

# 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



INTERIM REPORT

**2016/17**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 the 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, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## UNAUDITED INTERIM RESULTS

The board of directors (the “**Board**”) of the Company is pleased to report the unaudited interim financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 September 2016 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 and six months ended 30 September 2016*

|  | Notes | Three months ended<br>30 September |                                 | Six months ended<br>30 September |                                 |
|--|-------|------------------------------------|---------------------------------|----------------------------------|---------------------------------|
|  |       | 2016<br>HK\$'000<br>(unaudited)    | 2015<br>HK\$'000<br>(unaudited) | 2016<br>HK\$'000<br>(unaudited)  | 2015<br>HK\$'000<br>(unaudited) |
| Revenue  | 2     | 14,634                             | 14,413                          | 28,785                           | 30,166                          |
| Other income, gains and losses   |       | 37                                 | (170)                           | 52                               | (180)                           |
| Inventories used   |       | (1,901)                            | (1,933)                         | (3,594)                          | (3,907)                         |
| Staff costs  |       | (7,484)                            | (8,101)                         | (14,707)                         | (16,942)                        |
| Depreciation of property,<br>plant and equipment   |       | (802)                              | (623)                           | (1,372)                          | (1,277)                         |
| Other expenses   |       | (3,868)                            | (3,357)                         | (7,731)                          | (6,320)                         |
| Profit before tax  | 3     | 616                                | 229                             | 1,433                            | 1,540                           |
| Income tax expense   | 4     | (380)                              | (189)                           | (483)                            | (475)                           |
| Profit and total comprehensive income<br>for the period attributable to owners<br>of the Company |       | 236                                | 40                              | 950                              | 1,065                           |
| Earnings per share, basic (HK cent)  | 6     | 0.06                               | 0.01                            | 0.24                             | 0.27                            |
| Earnings per share, diluted (HK cent)  | 6     | 0.06                               | N/A                             | 0.24                             | N/A                             |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

|  | Notes | 30 September<br>2016<br>HK\$'000<br>(unaudited) | 31 March<br>2016<br>HK\$'000<br>(audited) |
|--|-------|---|---|
| Non-current assets   |       |   |   |
| Property, plant and equipment                                  | 7     | 8,903   | 5,488                                     |
| Rental deposits  |       | 2,554   | 2,822                                     |
| Deposits paid for purchase of property,<br>plant and equipment |       | –   | 1,305                                     |
|  |       | <b>11,457</b>                                   | 9,615                                     |
| Current assets   |       |   |   |
| Inventories  |       | 2,797   | 2,958                                     |
| Trade receivables  | 8     | 791   | 311                                       |
| Deposits and prepayments                                       |       | 1,307   | 1,871                                     |
| Tax recoverable  |       | 1,159   | 812                                       |
| Pledged bank deposits  |       | 8,500   | 8,500                                     |
| Bank balances and cash   |       | 15,895  | 30,032                                    |
|  |       | <b>30,449</b>                                   | 44,484                                    |
| Current liabilities  |       |   |   |
| Trade payables   | 9     | 559   | 508                                       |
| Accrued liabilities  |       | 2,767   | 2,021                                     |
| Deferred revenue   |       | 8,954   | 7,675                                     |
| Dividend payable   |       | –   | 6,000                                     |
|  |       | <b>12,280</b>                                   | 16,204                                    |
| Net current assets   |       | <b>18,169</b>                                   | 28,280                                    |
| Total assets less current liabilities                          |       | <b>29,626</b>                                   | 37,895                                    |
| Non-current liability  |       |   |   |
| Deferred tax liability   |       | 270   | 127                                       |
| Net assets   |       | <b>29,356</b>                                   | 37,768                                    |
| Capital and reserves   |       |   |   |
| Share capital  | 10    | 4,000   | 4,000                                     |
| Reserves   |       | 25,356  | 33,768                                    |
| Equity attributable to owners<br>of the Company                |       | <b>29,356</b>                                   | 37,768                                    |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

