



**THIRD
QUARTERLY
REPORT
2017/2018**

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

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

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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 THIRD 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 nine months ended 31 December 2017 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 and nine months ended 31 December 2017

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2017	2016	2017	2016
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	2	14,497	16,761	44,450	45,546
Other income, gains and losses		314	11	868	63
Inventories used		(2,160)	(2,454)	(6,050)	(6,048)
Staff costs		(6,936)	(8,260)	(21,985)	(22,967)
Depreciation of property, plant and equipment		(1,039)	(829)	(3,182)	(2,201)
Other expenses		(3,658)	(3,733)	(11,393)	(11,464)
Profit before tax		1,018	1,496	2,708	2,929
Income tax expense	3	(189)	(617)	(915)	(1,100)
Profit and total comprehensive income for the period attributable to owners of the Company		829	879	1,793	1,829
Earnings per share, basic (HK cent)	5	0.17	0.22	0.37	0.45
Earnings per share, diluted (HK cent)	5	0.17	0.22	0.37	0.45

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2017

	Attributable to owners of the Company					Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 <i>(note a)</i>	Share options reserve HK\$'000	Retained profits HK\$'000	
At 1 April 2017 (audited)	4,804	72,463	1,181	294	3,856	82,598
Profit and total comprehensive income for the period	-	-	-	-	1,793	1,793
Recognition of equity-settled share-based payments	-	-	419	-	-	419
Expiry of share options	-	-	-	(294)	294	-
Transfer to retained profits	-	-	(1,600)	-	1,600	-
Dividends recognised as distribution <i>(note 4)</i>	-	(24,020)	-	-	(961)	(24,981)
At 31 December 2017 (unaudited)	4,804	48,443	-	-	6,582	59,829
At 1 April 2016 (audited)	4,000	31,670	182	228	1,688	37,768
Profit and total comprehensive income for the period	-	-	-	-	1,829	1,829
Recognition of equity-settled share-based payments	-	-	749	139	-	888
Exercise of share options	4	337	-	(73)	-	268
Issue of shares <i>(note b)</i>	800	51,040	-	-	-	51,840
Transaction costs attributable to issue of shares	-	(1,592)	-	-	-	(1,592)
Dividends recognised as distribution <i>(note 4)</i>	-	(9,000)	-	-	(1,000)	(10,000)
At 31 December 2016 (unaudited)	4,804	72,455	931	294	2,517	81,001

Notes:

- (a) Capital reserve represents deemed contribution from the controlling shareholder of the Company (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.
- (b) 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 of the Company (the “**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, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2017

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 2017. 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 Hong Kong Financial Reporting Standards ("HKFRSs"). For those which are effective for accounting period beginning on 1 April 2017, 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 the 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 the 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. The chief operating decision makers ("**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

	Three months ended 31 December		Nine months ended 31 December	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Consultation Service	664	856	2,196	2,939
Prescription and Dispensing Service	5,534	6,374	16,543	18,633
Treatment Service	8,299	9,531	25,711	23,974
	14,497	16,761	44,450	45,546

Other than the 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 31 December		Nine months ended 31 December	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Income tax expense comprises:				
Hong Kong Profits Tax				
Current year	329	567	979	907
Underprovision in prior year	–	–	16	–
Deferred tax (credit) charge	(140)	50	(80)	193
	189	617	915	1,100

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

4. DIVIDENDS

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 of the Company (the "Shareholders") in the annual general meeting and distributed by the Company to the Shareholders during the nine months ended 31 December 2016.

A final dividend in respect of the year ended 31 March 2017 of HK0.2 cent per share, amounting to HK\$961,000, was declared and distributed by the Company to the Shareholders during the nine months ended 31 December 2017.

On 5 December 2017, the Board resolved to declare the payment of a special dividend of HK5 cents per share, amounting to HK\$24,020 million, and which was distributed by the Company to the Shareholders in January 2018.

The Board does not recommend the payment of an interim dividend for the nine month ended 31 December 2017 (2016: Nil).

5. EARNINGS PER SHARE

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

Three months ended		Nine months ended	
31 December		31 December	
2017	2016	2017	2016
HK\$'000	HK\$'000	HK\$'000	HK\$'000
(unaudited)	(unaudited)	(unaudited)	(unaudited)

Earnings:

Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to owners of the Company)

829	879	1,793	1,829
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	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	2017	2016
	'000	'000	'000	'000
Number of shares:				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	480,400	406,261	480,400	402,095
Effect of diluting potential ordinary Shares:				
Share options issued by the Company	N/A	451	–	239
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Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	480,400	406,712	480,400	402,334
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In current period, the computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for the nine months ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a medical skin care group operating two medical skin care centres branded “Medicskin” (“**Medicskin 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 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. These are achieved through the provision of Consultation Service, Prescription and Dispensing Service and Treatment Service.

For the nine months ended 31 December 2017, the revenue of the Group decreased by approximately HK\$1.0 million, or 2.4%, to approximately HK\$44.5 million, when compared to the nine months ended 31 December 2016. The revenue of Consultation Service, Prescription and Dispensing Service and Treatment Service amounted to approximately HK\$2.2 million, HK\$16.5 million and HK\$25.8 million for the nine months ended 31 December 2017 which accounted for approximately 4.9%, 37.2%, and 57.9% of the total revenue of the Group for the nine months ended 31 December 2017 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 Group’s revenue derived from Consultation Service and Prescription and Dispensation Service decreased by approximately HK\$743,000, or 25.3%, to approximately HK\$2.2 million, and by approximately HK\$2.1 million, or 11.2%, to approximately HK\$16.5 million, respectively, when compared to the nine months ended 31 December 2016. The Group’s revenue derived from Treatment Service increased by approximately HK\$1.7 million, or 7.2%, to approximately HK\$25.8 million, when compared to the nine months ended 31 December 2016. The overall decrease in revenue 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 existing clients due to increasingly intensified competition in the industry.

