

FIRST QUARTERLY
REPORT

2018/2019



MEDIC  **SKIN**

MEDICSKIN HOLDINGS LIMITED

密迪斯肌控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 8307

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*This report, for which the directors (the “**Directors**”) of Medicskin Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; there are no other matters the omission of which would make any statement herein or this report misleading.*

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “**Board**”) of the Company is pleased to report the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period of last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 30 June 2018

	Notes	Three months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	2	12,131	14,997
Other income, gains and losses		(49)	268
Inventories used		(1,795)	(1,972)
Staff costs		(5,913)	(7,293)
Depreciation		(1,017)	(1,082)
Other expenses		(5,313)	(3,879)
(Loss) profit before tax		(1,956)	1,039
Income tax expense	3	(110)	(330)
(Loss) profit and total comprehensive (expense) income for the period		(2,066)	709
Loss (profit) and total comprehensive (expense) income for the period attributable to :			
Owners of the Company		(1,102)	709
Non-controlling interests		(964)	–
		(2,066)	709
(Loss) earnings per share, basic (<i>HK cent</i>)	5	(0.23)	0.15
(Loss) earnings per share, diluted (<i>HK cent</i>)	5	N/A	0.15

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2018

	Attributable to owners of the Company						Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (note)	Share options reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 April 2018 (audited)	4,804	48,443	–	–	7,322	60,569	519	61,088
Loss and total comprehensive expense for the period	–	–	–	–	(1,102)	(1,102)	(964)	(2,066)
At 30 June 2018 (unaudited)	4,804	48,443	–	–	6,220	59,467	(445)	59,022
At 1 April 2017 (audited)	4,804	72,463	1,181	294	3,856	82,598	–	82,598
Profit and total comprehensive income for the period	–	–	–	–	709	709	–	709
Recognition of equity-settled share-based payments	–	–	251	–	–	251	–	251
At 30 June 2017 (unaudited)	4,804	72,463	1,432	294	4,565	83,558	–	83,558

Note: Capital reserve represented deemed contribution from the controlling shareholder (i.e. Dr. Kong Kwok Leung (“**Dr. Kong**”)) arising from the share reward granted to a medical practitioner of the Group by Dr. Kong for the services rendered to the Group. The fair value of services received, which was determined by reference to the fair value of the share reward at the grant date, was expensed on a straight-line basis over the vesting period, with a corresponding increase in capital reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2018

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Group's consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The principal accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 March 2018. The consolidated financial statements are unaudited, but have been reviewed by the audit committee (the "**Audit Committee**") of the Company.

The HKICPA has issued a number of new and revised HKFRSs. For those which are effective for accounting period beginning on 1 April 2018, the application has no material impact on the Group's financial performance and positions for the current and/or prior accounting periods. For those which are not yet effective, except for HKFRS 16 "Leases", the Directors anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's financial statements.

2. REVENUE AND SEGMENT INFORMATION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group's operating activities are attributable to a single operating segment focusing on provision of consultation services ("**Consultation Service**"), prescription and dispensing of medication and/or skincare products including sale of skincare products ("**Prescription and Dispensing Service**") and provision of skin care treatments ("**Treatment Service**"). This operating segment has been identified on the basis of internal management reports prepared in accordance with the Group's accounting policies. Dr. Kong, the chief executive officer of the Company, has been identified as the chief operating decision maker ("**CODM**"). The CODM reviews the Group's revenue analysis by services and products in order to assess performance and allocation of resources.

Revenue from major products and services

	Three months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Consultation Service	450	758
Prescription and Dispensing Service	4,187	5,465
Treatment Service	7,494	8,774
	12,131	14,997

Other than revenue analysis, no operating results or other discrete financial information is available for the assessment of performance and allocation of resources. The CODM reviews the results of the Group as a whole to make decisions. Accordingly, other than entity wide information, no analysis of this single operating segment is presented.

3. INCOME TAX EXPENSE

	Three months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Income tax expense comprises:		
Hong Kong Profits Tax	110	330

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for both periods.

4. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2018 (2017: Nil).

Subsequent to the end of the reporting period, a final dividend of HK0.15 cent per share in respect of the year ended 31 March 2018, amounting to approximately HK\$721,000, proposed by the Board, was approved by the shareholders in the annual general meeting of the Company held on 27 July 2018.

5. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Three months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) earnings:		
(Loss) earnings for the purpose of calculating basic and diluted (loss) earnings per share ((loss) profit for the period attributable to owners of the Company)	(1,102)	709
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss/earnings per share	480,400	480,400
Effect of diluting potential ordinary shares:		
Share options issued by the Company	N/A	62
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	N/A	480,462

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a medical skin care service provider in Hong Kong. Currently, the Group operates four medical skin care centres, including two “Medicskin” branded centres, at prime locations in Hong Kong that primarily focus on the treatment of skin diseases and problems and/or the improvement of appearance of clients. The Group provides wide range of services to clients for the treatment of, inter alia, skin diseases and problems such as acne, pigmentation, rosacea, dermatitis, eczema and warts, as well as for the improvement of appearance through, inter alia, skin rejuvenation, facial sculpturing and body contouring treatments, treatments of acne scars and enlarged pores, removal of undesirable naevi, and hair removal.

For the three months ended 30 June 2018, the revenue of the Group decreased by approximately HK\$2.9 million, or 19.3%, to approximately HK\$12.1 million, when compared to the three months ended 30 June 2017. The revenue of Consultation Service, Prescription and Dispensing Service and Treatment Service amounted to approximately HK\$0.4 million, HK\$4.2 million and HK\$7.5 million which accounted for approximately 3.7%, 34.5%, and 61.8% of the total revenue of the Group respectively. More than half of the Group’s revenue was derived from Treatment Service, which typically involves the injection of Botulinum Toxin Type A and hyaluronic acid, cauterisation, and treatments with the use of devices deploying technologies such as laser, radiofrequency and intense focused ultrasound. The decrease in revenue was primarily attributable to the decrease in the number of clients served by the Group and the number of visits by our clients due to increasing intensified competition in the industry. Approximately 86.4% of our clients were aged between 26 to 55, while approximately 90.8% of our clients were female. Most of the Treatment Service was performed by our doctors, with approximately 92.3% of the revenue from Treatment Service generated from treatments performed by our doctors at our centres.

The Group recorded a loss attributable to owners of the Company of approximately HK\$1.1 million for the three months ended 30 June 2018, as compared to a profit attributable to owners of the Company of approximately HK\$0.7 million for the corresponding period of last year. The turn from profit position to loss was mainly attributable to the combined effect of the additional costs and initial start-up expenses of approximately HK\$1.7 million incurred by the Group during the current reporting period on the development of its new anti-aging centre located in Tsim Sha Tsui which only commenced formal operation in June 2018; and a decline of approximately HK\$2.9 million of the revenue of the Group for the three months ended 30 June 2018 as compared to same period last year due to ongoing keen competition in the market. Basic loss per Share for the period was HK0.23 cent as compared to basic earnings per Share of HK0.15 for the corresponding period of last year.

To extend our services and product offerings, on 9 June 2018, the Group opened its anti-aging centre, with the brand "Ray Lui's Anti-aging & Health Management Centre" ("**Ray Lui Centre**"), in Tsim Sha Tsui, which provides quality and comprehensive medical aesthetic treatment that helps our clients to stay healthy and young. Ray Lui Centre is ultimately owned as to 51%, 43% and 6% by the Group, Mr. Lui Leung Wai, Ray ("**Mr. Lui**") and his spouse, and another independent third party, respectively. Mr. Lui is a well-known television and movie actor in Hong Kong and China with healthy and positive image. A new skin care product line "Ray Lui by facematter" was established with four new skincare products launched, including youth recovery nourishing cream, serum, collagen face mask and firming eye mask. It is expected that more variety of skin care products will be launched in the market. Mr. Lui, as a strategic partner of the Group, will help the Group to promote the products and services of Ray Lui Centre and expand its business.