|   | Attributable to owners of the Company |                              |  |   |                                 | Total<br>HK\$'000 |
|---|---------------------------------------|------------------------------|--|---|---------------------------------|-------------------|
|   | Share<br>capital<br>HK\$'000          | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK\$'000<br>(note) | Share<br>options<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 |                   |
| At 1 April 2016 (audited)                                       | 4,000                                 | 31,670                       | 182                                      | 228                                     | 1,688                           | 37,768            |
| Profit and total comprehensive income<br>for the period         | -                                     | -                            | -  | -                                       | 950                             | 950               |
| Recognition of equity-settled share-based<br>payments (note 11) | -                                     | -                            | 499                                      | 139                                     | -                               | 638               |
| Dividends recognised as distribution (note 5)                   | -                                     | (9,000)                      | -  | -                                       | (1,000)                         | (10,000)          |
| At 30 September 2016 (unaudited)                                | 4,000                                 | 22,670                       | 681                                      | 367                                     | 1,638                           | 29,356            |
| At 1 April 2015 (audited)                                       | 4,000                                 | 31,670                       | 2,579                                    | -                                       | 8,934                           | 47,183            |
| Profit and total comprehensive income<br>for the period         | -                                     | -                            | -  | -                                       | 1,065                           | 1,065             |
| Recognition of equity-settled share-based<br>payments (note 11) | -                                     | -                            | 501                                      | 45                                      | -                               | 546               |
| Dividends recognised as distribution (note 5)                   | -                                     | -                            | -  | -                                       | (1,000)                         | (1,000)           |
| At 30 September 2015 (unaudited)                                | 4,000                                 | 31,670                       | 3,080                                    | 45                                      | 8,999                           | 47,794            |

Note: The capital reserve represents equity-settled share-based payments as detailed in note 11.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

|   | Six months ended<br>30 September       |  |
|---|--|--|
|   | 2016<br><i>HK\$'000</i><br>(unaudited) | 2015<br><i>HK\$'000</i><br>(unaudited) |
| OPERATING ACTIVITIES  |  |  |
| Cash (used in) generated from operations                                  | <b>(23)</b>                            | 2,080                                  |
| Income tax paid   | <b>(687)</b>                           | (941)                                  |
| <b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>                       | <b>(710)</b>                           | 1,139                                  |
| INVESTING ACTIVITIES  |  |  |
| Interest received   | <b>39</b>                              | 163                                    |
| Proceeds from disposal of property,<br>plant and equipment                | <b>30</b>                              | –                                      |
| Purchase of property, plant and equipment                                 | <b>(3,496)</b>                         | (3,041)                                |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                              | <b>(3,427)</b>                         | (2,878)                                |
| FINANCIAL ACTIVITY  |  |  |
| Dividend paid   | <b>(10,000)</b>                        | (1,000)                                |
| <b>CASH USED IN FINANCING ACTIVITY</b>                                    | <b>(10,000)</b>                        | (1,000)                                |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                          | <b>(14,137)</b>                        | (2,739)                                |
| CASH AND CASH EQUIVALENTS AT BEGINNING<br>OF THE PERIOD                   | <b>30,032</b>                          | 48,023                                 |
| EFFECT OF FOREIGN EXCHANGE RATE<br>CHANGES                                | –                                      | (326)                                  |
| <b>CASH AND CASH EQUIVALENTS AT END OF<br/>THE PERIOD, REPRESENTED BY</b> |  |  |
| Bank balances and cash  | <b>15,895</b>                          | 44,958                                 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 September 2016*

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Group's interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" 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 interim financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 March 2016. The interim 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 Hong Kong Financial Reporting Standards ("**HKFRSs**"). For those which are effective for accounting period beginning on 1 April 2016, 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 and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts and refund. 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 medical 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 Kwok Leung ("**Dr. Kong**") and Mr. Lo Kwok Bun, two of the Directors, have been identified as the chief operating decision makers ("**CODM**"). The CODM review the Group's revenue analysis by services and products in order to assess performance and allocation of resources.

## Revenue by services and products

|                                     | <b>Six months ended</b> |             |
|-------------------------------------|-------------------------|-------------|
|                                     | <b>30 September</b>     |             |
|                                     | <b>2016</b>             | 2015        |
|                                     | <b>HK\$'000</b>         | HK\$'000    |
|                                     | <b>(unaudited)</b>      | (unaudited) |
| Consultation Service                | <b>2,083</b>            | 1,733       |
| Prescription and Dispensing Service | <b>12,259</b>           | 14,042      |
| Treatment Service                   | <b>14,443</b>           | 14,391      |
|                                     | <b>28,785</b>           | 30,166      |

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 review 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. PROFIT BEFORE TAX

