

BUSINESS

OVERVIEW

We are a medical aesthetic service provider in Hong Kong and operate two medical aesthetic centres in the prime locations of Causeway Bay and Central under our brand “CosMax”. We offer a broad range of non-surgical medical aesthetic services and skin care products to our clients with an aim to improve their skin conditions as well as to enhance their physical appearance. Our non-surgical medical aesthetic services can be broadly classified into (i) energy-based procedures; (ii) injection procedures; and (iii) other treatments.

Our Group is led by Mrs. Gigi Ma, our chairlady, executive Director and chief executive officer, together with an experienced and dedicated management team with strong execution capabilities. Mrs. Gigi Ma has also been a prominent icon of our business, whose public image has enhanced our brand awareness in Hong Kong, which has helped attract new clients through word-of-mouth and supported the continuous growth of our client base and business operations.

We provide an all-round treatment solution that is tailored for our clients’ individual needs and our treatments are performed through our experienced doctors and/or trained therapists. As at Latest Practicable Date, we had (i) three full-time doctors and one part-time doctor with practising experience in the medical aesthetic service industry ranging from eight to 10 years; and (ii) 15 trained therapists with on average over seven years of experience in the medical aesthetic service industry and a majority of them had on average served at our Group for five years.

To ensure the service quality of our therapists, we require our newly recruited therapists to undergo a six-month training programme which is formulated by our doctors and training manager and consists of theoretical and practical trainings. As at the Latest Practicable Date, all 15 trained therapists have completed our training programme.

We are well-equipped with various treatment devices with prevailing technologies, which enable our doctors and trained therapists to provide a broad range of treatment procedures to cater for the individual needs of each client. As at the Latest Practicable Date, we had 60 treatment devices for performing various treatment procedures involving the use of laser, radiofrequency, ultrasound and iontophoresis. All treatment devices deployed by us have been critically evaluated and assessed by our doctors, based on their clinical knowledge and experience to ensure that they are safe and capable of producing the desired results for our clients.

Apart from our treatment services, we offer skin care products to our clients to improve their skin conditions and enhance the results of the treatments. As at the Latest Practicable Date, we offered more than 45 skin care products, including those under our brands, “CosMax” and “Cospeutic”, and other branded products, comprising cleanser, toner, serum, moisturiser, eye care product, ultraviolet (UV) protection product and mask.

BUSINESS

Aiming to provide an exclusive and premier experience and to promote privacy and peace-of-mind for our valued clients, we have rented premises occupying the entire floor in a building for both of our CWB Centre and Central Centre to carry out our business. We believe that our professional services, capability in offering all-round treatment solutions as well as a broad range of treatment services and skin care products have enabled us to offer to our clients a superior experience at our medical aesthetic centres, which results in customer satisfaction and drives repeat clients and client referrals. For FY2015, FY2016 and 1Q2017, we served 4,852, 4,848 and 2,840 clients, respectively, and our repeat clients represented 61.6%, 68.8% and 86.1% of our active clients for each of the respective periods. During the same periods, 53.1%, 50.9% and 49.5% of our new clients were referred by our existing clients, respectively, which was higher than the average client referral rate of 32.0% to 38.0% of the medical aesthetic service industry in Hong Kong, as indicated by the Frost & Sullivan Report.

Our total revenue maintained a steady growth in the Track Record Period, which increased from HK\$74.0 million for FY2015 to HK\$83.4 million for FY2016 and from HK\$20.2 million for 1Q2016 to HK\$24.0 million for 1Q2017. The following table sets out a breakdown of our revenue during the years/ periods indicated:

	Year ended 31 March				Three months ended 30 June			
	2015		2016		2015		2016	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)							
Treatment services	63,882	86.3	74,081	88.9	17,828	88.3	21,655	90.4
Consultation services	773	1.0	613	0.7	175	0.9	162	0.7
Prescription and dispensing of medical products	2,487	3.4	2,797	3.4	708	3.5	676	2.8
Sale of skin care products	4,199	5.7	3,842	4.6	967	4.8	981	4.1
Forfeited revenue from expired prepaid packages/ cash coupons	<u>2,659</u>	<u>3.6</u>	<u>2,019</u>	<u>2.4</u>	<u>517</u>	<u>2.5</u>	<u>486</u>	<u>2.0</u>
Total revenue	<u>74,000</u>	<u>100.0</u>	<u>83,352</u>	<u>100.0</u>	<u>20,195</u>	<u>100.0</u>	<u>23,960</u>	<u>100.0</u>

To meet the increasing demand of our clients and further expand our business to capture future opportunities, we plan to establish one new medical aesthetic centre in a prime location in Kowloon. See “Our Business Strategies” in this section for further details.

BUSINESS

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are crucial to our success and essential for our future growth:

Our medical aesthetic professional team

As at the Latest Practicable Date, we had four doctors who had practising experience in the medical aesthetic service industry ranging from eight to 10 years. Our doctors take a leading role in devising bespoke treatments for our clients, and also carry out certain selective treatment procedures which are specified under the relevant laws and regulations or perceived by our doctors as being high risk. As pointed out in the Frost & Sullivan Report, doctors with the proven clinical experience and skills are indispensable to achieving desired aesthetic results with minimal or no side effect after treatments. We consider our team of doctors who possesses long established experience in the medical aesthetic industry has significantly contributed to the success of our Group.

Working along with our doctors are our trained therapists who perform various treatment procedures as directed by doctors. As at the Latest Practicable Date, we had 15 trained therapists with on average over seven years of relevant industry experience and a majority of them had on average served at our Group for five years. We require our newly recruited therapists to undergo a six-month training programme which is formulated by our doctors and training manager and consists of theoretical and practical trainings. Our training programme is stringent that the completion rate amongst our newly recruited therapists under training was less than 30% during the Track Record Period and all of our 15 trained therapists had completed our training programme. Our trained therapists also need to undergo ongoing assessment by our doctors and attend internal refresher courses to keep abreast of the latest development of the medical aesthetic service industry. We believe our team of long serving trained therapists has been instrumental in enabling us to provide high quality treatment services to our clients.

We consider that our clients' satisfaction towards the services rendered by our team of doctors and trained therapists is best illustrated by the consistently high percentage of repeat clients and the above industry — average new client referral rate achieved by us during the Track Record Period. See "Customers" in this section for details.

Offering superior client experience with a track record of business growth

We have adopted an upmarket decoration and setup for our medical aesthetic centres which we believe could provide a soothing atmosphere to enhance client experience. In addition, we have rented premises occupying the entire floor in a building for both of our CWB Centre and Central Centre to carry out our business aiming to provide an exclusive and premier experience and to maintain privacy and peace-of-mind for our valued clients.

It is imperative that our client should always be at ease when purchasing prepaid packages/cash coupons from us. Our aesthetic service specialists, whose main duty is to conclude sales transactions with clients after consultation, can only market to clients those treatment procedures as recommended by doctors. Furthermore, the aesthetic service specialists are required to ensure the quantity of treatments purchased by clients can be reasonably utilised within the validity period of the package. This explains that the forfeited revenue from expired prepaid packages/cash coupons accounted for around 3% of our total revenue during the Track Record Period.

BUSINESS

As a medical aesthetic service provider where reputation is of high significance, we always remind ourselves of the importance of client experience to the success of our business. With this mindset, we will strive to further improve the quality of our services in order to maintain our continuous growth in this industry.

Our competent management team

Our Group is led by Mrs. Gigi Ma, our chairlady, executive Director and chief executive officer together with an experienced and dedicated management team with strong execution capabilities. Mrs. Gigi Ma's active involvement in our daily operations and enthusiasm for the pursuit of beauty have laid a strong foundation for our success. Moreover, Mr. Barry Ma, our executive Director and IT and business development director, is mainly responsible for our strategic planning, business expansion, and development and maintenance of IT infrastructure. His contribution has led our Group to achieve continuous growth in both productivity and efficiency. In addition, a majority of the members of our senior management has over 10 years of experience in sales, operation and/or marketing in the health and beauty industry. See "Directors and Senior Management" in this [REDACTED] for further details.

Through the leadership of our senior management, we are well recognised for our human resources management and were awarded the status of "Manpower Developer" under the "ERB Manpower Developer Award Scheme 2015-16" for two years from April 2016 to March 2018 by the Employees Retraining Board in 2016. We believe our strong emphasis on human resources management has led us to develop a cohesive team of middle management staff who are able to effectively implement various business strategies formulated by our Directors.

Broad range of treatment procedures utilising various treatment devices with prevailing technologies

As the medical aesthetic service industry is characterised by rapid technological advancements, we have been introducing new treatment procedures to meet our clients' demand, as soon as treatment devices of new technology emerges and are selected by our doctors.