To extend our geographical coverage, on 11 June 2018, the Group acquired 51% equity interest in a beauty spa with the brand "Massada Medicspa" ("**Massada Medicspa Centre**"), in Causeway Bay, which offers extensive range of professional services from medical treatments to relaxing facial massages and body treatments in a luxurious and relaxing environment. Causeway Bay is a prime location in Hong Kong Island with high pedestrian flow. The approximate size of the site is 1,600 sq ft. The Group is confident that the Massada Medicspa Centre will attract more clients of a more geographically diverse customer base. The expansion will also help boost the Group's market penetration in the long term. Massada Medicspa Centre had its grand opening on 30 June 2018.

OUTLOOK

The proposed legislation by the government of Hong Kong to strengthen regulation and enhance standards, aiming to protect patients' safety and consumer rights as well as contribute to the sustainable development of the local healthcare system may introduce a change in compliance standards in connection with delivery of treatments, and ultimately bring higher level of confidence to customers, enhance the level of safety in the industry and increase the total spending in the market.

The Group will continue to keep abreast of the latest industry knowledge in order to offer the most suitable and updated services to our clients. The Group continuously performs market research on the development of, and evaluate the effects of the latest products, skills and treatment devices and technology. We believe that the introduction of new types of services and products is one of the driving forces for the growth of the Group's business and is a significant way to maintain the Group's competitiveness and its forefront position in the industry.

It is expected that the Group will continue to face very high operating costs base from rental expenses and staff costs as well as intense competition in the industry. Leveraging the support of the capital market, our own strengths, and consumer's pursuance of physical appearance, the Group is cautiously confident about its development in the future. We will continue using its best endeavors to provide the highest quality medical skin care services and products to our clients and strengthening its market position so as to grow its brand and business and to maximise returns for our investors.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately HK\$2.9 million, or 19.3%, from approximately HK\$15.0 million for the three months ended 30 June 2017 to approximately HK\$12.1 million for the three months ended 30 June 2018. The decrease was primarily attributable to the decrease in the number of clients served by the Group and the decrease in the number of visits by our clients due to increasing intensified competition in the industry.

Inventories used

The Group's cost of inventories used was approximately HK\$1.8 million and HK\$2.0 million for the three months ended 30 June 2018 and 2017 respectively, representing 14.9% and 13.3% of the revenue for the respective periods.

Staff costs

Staff costs decreased by approximately HK\$1.4 million, or 19.2%, from approximately HK\$7.3 million for the three months ended 30 June 2017 to approximately HK\$5.9 million for the three months ended 30 June 2018. The decrease was primarily attributable to the (i) decrease in share-based payments; (ii) decrease in performance related incentive payments paid to our doctors due to decline in revenue of the Group during the period; and (iii) reduction in the number of staff through natural attrition.

Depreciation

Depreciation expenses remained stable at approximately HK\$1.0 million and HK\$1.1 million for the three months ended 30 June 2018 and 2017, respectively.

Other expenses

Other expenses increased by HK\$1.4 million, or 35.9%, from approximately HK\$3.9 million for the three months ended 30 June 2017 to approximately HK\$5.3 million for the three months ended 30 June 2018. The increase was primarily attributable to the additional costs and initial start-up expenses of approximately HK\$1.7 million incurred during the current period on the development of the Group's new anti-aging centre located in Tsim Sha Tsui.

Income tax expense

Income tax expense decreased by approximately HK\$0.2 million, or 66.7%, from approximately HK\$0.3 million for the three months ended 30 June 2017 to approximately HK\$0.1 million for the three months ended 30 June 2018. The decrease was primarily attributable to the decrease in assessable profit of a major operating subsidiary.

Profit for the period

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company for the three months ended 30 June 2018 of approximately HK\$1.1 million, as compared to a profit attributable to owners of the Company of approximately HK\$0.7 million for the corresponding period of last year.

