandemic was at its most severe point, and consumers' attention on aesthetic in general decreased significantly, shelving their consumption plans. In

the second quarter, the pandemic was brought under control in China. The restriction placed on hospitals, shopping malls, office buildings and other public places were eased, the overall social activity picked up. Potential consumers regained interest and focus on aesthetic medicine increased.

In the first half of 2020, the consumption gradually picked up, while average revenue per customer was relatively stable.

Affected by the pandemic, the number

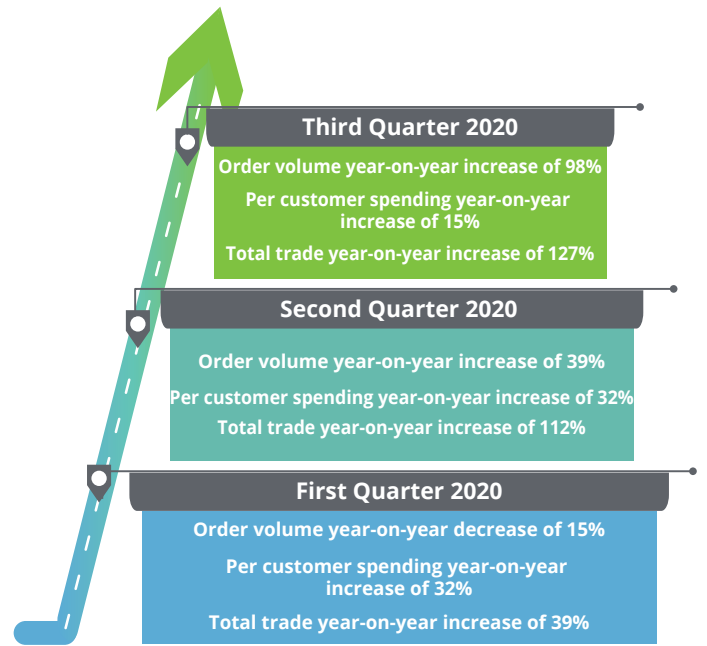
of orders was significantly lower compared with the same period of last year. With the alleviation of the pandemic in China, the number of orders and online transaction volume of aesthetic medicine in the second quarter of 2020 increased significantly, while average revenue per customers was relatively stable.

Interest in aesthetic medicine in the first three quarters of 2020



Source: Meituan

Consumption of aesthetic medicine in the first three quarters of 2020



Source: Meituan

2.5 Increasing popularity of skin management and anti-aging management products such as hair removal, acne removal, photorejuvenation, picosecond lasers, thermage, etc

Photorejuvenation and thermage became the hottest search categories of the year.

In 2019, the most searched aesthetic medicine keywords on e-commerce platforms focused on hair removal, microfoam cleansers (xiaoqipao),

thermage and face-lift needles. "Thermage" and "photorejuvenation" were the hottest search category for 2019.

There were clear differences in product demand among different age groups.

Consumers over 30 were keen on thermage, while consumers under 30 tended to prefer picosecond lasers and photorejuvenation. Consumers under 30 years old prefer entry-level

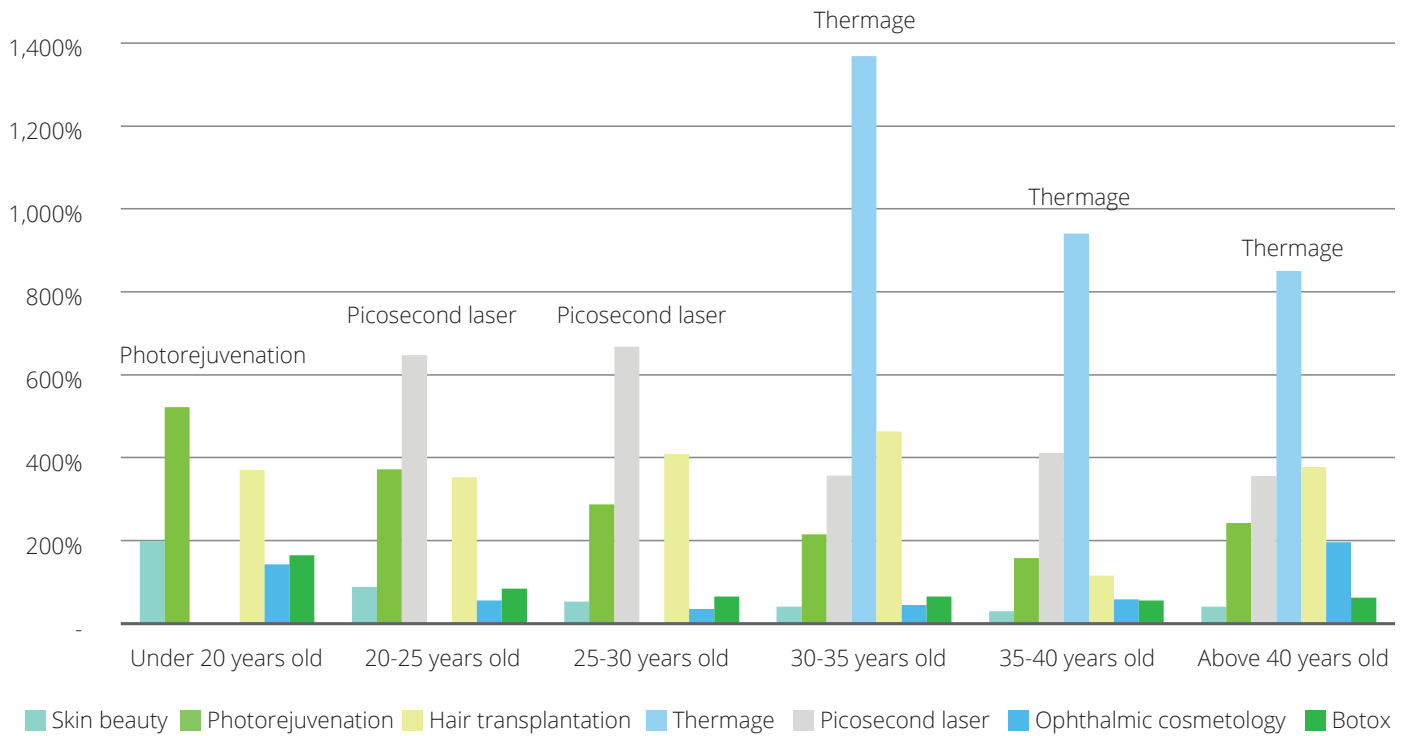
optoelectronic medical cosmetic products, such as photorejuvenation, picosecond lasers. Consumers over 30 years old have increased demand for anti-aging products and have higher spending power. High-end anti-aging projects, such as thermage, have become a hot spot for consumption growth.

Demand for hair transplants has increased for all ages.

Top trending medical cosmetic search terms on Meituan in 2019

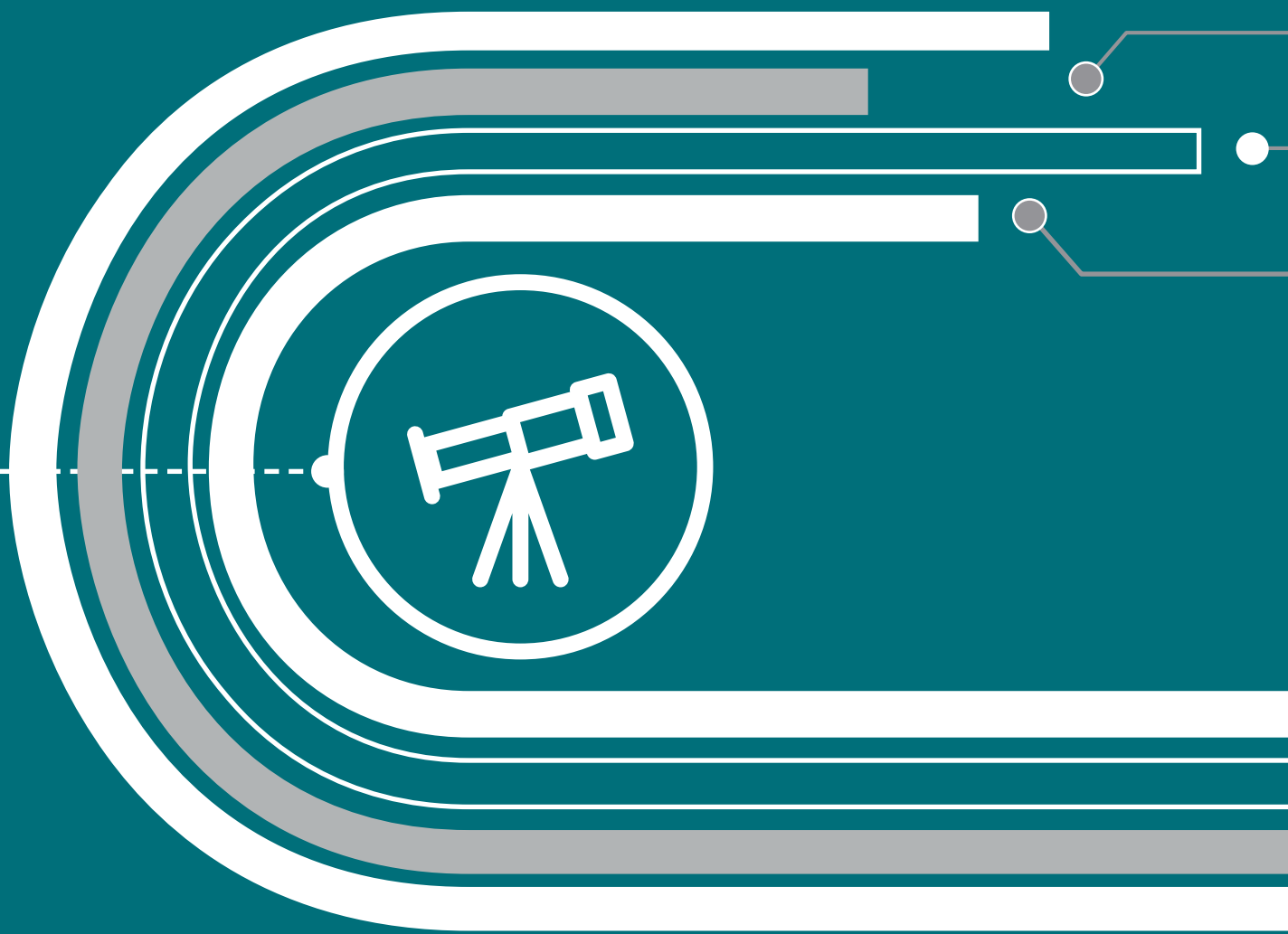


Year-on-year sales growth in the first three quarters of 2020



Source: Meituan

Part 3: Value chain structure and outlook for aesthetic medicine organizations



3.1 At present, the profitability of aesthetic medicine institutions is relatively tight: staff salaries, material consumption and marketing expenses are the top three costs, together accounting for about 70% of the revenue.