We are able to offer a broad range of treatment procedures utilising various treatment devices with prevailing technologies to provide to each of our clients a bespoke treatment solution. As at the Latest Practicable Date, we had 60 treatment devices involving the use of laser, radiofrequency, ultrasound and iontophoresis. Our treatment devices include those approved by national government agencies such as FDA, ensuring that they are reliable and capable of delivering desired outcomes.

With our capability of delivering a broad range of treatment procedures through utilising various treatment devices we possess, we have been able to compete successfully against other leading players in the medical aesthetic service industry and to achieve a higher spending per client than the industry average as indicated in the Frost & Sullivan Report during the Track Record Period.

Our CosMagazine

We are committed to improving the appearance of our clients. Apart from offering medical aesthetic solutions to our clients who visit our medical aesthetic centres, we believe it is also useful and helpful to maintain a platform to share with our clients the news on the latest treatment technologies and skin care products, tips on skin care and maintain a close dialogue between our doctors and our clients

BUSINESS

on the improvement of skin conditions and/or the improvement of appearance. To this end, we regularly publish the CosMagazine, which is available as physical copies in our medical aesthetic centres and on our website, for two to three times a year since July 2013 with a view to enhancing client loyalty as well as building brand awareness.

OUR BUSINESS STRATEGIES

Expand our network of medical aesthetic centres in Hong Kong

According to the Frost & Sullivan Report, the total revenue of the medical aesthetic service industry in Hong Kong reached HK\$4.2 billion in 2015, and is expected to increase to HK\$8.1 billion in 2020, representing a CAGR of 13.9%. To capture the anticipated growth in the medical aesthetic service industry, we aim to leverage on our successful track record to expand our network of medical aesthetic centres in Hong Kong by establishing one new medical aesthetic centre in a prime location in Kowloon by June 2017. The new medical aesthetic centre is expected to have 10 treatment rooms. The capital expenditure for the establishment of our new medical aesthetic centre is estimated to be HK\$[REDACTED] million. We intend to fund the establishment of our new medical aesthetic centre with the [REDACTED]. We are currently in the course of identifying available location for opening the new medical aesthetic centre and expects to take around three to four months to complete all the necessary work to put the premises in an operative mode. See "Statement of Business Objectives and Use of [REDACTED]" in this [REDACTED] for details of our expansion plan.

In selecting the location for new centre opening, we will take into considerations including but not limited to (a) the concentration of our target clients in such district; and (b) ease of transportation, major nearby shopping malls or areas and clusters of Grade A office towers.

We estimate that, based on our experience with our CWB Centre and Central Centre, the breakeven period for our planned medical aesthetic centre will be around seven months and the investment payback period will be around three years. The breakeven period is the period after which the monthly revenue of the medical aesthetic centre is at least equal to its monthly expenses. The investment payback period is the time it takes for the accumulated earnings before interest, tax, depreciation and amortisation (EBITDA) from the medical aesthetic centre to cover the investment costs of the medical aesthetic centre. We estimate the spending per client visit at our new medical aesthetic centre in Kowloon would be similar to what we have achieved at our CWB Centre and Central Centre in FY2016.

Broaden the variety of treatment services and product offering

The medical aesthetic service industry is characterised by rapid technological advancements. We believe our ability to keep abreast of the latest treatment technology and equipment, and the trend in skin care products are crucial to maintain our competitiveness. To this end, our marketing and business development department will continue to keep abreast of the latest technologies and conducting market research on the latest and prevailing treatment technologies and skin care products to meet the growing needs of our clients. We will continue to organise internal meetings among our doctors and trained therapists from time to time to share their experience in dealing with clients, discuss clients' feedback and exchange ideas on treatments and products and maintain close relationships with suppliers of treatment devices. We expect to use approximately [REDACTED] of the net proceeds of the [REDACTED] and our internal resources to fund the procurement of latest treatment devices.

BUSINESS

Refurbish our CWB Centre

We intend to further strengthen our brand image. To this end, we will undertake refurbishment work in our CWB Centre in order to standardise the overall decorative theme of both centres. Our Central Centre was designed with a modern and minimalistic style with an interior layout to promote privacy for clients to visit us for services. We believe our clients will gain a more premier experience when visiting our refurbished CWB Centre in the future. The estimated cost for the refurbishment work would be [REDACTED], which is expected to be funded with the net proceeds of the [REDACTED].

Upgrade our IT infrastructure

As we continue to expand, we plan to continue to invest in IT to achieve real-time monitoring of our daily operations, to centralise information exchange and integrate different operational functions, collect, store and analyse operational data for formulating sound and more scientific business strategies and streamline operational procedures. We believe it can optimise our operation and increase overall efficiency. See “Information Technology” in this section for further details. We expect that HK\$[REDACTED] will be used to upgrade our IT infrastructure, which is expected to be funded with the net proceeds from the [REDACTED].

Continue to attract and retain experienced personnel through training and professional development

We attribute our success to, among others, the vision of our chief executive officer and the talents of our senior management and professional team. Therefore, we believe that our commitment to employee excellence will lead to the continued growth of our business and improve the quality of services provided to our clients. To support our expansion plan to open one new medical aesthetic centre in a prime location in Kowloon, we plan to recruit two doctors and nine therapists. In addition, we will continue to attract and retain experienced employees through training and professional development such as encouraging and subsidising our doctors to attend overseas medical aesthetic conference and exposition.

BUSINESS

BUSINESS MODEL

We are principally engaged in the provision of a broad range of non-surgical medical aesthetic services by our doctors and trained therapists with an aim to improve the appearance of our clients. During the Track Record Period, our revenue was derived from the (i) provision of treatment services; (ii) provision of consultation services; (iii) prescription and dispensing of medical products; (iv) sale of skin care products; and (v) forfeited revenue from expired prepaid packages/cash coupons. The following table sets out our revenue by service and product offerings and as a percentage of total revenue for the periods indicated:

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OUR SERVICES AND PRODUCTS

Non-surgical medical aesthetic services

Common skin concerns that our clients have included those relating to skin tone (such as pigmentation and acne marks), skin surface (such as enlarged pores and dry skin), wrinkles (such as crow's feet) and facial and body contouring (such as skin laxity). On the other hand, our clients may want to improve certain skin conditions such as wart, rosacea and skin allergy. All of the services offered by us are non-surgical medical aesthetic services with an aim to improve skin conditions and improve the appearance of our clients. Our non-surgical medical aesthetic services can be broadly classified into (i) energy-based procedures; (ii) injection procedures; and (iii) other treatments. Depending on the needs of our clients and the diagnosis of our doctors based on their clinical experience, one-off treatment, multiple treatment sessions of a single treatment or multiple treatment courses may be recommended to our clients to achieve desired results.

Energy-based procedures

Energy-based procedures are intended to improve appearance and skin conditions such as facial and body contouring, removal treatment of moles and warts, melasma, rosacea, sebaceous hyperplasia, seborrheic keratosis and skin allergy through the use of energy-based devices such as laser, radiofrequency, ultrasound and iontophoresis. We offer a wide range of energy-based procedures for

BUSINESS

various purposes such as skin rejuvenation, pigment improvement, skin tightening, collagen stimulation, lifting, skin exfoliation, hair removal, localised fat cell disruption, syringoma removal and mole removal. Based on our doctors' professional experience and judgment on the risk of severe complication, selective energy-based procedures are performed by doctors only if they are perceived by our doctors as being high risk, whereas our trained therapists perform other selective treatment procedures as directed by our doctors.