DISCLOSURE OF INTERESTS

(A) DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/ Nature of interest	Number of shares	Percentage of issued share capital
Dr. Kong ^(note)	Interest in a controlled corporation	274,865,400	57.22%

Note: The 274,865,400 shares are registered in the name of Topline Worldwide Limited ("Topline"), which is wholly owned by Dr. Kong. Under the SFO, Dr. Kong is deemed to be interested in all the shares of the Company registered in the name of Topline.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

(B) SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long position in the ordinary shares of the Company

Name	Capacity/ Nature of interest	Number of shares	Percentage of issued share capital
Topline (<i>note a</i>)	Beneficial owner	274,865,400	57.22%
Rich Unicorn (<i>note b</i>)	Beneficial owner	80,000,000	16.47%
Fullshare (<i>note b</i>)	Interest in a controlled corporation	80,000,000	16.47%
Magnolia Wealth (<i>note b</i>)	Interest in a controlled corporation	80,000,000	16.47%
Mr. Ji (<i>note b</i>)	Interest in a controlled corporation	80,000,000	16.47%

Notes:

- (a) The entire issued share capital of Topline is beneficially owned by Dr. Kong. Therefore, Dr. Kong is deemed to be interested in all the shares of the Company held by Topline.
- (b) Rich Unicorn Holdings Limited ("**Rich Unicorn**"), a company incorporated in the British Virgin Islands with limited liability, is beneficially owned by Fullshare Holdings Limited ("**Fullshare**") whose issued shares are listed on the Stock Exchange (stock code: 607). Fullshare is in turn owned as to 46.58% by Magnolia Wealth International Limited ("**Magnolia Wealth**"), a company incorporated in the British Virgin Islands with limited liability, whose entire issued share capital is beneficially owned by Mr. Ji Changqun ("**Mr. Ji**"). In addition, Mr. Ji holds 4.77% of Fullshare directly as the beneficial owner. Therefore, Fullshare, Magnolia Wealth and Mr. Ji are deemed to be interested in all the shares held by Rich Unicorn.

Save as disclosed above, as at 30 June 2018, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the three months ended 30 June 2018.

CORPORATE GOVERNANCE CODE

The Company adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Except the deviation stipulated below, the Board is satisfied that the Company had complied with the CG Code during the three months ended 30 June 2018.

In accordance with provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. Dr. Kong is the chairman of the Board and the chief executive officer of the Company who is primarily responsible for providing leadership to the Board, overseeing the overall operation of the Group and leading and directing the Group’s overall business and development strategies. Being aware of the said deviation from code provision A.2.1, the Board believes that with the support of the management, vesting the roles of both chairman of the Board and the chief executive officer of the Company in Dr. Kong, the founder of the Group, can facilitate the execution of the Group’s business strategies and boost effectiveness of its operation. In addition, the Board is also supervised by three independent non-executive Directors. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group as the Board assumes collective responsibility on the decision-making process of the Company’s business strategies and operation. The Directors will meet regularly to consider major matters affecting the operations of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during the three months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 3 December 2014 to provide incentive and/or to reward eligible persons for their contribution to, and continuing efforts to promote the interest of, the Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

As at 30 June 2018, no share options were outstanding under the Share Option Scheme.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the GEM Listing Rules. The Audit Committee currently consists of three independent non-executive Directors, namely, Mr. Chan Cheong Tat, Mr. Lee Ka Lun and Mr. Leung Siu Cheung. Mr. Chan Cheong Tat is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the three months ended 30 June 2018 and this report and is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made.

By order of the Board
Medicskin Holdings Limited
Dr. Kong Kwok Leung
Chairman and Executive Director

Hong Kong, 14 August 2018

As at the date of this report, the executive Directors of the Company are Dr. Kong Kwok Leung, Ms. Tsui Kan, Ms. Kong Chung Wai and Ms. Sin Chui Pik Christine, and the independent non-executive Directors are Mr. Chan Cheong Tat, Mr. Lee Ka Lun and Mr. Leung Siu Cheung.