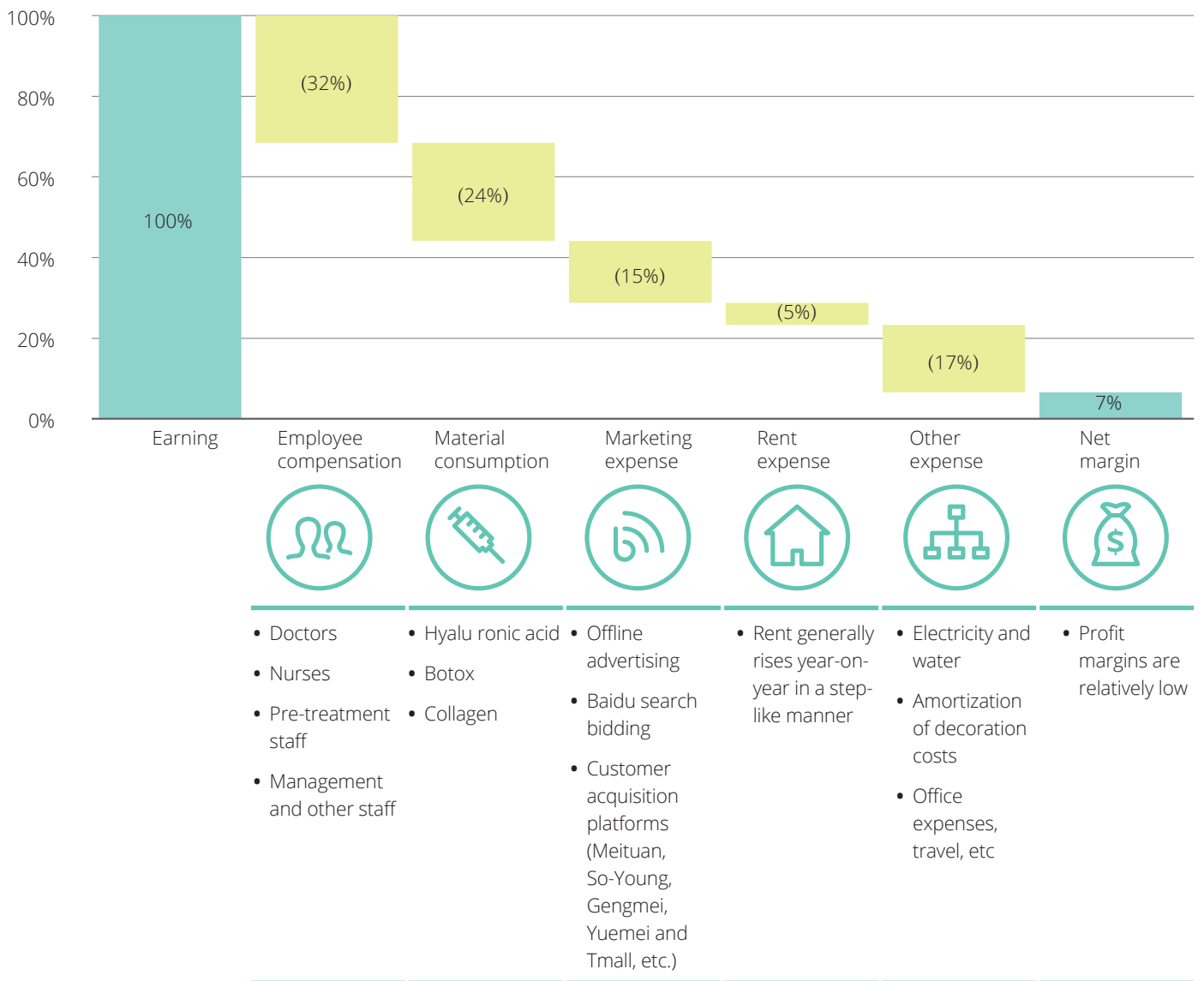
The industry chain of the aesthetic medicine industry includes three core links: 1) Upstream suppliers of

beauty composition materials, drugs and medical cosmetic equipment, mainly engaged in the research, development and production of raw materials such as hyaluronic acid, botox and laser beauty equipment.

2) Midstream aesthetic medicine institutions, including the plastic surgery department of public hospitals, private aesthetic medicine hospitals

and numerous small diagnosis and treatment institutions. 3) Downstream aesthetic medicine service platforms, including advertising media, offline beauty salons, online search engines and online e-commerce platforms that provide the end-consumers with aesthetic medicine information and guide them to the aesthetic medicine service institutions.

2019 Top medical cosmetic institutions' cost structure



Source: Deloitte Analytics

Although the transaction volume is concentrated in midstream institutions, the profit level of aesthetic medicine service institutions is not high. Much of it is eroded by the cost of consumable drugs and channel expenses. From

a value distribution point of view, upstream consumables and drug costs account for about 24% of the revenue of the top aesthetic medicine service institutions, while downstream marketing expenses account for

another 15%. After deducting the labor costs, rent expenses and other operating and administrative expenses, the net profit of the top aesthetic medicine service institutions is only around 7%.

3.1.1 The upstream market is highly concentrated, reducing the bargaining power of midstream medical cosmetic institutions

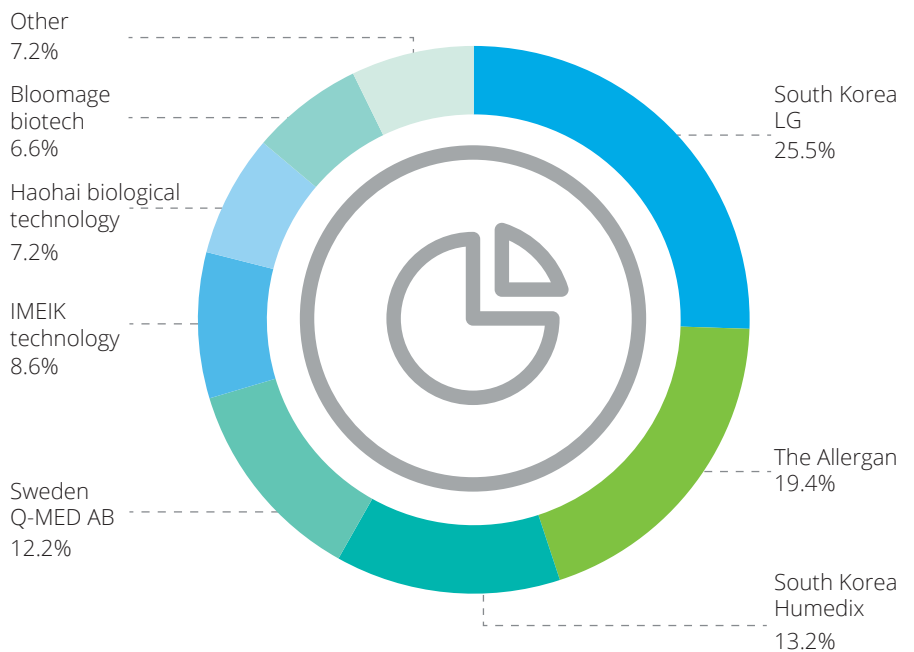
Aesthetic medicine consumables mainly include hyaluronic acid and botox for injection products. Due to high entry barriers in the upstream industry, the relatively strict management of the National Medical Products Administration and the high concentration of manufacturers, the procurement price of aesthetic medicine institutions is relatively fixed and midstream institutions' bargaining power is limited.

Botox:

- Botox approved for market as of September 2020:
 - Imports from the United States
 - Homegrown Lanzhou Hengli
 - Ipsen Dysport (Approved in June 2020)

Hyaluronic acid: As of September 2020, there were 18 hyaluronic acid manufacturers whose products have been certified by the National Medical Products Administration, including eight imported manufacturers and 10 Chinese manufacturers (including two from Taiwan). The three leading manufacturers occupy a majority of the market share.

Proportion of hyaluronic acid for injection sales in China



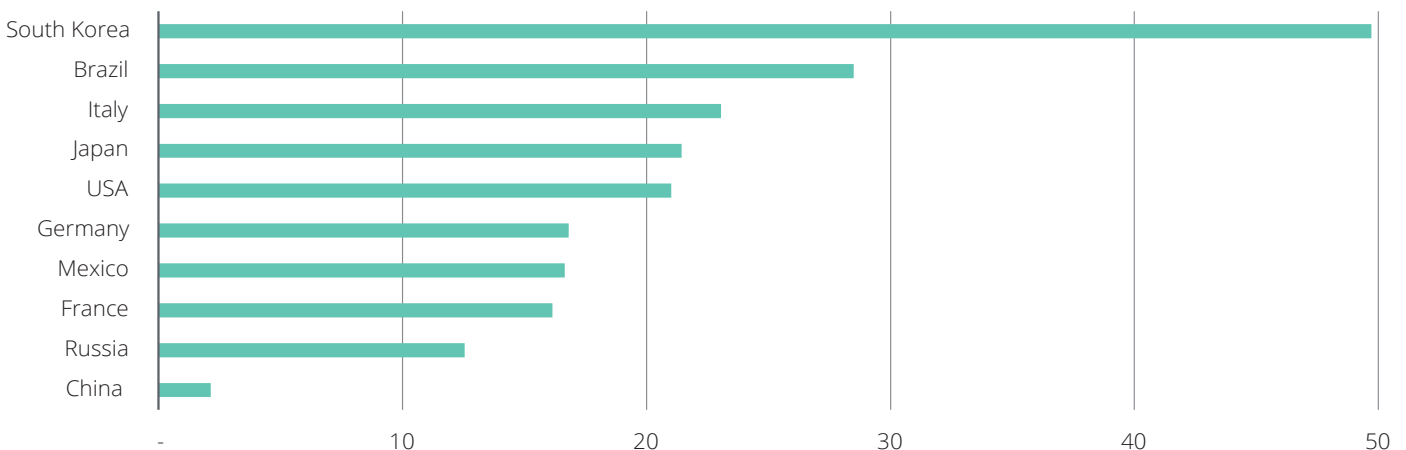
3.1.2 There is a shortage of professional doctors in mid-stream medical institutions and high labor costs

Compared with the fast-growing aesthetic medicine market, China's professional plastic surgeons are scarce, and the number of medical doctors per million people is much lower than that of the rest of the world. It is difficult to overstate the size of this gap. In the meantime, professional plastic surgeons are concentrated

in formal institutions – most of the doctors in informal institutions lack professional qualifications. Due to long time it takes to become a plastic surgeon, in the short-term the gap is unlikely to be filled anytime soon.