The table below sets out description of certain of our top-revenue generating energy-based procedures during the Track Record Period:

Technology/ Device type	Treatments offered by us	Description	Typically intended aesthetic effect	Price range per treatment session (excluding trial or retouch) as at the Latest Practicable Date
Laser	CosMax Medical Laser; Fraxel	Deploying laser that is able to pinpoint a particular skin area where the principles of selective photothermolysis are used. The technique directs short, concentrated pulsating beams of light at skin to achieve various desired results, depending on the absorption spectrum of the tissue components	Improving pigment problems and acne scar; refining pores; lightening fine wrinkles; rejuvenating skin	HK\$1,400 to HK\$18,700
Iontophoresis	MesoWave Ultra Activator	Applying ion wave technology to maximise cell permeability and the absorption of active ingredients by cells. The ion waves create temporary micro channels in cell membranes, which helps improve the penetration of ingredients into skin cells	Improving moisture retention; stimulating skin cell regeneration; reducing fine lines and wrinkles; evening skin tone	HK\$1,600 to HK\$3,200
Radiofrequency	Thermage CPT; Fractional MRF Program	Deploying high-frequency radio waves that excite water molecules within the skin to generate heat. The heat reaches deep layers of skin to tighten existing collagen, remodel and stimulate growth of new collagen	Improving skin laxity and fine wrinkles; body contouring and increase local circulation	HK\$6,000 to HK\$74,000

BUSINESS

Technology/ Device type	Treatments offered by us	Description	Typically intended aesthetic effect	Price range per treatment session (excluding trial or retouch) as at the Latest Practicable Date
Ultrasound	Ulthera	Using High Intensity Focused Ultrasound (HIFU) to heat the deep tissues under the skin to stimulate growth of new collagen and tighten the skin	Lifting and tightening of skin; lifting the eyebrow, neck and under-chin	HK\$24,000 to HK\$90,000
Ultrasound	Liposonix	Using ultrasound technology to deliver custom contouring fat reduction	Eliminating unwanted fat cells	HK\$4,800 to HK\$90,000

Injection procedures

Injection procedures are intended to shape a person's face or body by injections of certain materials. We offer injection procedures for improvement of appearance including facial and body contouring, wrinkle reduction, hyperhidrosis and skin rejuvenation. According to the Frost & Sullivan Report, injection procedures are gaining popularity in Hong Kong because such procedures involve less pain and scarring and offer quicker recovery when compared to surgical medical aesthetic procedures. Injections should only be performed by registered medical practitioners.

The table below sets out description of certain of our top-revenue generating injection procedures during the Track Record Period:

Procedure	Description	Typically intended aesthetic effects	Price range per treatment session (excluding trial or retouch) as at the Latest Practicable Date
Injection of dermal fillers	Injecting hyaluronic acid, such as Restylane®, JUVÉDERM®, and TEOSYAL®, into the skin of the face and/or body	Filling in wrinkles and deep creases; smoothing out scars; filling out thin or wrinkled lips; plumping up and lifting cheeks, jawlines, temples and sagging hands	HK\$4,800 to HK\$19,800
Injection of botulinum toxin type A	Injecting the medication botulinum toxin type A, such as BOTOX® and Dysport®, into the skin of the face and/or body	Reducing wrinkles in the area of the face or body, facial and body contouring	HK\$2,300 to HK\$18,000

BUSINESS

Other treatments

We also offer other non-surgical medical aesthetic treatments such as chemical peels, removal treatment of wart, comedone extraction and wound care. Chemical peel is a technique used to improve the appearance of the skin on the face, neck or hands by applying a chemical solution to the skin that causes it to exfoliate and eventually peel off. The chemical peel procedures offered by us are mainly for improvement of skin texture, skin exfoliation and reduction of the appearance of pigmented spots and melasma, and are generally performed by our trained therapists. The removal treatment of wart is a type of treatment perceived by our doctors as being high risk, and is performed by our doctors only, whereas the other treatments can be performed by our trained therapists, depending on our doctors' professional experience and judgment on the risk of severe complication.

The price range per treatment session (excluding trial or retouch) of our other treatments as at the Latest Practicable Date was HK\$440 to HK\$16,800.

Pricing policy

The price of our non-surgical medical aesthetic services is determined with reference to, among others, (i) device supplier's recommended market reference price; (ii) price of similar treatments on the market; (iii) type of treatment medication used; (iv) size of treatment area; (v) cost of treatment consumable; and (vi) duration typically required for the performance of the treatment.

Consultation services

All of our new clients are required to attend consultation sessions with our doctors when they first visit us. During consultation sessions, our doctors perform examination as well as assess and/or make diagnosis of clients' skin conditions with reference to their medical history and background. Such diagnosis will have regard to the clients' specific condition and needs. Following such diagnosis, suitable treatment plans (including the type of treatment and number of sessions) are recommended by our doctors in response to his/her individual needs. In addition, our doctors may prescribe medication and/or recommend skin care products to our clients to compliment our non-surgical medical aesthetic services as appropriate. Follow-up consultation sessions will also be provided where appropriate so as to keep track of our clients' conditions.

Each of our medical aesthetic centres is equipped with a dispensary unit. Subsequent to the consultation with our doctors, our medical assistants are responsible for arranging the client to obtain the required medication and/or skin care products from our dispensary unit. It is our policy that the following procedures are adhered to:

- medications are only dispensed with doctor's prescription;
- only one single prescription should be handled at one time;
- checking the labels against the prescription (on client's identity, drug details, quantity intake, frequency, etc.);
- selecting appropriate containers;

BUSINESS

- ensuring that the medication and/or product to be dispensed will not expire within the period of treatment;
- conducting final check of medications prescribed by doctors before dispensing the same to clients; and
- verifying the identity of the client upon dispensation.

Price range and pricing policy

During the Track Record Period, fees for our consultation services were charged at a fixed rate of HK\$600 per visit. The consultation fee will be waived if the client purchases our services immediately afterwards. In addition, the consultation fee is reduced to HK\$300 per visit during a follow-up visit if the client attends such follow-up visit within six months from the last visit. For new clients who are referred by existing clients, our first time consultation fee is priced at HK\$300 but can be waived during our promotion periods. In respect of medication, price is determined on a cost-plus basis, namely with a margin over the cost of purchase of the relevant medication.

Skin care products

We believe that the appropriate use of skin care products can complement non-surgical medical aesthetic services to improve skin conditions and enhance the results of the treatments. During the consultation, our doctors will recommend suitable skin care products to our clients with reference to their individual skin conditions and needs for post-treatment care. As at the Latest Practicable Date, we offered more than 45 skin care products comprising cleanser, toner, serum, moisturiser, eye care product, ultraviolet (UV) protection product and mask.

BUSINESS

During the Track Record Period, we offered both private-label products under our brands, “CosMax” and “Cospeutic”, and other branded products sourced from third party suppliers. Set out below are some of our private-label products:



As advised by the Counsel, we are not required to obtain any specific licences for selling skin care products and that none of our skin care products are regulated or are required to be registered under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong).

Product return, warranties and liability

We generally do not allow product returns and do not give warranties as to the effectiveness of our skin care products. During the Track Record Period, we had not been subject to any material product liability claim nor did we have any material product return or product recall.

Price range and pricing policy

As at the Latest Practicable Date, the prices of our skin care products ranged from HK\$280 to HK\$1,980. Such price is determined on a cost-plus basis, namely with a margin over the cost of purchase of the relevant skin care products.

BUSINESS

BUSINESS PROCESS

Consultation services

The following diagram illustrates the key stages of the process of our consultation services:



Step 1: Reception and registration

When a client visits us for the first time, we ask the client to fill out a personal information sheet that contain the client's name, gender, age and contact number for registration. We also ask the client to provide proof of identity for registration.

Step 2: Face-to-face consultation with aesthetic service specialist and photo taking

At this stage, our aesthetic service specialist goes through the medical record form with our client so as to better understand the medical record and concerns of our client, such as skin conditions that the client is concerned with, the client's allergy history, previous medical history and current medication intake. The information provided by the client is recorded by our aesthetic service specialist on the medical record form which shall be signed and acknowledged by the client. The client is then taken for photo taking, during which our imaging system captures the client's skin textures and contours including brown spots, red areas and wrinkles to assist our doctor in achieving better treatment planning.

Step 3: Face-to-face consultation with doctor

Our clients are required to consult our doctor prior to receiving any treatment service at our medical aesthetic centres. Our aesthetic service specialist passes the medical record form to the doctor for review. During the face-to-face consultation, our doctor performs examination and/or make diagnosis of the client's skin conditions with reference to his/her medical history and background. Such diagnosis will have regard to the client's specific condition and needs. Following such diagnosis, suitable treatment plans (including the type of treatment and number of sessions) are recommended by our doctor in response to his/her individual needs. Our doctor also explains to client the treatment procedure, associated risks and possible side-effects as well as answers the client's questions and address his/her concerns. In addition, our doctor may prescribe medication and/or recommend skin care products to our clients as appropriate.

During the consultation, for treatment procedures which are not specified under the relevant laws and regulations to be carried out by doctors, our doctor also decides whether the recommended treatment shall be performed by our doctor or trained therapist. If the recommended treatment is decided to be performed by our trained therapist, our doctor also sets out the relevant treatment protocol, such as the treatment device to be used and the relevant parts of the face and/or body to be applied, for the trained therapist to follow.