|  | <b>Six months ended</b> |             |
|--|-------------------------|-------------|
|  | <b>30 September</b>     |             |
|  | <b>2016</b>             | 2015        |
|  | <b>HK\$'000</b>         | HK\$'000    |
|  | <b>(unaudited)</b>      | (unaudited) |
| Profit before tax has been arrived<br>at after charging (crediting): |                         |             |
| Allowance for bad and doubtful debts                                 | <b>7</b>                | 15          |
| Allowance for inventories  | <b>(38)</b>             | 42          |
| Depreciation of property, plant and equipment                        | <b>1,371</b>            | 1,277       |
| Gain on disposal of property, plant and equipment                    | <b>(30)</b>             | –           |
| Interest income on bank deposits                                     | <b>(39)</b>             | (163)       |
| Loss on write-off of property, plant and equipment                   | <b>15</b>               | 2           |
| Net foreign exchange loss  | <b>1</b>                | 327         |
| Staff costs  |                         |             |
| Directors' emoluments  | <b>1,288</b>            | 1,417       |
| Other staff costs  |                         |             |
| – salaries, allowance and other benefits                             | <b>12,585</b>           | 14,643      |
| – share-based payments   | <b>555</b>              | 546         |
| – contributions to retirement benefits schemes                       | <b>279</b>              | 336         |
|  | <b>14,707</b>           | 16,942      |

#### 4. INCOME TAX EXPENSE

| Six months ended |                 |
|------------------|-----------------|
| 30 September     |                 |
| 2016             | 2015            |
| <i>HK\$'000</i>  | <i>HK\$'000</i> |
| (unaudited)      | (unaudited)     |

Income tax expense comprises:

|                                    |            |     |
|------------------------------------|------------|-----|
| Current year Hong Kong Profits Tax | <b>340</b> | 475 |
| Deferred tax charge                | <b>143</b> | –   |
|                                    | <b>483</b> | 475 |

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

#### 5. DIVIDENDS

A final dividend in respect of the year ended 31 March 2015 of HK0.25 cent per share, amounting to HK\$1,000,000, was declared and distributed by the Company to the shareholders during the six months ended 30 September 2015.

A final dividend of HK0.25 cent per share and a special dividend of HK2.25 cents per share in respect of the year ended 31 March 2016, amounting to HK\$1,000,000 and HK\$9,000,000 respectively, were approved by the shareholders in the annual general meeting and distributed by the Company to the shareholders during the six months ended 30 September 2016.

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016 (2015: Nil).

## 6. EARNINGS PER SHARE

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

|  | Three months ended<br>30 September |                 | Six months ended<br>30 September |                 |
|--|------------------------------------|-----------------|----------------------------------|-----------------|
|  | 2016                               | 2015            | 2016                             | 2015            |
|  | <i>HK\$'000</i>                    | <i>HK\$'000</i> | <i>HK\$'000</i>                  | <i>HK\$'000</i> |
|  | (unaudited)                        | (unaudited)     | (unaudited)                      | (unaudited)     |
| <b>Earnings:</b>   |                                    |                 |                                  |                 |
| Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to owners of the Company) | <b>236</b>                         | 40              | <b>950</b>                       | 1,065           |
|  | <i>'000</i>                        | <i>'000</i>     | <i>'000</i>                      | <i>'000</i>     |
| <b>Number of shares:</b>   |                                    |                 |                                  |                 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share   | <b>400,000</b>                     | 400,000         | <b>400,000</b>                   | 400,000         |
| <b>Effect of diluting potential ordinary shares:</b>   |                                    |                 |                                  |                 |
| Share options issued by the Company  | <b>64</b>                          | N/A             | <b>197</b>                       | N/A             |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share                                       | <b>400,064</b>                     | N/A             | <b>400,197</b>                   | N/A             |

In prior period, the computation of earnings per share does not consider the effect of the Company's outstanding share options as the adjusted exercise price of those options was higher than the average market price of shares.

## 7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2016, the Group acquired property, plant and equipment of approximately HK\$4,801,000 (six months ended 30 September 2015: HK\$3,041,000).

## 8. TRADE RECEIVABLES

The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the trade dates for the receivables from the clients settle payments by credit cards and Easy Pay System; and invoice dates for the receivables from the clients and medical card issuing companies at the end of the reporting period, which approximate the respective revenue recognition dates.

|            | <b>As at<br/>30 September<br/>2016<br/>HK\$'000<br/>(unaudited)</b> | <b>As at<br/>31 March<br/>2016<br/>HK\$'000<br/>(audited)</b> |
|------------|---|---|
| 0-30 days  | <b>695</b>  | 278   |
| 31-60 days | <b>34</b>   | 33  |
| 61-90 days | <b>62</b>   | –   |
| <hr/>      |   |   |
| Total      | <b>791</b>  | 311   |

The Group's trade receivables were not past due nor impaired at the end of each reporting period and were due from debtors which do not have historical default of payments.