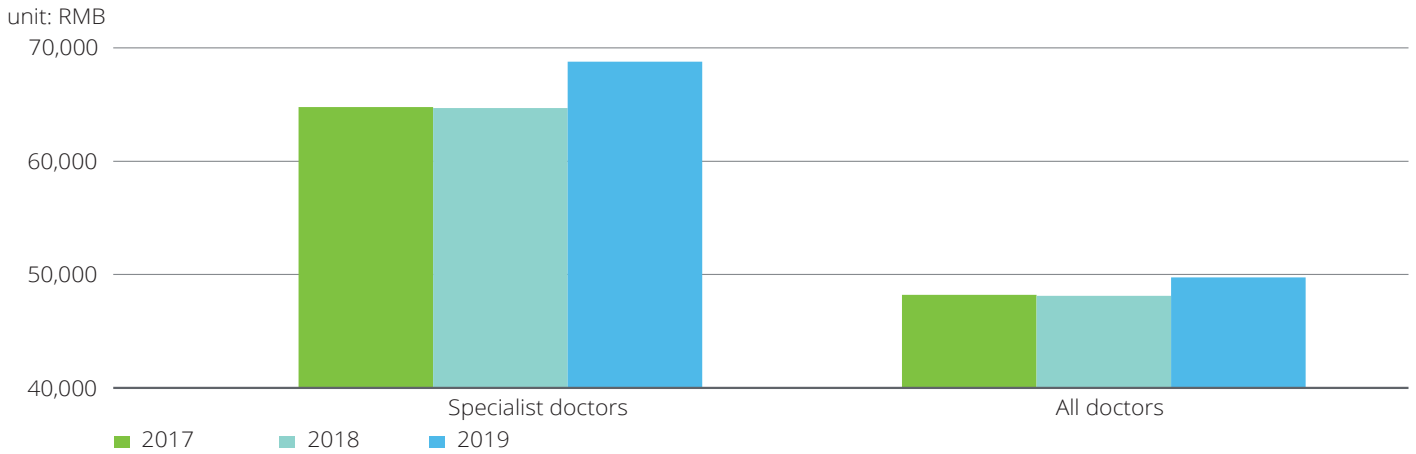
As a result, the mobility of aesthetic medicine practitioners is high. The salaries of doctors, especially specialists, are likewise strong.

Plastic surgeons per million people in major countries, 2019 (unit: doctors)



Source :ISAPS, National Bureau of Statistics, Tianfeng Securities

Average monthly salary of doctors of leading medical institutions



Source: Deloitte Analytics

3.1.3 Downstream customers mainly rely on low prices, competing for market share through price wars

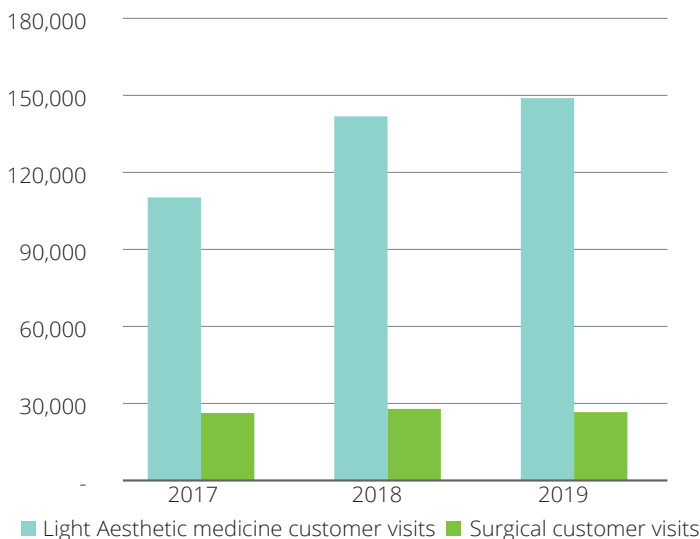
Due to the large number of participants in the medical cosmetic service market, the number of medical cosmetic institutions has increased drastically, and the market is highly competitive. Downstream players mainly attract customers through low-priced products, seeking to attract customer flow, and guide customers

to re-purchases through increasing discounts and bundled packages.

At the same time, looking at the upstream supply side, as more domestic manufacturers join the competition, there is room for price reduction. This combination has led to a decline in the average spending per customer in the two main categories of plastic surgery and injections in recent years.

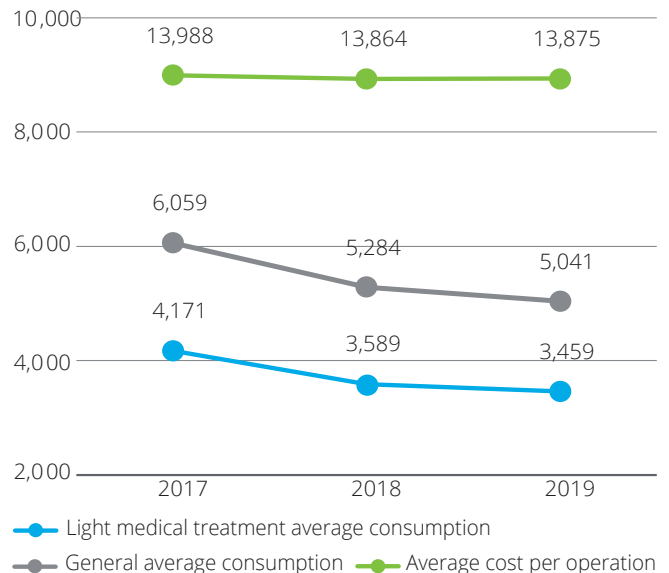
Although low prices have brought a rapid increase in customers, the decline in average spending per customer and an increase in customer acquisition costs have further damaged the profitability of medical cosmetic institutions. At the same time, in the long run, customers acquired via low price deals are usually more sensitive to price, and do not value branding and services as much. So it is difficult to develop customer loyalty with them.

Customer numbers of the leading medical institutions



Source: Deloitte Analytics

Average consumption amount per customer visit of leading medical institution (RMB)



Source: Deloitte Analytics

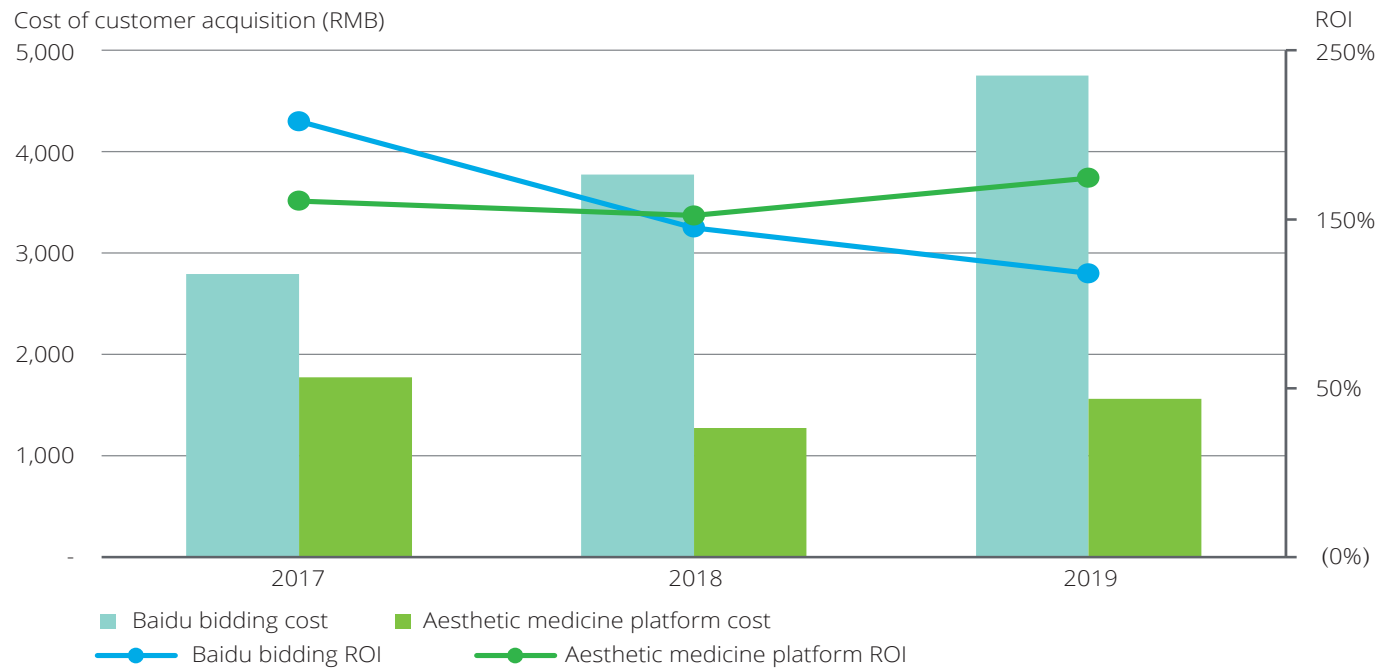
3.1.4 The ROI of the medical cosmetic platforms increases year-on-year, and more aesthetic medicine institutions choose customer acquisition channels based on the actual impact of the customer acquisition efforts.