BUSINESS

Step 4: Payment and booking with aesthetic service specialist (if necessary)

After consultation with our doctor, if the client opts for undergoing the recommended treatments and purchasing any medication and/or skin care products recommended, our aesthetic service specialist explains the prices of such recommended treatments and skin care products, as well as any promotion or package that is applicable to such recommendation. It is imperative that our client should always be at ease when purchasing prepaid packages/cash coupons from us. Our aesthetic service specialists, whose main duty is to conclude sales transactions with clients after consultation, can only market to clients those treatment procedures as recommended by doctors. Furthermore, the aesthetic service specialists are required to ensure the quantity of treatments purchased by clients can be reasonably utilised within the validity period of the package. The client may then proceed to, if necessary and applicable, make payment, obtain the required medication and/or skin care products from our dispensary unit and arrange the next appointment for performing the treatment with our aesthetic service specialist.

Non-surgical medical aesthetic services

The following diagram illustrates the key stages of the process of our non-surgical medical aesthetic services:



Step 1: Reception, photo taking and preparation for treatment

After reception, the client is taken for photo taking, during which our imaging system captures the client's skin textures and contours for side-by-side image comparison (before and after treatment). Prior to the performance of the procedure, the responsible doctor or trained therapist, as applicable, again explains the proposed procedure to the client, including the purpose, nature, process, possible risks and potential complications, and answers any questions that the client may have relating to the procedure to be performed. Our clients are asked to study and sign a consent form, which, among others, requires the client to acknowledge their understanding of the proposed procedure as explained by the doctors, and the risks involved in the treatment and their consent to undergo such treatment.

Step 2: Performance of treatment

Step 3: Post-treatment follow-up

Subsequent to the performance of treatment, post-treatment photos of our client are taken to enable our doctors to monitor the treatment progress and outcome and skin conditions of our client. In addition, post-treatment care tips may be provided to our client and the client may then arrange check-out and booking of the next appointment, if applicable.

To monitor our client's satisfaction towards the treatment received, we contact the client within several days after the treatment by phone or text message to gather his/her feedback. We maintain a log book on feedback for management review.

BUSINESS

OUR PROFESSIONAL TEAM

Our frontline professional team comprises doctors, trained therapists, medical assistants and aesthetic service specialists.

Doctors

As at the Latest Practicable Date, we engaged four doctors at our medical aesthetic centres, comprising three doctors who worked full-time and one part-time doctor. The table below summarises the details of our doctors:

Doctor	Type of registered practitioner	Relevant qualifications	Years of experience in the medical aesthetic service industry as at the Latest Practicable Date	Year of joining our Group
Doctor A	General practitioner	Degrees of Bachelor of Science (Medicine), Bachelor of Medicine and Bachelor of Surgery, Fellow of the Faculty of Medicine of a college of cosmetic surgery, Postgraduate Diploma in Practical Dermatology and Postgraduate Diploma in Clinical Dermatology	9	2009
Doctor B	General practitioner	Bachelor Degree in Medicine, Bachelor Degree in Surgery Master Degree, Diploma in Dermatological Sciences and Master of Science in Practical Dermatology	10	2009
Doctor C	General practitioner	Bachelor Degree in Medicine, Bachelor Degree in Surgery Master Degree and Diploma in Practical Dermatology	8	2016 <i>(Note)</i>
Doctor D (part-time)	General practitioner	Bachelor Degree in Medicine, Bachelor Degree in Surgery Master Degree and Postgraduate Diploma in Practical Dermatology	10	2015

BUSINESS

Note: During the Track Record Period, our former full-time doctor, who had been engaged by our Group since March 2014, left on his own accord in June 2016. In the same month, Doctor C joined our Group in place of our former doctor.

For selection criteria of our doctors, see "Quality Assurance" in this section for details.

From time to time, our doctors attend industry conferences, seminars and workshops in Hong Kong and overseas as well as seminars organised by our suppliers on topics such as injection procedures and energy-based procedures. During the Track Record Period, some of our doctors also attended local and overseas conferences, seminars and workshops.

For FY2015, FY2016 and 1Q2017, the number of treatments performed by our doctors was 4,604, 5,230 and 1,535, respectively, representing 16.5%, 18.4% and 19.8% of the respective total number treatments performed. During the same periods, revenue from treatment services contributed by our doctors amounted to HK\$24.5 million, HK\$29.8 million and HK\$9.5 million, respectively, representing 38.3%, 40.2% and 43.8% of our respective total revenue from treatment services.

Doctors' liability

Being registered medical practitioners, our doctors are required to adhere to the Hong Kong Medical Code of Professional Conduct as well as remain fit and proper (as considered by the Hong Kong Medical Council) throughout the period of their practice. Each of our doctors has confirmed that he/she has not, since commencing practice as a registered medical practitioner, (a) been subject to any disciplinary actions, investigations or other similar actions by the Hong Kong Medical Council or other professional and regulatory bodies in Hong Kong; or (b) been involved in any actual, pending or threatened litigation or claims against or associated with his/her medical practice. In addition, we have obtained certificates of good standing in respect of our doctors issued by the Hong Kong Medical Council certifying that our doctors have not been found guilty of misconduct in a professional respect by the Hong Kong Medical Council and no disciplinary proceedings against them were in process.

Due to the nature of our business operations, the performance of treatment procedures and/or the intake of medication may carry inherent health risks. As a result, our doctors are inevitably exposed to potential liability arising from complaints, claims and possibly litigation brought against them by clients alleging to have suffered from treatments performed and/or medication prescribed. Since the results of treatments depend on, among others, the client's skin condition, allergies (if any), medical condition and daily skin care treatment and products used, there is no guarantee that our treatments may achieve the client's most desired results, which may be subject to his/her subjective views. Our clients are asked to sign a consent form which, among others, requires them to acknowledge their understanding of the proposed procedure as explained by doctors and the risks involved in the treatment and their consent to undergo such treatment.

BUSINESS

There is also a risk that claims of medical negligence and malpractice may be brought against our doctors. As such, as with any other registered medical practitioners, our doctors are exposed to, among others, the following:

- complaints brought against them informally or formally through our medical aesthetic centres in connection with treatment results, treatment errors and/or use of equipment or processes which caused harm to clients;
- complaints or information brought to the Hong Kong Medical Council against them in respect of any case or matter concerning their suitability to practice and/or treatment-related matters;
- investigations brought by the Hong Kong Medical Council following any complaints and/or information supplied by clients;
- disciplinary orders made by the Hong Kong Medical Council following due inquiry, including an order of removal from the general register;
- litigation and court proceedings relating to allegations of medical malpractice or negligence or unsettled client complaints; and
- reputational damage arising from one or more of the above.

Our doctors, as members of the Medical Protection Society, maintain professional malpractice liability insurance, which includes indemnity, advice and legal representation in relation to claims, investigations and proceedings arising from or in connection with their professional practices. In addition, our doctors have agreed to indemnify us against, among other things, all claims and liabilities in relation to death or injury to any person, to the extent that such death or injury is attributable to the willful or negligent acts, defaults or omissions on their part.

Trained therapists

As at the Latest Practicable Date, we had 15 trained therapists at our medical aesthetic centres. They possessed on average over seven years of experience in the medical aesthetic service industry and a majority of them had on average five years of service with our Group as at the Latest Practicable Date.

During the Track Record Period, certain selective energy-based procedures and other treatments were performed by our trained therapists, which, under the applicable laws and regulations of Hong Kong, do not require any special qualifications. For FY2015, FY2016 and 1Q2017, the number of treatments performed by our trained therapists was 23,349, 23,144 and 6,201, respectively, representing 83.5%, 81.6% and 80.2% of the respective total number treatments performed. During the same periods, revenue from treatment services contributed by our trained therapists amounted to HK\$39.4 million, HK\$44.3 million and HK\$12.2 million, respectively, representing 61.7%, 59.8% and 56.2% of our respective total revenue from treatment services.

We require our newly recruited therapists to undergo a six-month training programme provided by us prior to performing treatments as agreed by the doctors for our clients.

BUSINESS

Medical assistants

As at the Latest Practicable Date, we had seven medical assistants who are responsible for assisting our doctors in the provision of non-surgical medical aesthetic services. Under the applicable laws and regulations of Hong Kong, the tasks performed by our medical assistants do not require any special qualifications.

Aesthetic service specialists

As at the Latest Practicable Date, we had six aesthetic service specialists, who are mainly responsible for initial consultation with clients, sales and promotion as well as providing after-sales follow-up services.

