

INDUSTRY OVERVIEW

The information and statistics in this section, unless otherwise indicated, are derived from various private and official governmental publications, publicly available sources and the Frost & Sullivan Report, a market research report prepared by Frost & Sullivan and commissioned by our Group. We believe that the information and statistics are derived from appropriate sources and reasonable care has been taken by our Directors in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false and misleading. Neither our Company, the [REDACTED], the Sole Sponsor, the [REDACTED], the [REDACTED], any of our or their respective directors, officers, employees, agents or advisers, or any other person or party involved in the [REDACTED] makes any representation as to the accuracy, fairness and completeness of such information and statistics. As such, the information from official and non-official sources contained herein should not be unduly relied upon. Furthermore, due to the inherent time-lag involved in collecting any industry and economic data, some of the data contained in this section may only represent the state of affairs at the time such data were collected. As such, you should also take into account subsequent movements in the industry and the Hong Kong economy when you evaluate the information contained in this section. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have a material impact on the information in this section.

SOURCE AND RELIABILITY OF INFORMATION

Our Company commissioned Frost & Sullivan, an independent market research company, to conduct an analysis of, and to produce a report on the beauty service industry in Hong Kong. Founded in 1961, Frost & Sullivan is an independent global market research and consulting company based in the United States. The information from Frost & Sullivan disclosed in the [REDACTED] is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB360,000, and is disclosed with the consent of Frost & Sullivan.

The Frost & Sullivan's Report was undertaken through both primary and secondary research obtained from various sources. Primary research involved interviews with leading industry participants in Hong Kong's medical aesthetic service market and other experts related to the business of the Company. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database and government database. In compiling and preparing the report, Frost & Sullivan has adopted the following assumptions:

- Hong Kong's economy is likely to grow at a steady rate in the next decade;
- Hong Kong's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the beauty service industry; and
- There are no wars or large scale disasters during the forecast period.

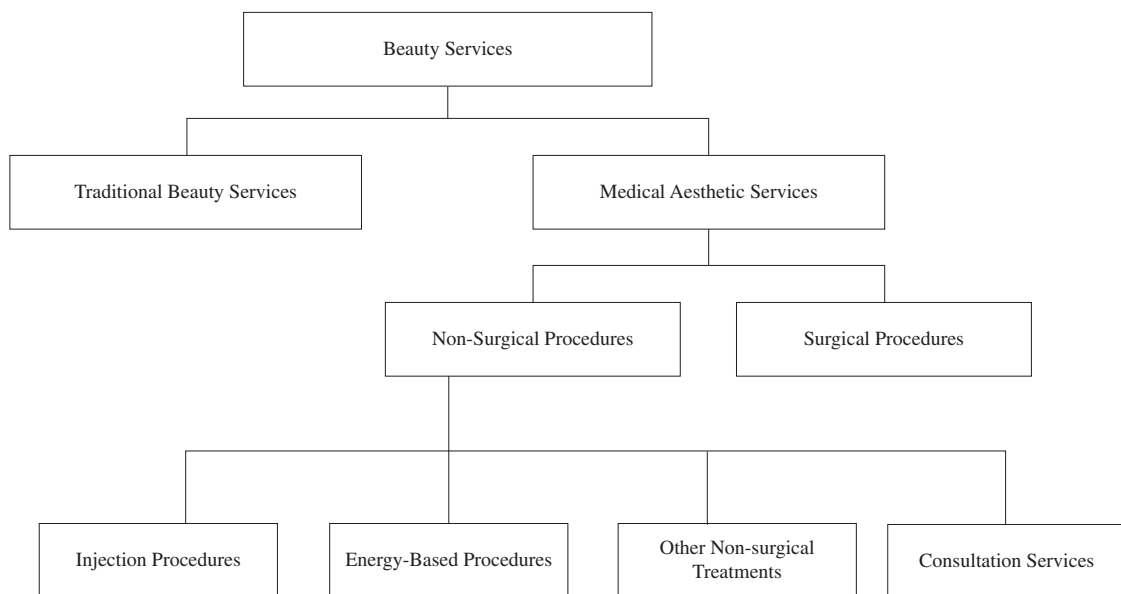
INDUSTRY OVERVIEW

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm that after taking reasonable care, the sources of information used in this section, which are extracted from the Frost & Sullivan Report, are reliable and not misleading as Frost & Sullivan is an independent professional market research agency with extensive experience, and there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

OVERVIEW OF BEAUTY SERVICE INDUSTRY

Beauty services comprise mainly traditional beauty services and medical aesthetic services.