## 9. TRADE PAYABLES

The average credit period on purchase of goods is 30 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

|           | <b>As at<br/>30 September<br/>2016<br/>HK\$'000<br/>(unaudited)</b> | <b>As at<br/>31 March<br/>2016<br/>HK\$'000<br/>(audited)</b> |
|-----------|---|---|
| 0-30 days | <b>559</b>  | 508   |

## 10. SHARE CAPITAL

The share capital as at 31 March 2016 and 30 September 2016 represented the issued share capital of the Company as detailed below:

|  | Number of<br>shares | Share capital<br><i>HK\$'000</i> |
|--|---------------------|----------------------------------|
| Ordinary shares of HK\$0.01 each                           |                     |                                  |
| Authorised:  |                     |                                  |
| As at 1 April 2015, 31 March 2016<br>and 30 September 2016 | 1,000,000,000       | 10,000                           |
| Issued:  |                     |                                  |
| As at 1 April 2015, 31 March 2016 and<br>30 September 2016 | 400,000,000         | 4,000                            |

## 11. SHARE-BASED PAYMENT TRANSACTIONS

### Share Option Scheme

The company adopted a share option scheme ("**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.

A summary of the share options granted under the Share Option Scheme are as follows:

| Type of<br>Participants | Grant date | Exercise<br>price per<br>share | Vesting period             | Exercise period            | Number of share options |         |           |           |        | As at<br>30.9.2016 |
|-------------------------|------------|--------------------------------|----------------------------|----------------------------|-------------------------|---------|-----------|-----------|--------|--------------------|
|                         |            |                                |                            |                            | As at<br>1.4.2016       | Granted | Exercised | Cancelled | Lapsed |                    |
| Directors               | 17.08.2015 | 0.67                           | 17.08.2015 –<br>16.08.2016 | 17.08.2016 –<br>16.08.2017 | 1,200,000               | –       | –         | –         | –      | 1,200,000          |
| Others                  | 17.08.2015 | 0.67                           | 17.08.2015 –<br>16.08.2016 | 17.08.2016 –<br>16.08.2017 | 800,000                 | –       | –         | –         | –      | 800,000            |
|                         |            |                                |                            |                            | 2,000,000               | –       | –         | –         | –      | 2,000,000          |

During the six months ended 30 September 2015, an aggregate of 2,000,000 share options were granted to certain directors of the Company and certain doctors of the Group. For the share options granted during the prior period, the granted share options were vested over 1 year commencing from 17 August 2015 to 16 August 2016.

The estimated fair value of the share options granted on 17 August 2015 was approximately 367,000. Their fair value was calculated using the binomial option pricing model.

During the six months ended 30 September 2016, the Group recognised approximately HK\$139,000 (six months ended 30 September 2015: HK\$45,000) as an expense in the consolidated statement of profit or loss and other comprehensive income in relation to share options granted by the Company.

On 13 October 2016, a total of 400,000 ordinary shares of the Company were allotted to a grantee (other than Directors) who exercised the share options granted to him pursuant to the Share Option Scheme. As at the date of this report, 1,600,000 ordinary shares of the Company are issuable for options granted under the Share Option Scheme.

### Share Reward

The following table discloses movements of the share reward as defined in the Group's financial statements contained in the annual report of the Company for the year ended 31 March 2016 ("Share Reward"), held by Dr. Lam during the period:

|              | <b>Outstanding at<br/>1 April 2016</b> | <b>Vested<br/>during the<br/>period</b> | <b>Outstanding at<br/>30 September<br/>2016</b> |
|--------------|--|---|---|
| Share Reward | 1.42%                                  | 0.50%                                   | 0.92%   |
|              | Outstanding at<br>1 April<br>2015      | Vested<br>during the<br>year            | Outstanding at<br>31 March<br>2016              |
| Share Reward | 2.42%                                  | 1.00%                                   | 1.42%   |

Fair value of the Share Reward granted is expensed over the vesting period, with a corresponding credit to the Group's capital reserve. For the six months ended 30 September 2016, share-based payment expense of HK\$499,000 (six months ended 30 September 2015: HK\$501,000) was recognised with a corresponding credit recognised in the Group's capital reserve.

## 12. RELATED PARTY TRANSACTIONS

### (a) Transactions

During the period, the Group entered into the following transactions with related parties;

| Name of related party | Nature of transactions            | Six months ended<br>30 September |                                 |
|-----------------------|-----------------------------------|----------------------------------|---------------------------------|
|                       |                                   | 2016<br>HK\$'000<br>(unaudited)  | 2015<br>HK\$'000<br>(unaudited) |
| Dr. Kong              | Professional fees paid or payable | 2,327                            | 2,467                           |
| Dr. Kong              | Sales of goods                    | 9                                | -                               |

Pursuant to the Cooperation Agreement entered into by the Group with Dr. Kong and his sole proprietorship, professional fees were paid to Dr. Kong's sole proprietorship.