OUR MEDICAL AESTHETIC CENTRES

As at the Latest Practicable Date, we operated two medical aesthetic centres which are located in Causeway Bay and Central. The table below summarises the location, year of commencement of operation, gross floor area and number of treatment rooms of the CWB Centre and Central Centre:

	CWB Centre	Central Centre
Location	Soundwill Plaza	Club Lusitano
Year of commencement of operation	2009	2014
GFA	7,156 sq.ft.	3,092 sq.ft.
Number of treatment rooms	16	9

The table below sets out the revenue contribution from our medical aesthetic centres during the Track Record Period:

	Year ended 31 March				Three months ended 30 June	
	2015		2016		2016	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
CWB Centre	59,172	80.0	62,465	74.9	17,235	71.9
Central Centre	14,828	20.0	20,887	25.1	6,725	28.1
Total	<u>74,000</u>	<u>100.0</u>	<u>83,352</u>	<u>100.0</u>	<u>23,960</u>	<u>100.0</u>

BUSINESS

Set out below are some pictures of our medical aesthetic centres:



1. Reception area
2. Common area
3. Treatment room
4. Photo taking room
5. Preparation room
6. Product display corner

BUSINESS

Equipment

We offer a broad range of treatment procedures utilising various treatment devices with prevailing technologies which enable our doctors and trained therapists to provide to each of our clients an all-round treatment solution that is tailored for his/her individual needs. As at the Latest Practicable Date, we had 60 treatment devices for performing various treatment procedures, which are sourced from leading medical device manufacturers, distributors and healthcare companies, all of which are Independent Third Parties.

A majority of our treatment devices are used for energy-based procedures, such as devices for laser, iontophoresis, radiofrequency, ultrasound, microdermabrasion and infrared light. The table below summarises the estimated average useful lives of some of our key treatment devices:

Type of devices	Number of devices	Approximate estimated average age of machine (years)	Approximately estimated remaining lives ^(Note) (years)
Laser	34	8.9	3.8
Radiofrequency and MRF	10	5.9	1.9
Iontophoresis	5	6.0	2.4
Ultrasound	3	7.0	3.8
Microdermabrasion	3	6.0	3.0
Infrared light	1	5.0	1.7
Others	4	5.0	2.0

Note: The actual length that we will use these devices may be different from the estimates due to reasons such as periodic maintenance.

See “Quality Assurance — Supplier selection and procurement” in this section for details of our quality assurance and control measures in purchasing treatment devices.

Utilisation rate of our medical aesthetic centres

The table below sets out details of the utilisation of each of our medical aesthetic centres for the periods indicated:

	Year ended 31 March 2015			Year ended 31 March 2016			Three months ended 30 June 2016		
	Service capacity (Note 1)	Actual number of treatments performed	Utilisation rate (Note 2)	Service capacity (Note 1)	Actual number of treatments performed	Utilisation rate (Note 2)	Service capacity (Note 1)	Actual number of treatments performed	Utilisation rate (Note 2)
CWB Centre	30,240	22,412	74.1%	30,240	21,613	71.5%	7,560	5,704	75.4%
Central Centre	17,010	5,541	32.6%	17,010	6,761	39.7%	4,253	2,032	47.8%
Overall	47,250	27,953	59.2%	47,250	28,374	60.1%	11,813	7,736	65.5%

BUSINESS

Notes:

- The service capacity is calculated for illustrative purpose only. Based on our experience and assuming certain periods of idle time for contingency taking into account factors such as set-up time and rest time of the staff, the service capacity refers to total capacity for provision of non-surgical medical aesthetic treatments, which is calculated based on the product of (i) the number of treatment rooms in the medical aesthetic centre(s) (i.e. 16 in the CWB Centre and 9 in the Central Centre), (ii) the expected maximum number of treatments performed per day when the medical aesthetic centre(s) are open (i.e. 6.3 treatments), (iii) six working days per week and (iv) 50 working weeks per year.
- Utilisation rate is calculated by dividing actual number of treatments performed by service capacity.

During the Track Record Period, our overall utilisation rate maintained a steady growth. In respect of the CWB Centre, the utilisation rate slightly decreased from 74.1% for FY2015 to 71.5% for FY2016, which was mainly because some client traffic was attracted to the Central Centre. The utilisation rate of the Central Centre was relatively low in FY2015 as it was opened in April 2014. Its utilisation rate grew steadily from 32.6% for FY2015 to 39.7% for FY2016 as we were able to attract new clients.

Expansion plan

To capture the anticipated growth in the medical aesthetic service industry, we aim to leverage on our successful track record in the medical aesthetic service industry and expand our network of medical aesthetic centres in Hong Kong by establishing one new medical aesthetic centre in a prime location in Kowloon. See “Our Business Strategies — Expand our network of medical aesthetic centres in Hong Kong” in this section and “Statement of Business Objectives and Use of Proceeds” in this [REDACTED] for further details.

CUSTOMERS

All of our clients during the Track Record Period were individual retail clients. Since we did not conduct any active marketing or advertising, our clients are mostly introduced to us through client referrals and/or word-of-mouth. The following table sets out the number of active clients, repeat clients and new clients during the periods indicated:

	Year ended 31 March		Three months ended	
	2015	2016	30 June 2015	2016
Repeat clients (<i>Note 1</i>)	2,991	3,334	2,344	2,444
New clients (<i>Note 2</i>)	1,861	1,514	392	396
Active clients (<i>Note 3</i>)	4,852	4,848	2,736	2,840

Notes:

- Clients who have (i) made at least one purchase of services or products or received at least one treatment session in the relevant financial year/period; and (ii) have previously consulted us or made purchase of services or products in the past.
- Clients who for the first time have made at least one purchase of services or products in the relevant financial year/period.

BUSINESS

3. Clients who have made at least one purchase of services or products, or received at least one treatment session in the relevant financial year/period.

For FY2015, FY2016 and 1Q2017, revenue from our five largest clients was HK\$1.0 million, HK\$1.2 million and HK\$0.6 million, respectively, representing 1.4%, 1.5% and 2.4% of our revenue for the same periods. Our clients may choose to pay after each treatment or purchase prepaid package, and no credit period is granted to them from us. Payment can be settled by cash, EPS or credit cards. Certain credit card companies and commercial banks offer financing options to our clients. All of our five largest clients during the Track Record Period are Independent Third Parties.

The table below sets out the breakdown of client numbers (by gender):

	Year ended 31 March				Three months ended	
	2015		2016		30 June	
	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Gender						
Female	4,569	94.1	4,586	94.5	2,696	94.8
Male	<u>289</u>	<u>5.9</u>	<u>267</u>	<u>5.5</u>	<u>149</u>	<u>5.2</u>
Total	<u>4,858</u>	<u>100.0</u>	<u>4,853</u>	<u>100.0</u>	<u>2,845</u>	<u>100.0</u>

PREPAID PACKAGES

Depending on the needs of our clients and the diagnosis of our doctors based on their clinical experience, one-off treatment, multiple treatment sessions of a single treatment or multiple treatment courses may be recommended to our clients to achieve desired results. Our clients may choose to pay after each treatment or purchase prepaid package in respect of multiple treatment sessions and courses. The major characteristics of prepaid package include:

- generally, a discount of 10% to 25%, depending on the number of treatment sessions, is offered;
- the validity period is three to 18 months from date of purchase;
- generally, the prepaid packages cannot be used for other treatment sessions not specified in the relevant formal contract; and
- subject to our approval and on a case-by-case basis, such as in the event that our doctor determine any abnormality to the client’s skin condition after treatment, we may offer transfer of treatment to our client.

Expiry, extension and refund

During the Track Record Period, some clients did not use the prepaid packages fully prior to expiration. We believe that this may be because such clients considered that they have already obtained the desired results or certain other personal reasons, such as a busy schedule. See “Financial Information — Description of components of combined statements of profit or loss and other

BUSINESS

comprehensive Income — Revenue — (v) Forfeited revenue from expired packages/cash coupons” in this [REDACTED] for further details of the accounting treatment of revenue recognised from unutilised prepaid packages.

Generally, it is our policy that the prepaid packages cannot be extended. However, subject to our absolute discretion, and the approval of our centre manager on a case-by-case basis, and taking into account factors such as the specific client’s spending history and individual reasons, upon their request, we may allow clients to extend the validity period of the prepaid packages for an appropriate period. Examples of valid reasons include changes of skin/health condition of a client such as pregnancy or that the client will need to be away from Hong Kong temporarily.

Our medical aesthetic services are subject to a certain degree of health risks. Allergic reaction, undesirable or unexpected outcome, injury or death may occur as a result of undergoing medical aesthetic treatments. Where a client has experienced side-effects or developed skin problems after a particular treatment, subject to verification by our doctor, and the final approval of our director of sales and operation on a case-by-case basis, we may offer to transfer the unutilised balance of the prepaid package for another type of treatment or subject to the final approval of our chief executive officer, refund may be offered to our client.