The diagram below illustrates the different segments of the beauty service industry:



Traditional beauty services mainly refer to facial, spa and massage services that are of low barrier to entry and cost.

Medical aesthetic services can be categorised into surgical and non-surgical procedures. Surgical procedures which are invasive and performed by certified doctors, are designed to improve the appearance of an individual through restoration, reconstruction or alteration of the human body. Typical aesthetic surgeries include:

- Breast enhancement: augmentation, lift or reduction;
- Facial contouring: rhinoplasty, double eyelid, chin or cheek enhancement;
- Body contouring: tummy tucks, liposuction.

INDUSTRY OVERVIEW

Non-surgical procedures emerged in late 20th century and are a burgeoning area of activity. They are mainly performed through injections of dermal fillers and botulinum toxin type A, application of energy-based procedures and, to a lesser extent, also include chemical peels, wart removal and comedone extraction. Consultation services are generally provided as initiation or part of non-surgical procedures.

Comparison between traditional beauty services and medical aesthetic services

Currently, the provision of beauty services can be broadly divided into two categories: traditional beauty salons and medical aesthetic centres. Traditional beauty salons mainly offer general spa and massage services, while medical aesthetic centres focus on reshaping an individual's body and face with injections or energy-based procedures which usually require trained professionals to perform. The following table sets forth the key differences between traditional beauty salons and medical aesthetic centres.

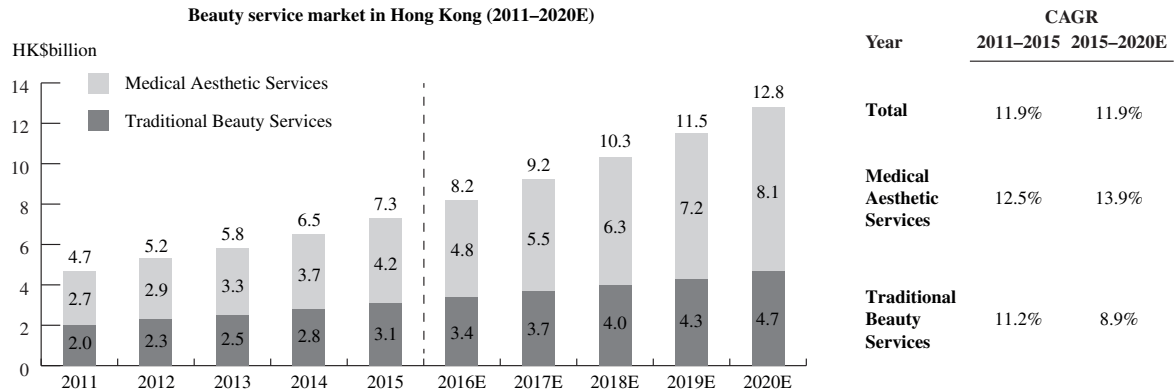
	Major Services	Manpower Requirement	Client Experience	Key Successful Factors
Traditional Beauty Salons	Spa, massage, manicure, pedicure, waxing and selected energy-based procedures	General training is usually required	Relaxing and long-term/regular treatments with moderate results	Pricing, environment and services
Medical Aesthetic Centres	Medical aesthetic procedures including surgical and non-surgical procedures	All surgical and certain non-surgical procedures with high risk have to be performed by doctors	Fairly noticeable aesthetic effects and for non-surgical procedures with little downtime	Professional reputation, brand awareness and devices

Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Beauty service market in Hong Kong

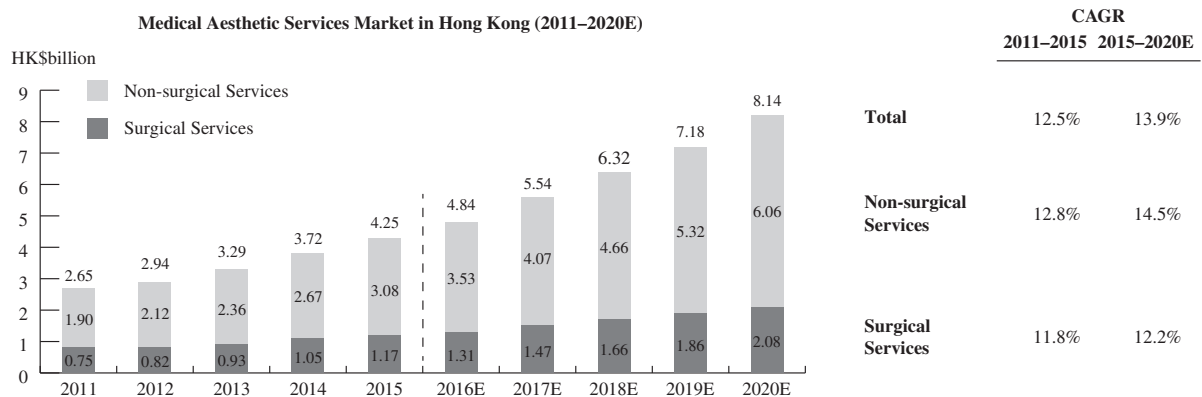
- In Hong Kong, medical aesthetic services account for 58.1% of the total beauty service market in 2015 and are expected to outpace traditional beauty services in terms of growth in the future, driven by growing acceptance and increasing affordability.
- In 2015, the medical aesthetic services segment reached HK\$4.2 billion, and is expected to increase to HK\$8.1 billion in 2020, representing a CAGR of 13.9%. The revenue generated from traditional beauty services is forecasted to grow from HK\$3.1 billion in 2015 to HK\$4.7 billion in 2020, representing a CAGR of 8.9%.



Source: Frost & Sullivan Report

Medical aesthetic service market in Hong Kong

- Most medical aesthetic services provided in Hong Kong are non-surgical ones, which accounted for 72.5% of the total medical aesthetic services market in 2015.
- Thanks to less pain and shorter recovery time, non-surgical medical aesthetic services are getting more and more popular in Hong Kong and this market is expected to reach HK\$6.06 billion in 2020, representing a CAGR of 14.5%.
- The sector of surgical services will grow at a slower pace, amounting to HK\$2.08 billion in 2020 with a CAGR of 12.2% during this period of time.

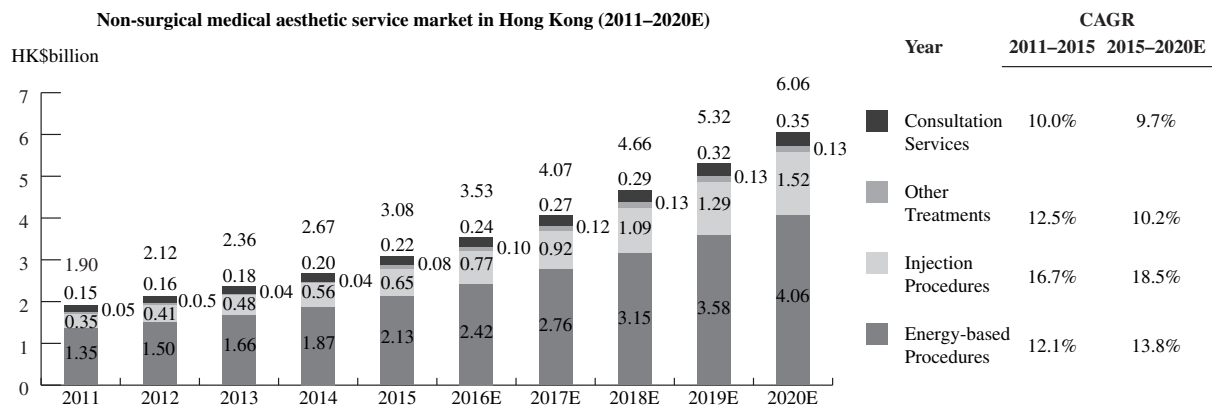


Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Non-surgical medical aesthetic service market in Hong Kong