Historically, medical aesthetic institutions mainly used traditional

advertisements and search engines to gain customers, this lead to crude matching and excessive marketing. Due to the unbalanced supply and demand for search engine ads, the bidding price of ads has risen, worsened by search engine scandals ; the customer acquisition cost of Baidu's channel increases day by day, while the ROI

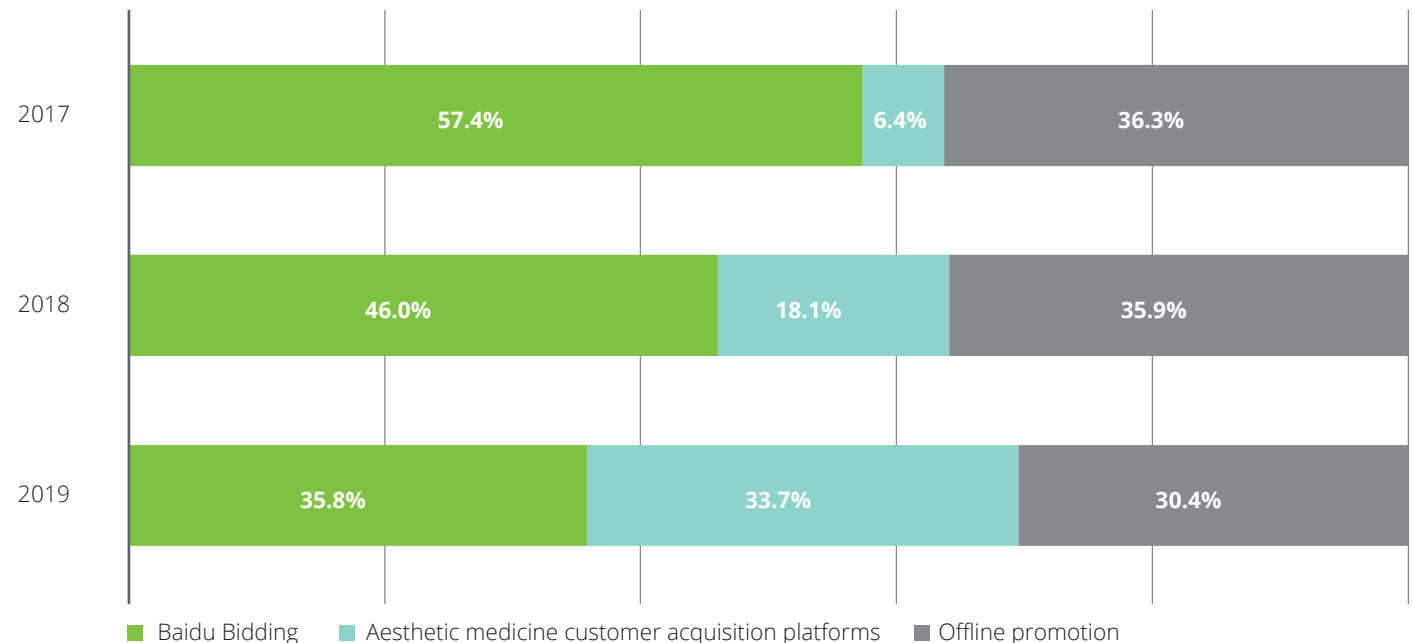
drops year by year. On the other hand, due to their high-precision marketing, the ROI of medical cosmetic customer acquisition platforms (such as Meituan Aesthetic Medicine, So-Young, Tmall Aesthetic Medicine, etc.) is increasing year after year.

Online channel customer acquisition cost and ROI of the leading aesthetic medicine institution



Source: Deloitte Analytics

Promotion channels of leading medical institutions



Source: Deloitte Analytics

3.2 Overview of reforms to aesthetic medicine institutions

With the growing consumer awareness and rising consumer demand, aesthetic medicine institutions have accelerated the expansion of their light aesthetic medicine business, viewing it as their

main source of revenue growth in the future. At the same time, some aesthetic medicine institutions are focusing on high-end aesthetic medicine products and high-margin surgery, developing strong brands and investing in high-end technology.

As regulatory policies gradually improve and new internet channels are developed, aesthetic medicine institutions have become more rational and refined in their selection and delivery of marketing channels.



Data source: Based on interviews with leading aesthetic medicine institutions

3.2.1 The market will develop towards light aesthetic medicine and simplify its product categories

Light aesthetic medicine has both medical and aesthetic properties. Light aesthetic medicine products are characterized by low risk, short recovery periods and relatively low price – all of which makes them attractive to customers. At the same time, light aesthetic medicine has high consumption inertia and market stickiness.

3.2.2 Some aesthetic medicine institutions will continue to concentrate on cutting-edge surgery and high-end light aesthetic medicine categories to maintain a leading position in the industry and improve their profit margin

Some aesthetic medicine institutions with plastic surgery as their core business have positioned themselves towards high-end medical beauty services. When expanding into high-end light aesthetic medicine products, they have the

advantage of access to quality doctors and a strong reputation. Such firms will continue to concentrate on heavy-duty and cutting-edge surgical projects with high profit margins, and improve their technology standards. The barriers to entry formed on this basis allows such institutions to enjoy higher bargaining power and strong profit margins.

3.2.3 Institutions will develop standardized and reproducible store operation models

Institutions will develop standardized and reproducible store operation models. Medical aesthetics industry consolidation will further intensify. Aesthetic medicine chain brand institutions will simplify their categories of light aesthetic medicine products, create standardized SKUs and service processes, and facilitate the replication and expansion of chain stores and online marketing. Light aesthetic medicine is less dependent on doctors and more thus reproducible than heavy-duty plastic surgery.

3.2.4 The selection of customer acquisition channels will becoming more rational and refined, and oriented by input-output effect

Influenced by consumers' improving perception of the aesthetic medicine industry, the diversification of information channels for young consumers and the changing competitive environment of the industry, aesthetic medicine institutions becoming more rational when it comes to selecting customer acquisition channels. Their delivery platforms and methods will become more diversified and refined. Online customer acquisition channels have expanded from a just the Baidu platform to various vertical aesthetic medicine apps, service e-commerce platforms, comprehensive e-commerce platforms and other multi-channel platforms. Aesthetic medicine institutions' investment in aesthetic medicine apps/ e-commerce platforms shows an increasing trend.

Part 4:
Online aesthetic
medicine channels will
help the development of
the industry



4.1 Competition structure of aesthetic medicine online channels

4.1.1 Development history of aesthetic medicine online channels

Since 2016, aesthetic medicine industry online marketing has gradually moved from Baidu Bidding to various vertical mobile internet platforms.

Aesthetic medicine apps and their media platforms have become important platforms for aesthetic medicine institutions to obtain customer traffic. With the development of the aesthetic medicine market and the growth of consumer demand, Meituan Yimei, an aesthetic medicine

service e-commerce platform, and Ali Health, a comprehensive e-commerce platform, have successively entered the field, and developed rapidly with the advantage of mass userbases.

Before 2000

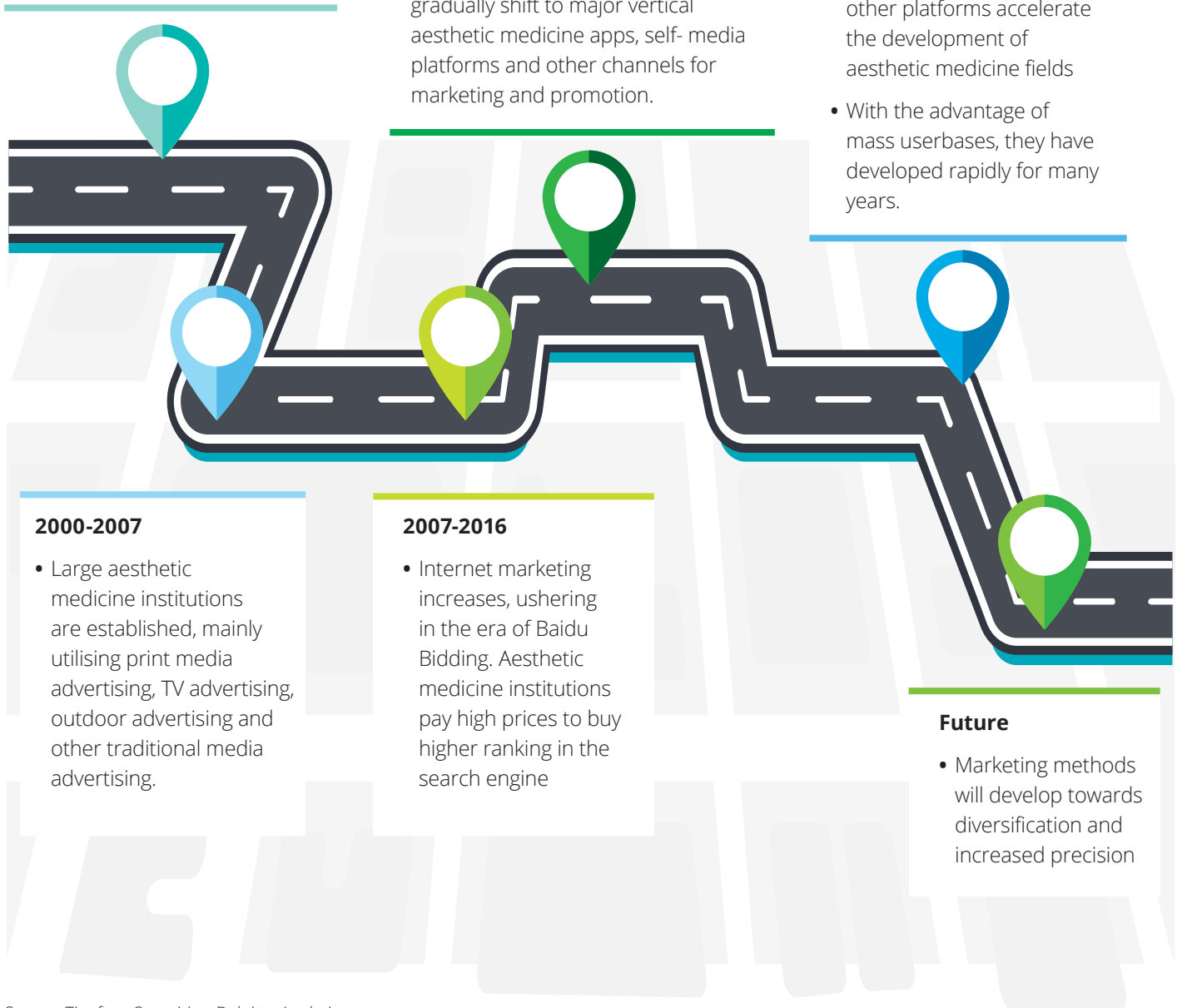
- Aesthetic medicine institutions are still in the early stage of development. Few institutions operate and market on a large scale.

2016-2018

- The Wei Zexi incident occurs, Baidu rectifies medical business promotion, bidding cost increases.
- Aesthetic medicine institutions gradually shift to major vertical aesthetic medicine apps, self-media platforms and other channels for marketing and promotion.