SALES AND MARKETING

Our clients are mostly introduced to us through client referrals and/or word-of-mouth. During the Track Record Period, in promoting our medical aesthetic centres, we deployed certain means including search engine optimisation, instant messaging and maintaining our website at www.cosmax.com.hk. We also regularly publish the CosMagazine to maintain a close dialogue between our doctors and our clients on the improvement of skin conditions and/or the improvement of appearance.

As part of our client retention efforts, we launch the sale of prepaid cash coupons to clients normally from January to April of each year. We offer a discount of 20% of the face value of the prepaid cash coupons to our clients while the prepaid cash coupons can be redeemed for services equivalent to the face value of the prepaid cash coupons. In addition, the prepaid cash coupons can be redeemed for more than one type of services at client’s choice with a validity period of 12 months from date of purchase. Receipts from prepaid cash coupons are recorded as deferred revenue in the combined statements of financial position at the point of sales. As at 31 March 2015, 31 March 2016 and 30 June 2016, the balance of deferred revenue attributable to prepaid cash coupons amounted to HK\$7.3 million, HK\$5.8 million and HK\$3.6 million, respectively.

OUR SUPPLIERS, PROCUREMENT AND INVENTORY MANAGEMENT

Major purchases and suppliers

Our major purchases of inventories and consumables are purchases of treatment consumables, skin care products and medications. Our cost of inventories and consumables amounted to HK\$7.5 million, HK\$8.1 million and HK\$2.5 million for FY2015, FY2016 and 1Q2017, respectively. Our treatment consumables include some of the prevailing treatment medications and injectables which are produced and marketed by international pharmaceutical companies, such as BOTOX®, Restylane®,

BUSINESS

JUVÉDERM®, Dysport® and TEOSYAL®, whereas all of the skin care products [REDACTED] by us, including our private-label products, were supplied by distributors and trading companies and their countries of origin include the United States, Italy and France.

During the Track Record Period, we procured the supplies of medications from distributors and trading companies, who are usually engaged by pharmaceutical companies to market and arrange delivery of products. We directly settled payment with these distributors and trading companies. We consider that such arrangements are common among pharmaceutical companies.

We do not enter into long-term supply agreements for the purchase of treatment consumables, skin care products and medications. We have established on average five years of business relationship with our five largest suppliers during the Track Record Period. The average credit period on purchase of goods is 30 days. Settlements with suppliers are mainly in Hong Kong dollars by way of payment of cheques for purchases in Hong Kong or by way of wire transfer. During the Track Record Period, we have not experienced any material shortage or delay in the supply of inventories and consumables.

For FY2015, FY2016 and 1Q2017, the aggregate purchases from our five largest suppliers amounted to HK\$4.6 million, HK\$5.4 million and HK\$1.9 million, respectively, representing 59.9%, 63.8% and 74.9% of our respective total purchases. During the same periods, the purchases from our largest supplier amounted to HK\$1.8 million, HK\$2.2 million and HK\$0.6 million, respectively, accounting for 23.7%, 25.3% and 23.5% of our total purchases, respectively. None of our Directors, their associates or any Shareholder (which to the knowledge of our Directors owns more than 5% of our share capital) had any interest in any of our five largest suppliers during the Track Record Period.

For the sensitivity analysis in relation to changes in material costs, see "Financial Information — Description of components of combined statements of profit or loss and other comprehensive income — Cost of inventories and consumables" in this [REDACTED] for details.

Procurement

Our marketing and business development department is primarily responsible for keeping abreast of the latest technologies and conducting market research on the latest and prevailing treatment technologies and skin care products. Upon identifying new and suitable treatment devices or skin care products, our marketing and business development department recommends the same to our doctors and senior management as well as prepares feasibility studies containing details of such technologies or skin care products and market price for the consideration of our doctors and senior management. From time to time, we are also approached by suppliers of treatment devices and skin care products and are given samples for trial. The approval of our chief executive officer and doctors must be obtained before we procure a new treatment device or product. The procurement process is then handled by our administration department. Designated treatment consumables are procured in accordance with the relevant treatment devices.

During the Track Record Period, we did not encounter any quality issue on our purchases or receive any defective products that would have had material impact on our business, financial condition or results of operations.

BUSINESS

Inventory management

The inventory at our medical aesthetic centres mainly comprises treatment consumables, skin care products and medications, which amounted to HK\$1.3 million, HK\$1.7 million and HK\$1.7 million as at 31 March 2015 and 2016 and 30 June 2016, respectively.

We carry out overall inventory management through our integrated IT infrastructure, which records, among others, the stock level of our inventory and past purchase records, to facilitate decisions on minimising storage costs and risk of obsolete inventory.

Our administration and operations department regularly monitors the level of our treatment consumables, skin care products and medications and ensures sufficient stock level for approximately two months. We also have policies and procedures in place for the safety storage of our inventories. A stock take on inventories is carried out on a monthly basis.

SETTLEMENT AND CASH MANAGEMENT

Cash receipts at our medical aesthetic centres generally arise from income from the sale of treatment packages, prepaid cash coupons, skin care products and medications, and provision of consultation service. Clients normally pay by cash, EPS or credit cards.

We have implemented a check and balance system to ensure that our sales receipts are accurately received and recorded. Our staff are expected to check our daily sales records in our IT infrastructure against all credit card slips and EPS slips generated from credit card machines and EPS terminals and actual cash receipts, and rectify any discrepancies noted, on a daily basis. Actual cash receipts will be arranged to be deposited to the bank on the next business day. The above documents will be sent back to the accounts department for further verification against the sales report generated from our IT infrastructure. Upon receiving bank statements, monthly bank reconciliation will be conducted to ensure the accuracy of proceeds received. Any reconciliation reports will be reviewed and approved by the head of our accounts department of our Group.

During the Track Record Period, we did not encounter any issues in connection with our sales receipt control and management policy which would have had material impact on our business, financial condition or results of operations.

QUALITY ASSURANCE

Providing quality non-surgical medical aesthetic services is one of our management priorities. To this end, we have adopted comprehensive and stringent quality assurance and control measures throughout our business processes that covers, among others, the following aspects:

Recruitment of professional staff

In selecting new doctors and therapists to join us, we assess, among others, their academic and professional qualifications, years of relevant experience as well as their character and integrity. In respect of doctors, we generally prefer to engage doctors with at least five years of practising experience

BUSINESS

in the medical aesthetic service industry prior to joining our Group, whereas for therapists, we generally prefer candidates who have obtained relevant beauty service qualifications or with at least two years of relevant experience in the medical aesthetic service industry.

Performance of treatments

The carrying out of certain types of treatments (such as injection of botulinum toxin type A) constitute the practice of medicine and therefore must be carried out by registered medical practitioners. Our doctors carry out such certain treatment procedures which are specified under the relevant laws and regulations as well as selective treatment procedures perceived by our doctors as being high risk, whereas our trained therapists perform other selective treatment procedures as directed by our doctors. Based on our doctors' professional experience and judgment on the risk of severe complication, selective energy-based procedures are performed by doctors only if there is potential risk of irreversible organ or tissue damage including nerve injury, muscle burn, fat necrosis or skin necrosis.

Training

From time to time, our doctors attend industry conferences, seminars and workshops in Hong Kong and overseas as well as seminars organised by our suppliers on topics such as injection procedures and energy-based procedures.

We require our newly recruited therapists to undergo a six-month training programme provided by us prior to performing treatments as agreed by the doctors for our clients. During the six-month training period, theoretical and practical trainings are conducted by our training manager who has over 10 years of experience in the medical aesthetic service industry and has been our training manager since 2009. Our therapists must pass the final assessment by our doctors. With an aim to improve efficiency of our training process, we established our training centre, CosMax Academy, in April 2015 to provide centralised trainings to our therapists.

Our training course comprises three phases of training with increasing level of complexity, covering topics such as face cleansing, use of anaesthetic drugs for laser treatment, theoretical lessons on laser and other treatments, model role play and practice on laser machine operation. For each phase, our therapists must pass the knowledge-based written exams and the final practical hands-on assessment by our doctors before they can perform procedures covered in such phase on our clients. Upon completion of all phases of training, our trained therapists can obtain our internally issued certifications.

Our trained therapists undergo ongoing assessment by our doctors, and attend internal refresher training courses and trainings provided by medical device suppliers to keep abreast of the latest technology as well as to keep up with their service standards. Our doctors and trained therapists also attend periodic departmental meetings to share their experience in dealing with clients, discuss clients' feedback and exchange ideas on treatments and products.