### (b) Compensation of key management personnel

|                          | Six months ended<br>30 September |                                 |
|--------------------------|----------------------------------|---------------------------------|
|                          | 2016<br>HK\$'000<br>(unaudited)  | 2015<br>HK\$'000<br>(unaudited) |
| Short-term benefits      | 2,021                            | 2,276                           |
| Post-employment benefits | 38                               | 38                              |
|                          | <b>2,059</b>                     | <b>2,314</b>                    |

The remuneration of Directors and key executives is determined having regard to the performance of the individuals.

## 13. EVENTS AFTER THE REPORTING PERIOD

On 29 September 2016, a subscription agreement was entered into between the Company and Rich Unicorn Holdings Limited ("Rich Unicorn"), a company incorporated in the British Virgin Islands with limited liability, pursuant to which the Company has conditionally agreed to allot and issue, and Rich Unicorn has conditionally agreed to subscribe for, 80,000,000 subscription shares at the subscription price of HK\$0.648 per subscription share (the "Subscription"). Rich Unicorn is beneficially owned by Fullshare Holdings Limited ("Fullshare"), a company incorporated in the Cayman Islands with limited liability whose issued shares are listed on the Stock Exchange (stock code: 607). The completion of the Subscription took place on 25 October 2016. Details of the Subscription are set out in the announcements of the Company dated 29 September 2016 and 25 October 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is a medical skin care group operating two medical skin care centres (“**Medicskin Centres**”) 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 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.

During the six months ended 30 September 2016, the revenue derived from the Consultation Service, Prescription and Dispensing Service and Treatment Service accounted for approximately 7.2%, 42.6%, and 50.2% of the total revenue of the Group respectively. For the six months ended 30 September 2016, the revenue of the Group decreased by approximately HK\$1.4 million, or 4.6%, when compared to the six months ended 30 September 2015, to approximately HK\$28.8 million. The decrease in revenue was primarily attributable to the decrease in general consumer sentiment due to the slowdown of economic growth in Hong Kong, the People’s Republic of China (the “**PRC**”) and the global economy, and the increasingly intensified competition in the industry.

In May 2016, the Group’s Medicskin Centre in Central (“**Central Medicskin Centre**”) was relocated from Tak Shing House to New World Tower II, which occupies the whole 21st floor of New World Tower II, with around 5,000 square feet in gross floor area. The new Central Medicskin Centre with elegant décor provides better facilities and a more comfortable environment to our clients and enhances their experience. We believe this in turn will enhance clients’ satisfaction and in long term bring additional revenue to the Group.

On 29 September 2016, a subscription agreement was entered into between the Company and Rich Unicorn, pursuant to which the Company has conditionally agreed to allot and issue, and Rich Unicorn has conditionally agreed to subscribe for, 80,000,000 subscription shares at the subscription price of HK\$0.648 per subscription share. Rich Unicorn is beneficially owned by Fullshare. The completion of the Subscription took place on 25 October 2016. The gross proceeds from the Subscription are approximately HK\$51,840,000 and the net proceeds from the Subscription, after deduction of related expenses of approximately HK\$1,900,000, are estimated to be approximately HK\$49,940,000. The Company intends to use the majority of the net proceeds from the Subscription of approximately HK\$40,000,000 for acquisition of premises and approximately HK\$1,600,000 for initial set-up costs in relation to a new medical skin care centre to be established in a prime district in Hong Kong in the second quarter of 2017. Due to the continued increase in rent of office buildings in prime locations in Hong Kong, the Company considers that if there is appropriate property in the market and the Company has sufficient financial resources, it will be in the long term interests of the Company and its shareholders to have its medical skin care centres operating in self-owned properties. The Board considers that, while broadening the shareholder base of the Company, the Subscription represents a valuable opportunity for the Company to bring in a renowned investor with strong financial resources and extensive business network, which in turn would bring strategic value to the Group. The Board also believes that Fullshare becoming a shareholder of the Company will provide synergy to the Group in the development of its business in the medical skin care industry.

## **OUTLOOK**

It is expected that since Hong Kong, the PRC and the global economy will continue to fluctuate in the year to come and there will be increasingly fierce competition in the medical skin care industry, the Group's business will more or less be affected. Nevertheless, with the higher growth rate of female population in Hong Kong, continuous aging trend in the population of Hong Kong and growing emphasis on a person's physical appearance in the society, medical skin care services is becoming more commonplace and it is expected that more people will seek skin care services for improvement of their appearance in pursuit of beauty and to improve their self-esteem, thereby supporting growth of the medical skin care industry in Hong Kong. Continuing technological innovation and improvement of treatment device by manufacturers also offer growth opportunities within the industry for all players.