Since 2018

- Meituan, Alibaba, JD and other platforms accelerate the development of aesthetic medicine fields
- With the advantage of mass userbases, they have developed rapidly for many years.



2000-2007

- Large aesthetic medicine institutions are established, mainly utilising print media advertising, TV advertising, outdoor advertising and other traditional media advertising.

2007-2016

- Internet marketing increases, ushering in the era of Baidu Bidding. Aesthetic medicine institutions pay high prices to buy higher ranking in the search engine

Future

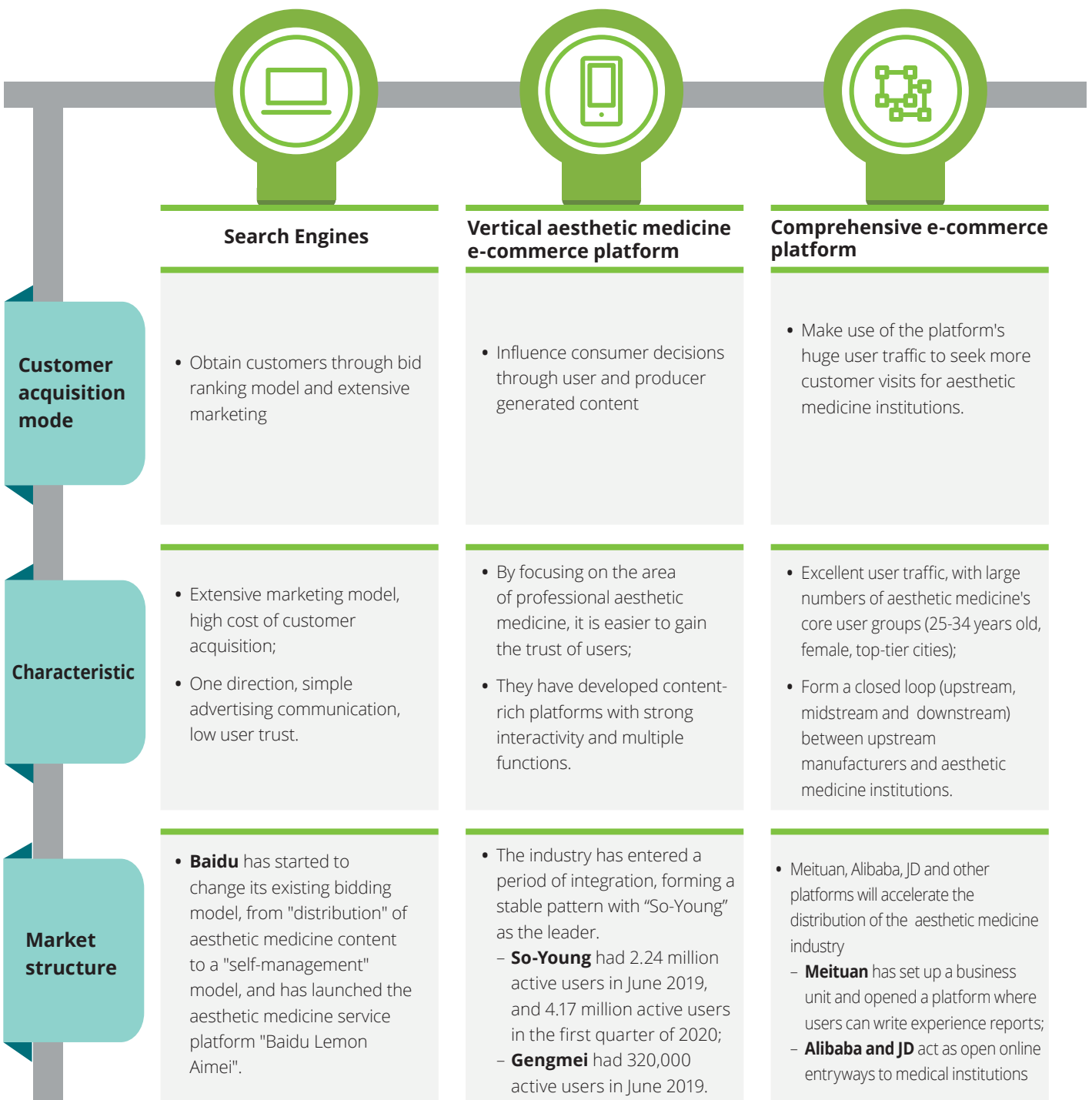
- Marketing methods will develop towards diversification and increased precision

4.1.2 Main categories and market structure of aesthetic medicine online channels

At present, the online channels of aesthetic medicine mainly includes search engines, vertical aesthetic medicine e-commerce platforms and comprehensive e-commerce platforms. The traditional search

engine marketing model has problems, such as information opacity and poor interactivity. At the same time, because of their low accuracy, their conversion rate and customer acquisition cost is high. The advantages of vertical aesthetic medicine e-commerce platforms lie in their focus on professionalism and their social nature,

influencing consumers' decision-making through engaging content. On the other hand, the advantages of comprehensive e-commerce platforms lie in their huge overall user traffic and strong capacity to integrate industrial chain resources.



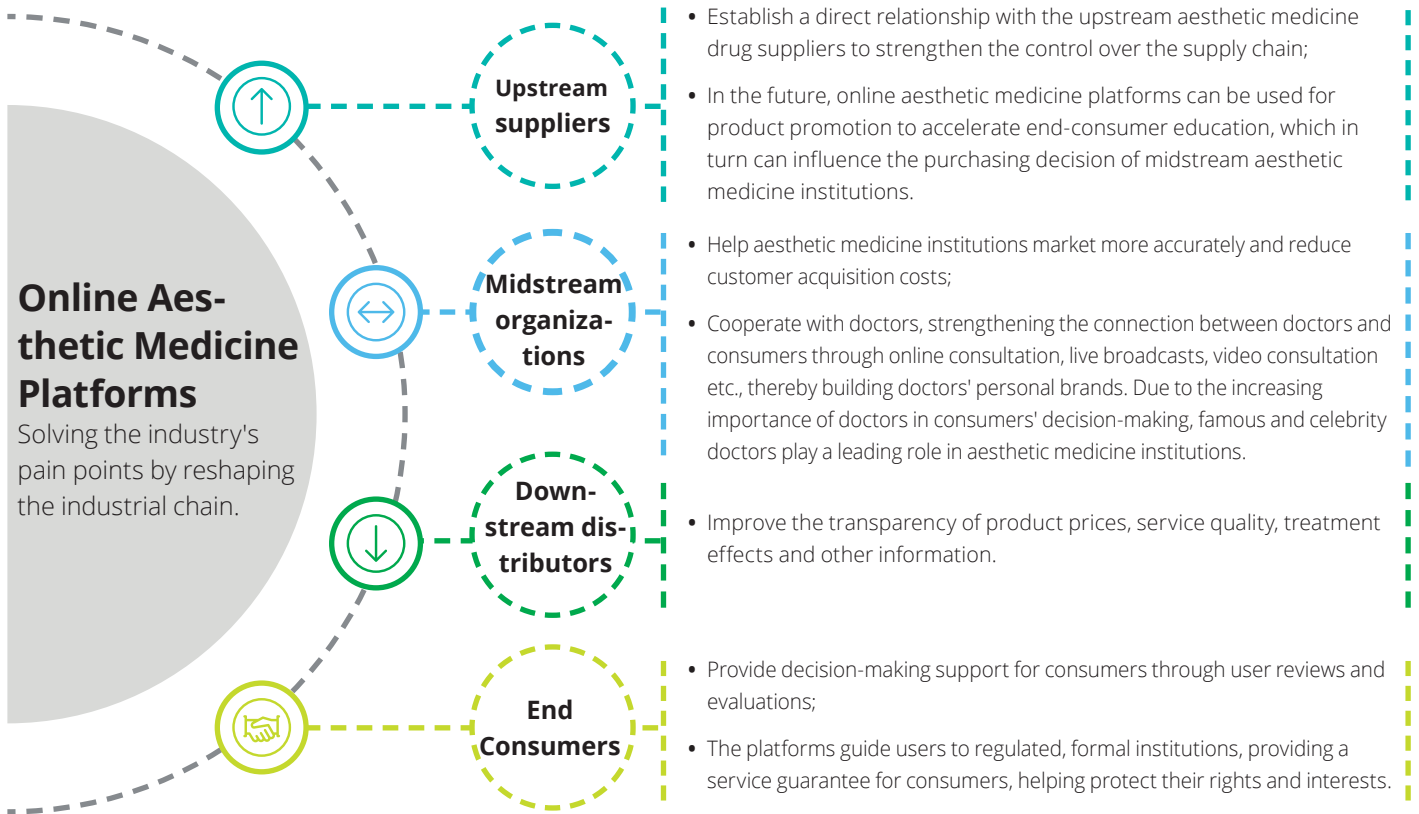
Data Source: Mob Institute, public data, Deloitte Analytics