The Group's net profit attributable to the Shareholders for the nine months ended 31 December 2017 was approximately HK\$1.8 million, which is similar to that of the corresponding period of last year. Basic earnings per share for the nine months ended 31 December 2017 was HK0.37 cent per share as compared to HK0.45 cent per share of the last corresponding period.

The Group is planning to open an anti-aging centre (the "**Anti-aging Centre**") in Tsim Sha Tsui and is in the process of negotiation with independent third parties in respect of a possible strategic cooperation. The Anti-aging Centre aims to provide quality and comprehensive medical aesthetic treatment that helps our clients to stay healthy and young.

OUTLOOK

With strong local currency and anticipated rise in interest rate, the weak market condition in Hong Kong is expected to persist in year 2018. It is expected that the Group will continue facing very high operating costs base from rental expenses and staff costs as well as intense competition in the industry.

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 the delivery of treatments, enhance the level of safety in the industry and ultimately bring higher level of confidence to customers 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, safe and updated services to our clients. The Group continuously performs market research on, 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. We also believe the Anti-aging Centre to be opened in Tsim Sha Tsui and the new skin care centre to be opened in Causeway Bay would attract new clients and ultimately increase market penetration and profitability of the Group.

Leveraging the support of the capital market, our own strengths, and consumers' pursuance on physical appearance, the Group is cautiously confident about its development in the future. We will continue to use our best endeavors to provide the highest quality of medical skin care services and products to our clients and strengthen our market position so as to grow our brand and business and to maximise returns for our investors.

FINANCIAL REVIEW

Revenue

Revenue decreased by approximately HK\$1.0 million, or 2.4%, from approximately HK\$45.5 million for the nine months ended 31 December 2016 to approximately HK\$44.5 million for the nine months ended 31 December 2017. 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 existing clients due to increasingly intensified competition in the industry.

Inventories used

Cost of inventories used remained stable at approximately HK\$6.1 million and HK\$6.0 million for the nine months ended 31 December 2017 and 2016 respectively, representing 13.6% and 13.3% of the revenue for the respective periods.

Staff costs

Staff costs decreased by approximately HK\$1.0 million, or 4.3%, from approximately HK\$23.0 million for the nine months ended 31 December 2016 to approximately HK\$22.0 million for the nine months ended 31 December 2017. The decrease was primarily attributable to the (i) decrease in share-based payments; and (ii) decrease in performance related incentive payments paid to our doctors due to decline in revenue of the Group during the period.

Depreciation of property, plant and equipment

Depreciation expenses of property, plant and equipment increased by approximately HK\$1.0 million, or 44.6%, from approximately HK\$2.2 million for the nine months ended 31 December 2016 to approximately HK\$3.2 million for the nine months ended 31 December 2017. The increase was primarily attributable to the acquisition of property in Causeway Bay in March 2017 as set out in the announcements of the Company dated 24 January 2017 and 29 March 2017 and the circular of the Company dated 14 March 2017.

Other expenses

Other expenses remained stable at approximately HK\$11.4 million and HK\$11.5 million for the nine months ended 31 December 2017 and 2016 respectively.

Income tax expense

Income tax expense decreased by approximately HK\$0.2 million, or 16.8%, from approximately HK\$1.1 million for the nine months ended 31 December 2016 to approximately HK\$0.9 million for the nine months ended 31 December 2017. The decrease was primarily attributable to the deferred tax credited to the statement of profit or loss and other comprehensive income in respect of the temporary differences between the carrying amounts of property, plant and equipment in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Profit for the period

As a result of the foregoing, the profit for the nine months ended 31 December 2017 was approximately HK\$1.8 million, which is similar to that of 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 31 December 2017, 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 to 5.67 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	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.

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

Particulars of the Directors' interests in the share option scheme of the Company (the "**Share Option Scheme**") were as follows:

Name of Director	Grant date	Exercise		Exercise period	As at 1.4.2017	Number of share options				As at 31.12.2017
		price per share	Vesting period			Granted	Exercise	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 31 December 2017, 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 31 December 2017, 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 a)	Beneficial owner	274,865,400	57.22%
Rich Unicorn ^(note b)	Beneficial owner	80,000,000	16.65%
Fullshare ^(note b)	Interest in a controlled corporation	80,000,000	16.65%
Magnolia Wealth ^(note b)	Interest in a controlled corporation	80,000,000	16.65%
Mr. Ji ^(note b)	Interest in a controlled corporation	80,000,000	16.65%

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) Rich Unicorn is beneficially owned by 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 4.78% 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 31 December 2017, 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 nine months ended 31 December 2017.

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 nine months ended 31 December 2017.

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 nine months ended 31 December 2017.

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

During the nine months ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

SHARE OPTIONS 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 31 December 2017, no share options were outstanding under the Share Option Scheme.

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 nine months ended 31 December 2017 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 February 2018

As at the date of this report, the executive Directors of the Company are Dr. Kong Kwok Leung, Mr. Lo Kwok Bun, 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.