The government of Hong Kong has been considering to tighten up the regulation(s) governing beauty industry and is currently reviewing the existing legislation(s) with a view to enacting laws or amending the existing legislation to distinguish between medical treatment and beauty treatment and to implement regulatory controls over certain cosmetic procedures in order to protect the interests and safety of the public. Such review or amendment of the existing legislation may introduce a change in compliance standards in connection with delivery of treatments, and may ultimately bring higher level of confidence to customers, enhance the level of safety in the industry and increase the total spending in the market.

Online consumption is a trend in the digital era and influences the local retail market. Traditional retail businesses are losing market share as people from all over the world are increasingly purchasing goods over the Internet. The Group will continue to explore and launch new skincare products to enhance the quality, effectiveness and variety of its products and explore different sales channel and platform for sale of its skincare products to enhance its competitiveness.

The Group will continue to use its best endeavors to provide the highest quality medical skin care services and products to its clients, and to strengthen its position so as to grow its brand and business.

## **FINANCIAL REVIEW**

### **Revenue**

The Group's revenue decreased by approximately HK\$1.4 million, or 4.6%, from approximately HK\$30.2 million for the six months ended 30 September 2015 to approximately HK\$28.8 million for the six months ended 30 September 2016. The decrease was primarily attributable to the decrease in general consumer sentiment due to the slowdown of economic growth in Hong Kong, the PRC, the global economy and the increasingly intensified competition in the industry which in turn decreased the client flow as well as the frequency of client visits.

### **Inventories used**

The Group's cost of inventories used remained stable at approximately HK\$3.6 million and HK\$3.9 million for the six months ended 30 September 2016 and 2015 respectively, representing 12.5% and 12.9% of the revenue for the respective periods.

### **Staff costs**

Staff costs decrease by approximately HK\$2.2 million, or 13.0%, from approximately HK\$16.9 million for the six months ended 30 September 2015 to approximately HK\$14.7 million for the six months ended 30 September 2016. The decrease was primarily attributable to the decrease in the number of staff.

### **Depreciation of property, plant and equipment**

Depreciation expenses increased by approximately HK\$0.1 million, or 7.7%, from approximately HK\$1.3 million for the six months ended 30 September 2015 to approximately HK\$1.4 million for the six months ended 30 September 2016. The increase was primarily attributable to the purchases of property, plant and equipment due to relocation of Central Medicskin Centre during the six months ended 30 September 2016.

### **Other expenses**

Other expenses increased by approximately HK\$1.4 million, or 22.2%, from approximately HK\$6.3 million for the six months ended 30 September 2015 to approximately HK\$7.7 million for the six months ended 30 September 2016. The increase was primarily attributable to the increase in rental expenses and ancillary costs of premises (including management fee, air conditioning charges and government rates) due to the relocation of Central Medicskin Centre.

### **Income tax expense**

Income tax expense remained stable at approximately HK\$0.5 million for each of the six months ended 30 September 2015 and 2016.

### **Profit for the period**

As a result of the foregoing, the profit for the period decreased by approximately HK\$0.1 million, or 9.1%, from approximately HK\$1.1 million for the six months ended 30 September 2015 to approximately HK\$1.0 million for the six months ended 30 September 2016.

### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016.

### **CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES**

The Group's shares were successfully listed on GEM of the Stock Exchange on 18 December 2014. The capital of the Group only comprises of ordinary shares.

The total equity of the Group as at 30 September 2016 was HK\$29.4 million (31 March 2016: HK\$37.8 million). The Group generally finances its operation with internally generated cash flows. The Group had bank balances and cash of approximately HK\$15.9 million as at 30 September 2016 (31 March 2016: HK\$30.0 million), with no external borrowing (31 March 2016: nil). As at 30 September 2016, the Group had net current assets of approximately HK\$18.2 million (31 March 2016: HK\$28.3 million).

Cash used in operations for the six months ended 30 September 2016 was approximately HK\$0.2 million (six months ended 30 September 2015: generated from operations HK\$2.1 million). With the healthy bank balances and cash on hand, the Group's liquidity position remains strong and it has sufficient financial resources to fund its future plans and to meet its working capital requirement. As at 30 September 2016, the Group had unused banking facilities of HK\$4.0 million (31 March 2016: HK\$4.0 million).

## **SIGNIFICANT INVESTMENTS HELD BY THE GROUP**

During the six months ended 30 September 2016, there was no significant investment held by the Group.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

Save as disclosed above and in the Prospectus, the Group does not have other plans for material investments and capital assets.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the period.

## **COMMITMENTS**

The contractual commitments of the Group were primarily related to the leases of its office premises and Medicskin Centres. As at 30 September 2016, the Group's operating lease commitments amounted to approximately HK\$14.8 million (31 March 2016: HK\$18.7 million).