4.2 The role of online aesthetic medicine platforms in the development of the industry

Traditionally aesthetic medicine institutions have faced high customer

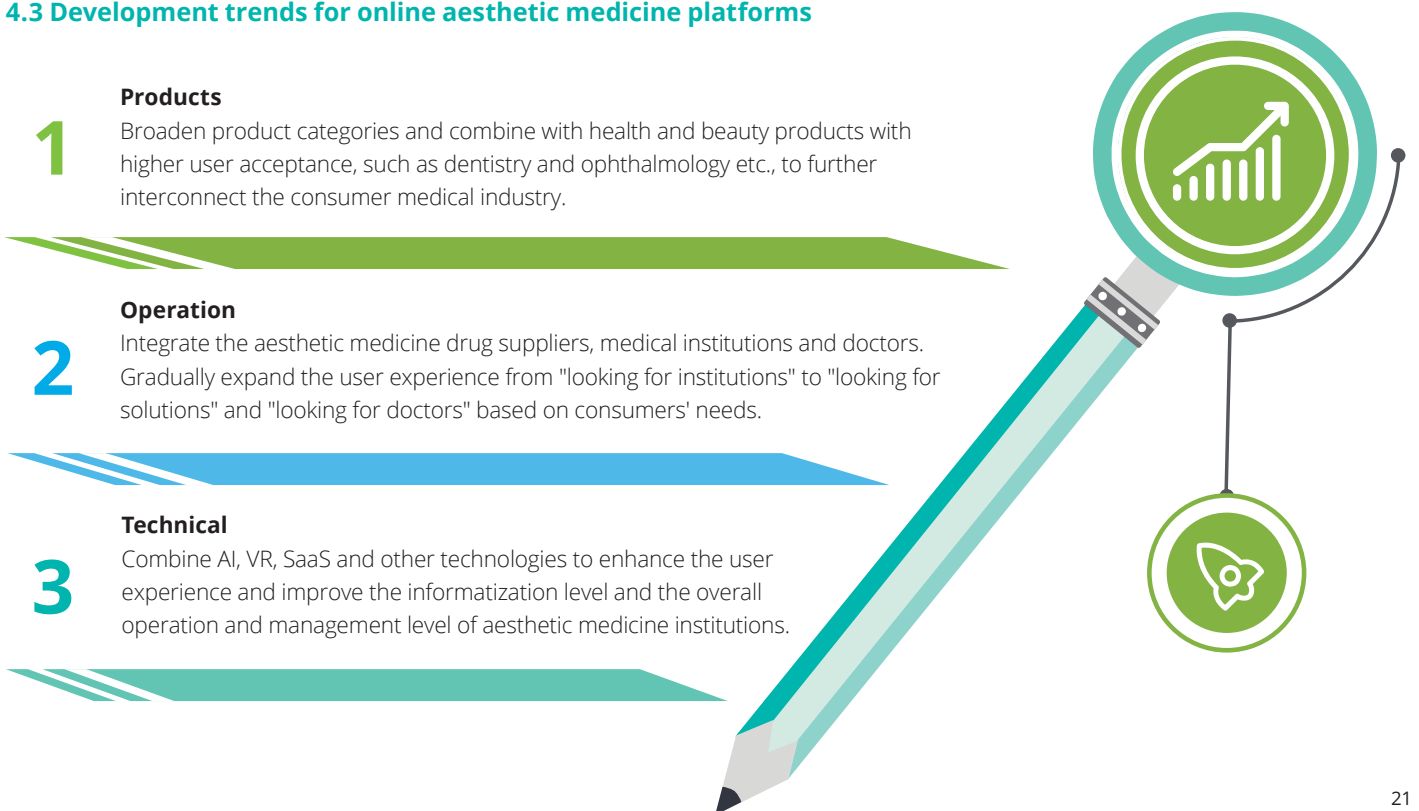
acquisition cost, while customers have found decision-making difficult due to the opacity of information. The internet has, to a certain extent, solved these two problems. By including upstream

suppliers into the online ecological system of aesthetic medicine, an integration the industrial chain can be achieved in the future.

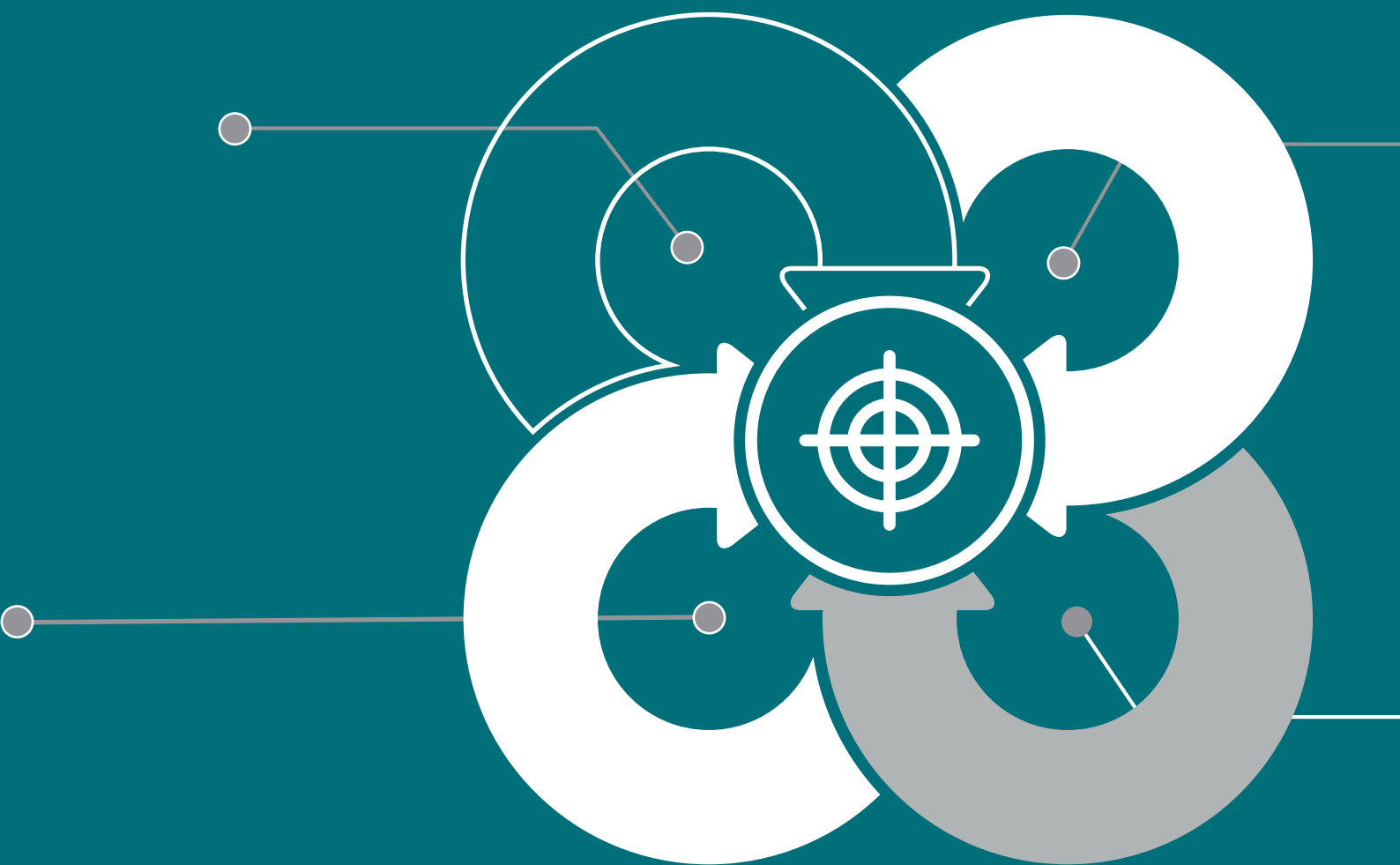


4.3 Development trends for online aesthetic medicine platforms

- 1 Products**
Broaden product categories and combine with health and beauty products with higher user acceptance, such as dentistry and ophthalmology etc., to further interconnect the consumer medical industry.
- 2 Operation**
Integrate the aesthetic medicine drug suppliers, medical institutions and doctors. Gradually expand the user experience from "looking for institutions" to "looking for solutions" and "looking for doctors" based on consumers' needs.
- 3 Technical**
Combine AI, VR, SaaS and other technologies to enhance the user experience and improve the informatization level and the overall operation and management level of aesthetic medicine institutions.



Part 5: Trends in aesthetic medicine industry regulation

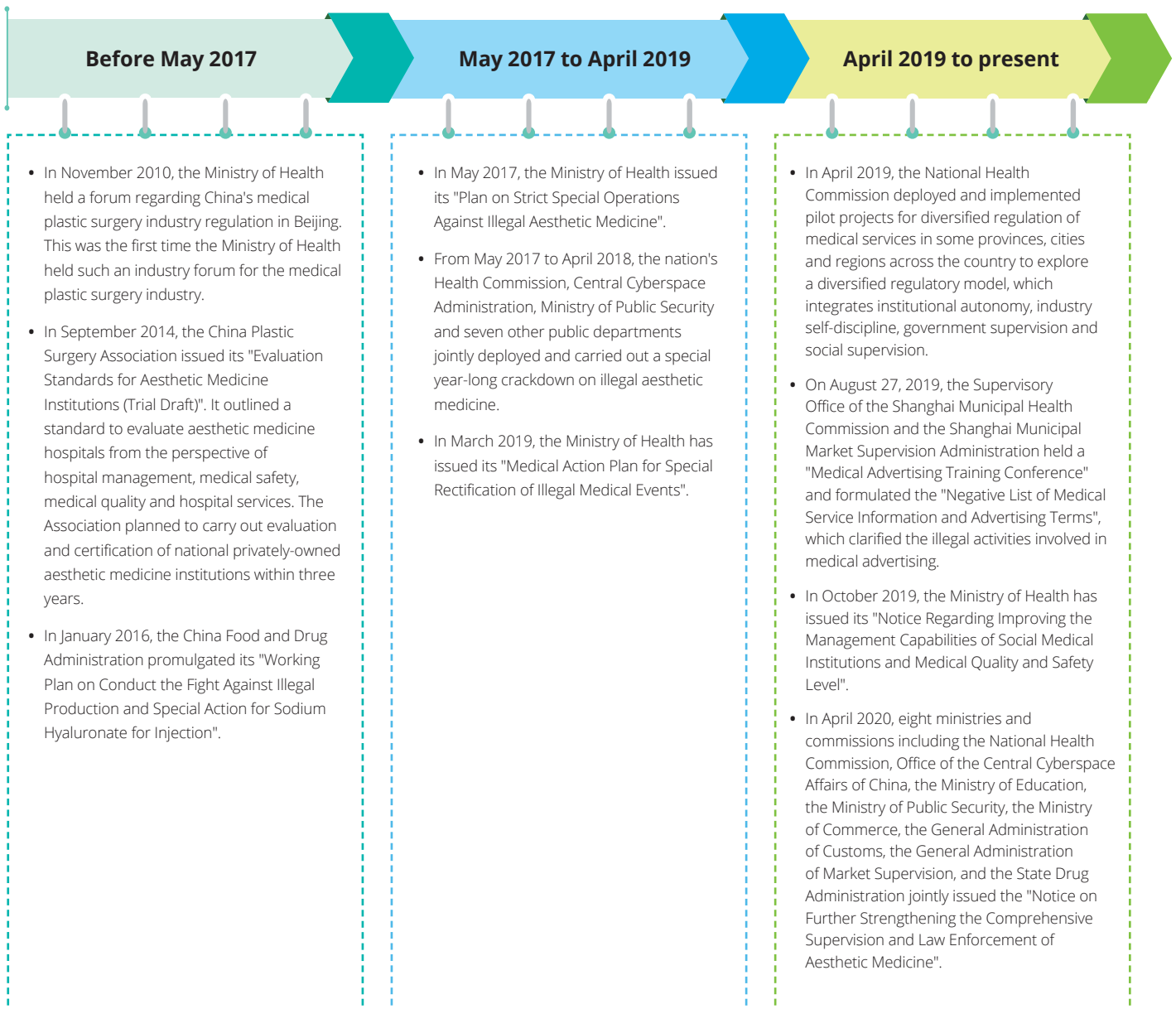


While the aesthetic medicine market continues to expand in scale, it has been plagued by illegal activities, such as misleading product prices, lack of security guarantees, the proliferation of false information and unauthorized business operations. In response to this, the government has continuously introduced new policies to standardize the industry and the government actions have been taken to deal with this illegal conduct. Regulation in the industry has become stricter, with regulators gradually moving towards a diversified long-term regulatory mechanism.