- Energy-based procedures and injection procedures are the most popular non-surgical medical aesthetic services in Hong Kong.
- Specifically, energy-based procedures generated a total revenue of HK\$2.1 billion in 2015, accounting for 69.2% of the total non-surgical medical aesthetic service market in Hong Kong. And this segment is expected to reach HK\$4.1 billion in 2020, representing a CAGR of 13.8% during this period of time.
- The sector of injection procedures accounted for 21.1% of the total non-surgical medical aesthetic service market in 2015 and enjoyed the highest growth rate among all sectors.

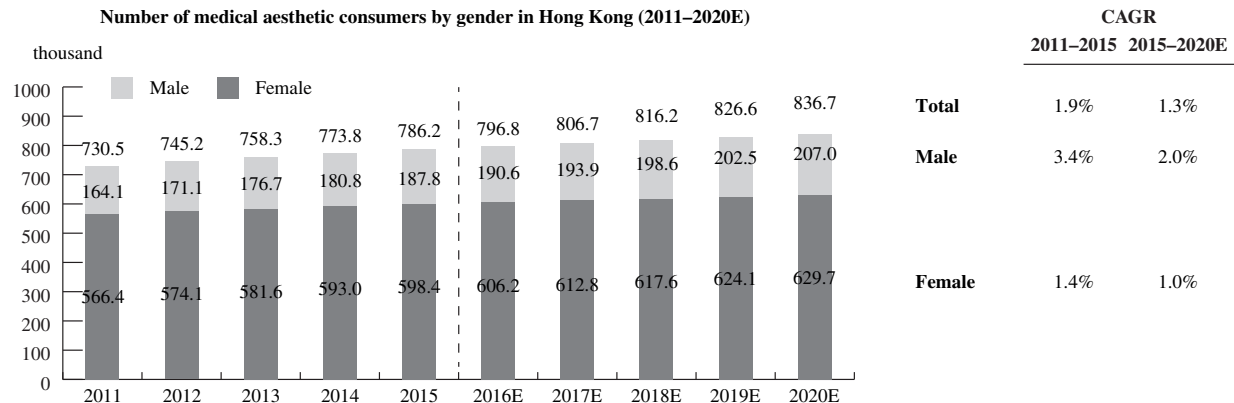


Source: Frost & Sullivan Report

Number of medical aesthetic consumers by gender in Hong Kong

- Number of medical aesthetic consumers in Hong Kong increased from around 730,500 in 2011 to around 786,200 in 2015, with a growth CAGR of 1.9%. The growing trend is expected to continue in the next few years and the number is projected to reach 836,700 in 2020.
- The number of female consumers grew from 566,400 in 2011 to 598,400 in 2015, representing a CAGR of 1.4%, and the number will grow at a CAGR of 1.0% during the next few years, reaching about 629,700 in 2020.
- Number of male consumers increased from 164,100 to 187,800 from 2011 to 2015, with a CAGR of 3.4%.
- The CAGR of male consumers is much higher than that of female consumers, implying a growing trend of male consumers seeking medical aesthetic services to enhance their appearance.