In recognition of our achievement in manpower training and development and in fostering an organisational culture conducive to life-long learning, we were awarded the status of "Manpower Developer" under the "ERB Manpower Developer Award Scheme 2015-16" for two years from April 2016 to March 2018 by the Employees Retraining Board in 2016.

BUSINESS

Procurement

We place great emphasis on ensuring that treatment devices to be introduced for use in our medical aesthetic centres are reliable and capable of delivering desired results for our clients. To this end, we have established policies and procedures to evaluate and assess treatment devices. Our marketing and business development department is primarily responsible for keeping abreast of the latest technologies and conducting market research on the latest and prevailing treatment technologies and skin care products. Periodic meetings are held among our management, doctors and marketing and business development department to discuss the latest technologies and skin care products, during which our marketing and business development department may recommend the types of treatment devices to procure. From time to time, suppliers of treatment devices visit us and demonstrate their treatment devices to us, which may also provide us with a trial period during which we can evaluate and assess the use and effectiveness of the treatment devices.

When deciding whether to procure a new treatment device, we take into account factors such as (i) whether it is approved by national government agencies such as the FDA and/or whether such devices bear CE mark(s); (ii) whether there are similar devices on the market; (iii) whether it is complimentary to our existing treatment offerings; and (iv) our internal test results. The approval of our chief executive officer and doctors must be obtained before we procure a new treatment device.

The skin care products offered by us were supplied by distributors and trading companies, all of which are Independent Third Parties. The countries of origin of our skin care products include the United States, Italy and France. We select and source skin care products carefully based on factors such as the suppliers' reputation, product quality and cost. The approval of our chief executive officer and doctors must be obtained before we procure a new product.

Standard operation procedures and clear division of labour

We implemented standard operation procedures at our medical aesthetic centres and a clear division of labour to improve operational and administrative efficiency and enhance the quality of our services. Our frontline staff mainly comprise (i) doctors and medical assistants; (ii) trained therapists; and (iii) aesthetic service specialists. Our doctors (assisted by medical assistants) and trained therapists are mainly responsible for performing treatments while our aesthetic service specialists are mainly responsible for sales and promotion. To monitor our client's satisfaction towards the treatment received, we contact the client within several days after the treatment by phone or text message to gather his/her feedback. We maintain a log book on feedback for management review. Such internal structure and well-defined responsibilities are established for the purpose of segregating the powers of operations, sales and client service to achieve effective check and balance.

Operational safety guidelines and manuals

We have implemented operational safety guidelines and manuals for performing treatment procedures and the use of treatment devices covering aspects including obtaining client consent, equipment requirements (such as safety goggles), explaining the sensation that the client may feel upon application of treatment devices on the skin, pre- and post-procedure examination of the client and emergency response protocols.

BUSINESS

CLIENT FEEDBACK AND COMPLAINT HANDLING

We consider client feedback a valuable tool for improving our service. We take client feedback seriously and have in place procedures to ensure that feedback and complaints from clients get handled in a timely and appropriate manner. We have a number of channels for soliciting and receiving client feedback, such as comment collection surveys that we encourage clients to fill out, online survey at our website and post-treatment follow-up calls and text messages.

Upon receipt of unfavourable feedback through our various client feedback channels, our aesthetic service specialist who was responsible for serving such client will be responsible for handling the feedback and arrange follow-up consultation with doctor if necessary. Generally, after client's concerns have been addressed by our appointed aesthetic service specialist, the relevant customer service supervisor, medical aesthetic centre supervisor or manager will investigate the case and report the initial investigation findings to our director of sales and operation, who is responsible for creating and keeping the complaint log. Unfavourable feedback will be discussed during regular management meeting for discussing measures to avoid the same unfavourable feedback from happening. On a case-by-case basis, refund may be offered to the client subject to the final approval of our chief executive officer whereas treatment transfer may be offered the client subject to the final approval of our director of sales and operation or chief operations officer.

For FY2015, FY2016, 1Q2017 and from 1 July 2016 to the Latest Practicable Date, 12, 14, two and three unfavourable feedbacks were lodged at our client feedback register and feedback log sheet, respectively, representing 0.04%, 0.05%, 0.03% and 0.05% of the total number of treatments performed at our medical aesthetic centres. As at the Latest Practicable Date, save for four unfavourable feedbacks which were being handled and followed up, all of the unfavourable client feedbacks listed above had been properly addressed and satisfactorily resolved. The amount of refund to clients in resolving these unfavourable feedbacks were HK\$165,600, HK\$220,600, HK\$10,900 and nil for FY2015, FY2016, 1Q2017 and from 1 July 2016 to the Latest Practicable Date, respectively. The table below sets out a summary of the number and nature of unfavourable feedbacks we received for the periods indicated:

Nature of unfavourable feedbacks from clients	Year ended 31 March		Three months ended	1 July 2016 to the Latest Practicable Date
	2015	2016	30 June 2016	
Result of our services not up to expectation	9	9	2	2
Unsatisfactory staff services/ miscommunication	3	5	—	1
Total	12	14	2	3

BUSINESS

Among the total amount of refund to clients during the Track Record Period, we refunded an aggregate of HK\$26,200 to our clients as a result of unfavourable feedbacks which had been lodged in the form of a complaint with the Hong Kong Consumer Council. The following table sets out the details of such unfavourable feedbacks:

Lodge date of unfavourable feedback	Nature of unfavourable feedbacks	Refund amount (HK\$)
29 March 2014	Result of our services not up to expectation	HK\$16,200
28 March 2015	Result of our services not up to expectation	HK\$10,000

Our Directors confirm that, save as disclosed above, there was no other unfavourable feedback which had been lodged in the form of a complaint with the Hong Kong Consumer Council or the Hong Kong Medical Council during the Track Record Period. Our Directors also confirm that save for the refund as disclosed above, we did not incur further expenses in resolving the unfavourable feedbacks from clients during the Track Record Period and up to the Latest Practicable Date.

Our Directors further confirm that during the Track Record Period, we did not receive any complaint or unfavourable feedback which had a material impact on our business and operation.

INFORMATION TECHNOLOGY

Our IT infrastructure is built upon the point of sale (POS) system purchased from a third party vendor, with whom we worked closely to develop additional modules and customise certain applications to suit our business operations. During the Track Record Period, our IT system, has enabled us to enhance the productivity and efficiency of our operations through the following functions:

System Module	Features	Key functions
POS system	Our POS system records and stores all sales data related to treatments, prescription, medication, prepaid packages/cash coupons and skin care products. The system also records the status of utilisation of the prepaid packages/cash coupons sold	<ul style="list-style-type: none"> — Generating sales report which allows our sales and marketing team to perform various analysis, such as client spending patterns and the popularity of our treatments — Providing printed labels for the prescribed medication for use by the dispensing unit and automatically updating our inventory records on medication

BUSINESS

System Module	Features	Key functions
		<ul style="list-style-type: none"> — Monitoring the status of utilisation of prepaid packages/ cash coupons for arranging treatment appointments for clients by our aesthetic service specialists — Providing snapshots for our management to monitor the sales performance of our staff
Appointment module	Our appointment module provides a centralised register for our aesthetic service specialists and customer service officers to initiate, amend and cancel treatment bookings	<ul style="list-style-type: none"> — Allowing our front-line staff to access real-time booking data to manage bookings and respond to clients’ enquiries in a timely manner — Enabling management to monitor and understand the utilisation rate and available capacity of our medical aesthetic centres
Inventory management module	Our inventory management module records the type and amount of inventories we maintain	<ul style="list-style-type: none"> — This system is linked to our POS system and appointment module. When a treatment is performed, the relevant amount of treatment consumables used is deducted automatically from the inventory record, which enables us to monitor inventory level in a timely manner

In order to meet the increasing demand of our services, we intend to enhance and upgrade our IT system by:

- Developing the human resources management system to manage our roster and booking schedule and improve the efficiency for payroll calculation;
- Developing the customer relationship management system, which includes a web portal for clients to gain access to information in relation to their purchased packages and schedule treatment bookings. The system also allows more sophisticated client data analysis;
- Setting up the interface between our accounting system and our POS system, which improves the efficiency for our financial reporting function;

BUSINESS

- Developing a doctor module to digitise and centralise medical records for online retrieval by doctors, and support graphical illustration;
- Developing a diagnosis module with a photo relational database management system (RDBMS) for comparison of clients' photos taken before and after treatments;
- Enhancing our inventory management module by introducing new functions, such as re-stock alert and close-to-expiry alert; and
- Enhancing our POS system by strengthening the functions related to sales refund, package transfer and sales authentication.