The supervision of aesthetic medicine industry in China can be divided into three stages:

1) Stage 1, before May 2017, was an exploratory stage. Individual government departments carried out regulatory activities, and industry associations actively promoted the development of medical aesthetics compliance. 2) Stage 2, occurring between May 2017 to April 2019, was a severe rectification stage. A number of illegal business institutions were required to close after investigation

and punishment was conducted by the government; the profit of medical institutions fell under this strict supervision, and a large number of institutions left the market due to profit loss, accelerating industry disruption. 3) Stage 3, from April 2019 to present, is the start of a diversified regulation stage. Illegal businesses are being stamped out, while industry regulations are gradually refined; a long-term regulatory mechanism is slowly being established.



Source: Ministry of Health, Essence Securities, Deloitte Analytics

Part 6: Overview of mergers and acquisitions in the aesthetic medicine industry and summary of capital market trends



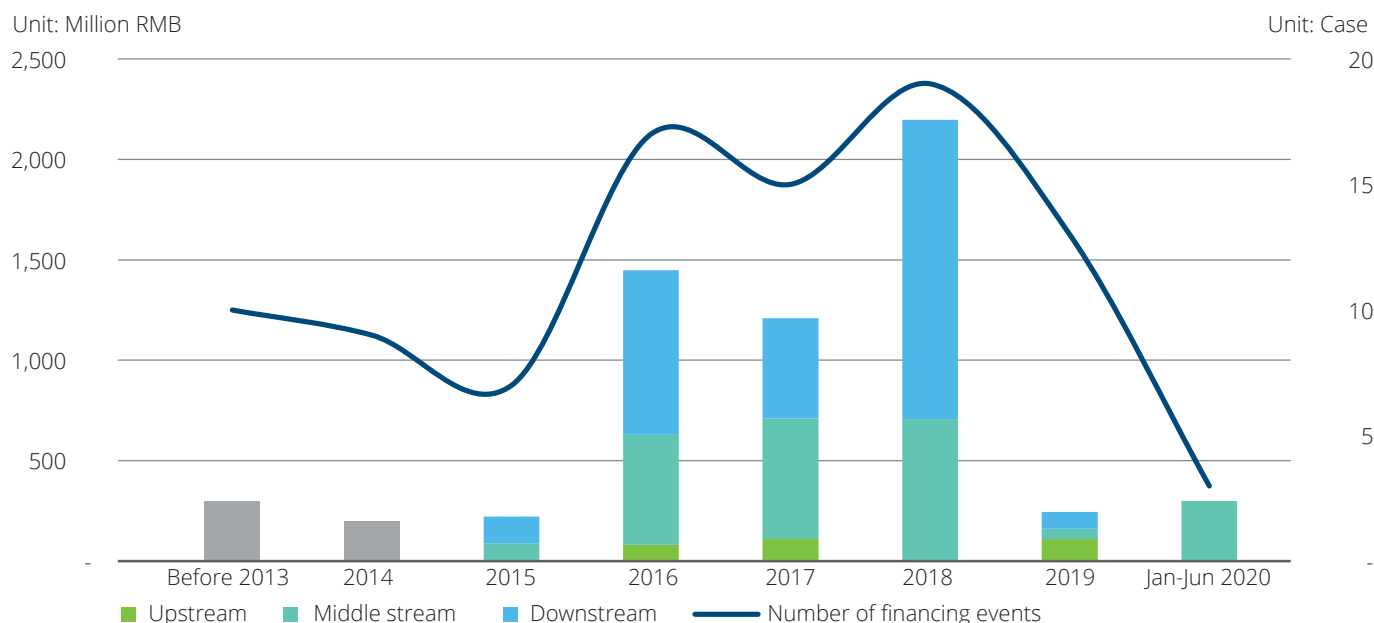
6.1 Overview of investment and financing in the aesthetic medicine industry

From 2016 to 2018, the aesthetic medicine industry witnessed a peak in investment and financing. Capital poured into the aesthetic medicine industry, accelerating integration. According to (incomplete) statistics, in 2018, there were 19 financing events, raising RMB 2.2 billion, mainly concentrated in the middle and lower industrial chains. Offline aesthetic medicine institutions and online aesthetic medicine services platform have been a hot spot for investment in the industry.

Impacted by increasing regulatory supervision and cooling capital markets, the amount of the financing capital raised fell to approximately RMB 250 million in total in 2019 – an 89% year-on-year decline. The number of financing events was 13 – a 32% year-on-year decrease. Aesthetic medicine entrepreneurship projects located in the middle and lower ends of the industrial chain have become more subdivided, and several projects have been sprung up, such as data-based services for aesthetic medicine, SaaS service platforms, consumer financial platforms, and content creation. The past few years has seen their rapid development and the middle and lower

ends of the aesthetic medicine industry chain (especially the downstream link) have become entrepreneurial hot spots. The number of competitors is on the rise. Given the limited scope of the segmented market, the strengths of the top industry players are gradually becoming clearer.

Investment amount and number of financing events in the aesthetic medicine industry first tier market



Source: Public information on IT Juzi, Tianyancha and company news

6.2 Major investment and financing cases in the aesthetic medicine industry

Major investment and financing cases in aesthetic medicine industry (2015-2020)

Time	Investor	Invested company	Brief introduction	Round	Capital
2015/6/3	Kangshi Medical investment	BCC Plastic surgery hospital	Aesthetic medicine hospital	Pre-A	RMB 90 million
2016/3/14	Tencent	So-Young	Online aesthetic medicine service platform	C	USD 50 million
2016/7/3	Suning global	Ever care	Aesthetic medicine	Strategic investment	208 million
2016/8/2	Legend capital	Gengmei	Online aesthetic medicine	C	RMB 345 million
2017/1/18	ADV Partner	Peng ai	Aesthetic medicine hospital	B	Apx. USD 40 million
2017/12/23	Matrix partner China	So-Young	Online aesthetic medicine service platform	D	RMB 400 million
2018/1/26	Lancy	Gaoyisheng	Aesthetic medicine hospital	Strategic investment	RMB 267 million
2018/5/25	Undisclosed	Meimeika	Online aesthetic medicine	A	USD 30 million
2018/7/27	Meitu	Gengmei	Online aesthetic medicine	D	USD 50 million
2018/9/4	Matrix partner China	So-Young	Online aesthetic medicine	E	USD 70 million
2018/9/18	Sino ocean	BCC Plastic surgery hospital	Aesthetic medicine hospital	C	RMB 400 million
2019/3/18	Undisclosed	Beijing youngmay	Live E-commerce platform	Pre-A	RMB tens of million
2019/10/17	Beijing BWVC	SkinRun	Beauty industry data service	A	RMB tens of million

Source: Public information on IT Juzi, Tianyancha and company news

During the aesthetic medicine industry's consolidation period, capital has poured into the market

According to (incomplete) statistics, there are seven listed companies with A-shares involved in the aesthetic medicine industry. Among them, Huadong Medicine and Shuanglu Medicine, Guanhao Biotech and Xinhujin are involved in aesthetic medicine upstream products or technology, while Lancy Group, Suning Global and Good Master are mainly involved in aesthetic medicine institutions.

In April 2016, Lancy purchased 30% equity in Korea Dream Group for RMB 25.20 million and entered the aesthetic medicine industry. In June 2016, Lancy acquired two Chinese aesthetic medicine brands, Milan Boyu and Jingfu for RMB 327 million, with six institutions in total. In January 2018, Lancy acquired 100% equity in Xi'an Gaoyisheng Aesthetic Medicine Hospital for RMB

267 million. So far, Lancy has developed an aesthetic medicine agent system integrating large-scale surgical hospitals and several small-scale chain clinics in Chengdu and Xi'an, the two core cities of western China.

From July to November 2016, Suning Global acquired Shanghai Yimeier Ganghua and other aesthetic medicine hospitals. So far Suning Global has acquired 12 aesthetic medicine hospitals and acquired shares in South Korea ID Healthy, as well as invested strategically in the Gengmei app.

In August 2017, GTJA invested RMB 200 million in Xichan Plastic Surgery's 1+N chain model. In May 2018, GTJA invested 23.4 million in Yixing Group. In June 2018, GTJA invested RMB 100 million in Huahan plastic surgery.

SkinRun has announced 10 million Pre-A+ round financing

In October 2019, "SkinRun" entered into the beauty industry's big data market with its smart skin measuring device. It announced RMB 10 million in PreA+ round financing. Kailuos Capital led the investment, following by Zehou Capital. The financing will be used to upgrade its smart testing equipment, as well as build a big data lab and team. SkinRun is mainly engaged in skin testing technology and aesthetic medicine data-based services. They have an AI-based skin measurement technology, using big data and other technology to conduct cloud algorithm-based analyses on the health data it collects. They provide comprehensive smart solution for brands and customer service stores.

Pengai Aesthetic Medical conducted multiple mergers and acquisitions in 2020

Due to the COVID-19, many aesthetic medicine institutions faced a sharp decline in their number of customers. Aesthetic Medical International Holdings Group Co., Ltd. (Pengai Aesthetic Medical) used the decline in the market to undertake a series of mergers and acquisitions of domestic aesthetic medicine institutions. A number of mergers and acquisitions were made in 2020.

- In March 2020, Pengai signed a M&A agreement with Shanghai Mingyue Aesthetic Medicine Clinic. Pengai Aesthetic Medicine holds a reported 80% of the shares.
- In April 2020, Pengai signed a M&A agreement with Xi'an Xinpeng Aiyue Medical Cosmetology Clinic Co., Ltd. Pengai holds a reported 70% of shares.
- In July 2020, Pengai announced a strategic agreement with Guangdong Hanfei Group, acquiring 51% of the Group. Guangdong Hanfei Group was founded in 2009, with four beauty institutions in three cities: Guangzhou, Zhongshan and Zhuhai.