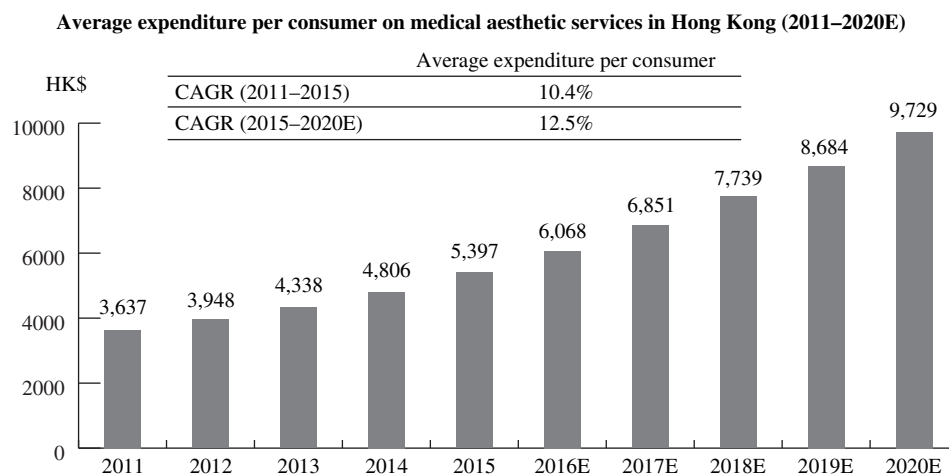
INDUSTRY OVERVIEW



Source: Frost & Sullivan Report

Average expenditure per consumer on medical aesthetic services in Hong Kong

- Average expenditure per consumer on medical aesthetic services in Hong Kong has reached about HK\$5,397 in 2015, with a CAGR of 10.4% from HK\$3,637 in 2011. The growing trend is expected to continue in the next five years. The average expenditure per consumer will grow to about HK\$9,729 in 2020, with a higher CAGR of 12.5%. With the growing acceptance toward medical aesthetic procedures and the increasing per capita income in Hong Kong, consumers are likely to increase their spending in this area.



Source: Frost & Sullivan Report

INDUSTRY OVERVIEW

Prevailing technologies

Various non-surgical medical aesthetic treatment procedures involve the use of treatment devices with different prevailing technologies. The table sets forth below some of the leading technologies utilised in the non-surgical procedures:

Treatment	Description
Laser skin rejuvenation	<ul style="list-style-type: none">Using laser to dissolve the molecular bonds of the damaged skin cells layer by layer until a smoother, more uniform skin appearance is achieved;Can be performed by therapists or doctors;The cost of cosmetic laser skin treatment is relatively lower compared to many other treatment options.
Ultherapy	<ul style="list-style-type: none">Using safe, time-tested focused ultrasound energy to lift and tighten the skin naturally without surgery or downtime;Treating the deep layers of skin tissue without disturbing the surface of the skin.
Liposonix	<ul style="list-style-type: none">Using ultrasound technology to deliver custom contouring fat reduction;Liposonix ultrasound energy is focused in the subcutaneous fat layer beneath the skin, eliminating unwanted fat cells around the waist;Liposonix treatment is non-invasive and patients typically resume normal activities immediately after the procedure.
Thermage	<ul style="list-style-type: none">A radiofrequency treatment that can help improve the appearance of sagging or loose skin, giving a smoother, sleeker and younger look and feel;Usually one single treatment is needed to deliver a natural looking result with little down time.

Source: Frost & Sullivan Report

Importance of experienced doctors

Having the necessary treatment devices and injection materials are essential in carrying out the medical aesthetic treatments. However, doctors with the proven clinical experience to prescribe suitable treatment solutions for clients with different skin conditions, and skills to use treatment devices competently as well as to apply injection materials with great finesse are equally indispensable to achieving the desired aesthetic results with minimal or no side effect, according to the Frost & Sullivan Report. Therefore, in order to be successful in this industry, an operator needs to be equipped with the necessary hardwares, as well as possessing expert skills and knowledge.

COMPETITIVE ANALYSIS

Competitive landscape of non-surgical medical aesthetic service market in Hong Kong

The competition among the non-surgical medical aesthetic service providers in Hong Kong is fierce. There are over 300 medical aesthetic centres providing non-surgical medical aesthetic services in Hong Kong and the market is relatively fragmented. Among all the providers, only three of them

INDUSTRY OVERVIEW

generated revenue more than HK\$100 million from non-surgical medical aesthetic services in 2015; 12 of them generated revenue between HK\$50 million and HK\$100 million, while the remainders generated revenue less than HK\$50 million each.