As at 30 September 2016, the Group did not have any significant capital commitments (31 March 2016: approximately HK\$465,000 in respect of acquisition of property, plant and equipment).

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 September 2016, the Group pledged its bank balances of HK\$8.5 million (31 March 2016: HK\$8.5 million) as securities for credit card settlement services provided by a bank to the Group.

## **CONTINGENT LIABILITIES**

As at 30 September 2016, the Group did not have material contingent liabilities (31 March 2016: nil).

## **FOREIGN EXCHANGE EXPOSURE**

The Group carries out its business in Hong Kong and most of its transactions are denominated in Hong Kong. The Group currently does not have significant foreign currency exposure. The management continually assesses and monitors the foreign exchange exposure and, if necessary, will hedge its foreign exchange exposure by entering forward foreign exchange contracts.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 September 2016, the Group employed a total of 45 full-time and 3 part-time employees (31 March 2016: 49 full-time and 3 part-time employees). The staff costs, including Directors' emoluments, of the Group were approximately HK\$14.7 million for the six months ended 30 September 2016 (six months ended 30 September 2015: HK\$16.9 million). Remuneration is determined with reference to factors such as comparable market salaries and the performance, time commitment and responsibilities of each individual. Employees are provided with relevant in-house and/or external trainings from time to time. In addition to a basic salary, year-end bonuses are offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group.

## **EVENTS AFTER THE REPORTING PERIOD**

Details of the event occurred after the reporting period are set out in note 13 to the interim financial statements.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the date of the Listing to 30 September 2016 is set out below:

### Business objectives

### Actual progress

- |  |   |
|--|---|
| (i) Expand and strengthen our presence in Hong Kong                    | <ul style="list-style-type: none"><li>– The Group used approximately HK\$6.4 million for relocation of its Central Medicskin Centre to another prime location within the Central district. The new Centre Medicskin Centre was opened in May 2016.</li><li>– The Group is in the process of exploring and identifying a location for potential new Medicskin Centre as well as assessing the market conditions.</li></ul> |
| (ii) Enhance quality and variety of our services and products offering | The Group used approximately HK\$4.1 million for enhancement of quality and variety of its services and products offerings in which HK\$3.4 million was used for purchase of new medical devices and HK\$0.7 million was used for development and procurement of new skin care products.  |
| (iii) Maintain and enhance our professional expertise                  | The Group has organised and provided trainings to our doctors and professional staff.   |

## USE OF PROCEEDS

The net proceeds from the Placing (as defined in the Prospectus) were approximately HK\$22.9 million, which was based on the placing price of HK\$0.6 per share and the actual expenses related to the Listing. After the Listing, these proceeds were and will be used for the purposes in accordance with the future plans as set out in the Prospectus.

The net proceeds from the Placing from the date of the Listing to 30 September 2016 were used as follows:

|  | <b>Planned<br/>use of proceeds<br/>as shown in<br/>the Prospectus<br/>from<br/>the date of<br/>the Listing to<br/>30 September<br/>2016<br/>(adjusted<br/>on a pro rata<br/>basis based<br/>on the actual<br/>net proceeds)<br/>HK\$'000</b> | <b>Actual use of<br/>proceeds<br/>from<br/>the date of<br/>the Listing to<br/>30 September<br/>2016<br/>HK\$'000</b> | <b>Unutilised<br/>amount<br/>as at<br/>30 September<br/>2016<br/>HK\$'000<br/>(note a)</b> |
|--|--|--|--|
| Expand and strengthen our presence in Hong Kong      | 11,804   | (6,437)  | 5,367  |
| Enhance quality and variety of our services (note b) | 4,072  | (4,072)  | –  |
| Repayment of debts                                   | 4,777  | (4,777)  | –  |
| Working capital                                      | 2,293  | (2,293)  | –  |
|  | <hr/> 22,946   | <hr/> (17,579)   | <hr/> 5,367  |

Notes:

- (a) The unused proceeds are deposited in a licensed bank in Hong Kong.
- (b) Actual use of proceeds on expand and strengthen our presence in Hong Kong was lower than the planned use of proceeds because the Group is still in the process of exploring and identifying location for potential new medical skin care centre as well as assessing the market conditions.

## DISCLOSURE OF INTERESTS

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

As at 30 September 2016, 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 Rule 5.46 of the GEM Listing Rules were as follows:

#### Long position

##### (a) Ordinary shares of the Company

| Name of Director           | Capacity/<br>Nature of interest      | Number of<br>shares | Percentage<br>of issued<br>share capital |
|----------------------------|--------------------------------------|---------------------|--|
| Dr. Kong <sup>(note)</sup> | Interest in a controlled corporation | 290,000,040         | 72.5%                                    |

*Note:* The 290,000,040 shares are registered in the name of 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.