RESEARCH AND DEVELOPMENT

We do not engage in any proprietary medical aesthetic research and development. In order to keep ourselves abreast of the latest industry and market trends as well as technological developments, our marketing and business development department and our doctors attend and participate in industry exhibitions, events, seminars and conferences in Hong Kong and overseas from time to time.

EMPLOYEES

As at the Latest Practicable Date, we had 72 employees in Hong Kong. The following tables shows a breakdown of our employees by function:

Function	Number of employees
Management	2
Doctors	3 ^(Note)
Medical assistants	7
Training manager and trained therapists	16
Sales and operations	22
Marketing and business development	3
Human resources, administration and IT	11
Accounts	8
Total	72

Note: Excluding our doctor who works on a part-time basis.

For FY2015, FY2016 and 1Q2017, our total staff cost was HK\$28.7 million, HK\$29.4 million and HK\$7.8 million, respectively, representing 38.8%, 35.3% and 32.4% of our total revenue, respectively.

We generally recruit our employees and staff through the posting of job advertisements on recruitment websites. In particular, our doctors are recruited through internal referrals or the posting of job advertisements in the HKMA News issued by the Hong Kong Medical Association. The remuneration package of our employees includes basic salary, commission and discretionary performance bonus.

BUSINESS

We have not established a labour union. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute with our employees or disruption to our operations due to labour dispute and we had not experienced any difficulty in the recruitment and retention of employees.

MARKET AND COMPETITION

According to the Frost & Sullivan Report, 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. Due to the regulatory restrictions on advertising or promotion of services by doctors, we believe the success of service providers in the industry depends on their reputation, track record and word-of-mouth passed on by satisfied clients.

Our Group is among the 12 providers of non-surgical medical aesthetic services in Hong Kong with revenue in 2015 between HK\$50 million and HK\$100 million, with a market share of approximately 2.7% in terms of revenue, as indicated by the Frost & Sullivan Report. We believe that the key factors contributing to our success and competitiveness include our professional services, capability of offering superior client experience, competent management team and broad range of treatment procedures, which results in the consistently high percentage of repeat clients and the above industry-average new client referral rate achieved by us during the Track Record Period.

PROPERTIES

As at the Latest Practicable Date, we leased four properties in Hong Kong, which were used as our medical aesthetic centres, office premises and training centre. The following table sets forth certain details of our leased properties as at the Latest Practicable Date:

No.	Location	Usage	Duration of subsisting lease agreement
1.	Soundwill Plaza, No. 38, Russell Street, Causeway Bay	Medical aesthetic centre	2 October 2015 to 1 October 2018
2.	Club Lusitano, No. 16 Ice House Street, Central	Medical aesthetic centre	1 March 2014 to 28 February 2017 (Note)
3.	Leighton Centre, No. 77 Leighton Road, Causeway Bay	Office	21 December 2014 to 20 December 2017
4.	Qualipak Tower, No. 122 Connaught Road West, Sheung Wan	Training centre	8 April 2015 to 7 April 2017

Note: The relevant landlord had indicated its willingness to renew the relevant tenancy. As at the Latest Practicable Date, the negotiation was still in progress, which was subject to market conditions.

For FY2015, FY2016 and 1Q2017, our property rental and related expenses amounted to HK\$8.8 million, HK\$9.4 million and HK\$2.4 million, respectively, representing 11.9%, 11.3% and 10.0% of our revenue, respectively. During the Track Record Period, we did not experience any material difficulties in renewing our lease agreements or finding new premises of our business operations.

BUSINESS

As at 30 June 2016, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, this [REDACTED] is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule thereto, which require a valuation report with respect to all of our interests in land or buildings, pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

INTELLECTUAL PROPERTY

We operate our business under the brand name “CosMax”, which we believe embodies our established reputation for quality services and products. As at the Latest Practicable Date, our Group had registered five trademarks, which are material to our business, in Hong Kong. Our other intellectual property rights include our copyrights with respect to the CosMagazine published by us as well as our domain names. See “Statutory and General Information — B. Further Information about the Business — 2. Intellectual property rights of our Group” in Appendix IV to this [REDACTED] for details of our material intellectual property rights.

During the Track Record Period, we were not aware of any infringement of our intellectual property rights. We believe that we have taken all reasonable measures to protect our intellectual property rights and deter any such infringement.

HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We believe that the health and safety of our employees are important to our business and have implemented certain procedures and guidelines in respect of the operation of treatment devices and the disposal of medical waste.

We maintain records of all workplace accidents. During the Track Record Period, none of our employees was involved in any material workplace accident or suffered any material injury in the course of his/her employment, and we were not subject to any disciplinary action with respect to occupational safety.

Our Directors are of the view that the annual cost of compliance with applicable environmental laws and regulations was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

INSURANCE

We maintain insurance coverage for our assets, product liability, public liability, money in premises, employees’ compensation, medical insurance for our employees as well as institutional professional indemnity insurance in respect of the provision of medical aesthetic services. In addition, our registered medical practitioners, as members of the Medical Protection Society, maintain professional malpractice liability insurance, which includes indemnity, advice and legal representation in relation to claims, investigations and proceedings arising from or in connection with their professional practices. However, there is no assurance that such insurance coverage will adequately protect us from the risks involved in our business operations. See “Risk Factors — Risks Relating to our Business — Our insurance coverage may not be sufficient to cover all risks involved in our business operations” and

BUSINESS

“Risk Factors — Risks Relating to our Business — Our registered medical practitioners and other staff members may be subject to investigations, claims or legal proceedings relating to professional misconduct or negligence, which may subject us to substantial liabilities and harm our reputation” in this [REDACTED] for further details.

For FY2015, FY2016 and 1Q2017, our total insurance cost amounted to HK\$0.4 million, HK\$0.4 million and HK\$0.1 million, respectively. Our Directors believe that our insurance coverage is sufficient, adequate and in line with the industry norm. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance coverage.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, no material insurance claim had been filed by our Group.

LEGAL COMPLIANCE AND PROCEEDINGS

Licences

Our Group has obtained two Industrial, Scientific and Medical Electronic Machine Licences in respect of certain treatment devices. As at the Latest Practicable Date, such licences remained valid and were in full force and effect.

As at the Latest Practicable Date, all of our registered medical practitioners had obtained the necessary qualifications required of them for their medical practice.

Legal compliance

Our Directors confirmed that we had not been involved in any incidents of material non-compliance with the applicable laws and regulations in Hong Kong during the Track Record Period and up to the Latest Practicable Date.

Legal proceedings

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, none of the members of our Group was engaged in any litigation, arbitration or claim of material importance, and our Directors were not aware of any pending or threatened litigation, arbitration or claim of material importance against our Group which, in the opinion of our Directors, would have a material adverse effect on our financial condition or results of operations.

BUSINESS

INTERNAL CONTROL AND RISK MANAGEMENT

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with the applicable laws and regulations, we have established an internal control system, covering areas such as corporate governance, risk management, operations, management, legal matters, finance and audit. We believe that our internal control system is sufficient in terms of comprehensiveness, practicability and effectiveness.

In preparation for the [REDACTED], we engaged an internal control consultant to conduct an evaluation of our internal control system and have implemented certain suggestions and recommendations proposed by the internal control consultant to improve and enhance our internal control system. To strengthen our internal control and ensure future compliance with the applicable laws and regulations (including the [REDACTED]) after the [REDACTED], we have adopted the following additional internal control measures:

- (1) our Board will continuously monitor, evaluate and review our internal control system to ensure compliance with the applicable legal and regulatory requirements and will adjust, refine and enhance our internal control system as appropriate;
- (2) Ms. Au Kar Po Marian, our chief operations officer, will be responsible for overseeing our internal control system in general and will act as the chief coordinator of matters relating to legal, regulatory and financial reporting compliance. Upon receipt of any query or report relating to legal, regulatory and financial reporting compliance, Ms. Au Kar Po Marian will look into the matter and, if considered necessary or appropriate, seek advice, guidance or recommendation from professional advisers and report to our Board. For further information about the qualifications and experience of Ms. Au Kar Po Marian, see “Directors and Senior Management — Senior Management” in this [REDACTED];
- (3) we will appoint Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser upon [REDACTED] to advise our Group on matters relating to compliance with the [REDACTED];
- (4) if necessary, we may consider arranging our Directors, members of senior management and relevant employees to attend trainings on the legal and regulatory requirements applicable to our business operations from time to time; and
- (5) if necessary, we may consider appointing external Hong Kong legal advisers to advise us on matters relating to compliance with the [REDACTED] and the applicable Hong Kong laws and regulations.