Our Group is among the 12 tier II providers with market share of approximately 2.7% in terms of revenue and the different tiers of non-surgical medical aesthetic service providers are defined as follows:

Different Tiers of Non-surgical Medical Aesthetic Service Providers in Hong Kong	Major Features	Number of Market Players	Market Share (in terms of revenue)
<i>Tier I Providers</i>	<ul style="list-style-type: none"> ● Revenue in 2015 greater than HK\$100 million ● Usually operating under a large business group and providing comprehensive medical aesthetic services including surgical procedures 	3	15.2%
<i>Tier II Providers</i>	<ul style="list-style-type: none"> ● Revenue in 2015 between HK\$50 million and HK\$100 million ● Usually led by several registered doctors and focusing on specific fields such as skin care 	12	26.4%
<i>Tier III Providers</i>	<ul style="list-style-type: none"> ● Revenue in 2015 less than HK\$50 million ● Usually led by one to two doctors and sometimes operating under the name of doctor 	300+	58.4%

Source: Frost & Sullivan Report

Key growth drivers of the medical aesthetic service market in Hong Kong

- **Technology development:** Medical aesthetic technology has undergone a substantial transformation in the last decade and will continue to evolve with emerging technologies, such as transdermal delivery of injectable products for face contouring and energy-based treatment for skin rejuvenation and wrinkle reduction. Innovative technologies offer less intrusive experiences for the patients, more consistent results and less operator fatigue for the physicians, which will make medical aesthetic services more popular and acceptable in the foreseeable future.
- **Keeping up appearance:** Largely influenced by the trend evident in those more developed medical aesthetic service markets, especially in Korea and Taiwan, greater acceptance of medical aesthetic services has been growing over the past few years as individuals are paying more attention on maintaining youth and beauty. In addition, the aging population will generate more demands for medical aesthetic services as well.

INDUSTRY OVERVIEW

- **Growing affordability:** In recent years, Hong Kong consumers have experienced growth in their disposable income. The per capita gross income increased from HK\$281,000 in 2011 to HK\$318,300 in 2014. Coupled with the increasing attention to their personal appearance and general well-being, Hong Kong individuals have increased their spending on medical aesthetic services and skin care and beauty products.
- **Medical tourism:** The Hong Kong medical aesthetic service market, to a large extent, is professionally managed by qualified personnel. This professional reputation has been consistently attracting individuals from the PRC to come to Hong Kong to seek treatments; especially for non-surgical aesthetic treatments like injection or facial laser which do not require long recovery time. Hong Kong is usually preferred over Japan and Korea for those medical tourists thanks to easy travel arrangement and use of same language. It is expected this medical tourism trend will continue to stay in the coming years.

Future trends of medical aesthetic service market in Hong Kong

The future trends of the medical aesthetic service market in Hong Kong include:

- **More stringent regulations:** Several medical incidents occurred in the medical aesthetic service industry in recent years and have aroused public attention with an outcry for more stringent regulation. The Steering Committee has put forward proposals that certain procedures have to be performed by registered doctors. Such changing regulatory environment is beneficial to doctor-driven service providers as small market players with limited or no doctor presence are expected to be driven out of the market for their inability to comply.
- **Synergy of services:** There is an emerging trend in enhancing the service offerings to clients amongst medical aesthetic centres. In order to provide one-stop integrated service experience to clients, some operators also provide traditional beauty services such as facial and massage services, and even Chinese medicine, dental services, along with various medical aesthetic procedures, to meet various needs of clients.
- **Increasing number of male consumers:** Due to the increasing awareness of personal beauty, males in Hong Kong are paying much more attention on their appearance compared to the past, as they are spending more on not only apparels and accessories, but also skin care and cosmetics related products and services. With the popularisation of medical aesthetic services, the acceptance and awareness among male consumers are expected to continue. The rise of male consumers, as well as the increasing market demand from them may provide new development opportunity for medical aesthetic service market in Hong Kong.