**(b) Options to subscribe for ordinary shares of the Company**

Particulars of the Directors' interests in Share Option Scheme were as follows:

| Name of Director | Grant date | Exercise price per share | Vesting period          | Exercise period         | As at 1.4.2016 | Number of share options |           |           |        | As at 30.9.2016 |
|------------------|------------|--------------------------|-------------------------|-------------------------|----------------|-------------------------|-----------|-----------|--------|-----------------|
|                  |            |                          |                         |                         |                | Granted                 | Exercised | Cancelled | Lapsed |                 |
| Chan Cheong Tat  | 17.08.2015 | 0.67                     | 17.08.2015 – 16.08.2016 | 17.08.2016 – 16.08.2017 | 400,000        | -                       | -         | -         | -      | 400,000         |
| Lee Ka Lun       | 17.08.2015 | 0.67                     | 17.08.2015 – 16.08.2016 | 17.08.2016 – 16.08.2017 | 400,000        | -                       | -         | -         | -      | 400,000         |
| Leung Siu Cheung | 17.08.2015 | 0.67                     | 17.08.2015 – 16.08.2016 | 17.08.2016 – 16.08.2017 | 400,000        | -                       | -         | -         | -      | 400,000         |
|                  |            |                          |                         |                         | 1,200,000      | -                       | -         | -         | -      | 1,200,000       |

Save as disclosed above, as at 30 September 2016, none of the Directors or 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 September 2016, 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/<br>Nature of interest         | Number of<br>shares | Percentage<br>of issued<br>share capital |
|---------------------------------|---|---------------------|--|
| Topline <i>(note a)</i>         | Beneficial owner                        | 290,000,040         | 72.5%                                    |
| Rich Unicorn <i>(note b)</i>    | Beneficial owner                        | 80,000,000          | 20%                                      |
| Fullshare <i>(note b)</i>       | Interest in a controlled<br>corporation | 80,000,000          | 20%                                      |
| Magnolia Wealth <i>(note b)</i> | Interest in a controlled<br>corporation | 80,000,000          | 20%                                      |
| Mr. Ji <i>(note b)</i>          | Interest in a controlled<br>corporation | 80,000,000          | 20%                                      |

*Note:*

- (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) On 29 September 2016, a subscription agreement was entered into between the Company and Rich Unicorn, pursuant to which the Company has conditionally agreed to allot and issue, and Rich Unicorn has conditionally agreed to subscribe for, 80,000,000 subscription shares at the subscription price of HK\$0.648 per subscription share. The completion of subscription took place on 25 October 2016. Rich Unicorn is beneficially owned by Fullshare. Fullshare is in turn owned as to 55.97% 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. Therefore, Fullshare, Magnolia Wealth and Mr. Ji Changqun ("**Mr. Ji**") are deemed to be interested in all the shares of the Company held by Rich Unicorn.

Save as disclosed above, as at 30 September 2016, 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 six months ended 30 September 2016.

## **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 and the Board is satisfied that the Company had complied with the CG Code during the six months ended 30 September 2016.

## **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 six months ended 30 September 2016.

## **CHANGE OF COMPLIANCE ADVISER**

The Company and Shenwan Hongyuan Capital (H.K.) Limited (“**Shenwan Hongyuan**”) (formerly known as “Shenyin Wanguo Capital (H.K.) Limited”) have mutually agreed to terminate the compliance adviser agreement dated 3 December 2014 with effect from 1 August 2016 due to the consideration of fee levels.

Ample Capital Limited (“**Ample Capital**”) has been appointed as the replacement compliance adviser to the Company pursuant to Rule 6A.27 of the GEM Listing Rules with effect from 1 August 2016. For further details, please refer to the announcement of the Company dated 11 July 2016.

## **INTERESTS OF COMPLIANCE ADVISER**

As at 30 September 2016, as notified by the Company’s compliance adviser, Ample Capital (the “**Compliance Adviser**”), neither the Compliance Adviser nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the six months ended 30 September 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

## **SHARE OPTION SCHEME**

Details of the Share Option Scheme are set out in note 11 to the interim financial statements.

## **AUDIT COMMITTEE**

The Company had established the Audit Committee on 3 December 2014 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 interim financial statements of the Group for the six months ended 30 September 2016 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, 11 November 2016

*As at the date of this report, the executive Directors of the Company are Dr. Kong Kwok Leung, Mr. Lo Kwok Bun and Ms. Kong Chung Wai, and the independent non-executive Directors are Mr. Chan Cheong Tat, Mr. Lee Ka Lun and Mr. Leung Siu Cheung.*