6.3 From 2019 to 2020, enterprises in the aesthetic medicine value chain were booming. A number of star enterprises in the upper, middle and lower reaches went public

Upstream: from 2019-2020, the "big three" domestic producers of hyaluronic acid were listed, one after the other.

Huaxi Biotech Innovation, a leading enterprise in the hyaluronic acid industry has listed on the Science and Technology Innovation Board.

In November 2019, Huaxi Biotech Innovation, a leading company in the hyaluronic acid industry listed on the

Science and Technology Innovation Board. Huaxi is the world's largest manufacturer of hyaluronic acid raw materials, covering hyaluronic acid's complete industrial chain from raw materials to related end-products. It thus extends its products from hyaluronic acid raw materials to a variety of biologically active substances, medical end-products and functional skin care products.

In 2019, Huaxi Biotech had an operating income of RMB 1.886 billion (a 49.3% year-on-year increase) and 586 million in net profit (a 38.2% year-on-year increase). Its medical end-use products business mainly included two kinds of hyaluronic acid products: "Run Baiyan" and "Run Zhi".

Thanks to an increase in revenue of hyaluronic acid product for injection purpose, medical end-use product revenue increased 56.3% year-on-year. Its functional skin care business reached 634 million in operating revenue, a 118.53% year-on-year increase. As a result, the proportion of revenue from this division increased to 33.6%.

Haohai Biotechnology, a biopharmaceutical company, has listed on the Science and Technology Innovation Board

In October 2019, Haohai was listed on the Science and Technology Innovation Board. Previously, Haohai had been listed on the Main Board of the Hong Kong Stock Exchange in 2015. Haohai was established in 2007, and mainly engages in biomedical materials and genes engineering technology for medical devices and drug R&D, production and sales. They have researched and developed a variety of products, including ophthalmic viscoelastics, artificial crystals optical materials, hyaluronic acid, orthopedic joint cavity elastic supplements and surgical anti-adhesion agents. Their products cover four treatment areas: 1)

ophthalmology, 2) plastic surgery and wound care, 3) orthopedics and 4) anti-adhesion and hemostasis. Among these, plastic surgery and wound care account for 18.8% of total operating income.

Haohai mainly has two hyaluronic acid products, "Haiwei" and "Jiaolan", which are targeted at the general public and mid-to-high-end markets. In addition to hyaluronic acid products, Haohai is also currently engaged in product development, innovation and exploration in the cosmetics field.

Imeik technology development Co., Ltd was listed on the growth enterprise market (GEM) in September 2020.

With sodium hyaluronate as its main products, together with Huaxi Biology and Haohai Biology, Imeik is part of the "Big Three" of hyaluronic acid in China. Imeik possesses five Class III sodium hyaluronate products for injections purpose approved by the China Food and Drug Administration. Its core products include Yimei (composite injection material for facial and neck fold skin repair), Bonida (injection materials containing PVA microspheres) and Ai Fulai (injection material containing lidocaine). The sales revenue of the above products accounts for 99% or above of its total revenue income.

Midstream: Chain Aesthetic Medicine Institution Pengai Aesthetic Medical listed on the Nasdaq

In Oct 2019, Aesthetic Medicine International Holding Group Co., Ltd. Company (Pengai Aesthetic Medical) landed on the Nasdaq. Pengai Yimei was established in 1997. The prospectus showed that, as of the end of September 2019, Pengai Aesthetic Medical had 21 aesthetic medicine capacity centers, 19 of which are wholly- or majority owned. Their business involves first- and second-tier

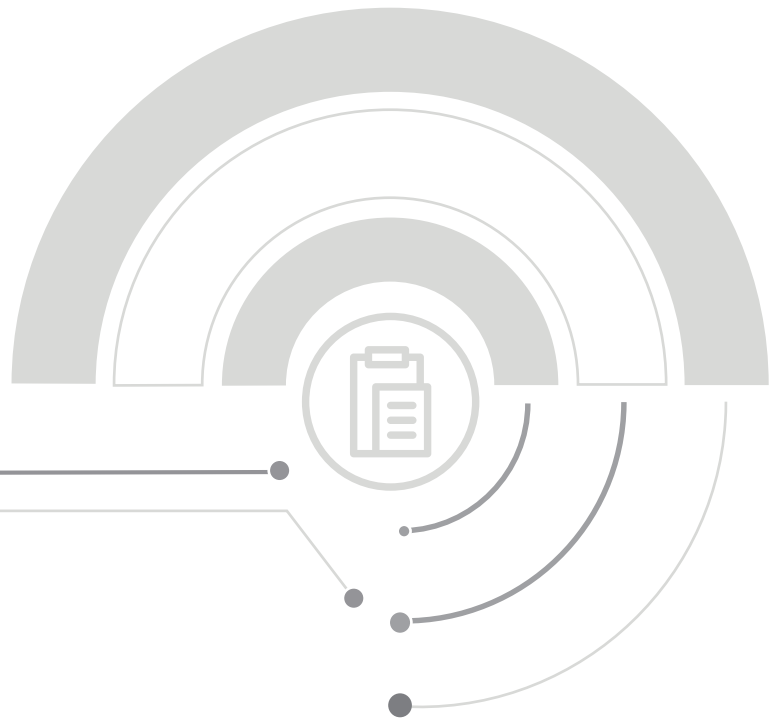
cities in Mainland China, Hong Kong, Singapore and the United States.

The 2019 annual report indicated that Pengai Aesthetic Medical's total revenue was RMB 869 million – a 14.2% year-on-year increase. Among its division, non-surgical aesthetic medicine services revenue was RMB 490 million, a significant 31.2% year-on-year increase. Non-surgical aesthetic medicine services revenue increased by 7.3 percentage points compared to 2018. It has thus grown into a core business pillar. Pengai had 255,395 active clients that year, a 43% year-on-year increase; of which, the number of new and old customers increased by 43.9% and 42.2%, respectively.

Downstream: So-Young, a vertical e-commerce platform, has listed on the Nasdaq

In May 2019, Beijing So-Young Technology Co., Ltd. (So-Young) was listed on the Nasdaq. Its 2019 annual report shows that its operating income that year was RMB 1.151 billion – an 86.58% year-on-year increase. Average monthly activity mobile users increased from 1.4 million in 2018 to 2.9 million in 2019 – a 105.9% increase. Paying users rose from 313,000 in 2018 to 567,500 – an 81.3% increase. In the second quarter of 2020, the average number of monthly average users on its So-Young app was 6.77 million – a 174 % year-on-year increase. The number of paying customers booking services exceeded 170,000. The number of paying providers was

3,735 – a 18.3% year-on-year increase. This quarter, the So-Young platform has facilitated the aesthetic medicine deals worth nearly 1 billion.



Part 7: Financial status of major listed companies in the aesthetic medicine industry



Monetary Unit: RMB

Position of industrial chain	Corporate Name	Code	Aesthetic Medicine Products	Stock listing time	Income			Net profit			Rate of margin			Net interest rate			Market value			PE Ratio			
					2018	2019	2020Q1-6	2018	2019	2020Q1-6	2018	2019	2020Q1-6	2018	2019	2020Q1-6	2018	2019	2020Q1-6	2018	2019	2020Q1-6	
Upstream suppliers	BLOOMAGE BIOTECHNOLOGY CORPORATION LIMITED	688363.CH	Hyaluronic acid and "Biohyalux" poluric hyaluronic acid	06/11/2019	1,263	1,886	947	424	586	267	80%	80%	80%	34%	31%	28%	40,052	70,992		68	133		
	Haohai Biological Technology	6826.HK/688366.CH	Hyaluronic acid and "Matrifill" poluric hyaluronic acid	30/04/2015	1,546	1,595	496	415	371	12	79%	77%	77%	27%	23%	2%	5,880	14,021	13,779	14	38	574	
	IMEIK	300896.CH	Hyaluronic acid	28/09/2020	321	558	242	123	306	147	89%	93%	90%	38%	55%	61%							
	SCIVISION BIOTECH	1786.TT	Hyaluronic acid and "FACILLE" poluric hyaluronic acid	29/12/2010	76	102	51	22	31	14	66%	70%	71%	28%	31%	27%	924	1,020	924	43	33	33	
	FUFENG GROUP	546.HK	Hyaluronic acid	08/02/2007	13,909	16,346	8,295	1,845	1,137	379	19%	20%	18%	13%	7%	5%	6,601	7,891	5,696	4	7	8	
	SL PHARM	002038.CH	Subsidiary-Through young poluric hyaluronic acid	27/01/2005	2,167	2,030	537	571	487	195	79%	79%	85%	26%	24%	36%	25,480	13,505	13,156	45	28	34	
	GUANHAO	300238.CH	IREAL breast patch	06/07/2011	458	438	204	46	(465)	27	73%	68%	72%	10%	-106%	13%	2,528	5,064	4,720	55	(11)	87	
	LANCY Group	002612.CH	Holding shares of Korea plastic and beauty group	30/08/2011	2,662	3,007	1,229	210	59	(5)	58%	58%	55%	8%	2%	0%	3,881	4,296	4,500	18	73	(450)	
	SHENZHEN PENGAI AESTHETIC HOSPITAL	AH.US	Chain aesthetic medicine institutions	25/10/2019	761	869	258	(255)	136	(141)	66%	68%	50%	-34%	16%	-55%	1,055	1,050		-	8	(4)	
	Qingdao Arsmo Plastic & Aesthetic Hospital	430335.OC	Chain aesthetic medicine institutions	06/11/2013	693	804	393	4	83	55	51%	51%	51%	1%	10%	14%	445	1,002	1,440	125	12	13	
Guizhou Li Mei Kang Medical Holding Co.,Ltd	832533.OC	Chain aesthetic medicine institutions	04/06/2015	315	153	74	(15)	(69)	8	51%	33%	45%	-5%	-45%	11%	402	321	174	(27)	(5)	11		
RUILAN Aesthetic Medicine Hospital Limited	838265.OC	Chain aesthetic medicine institutions	26/08/2016	70			(13)			50%			-19%										
So-Young International Inc	5Y.US	Online aesthetic medicine service	02/05/2019	617	1,152	511	55	177	(34)	85%	83%	82%	9%	15%	-7%	6,071	7,199		34	(107)			
Downstream (consumer end user) distributors																							

*Valuation of Haohai Biological Technology in 2019 and 2020 uses the market value of Chinese A-shares
Data source: Capital IQ, Wind Database

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