Entry barriers of medical aesthetic service market in Hong Kong

- **Medical professionals:** Unlike traditional beauty salons that provide general beauty services by therapists, medical aesthetic service providers need to assemble a team of registered doctors to perform and guide certain procedures such as injection and some energy-based procedures with high risk. Considering limited supply of qualified doctors in Hong Kong and stringent regulatory environment, it will bring about challenges for new entrants in the medical aesthetic service market in Hong Kong.

INDUSTRY OVERVIEW

- **Capital:** To be competitive in medical aesthetic services market in Hong Kong, capital is important since it incurs substantial expenditure to acquire cutting-edge devices and equipment. In addition, the cost of employing registered doctors is high. In some cases, celebrity icons are sometimes signed on as spokesmen for medical aesthetic centres in order to attract target clients to ramp up the scale of the business to achieve profitability. Therefore, new entrants need to have sufficient financial backing to fund the initial capital investments as well as to meet the ongoing operating and marketing expenses before the business achieves profitability.
- **Brand reputation:** The service providers in this industry significantly rely on reputation. Any dissatisfaction from the clients in connection with the results of services provided or the quality of products made available to clients or any allegation of professional negligence or misconduct by the doctors may result in potential lawsuits or negative publicity against the service providers. These would adversely affect the image and reputation of the business. In this industry, word-of-mouth is a powerful way to attract new clients. Service providers with satisfying services and good reputation may have higher referral rate. However, it is difficult for a new entrant to gain high referral rate or establish a critical client base at its initial stage of operation. According to Frost & Sullivan Report, the average clients referral rate is around 32%–38% in the medical aesthetic industry.

Opportunities and threats

An increasing number of males interested in medical aesthetic services, especially non-surgical ones with little downtime, have created enormous growth opportunities for the beauty service industry. With the technology development, more and more advanced medical aesthetic devices can be used to achieve desired results and improved outcomes, which will in turn stimulate the demand for medical aesthetic treatments. The mainland China and Hong Kong government have been working to simplify travel approval process (i.e. visa issues) which has enabled many PRC visitors to receive non-surgical medical aesthetic treatments with little downtime when they visit Hong Kong for other purposes.

The medical aesthetic service market is still relatively fragmented and highly competitive; our Group may face threats from new entrants and other leading players. Good reputation is vital in this market, and any dissatisfaction from client or medical lawsuits that adversely affect the brand reputation may threaten the development of our Group.

Competitive Advantages

Our competitive advantages include the followings:

- **Superior customer experience:** Our Group’s medical aesthetic centres provide superior customer experience through upmarket decoration and soothing atmosphere, and customer-centric selling model allowing customer to be at easy when purchasing prepaid package/cash coupons from us. Such healthy customer relationship results in referral rate of new customers of around 50%, which was higher than the average client referral rate of 32.0% to 38.0% for the medical aesthetic service industry.

INDUSTRY OVERVIEW

- **Professional services:** High quality treatment services to our clients are delivered by our doctors and trained therapists. Our doctors possess eight to 10 years' practising experience in the medical aesthetic service industry and our therapists are required to receive our stringent training programme before they can perform treatment services to our clients. Such professionalism enhances the competitiveness of our Group in the medical aesthetic services market in Hong Kong.
- **Broad range of treatment devices:** We are capable of delivering a broad range of treatment procedures through utilising various treatment devices owned by us, hence we have been able to compete successfully against other leading players in the medical aesthetic service industry and to achieve a spending per client of HK\$18,148 for FY2016, which was higher than the estimated industry average of HK\$6,068 in 2016.
- **Competent management team:** Our Group's management is experienced, dedicated and have strong execution capabilities. Specifically, a majority of the senior management team of our Group possess over 10 years of experience in sales, operation and/or marketing in the health and beauty industry.