

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



FIRST QUARTERLY REPORT
2016/17

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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 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 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 (UNAUDITED)

For the three months ended 30 June 2016

	Notes	Three months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	2	14,151	15,753
Other income, gains and losses		15	(10)
Inventories used		(1,693)	(1,974)
Staff costs		(7,222)	(8,841)
Depreciation of property, plant and equipment		(570)	(654)
Other expenses		(3,864)	(2,963)
Profit before tax		817	1,311
Income tax expense	3	(103)	(286)
Profit and total comprehensive income for the period attributable to owners of the Company		714	1,025
Earnings per share, basic (HK cent)	5	0.18	0.26
Earnings per share, diluted (HK cent)	5	0.18	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2016

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (note)	Share option reserve HK\$'000	Retained profits HK\$'000	
At 1 April 2016 (audited)	4,000	31,670	182	228	1,688	37,768
Profit and total comprehensive income for the period	–	–	–	–	714	714
Recognition of equity-settled share-based payments	–	–	249	92	–	341
At 30 June 2016 (unaudited)	4,000	31,670	431	320	2,402	38,823
At 1 April 2015 (audited)	4,000	31,670	2,579	–	8,934	47,183
Profit and total comprehensive income for the period	–	–	–	–	1,025	1,025
Recognition of equity-settled share-based payments	–	–	249	–	–	249
At 30 June 2015 (unaudited)	4,000	31,670	2,828	–	9,959	48,457

Note: Capital reserve represents 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 is determined by reference to the fair value of the share reward at the grant date, is 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 2016

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 2016. 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 2016, the application has no material impact on the reported results and financial position of the Group for the current and/or prior accounting periods. For those which are not yet effective, the Directors anticipate that the application of those new and revised HKFRSs will have no material impact on the Group's results and financial position.

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 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 from major products and services

	Three months ended	
	30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Consultation Service	1,091	893
Prescription and Dispensing Service	6,022	7,042
Treatment Service	7,038	7,818
	14,151	15,753

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. INCOME TAX EXPENSE

	Three months ended	
	30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Income tax expense comprises:		
Hong Kong Profits Tax	103	286

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

4. DIVIDENDS

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

Subsequent to the end of the reporting period, a final dividend of HK0.25 cent per share and a special dividend of HK2.25 cents per share for the year ended 31 March 2016, amounting to HK\$1,000,000 and HK\$9,000,000 respectively, proposed by the Board, was approved by the shareholders in the annual general meeting of the Company held on 27 July 2016.

5. EARNINGS PER SHARE

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

	Three months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted/ basic earnings per share (profit for the period attributable to owners of the Company)	714	1,025
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted/basic earnings per share	400,000	400,000

In current period, the computation of diluted 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.

No diluted earnings per share for prior period was presented as there were no potential ordinary shares in issue for prior period.

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 three months ended 31 March 2016, the revenue of the consultation service, prescription and dispensing service and treatment service accounted for approximately 7.7%, 42.6%, and 49.7% of the total revenue of the Group respectively. For the three months ended 30 June 2016, the revenue of the Group decreased by approximately HK\$1.6 million, or 10.1%, to approximately HK\$14.2 million, when compared to the three months ended 30 June 2015. 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 which enhance their experience. We believe this in turn will enhance clients’ satisfaction and in long term bring additional revenue to the Group.

OUTLOOK

It is expected that since Hong Kong, the PRC and the global economies 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 of the beauty industry and is currently reviewing the existing legislation 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 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 all over the world increasingly purchase goods over the Internet. The Group will continue to explore and launch new skincare products to enhance the quality, effectiveness and variety of our products and explore different sales channel and platform for sale of its skincare products to enhance our competitiveness.

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

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately HK\$1.6 million, or 10.1%, from approximately HK\$15.8 million for the three months ended 30 June 2015 to approximately HK\$14.2 million for the three months ended 30 June 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 and 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 was approximately HK\$1.7 million and HK\$2.0 million for the three months ended 30 June 2016 and 2015 respectively, representing 12.0% and 12.7% of the revenue for the respective periods.

Staff costs

Staff costs decreased by approximately HK\$1.6 million, or 18.2%, from approximately HK\$8.8 million for the three months ended 30 June 2015 to approximately HK\$7.2 million for the three months ended 30 June 2016. The decrease was primarily attributable to the decrease in the number of staff.

Depreciation of property, plant and equipment

Depreciation expenses decreased by approximately HK\$0.1 million, or 14.3%, from approximately HK\$0.7 million for the three months ended 30 June 2015 to approximately HK\$0.6 million for the three months ended 30 June 2016. The decrease was primarily attributable to certain assets which became fully depreciated during the period.

Other expenses

Other expenses increased by approximately HK\$0.9 million, or 30.0%, from approximately HK\$3.0 million for the three months ended 30 June 2015 to approximately HK\$3.9 million for the three months ended 30 June 2016. The increase was primarily attributable to the additional rental expenses and ancillary costs of premises (including management fee, air conditioning charges and government rate) incurred during the renovation period of the new Central Medicskin Centre.

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 2015 to approximately HK\$0.1 million for the three months ended 30 June 2016. The decrease was primarily attributable to the decrease in profit before tax, excluding the effect of non-deductible expenses such as share-based payments.

Profit for the period

As a result of the foregoing, the profit for the period decreased by approximately HK\$0.3 million, or 30.0%, from approximately HK\$1.0 million for the three months ended 30 June 2015 to approximately HK\$0.7 million for the three months ended 30 June 2016.

DISCLOSURE OF INTERESTS

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

As at 30 June 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/ Nature of interest	Number of shares	Percentage of issued share capital
Dr. Kong ^(note)	Interest in a controlled corporation	290,000,040	72.50%

Note: The 290,000,040 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.

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

Particulars of the Directors' interests in the 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 30.6.2016
						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 June 2016, 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 Rule 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 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/ Nature of interest	Number of shares	Percentage of issued share capital
Topline ^(note)	Beneficial owner	290,000,040	72.50%

Note: 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.

Save as disclosed above, as at 30 June 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 three months ended 30 June 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 three months ended 30 June 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 three months ended 30 June 2016.

INTERESTS OF COMPLIANCE ADVISER

As at 30 June 2016, as notified by the Company's compliance adviser, Shenwan Hongyuan Capital (H.K.) Limited (formerly known as "Shenyin Wanguo Capital (H.K.) Limited") (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 three months ended 30 June 2016, 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 a share option scheme (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 Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

As at 30 June 2016, there was an aggregate of 2,000,000 outstanding options to subscribe for 2,000,000 shares of the Company pursuant to the Share Option Scheme. Details of such outstanding options are the same as disclosed in the annual report of the Company dated 17 June 2016.

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 consolidated financial statements of the Group for the three months ended 30 June 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, 12 August 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.